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

2020
ANNUAL
REPORT

Contents

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

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court
Camana Bay
Grand Cayman
KY1-1100
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
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, 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

Financial Summary

For the year ended 31 December

RESULTS	**2020 HK$'000**	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000
Revenue	**505,962**	456,986	204,456	166,928	138,972
Profit/(loss) before taxation	**103,762**	96,409	47,036	24,090	(1,860)
Income tax	**(22,900)**	(27,784)	39,633	(5,438)	(8,351)
Profit/(loss) for the year	**80,862**	68,625	86,669	18,652	(10,211)
Attributable to:					
Equity shareholders of the Company	**70,299**	50,420	76,580	15,845	(10,477)
Non-controlling interests	**10,563**	18,205	10,089	2,807	266
	80,862	68,625	86,669	18,652	(10,211)

At 31 December

ASSETS AND LIABILITIES	**2020 HK$'000**	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000
Total assets	**1,864,336**	1,763,332	1,948,745	1,610,213	1,423,080
Total liabilities	**(1,241,268)**	(1,245,625)	(1,456,049)	(1,575,922)	(1,414,623)
	623,068	517,707	492,696	34,291	8,457
Attributable to:					
Equity shareholders of the Company	**495,607**	408,802	409,856	22,120	(202)
Non-controlling interests	**127,461**	108,905	82,840	12,171	8,659
	623,068	517,707	492,696	34,291	8,457

Chairman Statement

On behalf of the board of directors (the "Board") of Huayu Expressway Group Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2020.

Despite of the COVID-19 pandemic, the Group recorded a profit of approximately HK$80.9 million for the year ended 31 December 2020. With the significant growth in the liquor and spirits trading business, we have a total revenue of about HK$506.0 million, representing about 10.7% increase from the year ended 31 December 2019.

From mid-February 2020, since the outbreak of COVID-19 pandemic, the business of the Sui-Yue Expressway (Hunan Section) (the "Expressway") was seriously affected by the toll fee exemption policy and the limited economic activities. The toll fee revenue for the year ended 31 December 2020 was about HK$140.5 million, decreased by 27.0% from that of the year ended 31 December 2019. Yet, after the re-opening of economic activities and the resumption of toll fees collection from 6 May 2020, the business of the Expressway recovered significantly. For the second half of the year ended 31 December 2020, the average monthly traffic flow was about 108,000 vehicles, which was about 15.8% higher than the average monthly traffic flow of the year ended 31 December 2019.

Our 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. Since the adjacent expressway network system was completed in the past few years and the outperformed economic growth in the region, the Expressway are expected to have a steady growth in the future. It will also provide a steady revenue and cashflow to the Group.

About the liquor and spirits trading business, 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 2020. But with the reopening of economic activities from May, the sales of liquor and spirits recovered significantly in the rest of the months of the year. For the year ended 31 December 2020, the Group achieved the sales of about HK$365.5 million, 38.1% higher than that of the year ended 31 December 2019. We have been working on the brand building and the development of sales and distribution network. With the excellent quality and brand position of Huamaojiu in the PRC market, it becomes one of the most significant segments in the Group.

With the success in the liquor and spirits trading business, we are keeping our eyes on other prosperous business opportunities. In accordance with our strategy, we will pursue other infrastructure projects in China whenever suitable opportunities arise. Apart from developing new infrastructure projects, we might 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, we will also consider extending our operations to include other prosperous businesses once favourable opportunities appear.

Chan Yeung Nam
Chairman

Hong Kong, 26 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

In spite of the outbreak of COVID-19 pandemic since early 2020, with the significant contribution of liquor and spirits trading business, total revenue of the Group increased to about HK$506.0 million for the year ended 31 December 2020. The Group reported a profit for the year of about HK$80.9 million.

TURNOVER

For the year ended 31 December 2020, the Group recorded a turnover of approximately HK$506.0 million, increased by 10.7% from that for the year ended 31 December 2019 of approximately HK$457.0 million. Total amount of toll fee revenue of Sui-Yue Expressway (Hunan Section) ("the Expressway") was about HK$140.5 million, decreased by about 27.0% from about HK$192.4 million for the year ended 31 December 2019. Sales of liquor and spirits were about HK$365.5 million, increased by about 38.1% from about 264.6 million for the year ended 31 December 2019.

For the Expressway, 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防控期間免收收費公路車輛通行費的通知》（交公路明電[2020] 62號））on 15 February 2020. 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. As a result, total toll fee revenue of the Expressway for the year ended 31 December 2020 significantly decreased by about 27.0% to about HK$140.5 million.

About the traffic volume of the Expressway, the total tolled vehicles using the Expressway was about 9.3 million, decreased by about 17.1% from that for the year ended 31 December 2019. 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. For the second half of the year ended 31 December 2020, the average monthly traffic flow was about 108,000 vehicles, which is about 15.8% higher than the average monthly traffic flow of the year ended 31 December 2019.

The average toll was about HK$15.2 per vehicle for the year ended 31 December 2020, which decreased by about 12.1% from the year ended 31 December 2019. The portion of the trucks traffic, which has a higher toll rate, further decreased to about 38.7% of the total traffic flow. The change of the toll system for the trucks during the year from "toll by weight" to "toll by classes" significantly reduced the toll fee per truck for the year ended 31 December 2020. In addition, the discount related to the electronic toll collection encouraged the use of automatic toll system, but further decreased our per vehicle toll revenue.

The revenue from the sales of liquor and spirits was about HK$365.5 million for the year ended 31 December 2020, increased by about 38.1% from about HK$264.6 million of the year ended 31 December 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 the period between February and April 2020. But with the reopening of economic activities from May, the sales of liquor and spirits recovered significantly in the rest of the months of the year. For the year ended 31 December 2020, the Group achieved the sales of about 500 tonnes of Huamaojiu, increased by about 37.1% from that of the year ended 31 December 2019. The average selling price of the liquor and spirits was about HK$734,000 per tonne.

COST AND GROSS PROFIT

The Group had a gross profit of about HK$186.8 million for the year ended 31 December 2020, decreased by 14.8% from about HK$219.2 million for the year ended 31 December 2019. 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 36.9% for the year ended 31 December 2020, decreased from about 48.0% for the year ended 31 December 2019.

For the Expressway, the cost of sales was about HK$57.7 million and the gross profit ratio was about 58.9% for the year ended 31 December 2020. The gross profit ratio decreased from 67.6% of the year ended 31 December 2019 mainly because of the toll fee exemption policy during the COVID-19 pandemic period and the continue decrease in average toll rate per vehicle during the year.

The total cost of sales for the liquor and spirits trading business was about HK$261.5 million and its gross profit ratio was about 28.5% for the year ended 31 December 2020. The decrease in gross profit ratio from 33.7% of the year ended 31 December 2019 was mainly due to the increase in the discount to the dealers in order to promote the sales.

OTHER REVENUE AND OTHER NET INCOME/(LOSS)

The Group recorded other revenue of approximately HK$2.8 million and HK$2.2 million for the year ended 31 December 2020 and 2019 respectively. In addition, the other net income was about HK$15.2 million for the year ended 31 December 2020 and the other net loss was HK$6.5 million for the year ended 31 December 2019. Other revenue of the Group was mainly the rental income from the billboard along the Expressway and interest income from bank deposits. Other net income/(loss) mainly represented the exchange gain/loss and the loss from the disposal of non-current assets recorded during the years.

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2020 were approximately HK$42.1 million, slightly decreased by 3.0% from approximately HK$43.3 million for the year ended 31 December 2019. The decrease was mainly because of the savings in staff costs during the year.

SELLING AND DISTRIBUTION COSTS

The Group recorded about HK$10.7 million selling and distribution costs, including advertising fee and staff salary for the year ended 31 December 2020, significantly decreased by 48.6% from about HK$20.8 million for the year ended 31 December 2019. The amount was mainly used for the liquor and spirits trading business. Since the outbreak of COVID-19 pandemic and the related social distance restriction requirement, the Group significantly cancelled the advertising and promotion events during the year.

FINANCIAL COSTS

For the year ended 31 December 2020, the finance costs of the Group were about HK$51.7 million, decreased by 5.3% from approximately HK$54.6 million for the year ended 31 December 2019. The decrease was mainly due to the partial repayment of the existing bank loan during the year.

PROFIT FOR THE YEAR

For the year ended 31 December 2020, the Group recorded profit before taxation of about HK$103.8 million, increased by 7.7% from about HK$96.4 million for the year ended 31 December 2019. The Group had a profit for the year of approximately HK$80.9 million for the year ended 31 December 2020 compared to approximately HK$68.6 million for the year ended 31 December 2019. The increase of the profit for the year was mainly attributed by the significant growth in the trading of liquor and spirits business following the ease of restrictions and the resumption of economic activities in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2020, the Group financed its operations and capital expenditures by internal resources of the Company, borrowings from the controlling shareholder of the Company, the non-controlling shareholder of Hunan Daoyue Expressway Industry Co., Ltd. and long term bank loan. As at 31 December 2020, total bank loan drawn by the Group amounted to about HK$926.8 million (2019: approximately HK$915.4 million), borrowing from the non-controlling shareholder of a subsidiary was HK$115.5 million (2019: HK$108.5 million), the amount due to the controlling shareholder of the Company was about HK$102.0 million (2019: HK$102.0 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to approximately HK$230.8 million (2019: approximately HK$234.9 million).

The Group has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital in future development. As at 31 December 2020, total banking facilities of the Group amounted to approximately HK$926.8 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 1.67 (2019: 1.98).

As at 31 December 2020, the bank loan and other borrowings were repayable as follows:

	2020 **HK$'000**	2019 HK$'000
Within 1 year or on demand	**106,938**	89,304
After 1 year but within 2 years	**118,820**	100,467
After 2 years but within 5 years	**507,563**	465,686
After 5 years	**308,932**	368,379
	1,042,253	1,023,836

The Group's borrowings were mainly arranged on a floating rate basis. During the year ended 31 December 2020, the Group did not enter into any hedging arrangements to hedge against exposure in interest rate risk. Any substantial fluctuation of interest rate may cause financial impacts on the Group. The management of the Company will continue to monitor the Group's interest rate exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

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 (the "CGU") as at 31 December 2020. No further impairment was recognised for the year ended 31 December 2020.

FOREIGN CURRENCY RISK

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

As at 31 December 2020, the Group did not enter into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against 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 31 December 2020, the bank loan of HK$926.8 million from China Merchants Bank was secured by the pledge of the toll collection right in relation to the Expressway.

CAPITAL COMMITMENTS

As at 31 December 2020, there was no material capital commitment outstanding for the Company.

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 took place since early 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 the second half of the year, the average monthly traffic flow was about 108,000 vehicles, which is about 15.8% higher than the average monthly traffic flow of the year ended 31 December 2019.

During the year, as the introduction of new toll fee table for trucks and the increased penetration rate of using electronic toll collection system, with which a special discount will be given to the user of the toll road, the average toll per vehicle decreased by about 12.1% to HK$15.2 per vehicle for the year ended 31 December 2020. As a result, total revenue from the Expressway was about HK$140.5 million for the year ended 31 December 2020.

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 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防控期間免收收費公路車輛通行費的通知》（交公路明電[2020] 62號））and the Resumption of the Collection of Toll Fees on Tolled 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 tolled highways (the "Policy") with effect from 17 February to 5 May 2020. The Policy applied to all tolled highways including tolled 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 Tolled Highways（《收費公路管理條例》）. In accordance with the Policy, the Company had waived the toll fees of vehicles using the Expressway during the specified period.

TRADING OF LIQUOR AND SPIRITS

During the year ended 31 December 2020, the trading of liquor and spirits business was seriously affected by the COVID-19 pandemic. The sales dropped significantly owing to the lock-down policy in the PRC. Despite the fact that the temporary restrictions in social gathering and business entertainment discouraged the consumption of liquor and spirits during the year, 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. 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 about HK$365.5 million, which was about 38.1% higher than that of the year ended 31 December 2019.

EMPLOYEES AND EMOLUMENTS

As at 31 December 2020, the Group had a total of 241 (2019: 276) employees in the PRC and Hong Kong which included management staff, engineers and technicians. For the year ended 31 December 2020, the Group's total expenses on the remuneration of employees were approximately HK$32.5 million (2019: HK$39.4 million).

The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the MPF Scheme (for Hong Kong employees), the contribution retirement benefit scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of their performance.

The Company adopted a share option scheme on 11 June 2020 for the purpose of motivating eligible persons to optimise their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. No options have been granted under the share option scheme as at 31 December 2020.

PROSPECTS

With the outbreak of COVID-19 in the PRC, the Group faced a historical challenge in its businesses in 2020. Under the implementation of the nationwide toll fees exemption policy from the period between 17 February and 5 May 2020, the entire toll fee was exempted for the Expressway and it adversely affected the Group's revenue. For the liquor and spirits trading business, the control and prevention measures slowed down its sales since the outbreak of COVID-19. From early 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. In view of the above, the the management is full of confidence about the performance of the Group in the post COVID-19 pandemic period.

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 data from National Bureau of Statistics of the PRC, the GDP growth of Hunan Province for 2020 was about 3.8%, which was higher than the country average of about 2.3%. 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 outperformed economic growth in the region, the Expressway is expected to have a steady growth in the future years.

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

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 Report

The Board is committed to maintaining good corporate governance practices and has therefore reviewed the corporate governance policies of the Company with the adoption and improvement of various procedures and documentations which are detailed below.

The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance. For the year ended 31 December 2020, the Directors considered that the Company had complied with all the code provisions as set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standards set out in the Model Code for the year ended 31 December 2020.

BOARD OF DIRECTORS

The overall management of the Group's business is vested in the Board. Key responsibilities include formulation of the Group's overall strategies and policies, setting of performance targets, evaluation of business performance and oversight of management policies. The day-to-day management, administration and operation of the Company are delegated to the senior management of the Company. The delegated functions are periodically reviewed. Approvals must be obtained from the Board prior to any significant transactions entered into by senior management.

As at 31 December 2020, the Board comprised three executive Directors and three independent non-executive Directors. Biographical details of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

Brief details of the attendance of the meetings of the Board, Board committees and general meetings of the Company held during the year under review were summarised as follows:

	Board	**General Meeting**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
	Note	*Note*	*Note*	*Note*	*Note*
Executive Directors					
Chan Yeung Nam	6/6	0/1	N/A	N/A	N/A
Mai Qing Quan	6/6	0/1	N/A	N/A	N/A
Fu Jie Pin	6/6	0/1	N/A	1/1	1/1
Independent non-executive Directors					
Sun Xiao Nian	6/6	0/1	3/3	N/A	1/1
Chu Kin Wang, Peleus	6/6	1/1	3/3	1/1	N/A
Hu Lie Ge	6/6	0/1	3/3	1/1	1/1

Note: Number of meetings attended/Number of meetings held

The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and expertise relevant to the businesses of the Group. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company. In determining the independence of the independent non-executive Directors, the Board follows the requirements set out in the Listing Rules. The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent. Pursuant to Rule 3.10 of the Listing Rules, at least one of the independent non-executive Directors, Mr. Chu Kin Wang, Peleus, has the appropriate professional qualification or accounting or related financial management expertise.

The Board has developed and reviewed the Company's policies and practices on corporate governance. It includes the review and monitoring of the training and continuing professional development of Directors and senior management; the Company's policies and practices on compliance with legal and regulatory requirements; the development, review and monitoring of the code of conduct of the Company's employees and Directors; and the review of the Company's compliance with the code and disclosure in the Corporate Governance Report.

THE ROLES OF CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The division of responsibilities between the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "Chief Executive Officer") is clearly defined and has been approved by the Board. The Chairman, Mr. Chan Yeung Nam, leads the Board in the determination of the strategies of the Company and in the achievement of its objectives. He is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda but not involved in the daily business of the Group.

The Chief Executive Officer, Mr. Mai Qing Quan, is directly in charge of the daily operations of the Group and is accountable to the Board for the financial and operational performance of the Group.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the Directors (including executive Directors and independent non-executive Directors) has entered into a service contract with the Company for an initial term of three years, subject to termination in accordance with the provisions of the service contracts or by either party serving the other not less than three months' prior written notice.

In accordance with the Company's articles of association (the "Articles"), each year, one third of the Directors for the time being will retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years at the general meeting.

TERMS OF APPOINTMENT OF DIRECTORS

Each of the Directors (including executive Directors and independent non-executive Directors) has entered into a service contract with the Company for a term of three years, renewable upon expiry. No Director has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

CONTINUING PROFESSIONAL DEVELOPMENT

Pursuant to the CG Code, all Directors should participate in continuing professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Directors have been informed of the requirement under code provision A.6.5 of the CG Code regarding continuing professional development. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the CG Code on continuing professional development for the year ended 31 December 2020:

	Training activities undertaken
Executive Directors	
Chan Yeung Nam	A
Mai Qing Quan	A
Fu Jie Pin	A
Independent non-executive Directors	
Sun Xiao Nian	A
Chu Kin Wang, Peleus	A and B
Hu Lie Ge	A

Notes:

A: attending briefing sessions and/or seminars

B: reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements

BOARD DIVERSITY POLICY

Pursuant to the CG Code relating to board diversity, the Board adopted a board diversity policy (the "Board Diversity Policy") on 28 August 2013. The Board Diversity Policy ensures the nomination committee of the Company (the "Nomination Committee") nominates and appoints candidates on merit basis, while having appropriate balance of skills and experience necessary to enhance the effectiveness of the Board so to maintain high standards of corporate governance. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background, educational background, industry experience and professional experience.

NOMINATION POLICY

The nomination policy of Company aims to set out the criteria and process in the nomination and appointment of Directors, to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company, and to ensure the Board's continuity and appropriate leadership at Board level.

In evaluating and selecting any candidate for directorship, the following criteria should be considered:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;
- any measurable objectives adopted for achieving diversity on the Board;
- requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

COMPANY SECRETARY

Mr. Sin Ka Man, the company secretary of the Company (the "Company Secretary"), reports to the Chairman. The details of his biographical is set out in the section headed "Directors and Senior Management" of this annual report. Mr. Sin has been informed of the requirement of Rule 3.29 of the Listing Rules and he confirmed that he has taken no less than 15 hours relevant professional training during the financial year ended 31 December 2020.

	Corporate Governance/ Updates on Laws, Rules and Regulations		**Accounting/Financial/ Management or Other Professional Skills**	
Company Secretary	**Read materials**	**Attended Seminars/ Briefings**	**Read materials**	**Attended Seminars/ Briefings**
Mr. Sin Ka Man	✓	✓	✓	✓

BOARD COMMITTEES

As an integral part of good corporate governance practice, the Board established the following Board committees to oversee particular aspects of the Group's affairs. Each of these Board committees comprises entirely of independent non-executive Directors who have been invited to serve as members. These committees are governed by the respective written terms of reference approved by the Board.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 21 May 2009 with written terms of reference in compliance with the CG Code. The Audit Committee comprises three members, all of them are independent non-executive Directors, namely Mr. Chu Kin Wang, Peleus, Mr. Hu Lie Ge and Mr. Sun Xiao Nian. Mr. Chu Kin Wang, Peleus is the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2020, including the accounting principles and practice adopted by the Group.

The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; to discuss with the external auditor regarding the nature and scope of the audit and reporting obligations before the audit commences; to develop and implement policy on engaging an external auditor to supply non-audit services, identifying and making recommendations on any matters where action or improvement is needed; to monitor integrity of the Company's financial statements, annual report, accounts and half-year report; and to review significant financial reporting judgements contained in them.

During the year ended 31 December 2020, the Audit Committee held three meetings and the members reviewed the interim and annual results and the interim and annual reports; met with external auditor to ensure appropriate accounting principles and practices adopted by the Group; assisted the Board in meeting its responsibilities for maintaining an effective system of internal control; and reviewed the internal audit plan and the report from the internal audit to ensure the effectiveness of the internal audit function of the Group.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established on 21 May 2009 with written terms of reference in compliance with the CG Code. During the reporting period, the Remuneration Committee comprises three members, namely Mr. Hu Lie Ge, Mr. Chu Kin Wang, Peleus and Mr. Fu Jie Pin. Mr. Hu Lie Ge, an independent non-executive Director, is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for the remuneration of all Directors' and members of the senior management and on the establishment of a formal and transparent procedure for developing remuneration policy; to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; to make recommendations to the Board on the remuneration packages of individual executive Directors and members of the senior management including benefits in kind, pension rights and compensation payments; to make recommendations to the Board on the remuneration of non-executive Directors; to take into account the salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; to review and approve compensation payable to executive Directors and members of the senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and to ensure that no Director or any of his associates is involved in deciding his own remuneration. The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence. The emolument of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may recommend, the aggregate amount for all executive Directors shall not exceed 10% of the audited consolidated net profits of the Group for the relevant financial year. Such amount has to be approved by the Remuneration Committee. The Remuneration Committee, with delegated responsibility from the Board, has held one meeting to review and approve the remuneration packages of the Directors and the members of the senior management of the Group for the year ended 31 December 2020.

NOMINATION COMMITTEE

The Nomination Committee was established on 21 May 2009 with written terms of reference in compliance with the CG Code. During the reporting period, the Nomination Committee comprises three members, namely Mr. Sun Xiao Nian, Mr. Hu Lie Ge and Mr. Fu Jie Pin. Mr. Sun Xiao Nian, an independent non-executive Director, is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board annually and make recommendations on any proposed changes to the Board to complement the corporate's strategy; identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; assess the independence of independent non-executive Directors; and make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer. The Nomination Committee is also responsible for reviewing the Board Diversity Policy annually, to ensure the continued effectiveness of the Board. It will also give consideration to the Board Diversity Policy when identifying suitable qualified candidates to become members of the Board.

The Group considered the diversity of Board can be achieved through the consideration of a number of aspects during the selection process of potential Directors, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge (collectively, the "Aspects"). The appointment of all Directors will be based on meritocracy, and the suitability of candidates will be evaluated against objective criteria, having due regard for the benefits of Board diversity. Selection of candidates will be based on a range of diversity perspectives, including but not limited to the Aspects. The ultimate decision will be made after assessing the merits and contributions that the candidates will potentially bring to the Board.

The Nomination Committee has held one meeting for the year ended 31 December 2020 to nominate the members of Board for retirement and re-election at the forthcoming annual general meeting and to review the structure, size and composition of the Board.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the year ended 31 December 2020 is set out below:

Remuneration bands	Number of persons
Nil to HK$1,000,000	1
HK$1,000,001 – HK$1,500,000	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 7 and 8 to the financial statements, respectively.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Group. However, the above statement should be read in conjunction with, but distinguished from, the independent auditors' report in the section headed "Independent Auditor's Report" which acknowledges the reporting responsibilities of the Group's auditors.

AUDITORS' REMUNERATION

For the year ended 31 December 2020, the remuneration paid or payable to the Group's auditors, KPMG, in respect of the services provided are as follows:

	HK$'000
Annual audit and interim review services	2,690

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibilities to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of the shareholders of the Company (the "Shareholders"). The Board has developed its systems of internal control and risk management and is also responsible for overseeing, reviewing and maintaining an adequate risk management and internal control systems to safeguard the interests of the Shareholders and the assets of the Group.

During the year, the Board has conducted reviews of the risk management and internal control systems of the Group and considered the internal control system of the Group has implemented effectively and adequately. During the year ended 31 December 2020, the Board oversaw and reviewed the effectiveness and adequacy of the Group's internal control system, covering all material controls, including financial, operational and compliance controls and risk management functions. The Board also considered the Group's adequacy of resources, qualifications and experience of staff in its accounting and financial reporting functions, and their training programmes and budget.

INTERNAL AUDIT

The Group has an Internal Audit ("IA") function, which is consisted of professional staff with relevant expertise (such as Certified Public Accountant). The IA function is independent of the Group's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An IA plan has been approved by the Board. According to the IA plan, review of the risk management and internal control systems is conducted annually and the results are reported to the Board via the Audit Committee afterwards.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders and the investors of the Company. The Board also recognises effective communication with investors is the key to establish investors' confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the Shareholders receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate correspondence on the Company's website at www.huayu.com.hk. The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. The Directors and the members of the various Board committees would attend and answer questions raised on the annual general meeting of the Company. Separate resolutions would be proposed at the general meeting on each substantially separate issue.

VOTING BY POLL

Resolutions put to vote at the general meetings of the Company (other than on procedural and administrative matters) are taken by poll. Procedures regarding the conduct of the poll are explained to the Shareholders at the commencement of each general meeting, and questions from the Shareholders regarding the voting procedures are answered. The results of the voting by poll would be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

CONVENING OF EXTRAORDINARY GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

Pursuant to article 57 of the Articles, each general meeting, other than an annual general meeting, shall be called as an extraordinary general meeting. The Board may whenever it thinks fit call extraordinary general meetings. Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to call the meeting shall be reimbursed to the requisitionist(s) by the Company.

DIVIDEND POLICY

The Company has adopted a dividend policy and the declaration and recommendation of dividends are subject to the decision of the Board after considering the Company's ability to pay dividends. The Board has complete discretion on whether to declare and pay an interim dividend and/or to recommend a final dividend, subject to Shareholders' approval, where applicable.

The Directors will take into consideration, among other things, the financial results, operations, liquidity and capital requirements of the Group, general business conditions and strategies, future business plans of the Group and legal restrictions when determining whether or not to recommend and declare dividends. The Board will also review and reassess the dividend policy and its effectiveness on a regular basis or as required.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

Any Shareholder who wishes to put forward proposals at general meetings of the Company shall submit the relevant proposal to the Board in writing for the Board's consideration not less than seven (7) days prior to the date of a general meeting through the Company Secretary whose contact details are set out in the paragraph "Procedures for directing shareholders' enquiries to the Board" below.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

The Company Secretary
Huayu Expressway Group Limited
Unit 1205, 12/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong
Email: kenneth.sin@huayu.com.hk
Tel No.: +852 2559 1210
Fax No.: +852 2559 1026

The Company Secretary shall forward the Shareholders' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, to respond to such enquires.

CONSTITUTIONAL DOCUMENTS

As at 31 December 2020, the Group confirmed that there has been no change to the memorandum of association of the Company and the Articles.

EXECUTIVE DIRECTORS

Mr. Chan Yeung Nam（陳陽南）, aged 65, is an executive Director and the Chairman of the Board. Mr. Chan is the founder of the Group and was appointed as an executive Director in April 2009. He is responsible for the overall management, development and planning of the Group. He is also responsible for assessing and analyzing investment opportunities involving other infrastructure projects when they arise. Mr. Chan graduated from Sun Yat-Sen University. He has more than 23 years of experience in the development, operation and management of highways.

Mr. Mai Qing Quan（麥慶泉）, aged 71, is an executive Director and the Chief Executive Officer. He joined the Group in May 2009. Mr. Mai is responsible for the negotiation and communication with the relevant governmental bodies in the PRC. He is also responsible for overseeing the infrastructure projects of the Group. Mr. Mai graduated from Hunan Normal College. He has over 15 years of experience in investment, construction and operation of expressway projects in the PRC.

Mr. Fu Jie Pin（符捷頻）, aged 53, joined the Company as an executive Director in May 2009. Mr. Fu is responsible for project investment analysis, commercial negotiation and coordination and investment capital operation. Mr. Fu graduated from Sun Yat-Sen University with a bachelor's degree in electronics and information system in 1989. He has over 22 years of experience in development, operation and management of highways in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Xiao Nian（孫小年）, aged 56, joined the Company as an independent non-executive Director in May 2009. He obtained his master degree in automobiles and transport from 吉林工業大學 (Jilin University of Technology)*, currently part of the Jilin University. He then further obtained his doctor degree in transportation planning and management from Tongji University. He is a senior engineer of professor's level accredited by the 廣東省人事廳 (Guangdong Province Personnel Bureau)* in 2003 and a registered consultant engineer accredited by the Ministry of Personnel of the PRC. He is now the vice chief engineer and the head of technical consultation centre of the China Academy of Transportation Sciences.

Mr. Chu Kin Wang, Peleus（朱健宏）aged 56, joined the Company as an independent non-executive Director in May 2009. He obtained his master degree in business administration from the University of Hong Kong. Mr. Chu is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountant and an associate of Hong Kong Institute of Company Secretary and The Institute of Chartered Secretaries and Administrators. Mr. Chu is a director of Tianli Holdings Group Limited (formerly named as EYANG Holdings (Group) Co., Limited), Mingfa Group and China First Capital Group Limited, all of which are companies listed on the Main Board of the Stock Exchange. He is also a director of Madison Holdings Group Limited and SuperRobotics Holdings Limited (formerly named as SkyNet Group Limited), all of which are companies listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Hu Lie Ge (胡列格) aged 67, joined the Company as an independent non-executive Director in May 2009. He graduated from 長沙交通學院 (Changsha Communications Institute)* in Mathematical Mechanics and completed a graduate course in Probability Theory and Mathematics Statistics at 長沙鐵道學院 (Changsha Railway University)*, currently part of Central South University. Mr. Hu was once the Head of the 交通運輸學院 (College of Transportation and Communications)* in Changsha University of Science and Technology and is now a member of 湖南省促進物流業發展專家委員會 (Hunan Province Committee for Facilitation of the Development of the Logistics Industry)*.

COMPANY SECRETARY

Mr. Sin Ka Man (冼家敏) aged 53, was appointed as the Company Secretary on 3 July 2009. Mr. Sin has over 28 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He became an associate member of The Hong Kong Institute of Certified Public Accountants (the "HKICPA") (formerly known as Hong Kong Society of Accountants) in January 1996, a fellow member of the Association of Chartered Certified Accountants in July 1997 and a certified practising accountant of the CPA Australia in December 2000. Mr. Sin obtained his bachelor degree in Social Sciences from the University of Hong Kong in December 1989, master degree in Finance from the University of Strathclyde, the United Kingdom in November 1993 and a master degree in Accounting from Curtin University of Technology, Australia in June 1998.

* *The English translation is for reference only. The official name of the university, college, institution or organisation is in Chinese.*

The Board presents this annual report together with the audited consolidated financial statements for the year ended 31 December 2020.

BUSINESS REVIEW

GENERAL

For the review of the business of the Group, please refer to the section headed "Management Discussion and Analysis" on pages 5 to 11 of this report. This discussion forms part of this Report of the Directors.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The following section lists out the key risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Further, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

Changes to the provincial government's transportation-related policies

The Group's operations are sensitive to changes in the PRC Government's policies relating to all aspects of the transportation sector, for example, changes to transportation networks, traffic regulation, licensing and toll regime, etc. Such changes may have an adverse effect on the revenue or results of operations of the Group. The Directors will monitor the applicable and relevant government policies closely and will take immediate and appropriate actions in response to any changes in the policies with a view to minimize its impact on the infrastructure projects and to the Group.

Revenue is heavily dependent on traffic volume and may be affected by competing roads and bridges and other modes of transportation

Revenue to be generated from collection of toll is heavily dependent on traffic volume. Traffic volume is directly and indirectly affected by a number of factors, including the road's connectivity with other parts of the local and national highway network. There can be no assurance that future changes in the highway system and network will not adversely affect the traffic volume on the expressways. There is also no assurance that other road or mode of transportation will not be constructed or introduced in future which may prove to be better alternatives to the Group's existing expressway projects. In such case, the Group's business and operating results may be materially and adversely affected.

Notwithstanding the above, the Directors believe that the rising trend of the economic growth in PRC will be sustained in the foreseeable future. With this growth, especially in Hunan area, the Directors expect the revenue for toll road project will continue to increase in the coming years.

Significant borrowings and financial performance could be affected by general economic conditions and factors

The Group has significant debt obligations under bank loans borrowed to finance project costs. As at 31 December 2020, the Group had total bank borrowing of approximately HK$926.8 million and our ratio of total outstanding bank loan and other borrowing to total equity was 1.67.

All existing borrowings are outstanding on variable interest rate terms under which interest rates will be adjusted according to market movements in interest rates. It has not been the Group's policy to hedge against movements in interest rates. Any significant increase in interest rates could have a significant adverse effect on our Group's earnings. The Group's interest rate risk mainly relates to the cash at bank and the long term bank loan. A change in interest rates at the balance sheet date would have effect on the amount of the interest costs and income.

Risks pertaining to the relationship with the major supplier

Most of the Group's liquor and spirits trading business relies on the sole distributorship of Huamaojiu granted by the major supplier, Kweichow Moutai Group. The sole distributorship agreement was reviewed annually. The failure in negotiation of the agreement may cause a substantial effect to the Group's business. The Directors will monitor the relationship with Kweichow Moutai Group closely to ensure the successful negotiation in the sole distributorship agreement.

Risks pertaining to the distributorship model

The Group's liquor and spirits trading business relies primarily on a number of third-party distributors for sales of the Group's products. Each distributor has exclusive distribution rights over a certain geographical area, the failure by such distributor to perform its obligations under its distributorship agreement with the Group may result in a material adverse effect on the business of the authorized retailers in such area. The Directors will regularly review the performance of each distributor and take appropriate actions to minimize the effect of the failure of performance by the distributors.

Risks pertaining to force majeure events, natural disasters or outbreaks of contagious diseases

The Group's business could be adversely affected by natural disasters or outbreaks of epidemics, which may affect the procurement of raw materials and manufacture, sales and exportation of the Group's products. Epidemics, pandemics or outbreaks or escalation of diseases, including, among others, Severe Acute Respiratory Syndromes (SARS), avian influenza, swine flu (H1N1), novel coronavirus in 2020 (COVID-19) and other diseases may affect the livelihood of people in the PRC. These natural disasters, outbreaks of contagious diseases, and other adverse public health developments in the PRC could severely disrupt the Group's business operations by restricting travel and sales activities and delaying delivery of the Group's products and services, affect the productivity of the workforce, or reduce the demand for the Group's products, which may materially and adversely affect business, financial condition and results of operations of the Group.

Past performance and forward looking statements

The performance and the results of operation of the Group as set out in this annual report are historical in nature and past performance is not a guarantee for future performance of the same. This annual report may contain forward-looking statements and opinions that involve risks and uncertainties. Actual results may also differ materially from expectations discussed in such forward-looking statements and opinions. Neither the Group nor the Directors, employees or agents of the Group assume any obligations or liabilities in the event that any of the forward-looking statements or opinions does not materialize or turns out to be incorrect.

FINANCIAL RESOURCES

As at 31 December 2020, the total outstanding secured bank loan and other borrowings was HK$1,042.3 million. Details of the maturity profile please refer to the section headed “Management Discussion and Analysis – Liquidity and financial resources” on pages 7 to 8 of this report.

POST YEAR END EVENTS

Since 31 December 2020, being the end of the financial year under review, no important event has occurred which materially affects the Group.

ANALYSIS OF KEY FINANCIAL PERFORMANCE INDICATORS

For details of the key financial performance indicators to the performance the Group’s business, please refer to “Management Discussion and Analysis” on pages 5 to 11 of this report. This discussion forms part of this Report of the Directors.

ENVIRONMENT PROTECTION AND LEGAL COMPLIANCE

The Company is committed to protecting the environment where it operates and ensuring that it complies with the environmental protection standards applicable to the Group and its business operation from time to time.

During the year ended 31 December 2020 and to the best of our Directors’ knowledge, the Group had obtained the required permits and environmental approvals for its business, and had complied with such laws, rules and regulations that have a significant impact on the Group, its business and operations.

Please refer to the Environmental, Social and Governance Report issued separately for further information on the work done and efforts made by the Company on environmental protection, legal compliance and other aspects for the sustainable growth and development of the business of the Group.

Report of the Directors

COMPLIANCE WITH LAWS AND REGULATIONS

The Group continues to keep abreast with the requirement of the relevant laws and regulations of various countries, particularly the PRC and Hong Kong, applicable to it to ensure compliance. Majority of the Group's assets are located in the PRC and the Group's revenue is mainly derived from business operations in the PRC. During the year under review, the Group complied in all material respects with the relevant laws and regulations in various countries applicable to it.

ACCOUNT OF THE GROUP'S KEY RELATIONSHIPS

Employees

The Group offers a comprehensive range of staff facilities and fringe benefits to attract, retain and motivate employees. Key personnel have been part of the management team since the inception of business. During the year under review, the Group considered that it has maintained a good relationship with its employees and the employee turnover rate was acceptable.

Building contractors

The Group's building contractors mainly include the contractors for the building and construction of the Sui-Yue Expressway. All these contractors have a close and long term relationship with the Group. During the year under review, the Group considered that it has maintained a good and stable relationship with its building contractors.

Suppliers

The Group's suppliers include the major supplier for Huamaojiu, Kweichow Moutai Group and contract manufacturers for other liquors and spirits products. All these suppliers have a close and long term relationship with the Group's management. During the year under review, the Group considered the relationship with its suppliers was well and stable.

Distributors

The Group adopted the distributorship model for its products in the PRC. Under this model, the Group primarily sells products to distributors in the PRC under distributorship agreements, which being reviewed yearly. Each of the distributors has exclusive distribution right over a certain geographical area in the PRC. The Group maintains very good relationship with all the distributors.

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company is incorporated and domiciled in Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business in Hong Kong at Unit 1205, 12/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 12 to the consolidated financial statements in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

EXPRESSWAY

For the year ended 31 December 2020, the Group has no major customer information to disclose as the Expressway is open to public. No further disclosure with regard to the Group's suppliers are made since there is normally no major purchase in its ordinary course of business.

LIQUOR AND SPIRITS TRADING BUSINESS

The information in respect of the sales and purchases attributable to the major customers and suppliers of the Group's liquor and spirits trading business respectively for the year ended 31 December 2020 is as follows:

	Percentage of the segment's total	
	Sales	**Purchases**
The largest customer	39%	
Five largest customers in aggregate	64%	
The largest supplier		82%
Five largest suppliers in aggregate		100%

At no time during the year have the Directors, their close associates or any shareholder of the Company (which to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2020 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 45 to 114.

RESERVES

Details of movements in the reserve of the Company during the year ended 31 December 2020 are set out in note 22 to the consolidated financial statements.

Profit attributable to Shareholders, in the amount of HK$70,299,000 (2019: HK$50,420,000) has been transferred to the reserves. Other movements in reserve are set out in consolidated statement of changes in equity.

No dividend was declared nor paid for the year ended 31 December 2020 and 2019.

CHARITABLE DONATIONS

No charitable donations were made by the Group during the year ended 31 December 2020 (2019: Nil).

FIXED ASSETS

Details of the movements in fixed assets during the year ended 31 December 2020 are set out in note 10 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2020 are set out in note 22 to the consolidated financial statements.

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries from the listing date to 31 December 2020.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

DIRECTORS

The Directors during the financial year and up to the date of this annual report were:

EXECUTIVE DIRECTORS

Mr. Chan Yeung Nam
Mr. Mai Qing Quan
Mr. Fu Jie Pin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Xiao Nian
Mr. Chu Kin Wang, Peleus
Mr. Hu Lie Ge

In accordance with article 83 of the Articles, any Director appointed by the Board to fill a casual vacancy or as an additional Director shall hold office only until the next following general meeting of the Company.

By virtue of articles 84 and 85 of the Articles, Mr. Mai Qing Quan and Mr. Fu Jie Pin will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Each of the executive and independent non-executive Directors has entered into a service contract with the Company for an initial term of three years, renewable upon expiry and thereafter may be terminated by either party upon a three months' prior written notice.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

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

As at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, 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 ("SFO")), which were required to be notified to the Company and 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 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 contained in the Listing Rules were as follows:

Name of director	Nature of interest	Number of shares (ordinary shares)	Percentage
Mr. Chan Yeung Nam *(Note)*	Interest in controlled corporation	300,000,000 (L)	72.71%

Note: *Mr. Chan Yeung Nam, an executive Director and chairman of the Board, is deemed to be interested in 300,000,000 shares of the Company held by Velocity International Limited by virtue of it being controlled 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 a term loan facility provided to Velocity International Limited.

Apart from the forgoing, as at 31 December 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 position 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 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 interest 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).

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 11 June 2020 for the purpose of motivating eligible persons to optimise their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of shares of the Company ("Shares") which may be issued upon exercise of all options 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, being the date on which the resolution passed in the general meeting, 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 that person in any 12-month period exceeds 1% of the Company's shares in issue from time to time.

An 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 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 options 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 date of offer.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options 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 option scheme became effective on 11 June 2020, no options have 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% of the Company's issued share capital as at the date of this annual report.

Apart from the forgoing, at no time during the year 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 31 December 2020, so far as it is known to any Director or chief executive of the Company, the persons (other than the Director 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% of 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 1)*	Beneficial owner	300,000,000(L)	72.71%
TCG Capital Investment Limited *(Note 1)*	Person having security interest in shares	300,000,000(L)	72.71%
Chan Weng Lin *(Note 1)*	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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's entire issued share capital as required under the Listing Rules for the year ended 31 December 2020.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its holding companies or subsidiaries was a party, and in which the Director or an entity connected with such Director had a material interest, directly or indirectly, subsisted at the end of or at any time during the year ended 31 December 2020.

BANK LOAN

Particulars of bank loan of the Group as at 31 December 2020 are set out in note 19 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of the annual report.

RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The employees of the subsidiaries in the People's Republic of China are members of the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of their payroll to these schemes to fund the benefits. The only obligation of the Group with respect to these schemes is the required contributions under the schemes.

The Group's total contributions to retirement schemes charged to the income statement during the year ended 31 December 2020 amounted to HK$2,671,000 (2019: HK$5,484,000).

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

CORPORATE GOVERNANCE CODE

The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2020, the Directors considered that the Company had complied with all the code provisions as set out in the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all the Directors have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2020.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company and the external auditors the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2020.

AUDITORS

KPMG will retire and being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting of the Company.

By order of the board

Chan Yeung Nam
Chairman

Hong Kong, 26 March 2021

Independent auditor's report to the shareholders of Huayu Expressway Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Huayu Expressway Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 45 to 114, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessing potential impairment of the intangible asset relating to service concession arrangement

Refer to note 11 to the consolidated financial statements and the accounting policies on pages 61 to 62.

The Key Audit Matter

The service concession arrangement represents the Group's rights to operate the Sui-Yue Expressway (Hunan Section) ("the Expressway") and receive toll fees therefrom. The Group's operations are sensitive to changes in government policies relating to all aspects of the transportation sector, including but not limited to policies relating to provincial and municipal transportation networks and traffic regulations.

Due to the continued impact of traffic regulations in Hunan Province relating to motor vehicles (including measures to raise the toll rate for the overloaded portion of trucks and the imposition of higher penalties for traffic violations) and competition from parallel routes, alternative routes and high-speed rails, the Group's expected toll revenue growth rate might be affected unfavourably. Any changes in the assumptions adopted to assess the recoverable amount of the asset (including the factors referred to above) could lead to further impairment charges in the current or future years.

How the matter was addressed in our audit

Our audit procedures to assess the potential impairment of the intangible asset relating to service concession arrangement included the following:

- assessing the capabilities, experience, competence and independence of the external traffic consultant and the external valuer engaged by management to assist in valuing the recoverable amount of the CGU;
- evaluating the forecast cash flows for the CGU which included comparing details in the forecast with the latest management plans and budgets approved by the directors;
- comparing the cash flows for the year ended 31 December 2020 previously forecasted by management in 2019 with the actual results for the current year;

KEY AUDIT MATTERS (continued)

Assessing potential impairment of the intangible asset relating to service concession arrangement (continued)

Refer to note 11 to the consolidated financial statements and the accounting policies on pages 61 to 62.

The Key Audit Matter

Management conducted an impairment assessment thereof by engaging an external traffic consultant to update projected traffic and revenue data for the Expressway for the remaining concession period and an external valuer to prepare a discounted cash flow forecast of the CGU containing the Expressway, which involved the exercise of significant judgement and estimation, particularly in relation to the forecast of revenue and the discount rate applied to estimate the net present value of the future operating cash flows.

We identified assessing potential impairment of the intangible asset relating to service concession arrangement as a key audit matter because of the inherent uncertainty involved in forecasting future revenue from the Expressway and determining the applicable discount rate, which could be subject to potential management bias.

How the matter was addressed in our audit

- critically assessing the key assumptions adopted in the discounted cash flow forecast (including the toll revenue growth rate over the concession period, future contingent income from service areas within the Expressway and the discount rate) as follows:

  - assessing the toll revenue growth rate over the concession period with reference to external data and forecasts together with traffic flow and toll revenue forecast reports prepared by the Group's external traffic consultant;

  - evaluating future contingent income from service areas within the Expressway based on market and other externally available information; and

  - engaging our internal valuation specialists to assist us in evaluating the discounted cash flows, as well as comparing the adopted discount rate with those of similar companies in the same industry.

- assessing the sensitivity of key assumptions, including the toll revenue growth rate and the discount rate, in the discounted cash flow forecast to changes and considering whether there was any evidence of potential management bias;

- considering the disclosures in the consolidated financial statements in respect of management's impairment assessment of the intangible asset relating to service concession arrangement and whether the disclosures about the sensitivity of the outcome of the impairment assessment to changes in the key assumptions reflected the risks inherent in the impairment assessment with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (continued)

Revenue recognition: sales of liquor and spirits

Refer to note 3 to the consolidated financial statements and the accounting policies on page 66 to 67.

The Key Audit Matter

The Group has entered into a sole distributorship agreement for the distribution and sales of Huamaojiu in the People's Republic of China ("PRC") and has commenced its liquor and spirits trading business.

The Group enters into framework distribution agreements with its distributors every year. According to the terms of the framework distribution agreements, revenue is recognised when the goods are delivered to the customers' premises, which is the point when the control of the goods is considered to have transferred to its distributors.

How the matter was addressed in our audit

Our audit procedures to address the recognition of revenue from distribution arrangements included the following:

- obtaining an understanding of the Group's accounting policy for the recognition of revenue from sales of liquor and spirits; and assessing the design, implementation and operating effectiveness of key internal controls over the recognition of revenue;

- inspecting, on a sample basis, the framework distribution agreements with distributors to understand key terms and conditions of sales including the terms of delivery, applicable rebate and/or discount arrangements and any sales return arrangements to assess if the Group's revenue recognition criteria were in accordance with the requirements of the prevailing accounting standards;

- testing revenue transactions, on a sample basis, by examining the relevant supporting documents, including customer orders, sales contracts, goods delivery notes and customers' acknowledgement of receipt notes;

- obtaining external confirmations of the value of sales transactions for the year ended 31 December 2020 and outstanding trade receivable balances or prepayments as at that date directly from distributors, on a sample basis;

KEY AUDIT MATTERS (continued)

Revenue recognition: sales of liquor and spirits (continued)

Refer to note 3 to the consolidated financial statements and the accounting policies on page 66 to 67.

The Key Audit Matter	How the matter was addressed in our audit
We identified the recognition of revenue from sales of liquor and spirits under the distributor arrangements as a key audit matter because revenue is one of the key performance indicators of the Group, and there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	• for sales transactions around the financial year end, comparing, on a sample basis, details in the sales invoices to the relevant goods delivery notes, which were signed by the distributors, to assess if the related revenue had been recognised in the appropriate financial period on the basis of the terms of sales as set out in the distribution agreements; • identifying significant sales returns from the sales ledger after the year end and inspecting the underlying documentation in relation to these sales returns to assess if the related adjustments to revenue had been accounted for in the appropriate accounting period; and • inspecting a sample of manual adjustments to revenue raised during the reporting period, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR’S REPORT THEREON (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group’s financial reporting process.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheung Tsang Fai.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
26 March 2021

Consolidated Statement of Profit or Loss

for the year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Revenue	3	**505,962**	456,986
Cost of sales		**(319,161)**	(237,800)
Gross profit		**186,801**	219,186
Other revenue	4	**2,762**	2,151
Other net income/(loss)	4	**15,230**	(6,456)
Administrative expenses		**(42,066)**	(43,349)
Selling and distribution costs		**(10,694)**	(20,837)
Profit from operations		**152,033**	150,695
Financial costs	5(a)	**(51,705)**	(54,594)
Share of profits of associates	5(c)	**3,434**	308
Profit before taxation	5	**103,762**	96,409
Income tax	6(a)	**(22,900)**	(27,784)
Profit for the year		**80,862**	68,625
Attributable to:			
Equity shareholders of the Company		**70,299**	50,420
Non-controlling interests		**10,563**	18,205
Profit for the year		**80,862**	68,625
Earnings per share (HK cents)			
Basic and diluted	9	**17.04**	12.22

The notes on pages 51 to 114 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2020

	2020 $'000	2019 $'000
Profit for the year	**80,862**	68,625
Other comprehensive income for the year		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
– financial statements of subsidiaries outside Hong Kong	**27,997**	(8,700)
Total comprehensive income for the year	**108,859**	59,925
Attributable to:		
Equity shareholders of the Company	**89,928**	43,948
Non-controlling interests	**18,931**	15,977
Total comprehensive income for the year	**108,859**	59,925

The notes on pages 51 to 114 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2020

	Note	2020 $'000	2019 $'000
Non-current assets			
Property, plant and equipment	10	**18,517**	19,042
Intangible asset – service concession arrangement	11	**1,312,774**	1,236,431
Interests in associates	13	**22,129**	2,423
Deferred tax assets	21	**145,390**	140,387
		1,498,810	1,398,283
Current assets			
Inventories	14	**94,495**	63,880
Prepayments and other receivables	15	**34,983**	55,924
Amounts due from related parties	26(c)	**4,814**	10,382
Cash and cash equivalents	16(a)	**230,775**	234,863
Other current assets		**459**	–
		365,526	365,049
Current liabilities			
Accruals and other payables	17	**79,794**	90,690
Contract liabilities	18	**6,591**	25,287
Amounts due to related parties	26(c)	**8,422**	758
Bank loan and other borrowing	19	**106,938**	89,304
Lease liabilities	20	**1,285**	1,291
		203,030	207,330
Net current assets		**162,496**	157,719
Total assets less current liabilities		**1,661,306**	1,556,002

The notes on pages 51 to 114 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2020

	Note	2020 $'000	2019 $'000
Non-current liabilities			
Bank loan and other borrowing	19	**935,315**	934,532
Amount due to the controlling shareholder of the Company	26(c)	**101,976**	101,976
Lease liabilities	20	**947**	1,787
		1,038,238	1,038,295
NET ASSETS		**623,068**	517,707
CAPITAL AND RESERVES	22		
Share capital		**4,126**	4,126
Reserves		**491,481**	404,676
Total equity attributable to equity shareholders of the Company		**495,607**	408,802
Non-controlling interests		**127,461**	108,905
TOTAL EQUITY		**623,068**	517,707

Approved and authorised for issue by the board of directors on 26 March 2021.

Chan Yeung Nam
Chairman

Mai Qing Quan
Chief Executive Officer and Executive Director

The notes on pages 51 to 114 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

	Attributable to equity shareholders of the Company									
	Share capital (Note 22(c)) $'000	Share premium (Note 22(d)(i)) $'000	Statutory reserve $'000	Other reserve (Note 22(d)(ii)) $'000	Share-based compensation reserve (Note 22(d)(iii)) $'000	Exchange reserve (Note 22(d)(iv)) $'000	Accumulated losses $'000	Total $'000	Non-controlling interests $'000	Total equity $'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 2020:										
Profit for the year	–	–	–	–	–	–	70,299	70,299	10,563	80,862
Other comprehensive income	–	–	–	–	–	19,629	–	19,629	8,368	27,997
Total comprehensive income	–	–	–	–	–	19,629	70,299	89,928	18,931	108,859
Equity settled share-based transaction	–	–	–	–	1,462	–	–	1,462	190	1,652
Appropriation to statutory reserve	–	–	5,871	–	–	–	(5,871)	–	–	–
Capital injection	–	–	–	–	–	–	–	–	515	515
Acquisition of additional interest in a subsidiary	–	–	–	(4,585)	–	–	–	(4,585)	(1,080)	(5,665)
Balance at 31 December 2020	**4,126**	**80,118**	**10,086**	**820,611**	**3,407**	**47,557**	**(470,298)**	**495,607**	**127,461**	**623,068**

	Attributable to equity shareholders of the Company									
	Share capital (Note 22(c)) $'000	Share premium (Note 22(d)(i)) $'000	Statutory reserve $'000	Other reserve (Note 22(d)(ii)) $'000	Share-based compensation reserve (Note 22(d)(iii)) $'000	Exchange reserve (Note 22(d)(iv)) $'000	Accumulated losses $'000	Total $'000	Non-controlling interests $'000	Total equity $'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 2019:										
Profit for the year	–	–	–	–	–	–	50,420	50,420	18,205	68,625
Other comprehensive income	–	–	–	–	–	(6,472)	–	(6,472)	(2,228)	(8,700)
Total comprehensive income	–	–	–	–	–	(6,472)	50,420	43,948	15,977	59,925
Disposal of partial interests in subsidiaries	–	–	–	6,580	–	–	–	6,580	6,077	12,657
Equity settled share-based transaction	–	–	–	–	1,945	–	–	1,945	410	2,355
Dividends approved in respect of the previous year	–	(49,926)	–	–	–	–	–	(49,926)	–	(49,926)
Appropriation to statutory reserve	–	–	4,215	–	–	–	(4,215)	–	–	–
Capital injection	–	–	–	(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

The notes on pages 51 to 114 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Operating activities			
Cash generated from operations	16(b)	**125,530**	157,593
Tax paid		**(19,699)**	(13,581)
Net cash generated from operating activities		**105,831**	144,012
Investing activities			
Payment for the purchase of property, plant and equipment		**(3,756)**	(8,785)
Payment for intangible assets		**(12,282)**	(39,540)
Proceeds from disposal of intangible assets		**5,623**	–
Payments for investing in associates		**(15,070)**	(2,613)
Interest received		**2,374**	1,788
Net cash used in investing activities		**(23,111)**	(49,150)
Financing activities			
Capital element of lease rentals paid		**(1,362)**	(1,278)
Interest element of lease rentals paid	10(b)	**(136)**	(146)
Proceeds of loan and other borrowings		**–**	144,503
Repayment of loan and other borrowings		**(44,984)**	(113,630)
Repayment to related parties		**–**	(219,521)
Borrowing costs paid		**(51,555)**	(50,980)
Acquisition of additional interests in a subsidiary	16(c)	**(787)**	–
Net proceeds from disposal of partial interests in a subsidiary		**–**	386,669
Dividends paid to equity shareholders of the Company		**–**	(49,926)
Net cash (used in)/generated from financing activities	16(d)	**(98,824)**	95,691
Net (decrease)/increase in cash and cash equivalents		**(16,104)**	190,553
Cash and cash equivalents at 1 January		**234,863**	43,317
Effect of foreign exchange rate changes		**12,016**	993
Cash and cash equivalents at 31 December	16(a)	**230,775**	234,863

The notes on pages 51 to 114 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(B) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

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 financial statements on a going concern basis.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(C) 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 financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(D) SUBSIDIARIES AND NON-CONTROLLING INTERESTS

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(D) SUBSIDIARIES AND NON-CONTROLLING INTERESTS (continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 1(o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)(ii)).

(E) ASSOCIATES

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(i)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(E) ASSOCIATE (continued)

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate (after applying the ECL model to such other long-term interests where applicable (see note 1(i)(i))).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's statement of financial position, investments in associate is stated at cost less impairment losses (see note 1(i)).

(F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)(ii)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

–	Toll station and ancillary equipment	5 – 10 years
–	Other machinery and equipment	5 years
–	Motor vehicles	5 years
–	Furniture and fixtures	5 years
–	Right-of-use assets is depreciated over the unexpired term of lease.	

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(G) INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

The Group has entered into contractual service arrangement with local government authorities for its participation in the construction, operation and management of an expressway in the People Republic of China (the "PRC"). The Group carries out the construction of an expressway for the granting authorities and receives in exchange for the right to operate the expressway concerned and the entitlement to toll fees collected from users of the concession infrastructure.

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. The concession grantor has not provided any contractual guarantee in respect of the amounts of construction costs incurred to be recoverable. Intangible assets received as consideration for providing construction work and project management services in a service concession arrangement are measured at fair value upon initial recognition. Subsequent to initial recognition the intangible asset is measured at cost less accumulated amortisation and impairment losses (see note 1(i)(ii)).

Land collection costs incurred in conjunction with the service concession arrangement are recognised as intangible asset acquired under the service concession arrangement.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation is calculated to write off the cost of the intangible asset arising from a service concession arrangement 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. Where an item of infrastructure assets included in the intangible asset arising from a service concession arrangement has different period of expected future economic benefits flowing to the Group than the concession period, it is amortised separately.

Both the period and method of amortisation are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(H) LEASED ASSETS

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. 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. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(f) and 1(i)(ii)).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(H) LEASED ASSETS (continued)

(i) As a lessee (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and presents lease liabilities separately in the consolidated statement of financial position.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(s)(iii).

(I) CREDIT LOSSES AND IMPAIRMENT OF ASSETS

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (i.e. trade and other receivables).

Financial assets measured at fair value are not subject to the ECL assessment.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) CREDIT LOSSES AND IMPAIRMENT OF ASSETS (continued)

(i) Credit losses from financial instruments (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) CREDIT LOSSES AND IMPAIRMENT OF ASSETS (continued)

(i) Credit losses from financial instruments (continued)

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) CREDIT LOSSES AND IMPAIRMENT OF ASSETS (continued)

(i) Credit losses from financial instruments (continued)

Significant increases in credit risk (continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) CREDIT LOSSES AND IMPAIRMENT OF ASSETS (continued)

(i) Credit losses from financial instruments (continued)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment, including right-of-use assets;

– intangible asset – service concession arrangement; and

– investments in subsidiaries and an associate in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest Group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) CREDIT LOSSES AND IMPAIRMENT OF ASSETS (continued)

(ii) Impairment of other assets (continued)

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or Group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(J) INVENTORIES

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out (FIFO) and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(K) CONTRACT LIABILITIES

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 1(s)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(l)).

(L) TRADE AND OTHER RECEIVABLES

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(i)(i)).

(M) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(N) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(O) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(u)).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(P) EMPLOYEE BENEFITS

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The difference between the granted price and fair value of the restricted shares granted to employees is recognised as an employee cost with a corresponding increase in share-based compensation reserve within equity. The fair value is measured based on market price at grant date. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the restricted shares, the total difference between the granted price and the fair value of the options is spread over the vesting period.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(Q) INCOME TAX

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(Q) INCOME TAX (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(R) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(S) REVENUE AND OTHER INCOME

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Toll revenue

The Group's toll revenue is measured based on the consideration the Group expects to be entitled from the contract with the customer and excludes those amounts collected on behalf of third parties. The Group recognises toll revenue when the vehicles go through the Expressway and pass the toll stations, which means it transfers control over services to customers. Due to the implementation of unified toll collection policy on the Expressway, the settlement period of the toll revenue from toll road operation is normally within a month.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(S) REVENUE AND OTHER INCOME (continued)

(ii) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

Interest income is recognised as it accrues under the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

(T) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(T) TRANSLATION OF FOREIGN CURRENCIES (continued)

The results of foreign operation are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(U) BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(V) DIVIDEND DISTRIBUTION

Dividend distribution to the Company's ordinary shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, when appropriate.

Under the Companies Law of the Cayman Islands, the share premium is distributable to the shareholders of the Company if immediately following the date on which the Company proposes to distribute the dividend, the Company will be able to pay its debts as they fall due in the ordinary course of business. Pursuant to the 134 of articles of association of the Company, dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Law.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(W) RELATED PARTIES

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(X) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENT 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.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(A) AMORTISATION OF INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

The Group applied HK (IFRIC) Interpretation 12 and recognised intangible asset – service concession arrangement and provides amortisation thereon.

Amortisation of intangible asset – service concession arrangement is provided on unit of usage over the concession period. Material adjustments may need to be made to the carrying amounts of intangible assets – service concession arrangement should there be a material difference between total projected traffic volume and the actual results.

The directors perform a periodic assessment of the total projected traffic volume and will prospectively adjust the amortisation unit according to revised projected traffic volume.

2 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(B) IMPAIRMENT

If circumstances indicate that the carrying amount of property, plant and equipment and intangible assets may not be recoverable, these assets may be considered "impaired" and an impairment loss may be recognised in profit or loss. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, the expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of future toll revenue and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of toll revenue and the amount of operating costs, and discount rate.

3 REVENUE AND SEGMENT REPORTING

(A) REVENUE

The principal activities of the Group are construction, operation and management of Sui-Yue Expressway (Hunan Section) (the "Expressway") and the trading of liquor and spirits in the PRC. Further details regarding the Group's principal activities are disclosed in note 3(b).

Disaggregation of revenue from contracts with customers by each significant category is as follows:

	2020 **$'000**	2019 $'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Toll income	**140,486**	192,419
– Sales of liquor and spirits	**365,476**	264,567
	505,962	456,986

3 REVENUE AND SEGMENT REPORTING (continued)

(A) 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) SEGMENT REPORTING

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments:

– the Expressway, construction, operation and management of an expressway;

– Liquor and spirits, mainly distribution of Kweichow Moutai Chiew products.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates, deferred tax assets and other corporate assets. Segment liabilities include accruals, bills payable and lease liabilities attributable to the expressway operation and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

3 REVENUE AND SEGMENT REPORTING (continued)

(B) SEGMENT REPORTING (continued)

(i) Segment results, assets and liabilities (continued)

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.

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2020 and 2019 is set out below.

	For the year ended 31 December 2020		
	The Expressway $'000	Liquor and spirits $'000	Total $'000
Disaggregated by timing of revenue recognition			
Point in time	**140,486**	**365,476**	**505,962**
Revenue from external customers	**140,486**	**365,476**	**505,962**
Reportable segment revenue	**140,486**	**365,476**	**505,962**
Reportable segment profit (adjusted EBITDA)	**110,607**	**76,700**	**187,307**
Interest income from bank deposits	**214**	**764**	**978**
Interest expense	**(51,569)**	**(58)**	**(51,627)**
Depreciation and amortisation for the year	**(38,686)**	**(1,288)**	**(39,974)**
As at 31 December 2020			
Reportable segment assets	**1,415,358**	**238,325**	**1,653,683**
Reportable segment liabilities	**1,294,962**	**30,550**	**1,325,512**

3 REVENUE AND SEGMENT REPORTING (continued)

(B) SEGMENT REPORTING (continued)

(i) Segment results, assets and liabilities (continued)

	For the year ended 31 December 2019		
	The Expressway $'000	Liquor and spirits $'000	Total $'000
Disaggregated by timing of revenue recognition			
Point in time	192,419	264,567	456,986
Revenue from external customers	192,419	264,567	456,986
Reportable segment revenue	192,419	264,567	456,986
Reportable segment profit (adjusted EBITDA)	147,410	50,388	197,798
Interest income from bank deposits	262	113	375
Interest expense	(61,747)	(24)	(61,771)
Depreciation and amortisation for the year	(33,250)	(140)	(33,390)
As at 31 December 2019			
Reportable segment assets	1,500,913	187,214	1,688,127
Reportable segment liabilities	1,260,644	47,744	1,308,388

3 REVENUE AND SEGMENT REPORTING (continued)

(B) SEGMENT REPORTING (continued)

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

	2020 $'000	2019 $'000
Profit		
Reportable segment profit (adjusted EBITDA)	**187,307**	197,798
Reportable segment profit derived from Group's external customers	**187,307**	197,798
Other revenue	**1,396**	1,412
Share of profits of associates	**3,434**	–
Other net income/(loss)	**14,672**	(3,647)
Depreciation and amortisation	**(41,095)**	(34,514)
Finance costs	**(51,705)**	(54,594)
Unallocated head office and corporate expenses	**(10,247)**	(10,046)
Consolidated profit before taxation	**103,762**	96,409

	2020 $'000	2019 $'000
Assets		
Reportable segment assets	**1,653,683**	1,688,127
Elimination of inter-segment receivables	**(1,147)**	(1,077)
	1,652,536	1,687,050
Unallocated head office and corporate assets	**211,800**	76,282
Consolidated total assets	**1,864,336**	1,763,332

3 REVENUE AND SEGMENT REPORTING (continued)

(B) SEGMENT REPORTING (continued)

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

	2020 $'000	2019 $'000
Liabilities		
Reportable segment liabilities	**1,325,512**	1,308,388
Elimination of inter-segment payables	**(190,887)**	(171,605)
	1,134,625	1,136,783
Unallocated head office and corporate liabilities	**106,643**	108,842
Consolidated total liabilities	**1,241,268**	1,245,625

4 OTHER REVENUE AND NET INCOME/(LOSS)

	2020 $'000	2019 $'000
Other revenue		
Billboard rental income	**388**	363
Interest income from bank deposits	**2,374**	1,788
	2,762	2,151
Other net income/(loss)		
Net foreign exchange gain/(loss)	**14,802**	(3,680)
Loss on disposal of non-current assets	**–**	(3,267)
Others	**428**	491
	15,230	(6,456)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(A) FINANCE COSTS:

	2020 **$'000**	2019 $'000
Interest on bank loan and other borrowing	**51,569**	54,448
Interest on lease liabilities	**136**	146
	51,705	54,594

There is no borrowing costs capitalised for the year ended 31 December 2020 (2019: nil).

(B) STAFF COSTS:

	2020 **$'000**	2019 $'000
Salaries, wages and other benefits	**28,394**	31,517
Contributions to defined contribution retirement plans	**2,671**	5,484
Share-based payment expenses	**1,462**	2,355
	32,527	39,356

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme ("the Scheme") organised by the local authority whereby the PRC subsidiaries are required to make contributions to the Scheme at a fixed rate announced annually by the municipal government. The municipal government is responsible for the entire pension obligations payable to the retired employees.

5 PROFIT BEFORE TAXATION (continued)

(B) STAFF COSTS: (continued)

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with the schemes referred to above beyond the annual contributions described above.

(C) SHARE OF PROFITS OF ASSOCIATES:

	2020 $'000	2019 $'000
Guizhou Huayu Shenqian Liquor Co., Ltd.	**897**	–
Henan Huayu Dingli Liquor Co., Ltd.	**762**	–
Beijing Huayu Shengjing Liquor Co., Ltd.	**746**	–
Hunan Huayu Xiaoxiang Liquor Co., Ltd.	**688**	308
Shanxi Huayu Hengyun Liquor Co., Ltd.	**341**	–
	3,434	308

(D) OTHER ITEMS:

	2020 $'000	2019 $'000
Auditors' remuneration		
– Annual audit and interim review services	**2,690**	2,792
– Other service	**899**	450
Depreciation (note 10)	**5,786**	4,372
Amortisation (note 11)	**35,309**	30,142

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(A) TAXATION IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS REPRESENTS:

	2020 $'000	2019 $'000
Current tax – PRC corporate income tax	**19,078**	13,581
Deferred tax – Origination and reversal of temporary differences	**3,822**	14,203
	22,900	27,784

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2020 and 2019.

(iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are subject to PRC corporate income tax at a rate of 25% (2019: 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.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

(B) RECONCILIATION BETWEEN INCOME TAX AND ACCOUNTING PROFIT AT APPLICABLE TAX RATES:

	2020 $'000	2019 $'000
Profit before taxation	**103,762**	96,409
Notional tax on profit before taxation, calculated at the rates applicable to profit in the tax jurisdictions concerned	**24,424**	26,061
Tax effect on unused tax losses not recognised	**487**	1,244
Tax effect on deductible temporary differences	**–**	1,657
Tax effect of non-deductible expenses	**526**	431
Tax effect of non-taxable income	**(858)**	–
Use of tax losses carried from previous years	**(1,669)**	(1,609)
Under-provision in prior years	**(10)**	–
Income tax	**22,900**	27,784

7 DIRECTORS' EMOLUMENTS

The details of directors' emoluments are disclosed as follows:

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Retirement scheme contributions $'000	Discretionary bonuses $'000	2020 Total $'000
Executive directors					
Chan Yeung Nam	**1,089**	**–**	**–**	**–**	**1,089**
Mai Qing Quan	**817**	**–**	**–**	**–**	**817**
Fu Jie Pin	**720**	**–**	**–**	**–**	**720**
Independent non-executive directors					
Sun Xiao Nian	**57**	**–**	**–**	**–**	**57**
Chu Kin Wang, Peleus	**136**	**–**	**–**	**–**	**136**
Hu Lie Ge	**57**	**–**	**–**	**–**	**57**
Total	**2,876**	**–**	**–**	**–**	**2,876**

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Retirement scheme contributions $'000	Discretionary bonuses $'000	2019 Total $'000
Executive directors					
Chan Yeung Nam	1,088	–	–	–	1,088
Mai Qing Quan	816	–	–	–	816
Fu Jie Pin	720	–	–	–	720
Independent non-executive directors					
Sun Xiao Nian	57	–	–	–	57
Chu Kin Wang, Peleus	136	–	–	–	136
Hu Lie Ge	57	–	–	–	57
Total	2,874	–	–	–	2,874

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2019: three) are directors whose emoluments are disclosed in note 7 above.

The aggregate of the emoluments in respect of the remaining two (2019: two) individuals is as follows:

	2020 $'000	2019 $'000
Salaries and other emoluments	**1,560**	1,560
Discretionary bonuses	**130**	130
Retirement scheme contributions	**162**	162
	1,852	1,852

The emolument of the two (2019: two) individuals with the highest emolument is within the following bands:

	2020 Number of individuals	2019 Number of individuals
Nil – $1,000,000	**1**	1
$1,000,001 – $1,500,000	**1**	1

9 EARNINGS PER SHARE

(A) BASIC EARNINGS PER SHARE

	2020 $'000	2019 $'000
Issued ordinary shares at 1 January	**412,608**	412,608
Weighted average number of ordinary shares at 31 December	**412,608**	412,608

The calculation of basic earnings per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company of $70,299,000 (2019: profit of $50,420,000) and the weighted average number of 412,608,000 (2019: 412,608,000) shares in issue during the year.

(B) DILUTED EARNINGS PER SHARE

There were no dilutive potential ordinary shares during the years, therefore, diluted earnings per share is equivalent to basic earnings per share.

10 PROPERTY, PLANT AND EQUIPMENT

(A) RECONCILIATION OF CARRYING AMOUNT

	Toll station and ancillary equipment $'000	Other machinery and equipment $'000	Motor vehicles $'000	Furniture and fixtures $'000	Other properties leased for own use carried at cost $'000	Total $'000
Cost:						
At 1 January 2019	33,429	1,581	3,389	3,813	3,717	45,929
Additions	8,898	–	–	37	657	9,592
Disposals	(4,574)	–	(1,106)	(2,975)	–	(8,655)
Exchange adjustments	(808)	(34)	(55)	(31)	(21)	(949)
At 31 December 2019	36,945	1,547	2,228	844	4,353	45,917
At 1 January 2020	36,945	1,547	2,228	844	4,353	45,917
Additions	2,288	–	–	1,468	440	4,196
Exchange adjustments	2,506	101	144	135	100	2,986
At 31 December 2020	41,739	1,648	2,372	2,447	4,893	53,099
Accumulated depreciation:						
At 1 January 2019	23,125	1,422	2,945	3,397	–	30,889
Charge for the year	3,046	–	63	21	1,242	4,372
Written back on disposals	(4,117)	–	(995)	(2,678)	–	(7,790)
Exchange adjustments	(488)	(31)	(48)	(27)	(2)	(596)
At 31 December 2019	21,566	1,391	1,965	713	1,240	26,875
At 1 January 2020	21,566	1,391	1,965	713	1,240	26,875
Charge for the year	4,207	–	28	122	1,429	5,786
Exchange adjustments	1,626	90	128	51	26	1,921
At 31 December 2020	27,399	1,481	2,121	886	2,695	34,582
Net book value:						
At 31 December 2020	14,340	167	251	1,561	2,198	18,517
At 31 December 2019	15,379	156	263	131	3,113	19,042

10 PROPERTY, PLANT AND EQUIPMENT (continued)

(B) RIGHT-OF-USE ASSETS

The analysis of the net book value of right-of-use assets by class of underlying assets is as follows:

	Note	**31 December 2020 $'000**	1 January 2020 $'000
Other properties leased for own use, carried at depreciated cost	(i)	**2,198**	3,113

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020 $'000	2019 $'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Other properties leased for own use	**1,429**	1,242
Interest on lease liabilities (note 5(a))	**136**	146

During the year, additions to right-of-use assets were $440,000. This amount represented the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 16(d), and 20, respectively.

11 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

	2020 $'000	2019 $'000
Cost:		
At 1 January	**2,110,082**	2,240,140
Additions	**32,191**	–
Disposals	**–**	(82,440)
Exchange adjustments	**137,729**	(47,618)
At 31 December	**2,280,002**	2,110,082
Accumulated amortisation:		
At 1 January	**261,442**	251,240
Charge for the year	**35,309**	30,142
Written back on disposals	**–**	(14,156)
Exchange adjustments	**18,836**	(5,784)
At 31 December	**315,587**	261,442
Impairment loss:		
At 1 January	**612,209**	686,658
Written back on disposals	**–**	(60,473)
Exchange adjustments	**39,432**	(13,976)
At 31 December	**651,641**	612,209
Net book value:		
At 31 December	**1,312,774**	1,236,431

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

In accordance with the accounting policy set out in note 1(g), the amortisation of intangible asset – service concession arrangement is recognised in 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT (continued)

IMPAIRMENT LOSS

The impairment previously recognised were determined by the estimation of recoverable amount compared to its carrying value as at 31 December 2011, 31 December 2012 and 31 December 2015. Management reassessed the value of the intangible asset as at 31 December 2020, taking into account the changing of market factors and actual operating result of the expressway. No further impairment is recognised in 2020.

The recoverable amount of the CGU was determined by the value in use, based on the expected free cash flow up to the end of the service concession arrangement period, and a post-tax discount rate of 14.0% (equivalent to a pre-tax discount rate of 16.5%) (2019: a post-tax discount rate of 15.8% (equivalent to a pre-tax discount rate of 18.5%)).

The impairment loss was fully allocated to the intangible asset – service concession arrangement.

Key assumptions used for the value in use calculation are as follows:

	2020	2019
Period of operation	**18 years**	19 years
Average annual toll revenue growth rate over the concession period	**15.0%**	3.3%
Discount rate	**14.0%**	15.8%

DISCOUNT RATE

The discount rate is a post-tax measure estimated using the Capital Asset Pricing Model (“CAPM”) based on the industry average ratios and the CGU’s specific risks.

AVERAGE ANNUAL TOLL REVENUE GROWTH RATE OVER THE CONCESSION PERIOD

The toll revenue growth rates were projected by the directors based on traffic survey, historic traffic data, historic economic indices and expected toll network development at nearby areas.

11 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT (continued)

SENSITIVITY TO CHANGES IN ASSUMPTIONS

As the intangible asset has been reduced to its recoverable amount, any adverse movement in a key assumption would lead to a further impairment. A sensitivity analysis on the discount rate and toll revenue has been performed by the Directors as follows.

At 31 December 2020, it is estimated that an increase/decrease of 0.5% in discount rate, with all other variables held constant, would have decreased/increased the value in use of the intangible asset by approximately $16,681,000/$17,762,000.

At 31 December 2020, it is estimated that an increase/decrease of 5% in annual toll revenue growth rate, with all other variables held constant, would have increased/decreased the value in use of the intangible asset by approximately $16,188,000/$38,831,000.

12 INTERESTS IN SUBSIDIARIES

	2020 **$'000**	2019 $'000
Unlisted shares, at cost	**513,388**	513,388
Add: advance to subsidiaries	**–**	–
Less: impairment loss	**(355,257)**	(355,257)
	158,131	158,131

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INTERESTS IN SUBSIDIARIES (continued)

The impairment loss was caused by the impairment provision of intangible asset of one of its subsidiaries, Hunan Daoyue Expressway Industry Co., Ltd.. Details of the subsidiaries at 31 December 2020 are as follows.

The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment	Issued and fully paid/registered capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Top Talent Holdings Limited ("Top Talent")	BVI 18 March 2003	US$1/ US$50,000	100%	–	Investment holding
Good Sign Limited ("Good Sign")	Hong Kong 19 December 2008	HK$1/ HK$10,000	–	100%	Investment holding
Bright Regent Limited ("Bright Regent")	Hong Kong 10 October 2003	HK$1/ HK$1	–	100%	Provision of Administration services to the Group
湖南道岳高速公路實業有限公司 Hunan Daoyue Expressway Industry Co., Ltd. ("Daoyue") *	The PRC 22 December 2006	RMB600,950,000/ RMB600,950,000	–	60%	Construction, operation and management of an expressway in the PRC
深圳華昱酒業發展有限公司（原深圳華昱凱天貿易發展有限公司） Shenzhen Huayu Wine Development Co., Ltd. (former Shenzhen Huayu Kaitian Trade Development Co., Ltd.) ("Wine Development") *	The PRC 25 January 2013	HKD$93,892,000/ HKD$100,000,000	–	100%	Distribution of liquor and spirits
華昱健康酒業（深圳）有限公司 Huayu Healthy Wine (Shenzhen) Co., Ltd. ("Healthy Wine") *	The PRC 24 August 2018	RMB50,000,000/ RMB50,000,000	–	87%	Distribution of Kweichow Moutai Chiew products
貴州圓鵲酒業有限公司 Guizhou Yuanque Wine Co., Ltd. ("Yuanque") *	The PRC 19 October 2018	RMB5,100,000/ RMB30,000,000	–	100%	Distribution of liquor and spirits

* These entities are established in the PRC. The English translation of the Companies' names are for references only. The official names are in Chinese.

12 INTERESTS IN SUBSIDIARIES (continued)

The following table lists out the information relating to Hunan Daoyue Expressway Industry Co., Ltd., the only subsidiary of the Group which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2020 **$'000**	2019 $'000
NCI percentage	**40%**	40%
Current assets	**88,607**	108,875
Non-current assets	**1,472,115**	1,392,038
Current liabilities	**(170,489)**	(156,236)
Non-current liabilities	**(1,124,472)**	(1,104,408)
Net assets	**265,761**	240,269
Carrying amount of NCI	**106,304**	96,108
Revenue	**140,486**	192,419
Profit for the year	**9,480**	38,381
Total comprehensive income	**25,492**	33,169
Profit allocated to NCI	**3,792**	15,353
Cash flows from operating activities	**108,193**	133,401
Cash flows from investing activities	**(7,491)**	(48,176)
Cash flows from financing activities	**(97,916)**	(47,378)

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INTERESTS IN ASSOCIATES

The following list contains the particulars of the associates, all of which are unlisted corporate entities whose quoted market price is not available:

				Proportion of ownership interest		
Name of associate	**Form of business structure**	**Place of incorporation and business**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by a subsidiary**	**Principal activity**
湖南華昱瀟湘酒業有限公司 Hunan Huayu Xiaoxiang Liquor Co., Ltd.*	Incorporated	The PRC	RMB10,000,000	23%	23%	Sales of liquor and spirits
河南華昱鼎立酒業有限公司Henan Huayu Dingli Liquor Co., Ltd.*	Incorporated	The PRC	RMB10,000,000	30%	30%	Sales of liquor and spirits
貴州華昱深黔酒業有限公司Guizhou Huayu Shenqian Liquor Co., Ltd.*	Incorporated	The PRC	RMB8,500,000	35%	35%	Sales of liquor and spirits
陝西華昱恒韻酒業有限公司Shanxi Huayu Hengyun Liquor Co., Ltd.*	Incorporated	The PRC	RMB8,800,000	39%	39%	Sales of liquor and spirits
北京華昱盛京酒業有限公司Beijing Huayu Shengjing Liquor Co., Ltd.*	Incorporated	The PRC	RMB10,000,000	28%	28%	Sales of liquor and spirits
廣東華昱粵海酒業有限公司 Guangdong Huayu Yuehai Liquor Co., Ltd.*	Incorporated	The PRC	RMB10,000,000	19%	19%	Sales of liquor and spirits

The above associates are accounted for using the equity method in the consolidated financial statements.

* These entities are established in the PRC. The English translation of the Companies' names are for references only. The official names are in Chinese.

13 INTERESTS IN ASSOCIATES (continued)

Summarised financial information of the associates are disclosed below:

	2020						2019
	Hunan Huayu Xiaoxiang Liquor Co., Ltd.	**Henan Huayu Dingli Liquor Co., Ltd.**	**Guizhou Huayu Shenqian Liquor Co., Ltd.**	**Shanxi Huayu Hengyun Liquor Co., Ltd.**	**Beijing Huayu Shengjing Liquor Co., Ltd.**	**Guangdong Huayu Yuehai Liquor Co., Ltd.**	Hunan Huayu Xiaoxiang Liquor Co., Ltd.
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	$'000
Current assets	**14,697**	**15,087**	**14,230**	**10,450**	**15,936**	**11,876**	12,754
Non-current assets	**64**	**135**	**–**	**57**	**147**	**–**	61
Current liabilities	**(372)**	**(408)**	**(1,283)**	**(577)**	**(1,000)**	**–**	(301)
Equity	**14,389**	**14,814**	**12,947**	**9,930**	**15,083**	**11,876**	12,514
Revenue	**30,840**	**30,539**	**24,346**	**10,782**	**24,330**	**–**	8,845
Profit from continuing operations	**3,000**	**2,776**	**2,614**	**1,614**	**3,030**	**–**	1,340
Total comprehensive income	**3,000**	**2,776**	**2,614**	**1,614**	**3,030**	**–**	1,340
Reconciled to the Group's interests in the associates							
Gross amounts of net assets of the associate	**14,389**	**14,814**	**12,947**	**9,930**	**15,083**	**11,876**	12,514
Unrealised profit from intra-group transactions	**(15)**	**(249)**	**(56)**	**(780)**	**(384)**	**–**	(1,980)
Group's effective interest	**23%**	**30%**	**35%**	**39%**	**28%**	**19%**	23%
Group's share of net assets of the associate	**3,306**	**4,370**	**4,512**	**3,569**	**4,116**	**2,256**	2,423
Carrying amount in the consolidated financial statements	**3,306**	**4,370**	**4,512**	**3,569**	**4,116**	**2,256**	2,423

14 INVENTORIES

	2020	2019
	$'000	$'000
Finished goods	**94,495**	63,880

15 PREPAYMENTS AND OTHER RECEIVABLES

	2020 $'000	2019 $'000
Prepayments	**24,128**	14,004
Other receivables	**10,855**	41,920
	34,983	55,924

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

16 CASH AND CASH EQUIVALENTS

(A) CASH AND CASH EQUIVALENTS COMPRISE:

	2020 $'000	2019 $'000
Cash and cash equivalents		
– Cash at bank and on hand	**230,775**	234,863

16 CASH AND CASH EQUIVALENTS (continued)

(B) RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATING ACTIVITIES:

	Note	2020 $'000	2019 $'000
Profit before taxation		**103,762**	96,409
Adjustments for:			
– Depreciation	5(d)	**5,786**	4,372
– Amortisation	5(d)	**35,309**	30,142
– Finance costs	5(a)	**51,705**	54,594
– Interest income	4	**(2,374)**	(1,788)
– Loss on disposal of property, plant and equipment		**–**	865
– Loss on disposal of intangible asset		**–**	2,402
– Share of profits of associates	5(c)	**(3,434)**	(308)
– Share-based payment	5(b)	**1,462**	2,355
– Foreign exchange (gain)/loss	4	**(14,802)**	3,680
Changes in working capital:			
Decrease/(increase) in prepayments and other receivables		**8,034**	(7,881)
(Decrease)/increase in accruals and other payables		**(22,888)**	13,215
Increase/(decrease) in amounts due to related parties		**7,289**	(3,088)
Increase in inventories		**(25,082)**	(63,116)
(Decrease)/increase in contract liabilities		**(19,237)**	25,740
Cash generated from operating activities		**125,530**	157,593

(C) ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY:

On 29 July 2020, a share purchase agreement ("Agreement") was entered into between Guizhou Quantu Jingxuan Liquor Co., Ltd. (a former substantial shareholder of a subsidiary of the Group) and the Group. Pursuant to the Agreement, the Group repurchased the 20% equity interest of Yuanque from Guizhou Quantu Jingxuan Liquor Co., Ltd. by paying cash amounting to RMB700,000 (equivalent to HK$787,000), and by the way of waiving the remaining obligation of capital injection of Guizhou Quantu Jingxuan Liquor Co., Ltd. amounting to RMB5,300,000. Upon completion of the acquisition, Yuanque became a subsidiary fully held by the Company.

16 CASH AND CASH EQUIVALENTS (continued)

(D) RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES:

	Bank loan and other borrowing $'000 (Note 19)	Amounts due to related parties $'000 (Note 26(c))	Interest payable $'000 (Note 17)	Lease liabilities $'000 (Note 20)	Total $'000
At 1 January 2020	1,023,836	758	4,780	3,078	1,032,452
Changes from financing cash flows:					
Repayment of bank loan	(44,984)	–	–	–	(44,984)
Borrowing costs paid	–	–	(51,555)	–	(51,555)
Capital element of lease rentals paid	–	–	–	(1,362)	(1,362)
Interest element of lease rentals paid	–	–	–	(136)	(136)
Total changes from financing cash flows	(44,984)	–	(51,555)	(1,498)	(98,037)
Exchange adjustments	63,401	456	309	76	64,242
Other changes:					
Increase in lease liabilities from entering into new leases during the year	–	–	–	440	440
Interest expenses (note 5(a))	–	–	51,569	136	51,705
Expense paid on behalf of the Group by related parties	–	203	–	–	203
Receipt in advance from related parties	–	7,005	–	–	7,005
Total other changes	–	7,208	51,569	576	59,353
At 31 December 2020	1,042,253	8,422	5,103	2,232	1,058,010

16 CASH AND CASH EQUIVALENTS (continued)

(D) RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES: (continued)

	Bank loan and other borrowing $'000 (Note 19)	Amounts due to related parties $'000 (Note 26(c))	Interest payable $'000 (Note 17)	Lease liabilities $'000 (Note 20)	Total $'000
At 31 December 2018	1,015,757	224,364	1,403	–	1,241,524
Impact on initial application of HKFRS 16	–	–	–	3,717	3,717
At 1 January 2019	1,015,757	224,364	1,403	3,717	1,245,241
Changes from financing cash flows:					
Repayment of bank loan	(113,630)	–	–	–	(113,630)
Proceeds of borrowing	144,503	–	–	–	144,503
Advance from related parties	–	(219,521)	–	–	(219,521)
Borrowing costs paid	–	–	(50,980)	–	(50,980)
Capital element of lease rentals paid	–	–	–	(1,278)	(1,278)
Interest element of lease rentals paid	–	–	–	(146)	(146)
Total changes from financing cash flows	30,873	(219,521)	(50,980)	(1,424)	(241,052)
Exchange adjustments	(22,794)	(997)	(91)	(18)	(23,900)
Other changes:					
Increase in lease liabilities from entering into new leases during the year	–	–	–	657	657
Expense paid on behalf of the Group by related parties	–	(3,088)	–	–	(3,088)
Interest expenses (note 5(a))	–	–	54,448	146	54,594
Total other changes	–	(3,088)	54,448	803	52,163
At 31 December 2019	1,023,836	758	4,780	3,078	1,032,452

16 CASH AND CASH EQUIVALENTS (continued)

(E) TOTAL CASH OUTFLOW FOR LEASES:

Amounts included in the cash flow statement for leases comprises the following:

	2020 $'000	2019 $'000
Within operating cash flows	**262**	305
Within financing cash flows	**1,498**	1,424
	1,760	1,729

These amounts relate to the following:

	2020 $'000	2019 $'000
Lease rentals paid	**1,760**	1,729
	1,760	1,729

17 ACCRUALS AND OTHER PAYABLES

	2020 $'000	2019 $'000
Construction fees payables	**42,141**	34,939
Suspense receipts	**2,296**	15,612
Accruals	**19,769**	20,554
Other tax payable	**5,146**	11,285
Interest payable	**5,103**	4,780
Other payables	**5,339**	3,520
	79,794	90,690

Included in accruals and other payables as at 31 December 2020 are construction fees payables of $42,141,000 (31 December 2019: $34,939,000) and other tax payable of $5,146,000 (31 December 2019: $11,285,000). All of the accruals and other payables are expected to be settled or recognised as income within one year.

18 CONTRACT LIABILITIES

	2020 $'000	2019 $'000
Contract liabilities		
Liquor and spirits – Forward sales deposits received	**6,591**	25,287

The Group receives deposits from customers, which are recognised as contract liabilities until control over the goods were transferred to the customers.

19 BANK LOAN AND OTHER BORROWING

	2020 $'000	2019 $'000
Current liability		
Current portion of long-term secured bank loan	**106,938**	89,304
Non-current liabilities		
Long-term secured bank loan	**819,858**	826,062
Interest-bearing borrowing	**115,457**	108,470
	1,042,253	1,023,836

At 31 December, the bank loan were repayable as follows:

	2020 $'000	2019 $'000
Within 1 year or on demand	**106,938**	89,304
After 1 year but within 2 years	**118,820**	100,467
After 2 years but within 5 years	**507,563**	465,686
After 5 years	**308,932**	368,379
	1,042,253	1,023,836

At 31 December 2020, there is no unutilised banking facility amount.

19 BANK LOAN AND OTHER BORROWING (continued)

The Group's rights to operate the Expressway and receive toll fees therefrom, have been pledged to secure the long-term 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 loans 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. Further details of the Group's management of liquidity risk are set out in note 23(b). As at 31 December 2020, none of the covenants relating to drawn down facilities had been breached (31 December 2019: nil).

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

In accordance with the accounting policy set out in note 1(u), there are no borrowing costs capitalised into intangible asset – service concession arrangement for the years ended 31 December 2020 and 2019.

20 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods:

	31 December 2020		31 December 2019	
	Present value of the minimum lease payments $'000	**Total minimum lease payments $'000**	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	**1,285**	**1,366**	1,291	1,419
After 1 year but within 2 years	**364**	**404**	1,166	1,226
After 2 years but within 5 years	**583**	**607**	621	662
	947	**1,011**	1,787	1,888
	2,232	**2,377**	3,078	3,307
Less: total future interest expenses		**(145)**		(229)
Present value of lease liabilities		**2,232**		3,078

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(A) DEFERRED TAX ASSETS RECOGNISED:

The components of deferred tax assets recognised in the consolidate statement of financial position and the movement during the year are as follows:

	Intangible asset-service concession arrangement $'000	Deductible tax losses $'000	Others $'000	Total $'000
Deferred tax arising from:				
At 1 January 2019	150,238	7,117	441	157,796
Charged to profit or loss (note 6(a))	(9,632)	(4,793)	222	(14,203)
Exchange adjustment	(3,122)	(72)	(12)	(3,206)
At 31 December 2019	137,484	2,252	651	140,387
At 1 January 2020	137,484	2,252	651	140,387
Charged to profit or loss (note 6(a))	(5,239)	2,048	(631)	(3,822)
Exchange adjustment	8,559	260	6	8,825
At 31 December 2020	140,804	4,560	26	145,390

(B) DEFERRED TAX ASSETS NOT RECOGNISED:

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets in respect of deductible temporary differences of $3,145,000 (2019: $2,954,000) and cumulative tax losses of $49,959,000 (2019: $48,613,000) as it is not probable that future taxable profits against which the temporary differences losses can be utilised will be available in the relevant tax jurisdiction and entity.

As at 31 December 2020, tax losses of $19,685,000 (2019: $10,747,000) in the PRC will expire in five years from the dates they were incurred, if unused.

As at 31 December 2020, tax losses of $49,275,000 (2019: $47,026,000) in Hong Kong do not expire under current Hong Kong tax legislation.

22 CAPITAL, RESERVES AND DIVIDENDS

(A) MOVEMENTS IN COMPONENTS OF EQUITY

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company	**Share capital** $'000	**Share premium** $'000	**Other reserve** $'000	**Accumulated losses** $'000	**Total** $'000
Balance at 1 January 2019	4,126	130,044	510,388	(428,459)	216,099
Changes in equity for 2019:					
Total comprehensive income for the year	–	–	–	(56,870)	(56,870)
Dividends approved in respect of the previous year	–	(49,926)	–	49,926	–
Balance at 31 December 2019	4,126	80,118	510,388	(435,403)	159,229
Balance at 1 January 2020	4,126	80,118	510,388	(435,403)	159,229
Change in equity for 2020:					
Total comprehensive income for the year	–	–	–	(7,715)	(7,715)
Balance at 31 December 2020	4,126	80,118	510,388	(443,118)	151,514

(B) DIVIDENDS

Dividends payable to equity shareholders of the Company:

	2020 **$'000**	2019 $'000
Special dividend proposed after the end of the reporting period (2019: $Nil)	–	–

22 CAPITAL, RESERVES AND DIVIDENDS (continued)

(C) SHARE CAPITAL

	2020 Number of shares	2020 Amount $'000	2019 Number of shares	2019 Amount $'000
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000,000**	**100,000**	10,000,000,000	100,000
Ordinary shares, issued and fully paid:				
At 1 January and at 31 December	**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.

(D) NATURE AND PURPOSE OF RESERVES

(i) Share premium

The 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) 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 the receivable balances due from Group companies amounted to $513,388,000 to the Company. 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 recorded in "Other reserve".

22 CAPITAL, RESERVES AND DIVIDENDS (continued)

(D) NATURE AND PURPOSE OF RESERVES (continued)

(ii) Other reserve (continued)

(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 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".

(4) On 29 July 2020, the Group acquired 20% equity interest in Yuanque from a former substantial shareholder of a subsidiary, pursuit to the relevant share purchase agreement. As a result, the percentage of equity interest held by the Group in Yuanque increased from 80% to 100% during the year. The changes in the Group's equity interest in Yuanque resulted in a decrease in "Other reserve".

(iii) 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 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 data of the allotted of the restricted shares to the vesting date (both dates inclusive) of such restricted shares.

The selected participants are management of subsidiaries. The total consideration of the restricted shares is HK$6,655,000.

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 RMB12,461,800. Share-based payment expense of HK$1,462,000 was recognised for the year ended 31 December 2020 (2019: HK$2,355,000).

22 CAPITAL, RESERVES AND DIVIDENDS (continued)

(D) NATURE AND PURPOSE OF RESERVES (continued)

(iv) Exchange reserves

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the PRC operation. The reserve is dealt with in accordance with the accounting policy as set out in note 1(t).

(v) Distributable reserve

At 31 December 2020, the aggregate amount of reserves declared and available for distribution to equity shareholders of the Company was Nil (2019: $Nil).

In addition, the long-term secured bank loan of the Group is subject to certain covenants and the Group's PRC subsidiary, Daoyue, is required to obtain prior approval from the bank, before declaring any cash dividend or bonus during the repayment years from 2014 to 2027.

(E) 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 provide returns for shareholders and benefits for other stakeholders in the long run, by pricing services commensurately with the level of risk and by securing access to financing at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between shareholder 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 debts (which includes accruals and other payables, contract liabilities, lease liabilities, amounts due to related parties and bank loan). Equity comprises all components of equity.

22 CAPITAL, RESERVES AND DIVIDENDS (continued)

(E) CAPITAL MANAGEMENT (continued)

The debt-to-equity ratio of the Group at 31 December 2020 and 2019 is as follows:

	Note	2020 $'000	2019 $'000
Current liabilities:			
Accruals and other payables	17	**79,794**	90,690
Contract liabilities	18	**6,591**	25,287
Bank loan and other borrowing	19	**106,938**	89,304
Lease liabilities	20	**1,285**	1,291
Amounts due to related parties	26(c)	**8,422**	758
		203,030	207,330
Non-current liabilities:			
Bank loan and other borrowing	19	**935,315**	934,532
Lease liabilities	20	**947**	1,787
Amount due to the controlling shareholder of the Company	26(c)	**101,976**	101,976
		1,038,238	1,038,295
Total debts		**1,241,268**	1,245,625
Total equity		**623,068**	517,707
Debt-to-equity ratio		**199%**	241%

23 FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below.

(A) CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to prepayments and other receivables, and cash at bank and on hand. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

As a result of the business nature of the Group, the Group has no significant concentration of credit risk arising from its customers.

(B) LIQUIDITY RISK

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands subject to approval by the Company's management when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash, adequate committed lines of funding from major financial institutions and support from the controlling shareholder of the Company to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

23 FINANCIAL RISK MANAGEMENT (continued)

(B) LIQUIDITY RISK (continued)

For the term loan subject to repayment on demand clauses which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the contractual repayment schedule and, separately, the impact to the timing of the cash outflows if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

	Contractual undiscounted cash outflow								
	Within 3 months or on demand $'000	More than 3 months but less than 6 months $'000	More than 6 months but less than 9 months $'000	More than 9 months but less than 1 year $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount $'000
2020									
Accruals and other payables (excluding advance received)	**30,000**	**–**	**–**	**47,498**	**–**	**–**	**–**	**77,498**	**77,498**
Lease liabilities	**390**	**390**	**390**	**197**	**404**	**607**	**–**	**2,378**	**2,232**
Amounts due to related parties (excluding advance received)	**604**	**–**	**–**	**416**	**–**	**–**	**–**	**1,020**	**1,020**
Amount due to the controlling shareholder of the Company	**–**	**–**	**–**	**–**	**–**	**–**	**101,976**	**101,976**	**101,976**
Bank loan and other borrowing	**–**	**69,630**	**–**	**81,279**	**157,238**	**616,169**	**326,010**	**1,250,326**	**1,042,253**
	30,994	**70,020**	**390**	**129,390**	**157,642**	**616,776**	**427,986**	**1,433,198**	**1,224,979**

	Contractual undiscounted cash outflow								
	Within 3 months or on demand $'000	More than 3 months but less than 6 months $'000	More than 6 months but less than 9 months $'000	More than 9 months but less than 1 year $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount $'000
2019									
Accruals and other payables (excluding advance received)	35,955	–	–	39,123	–	–	–	75,078	75,078
Lease liabilities	355	355	355	354	1,226	662	–	3,307	3,078
Amounts due to related parties	366	392	–	–	–	–	–	758	758
Amount due to the controlling shareholder of the Company	–	–	–	–	–	–	101,976	101,976	101,976
Bank loan and other borrowing	–	60,738	–	72,441	139,556	579,037	396,197	1,247,969	1,023,836
	36,676	61,485	355	111,918	140,782	579,699	498,173	1,429,088	1,204,726

23 FINANCIAL RISK MANAGEMENT (continued)

(C) INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rates risk arises primarily from cash at bank and bank borrowings issued at variable rates that expose the Group to cash flow interest rate risk. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements.

The Group does not account for any fixed rate financial liabilities at fair value through profit or loss. The Group's interest rate profile as monitored by management is set out in below:

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting year.

	2020		2019	
	Effective interest rate	**Amount**	Effective interest rate	Amount
	%	**$'000**	%	$'000
Variable rate instruments:				
Cash at bank	**1.020**	**230,775**	1.285	234,863
Long-term secured bank loan	**5.336**	**(926,796)**	5.344	(915,366)
Other borrowing	**4.750**	**(115,457)**	4.750	(108,470)
Total net borrowings		**(811,478)**		(788,973)

(ii) Sensitivity analysis

At 31 December 2020, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit for the year and accumulated losses by approximately $2,029,000 in response to the general increase/decrease in interest rates (2019: $1,972,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit for the year (and accumulated losses) that would arise assuming that the change in interest rates had occurred at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit for the year (and accumulated losses) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2019.

23 FINANCIAL RISK MANAGEMENT (continued)

(D) CURRENCY RISK

Individual companies within the Group have limited foreign currency risk as most of the transactions are denominated in the functional currency of the operations in which they relate. However, as the principal subsidiaries, mainly carried out transactions in RMB, therefore any appreciation or depreciation of HKD against RMB will affect the Group's financial position and be reflected in the exchange reserve.

At 31 December 2020, the Group is not exposed to currency risk, except for difference resulting from the translation of the financial statements of foreign operations into the Group's presentation currency.

24 COMMITMENTS

LEASES AS LESSOR

The Group leases out its billboards under operating leases, with lease terms of 3 years. At 31 December 2020, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2020	2019
	$'000	$'000
Within 1 year	**285**	760
After 1 year but within 2 years	**–**	716
After 2 years but within 5 years	**–**	–
	285	1,476

During the year ended 31 December 2020, the Group recognised rental income of $388,000 (2019: $363,000) in other revenue (note 4) of the consolidated statement of profit or loss.

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CONTINGENT LIABILITIES

FINANCIAL GUARANTEES ISSUED

As at the end of the reporting year, the Company has issued a single guarantee to a bank in respect of a banking facility granted to a partially owned subsidiary which expires on 8 May 2027.

At the end of the reporting year, the directors do not consider it probable that a claim will be made against the Company under any of the guarantee. The maximum liability of the Company at the end of the reporting period under the guarantees issued is the total bank loan by the subsidiary of $926,796,000 (2019: $915,366,000).

The Company has not recognised any deferred income in respect of the guarantee as its fair value cannot be reliably measured using observable market data and its transaction price was nil.

26 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2020, the directors are of the view that the following 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. ("Huayu Investment")	Under the control of the controlling shareholder of the Company
Shenzhen Huayu Highway Maintenance Engineering Co., Ltd.	Under the control of the controlling shareholder of the Company
Xinchuangjian (Guangdong) Investment Co., Ltd.	Material non-controlling interest of a subsidiary
Hunan Huayu Xiaoxiang Liquor Co., Ltd.	Associate of a subsidiary
Henan Huayu Dingli Liquor Co., Ltd.	Associate of a subsidiary
Shanxi Huayu Hengyun Liquor Co., Ltd.	Associate of a subsidiary
Beijing Huayu Shengjing Liquor Co., Ltd.	Associate of a subsidiary
Guizhou Huayu Shenqian Liquor Co., Ltd.	Associate of a subsidiary
Guangdong Huayu Yuehai Liquor Co., Ltd.	Associate of a subsidiary
Guizhou Quantu Jingxuan Liquor Co., Ltd. (former Guizhou Ruoshui Fangyuan Investment Management Co., Ltd.) *	Former substantial shareholder of a subsidiary
Mr. Ran Changxian	Substantial shareholder of a subsidiary

* On 29 July 2020, the Group acquired 20% equity interest in Yuanque from Guizhou Quantu Jingxuan Liquor Co., Ltd. (see note 22(d) ii (4)).

26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Particulars of significant transactions between the Group and the above related parties during the year are as follows:

	2020 $'000	2019 $'000
Sales to related companies		
– Hunan Huayu Xiaoxiang Liquor Co., Ltd.	**25,125**	7,401
– Henan Huayu Dingli Liquor Co., Ltd.	**24,851**	–
– Guizhou Huayu Shenqian Liquor Co., Ltd.	**19,223**	–
– Shanxi Huayu Hengyun Liquor Co., Ltd.	**10,662**	–
– Beijing Huayu Shengjing Liquor Co., Ltd.	**21,340**	–
Expense paid on behalf of the Group by related parties		
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	**372**	4,438
– Xinchuangjian (Guangdong) Investment Co., Ltd.	**259**	196
Advance from a related company		
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	**–**	4,632
Repayment to related parties from the Group		
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	**169**	228,581
– Xinchuangjian (Guangdong) Investment Co., Ltd.	**259**	–
Borrowings from a related company		
– Xinchuangjian (Guangdong) Investment Co., Ltd.	**–**	110,414
Interest on borrowing from a related company		
– Xinchuangjian (Guangdong) Investment Co., Ltd.	**5,277**	4,866

26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(C) BALANCES WITH RELATED PARTIES

As at the end of the reporting period, the Group had the following balances with related parties:

	2020	2019
	$'000	$'000
Amounts due from related parties		
– Guizhou Huayu Shenqian Liquor Co., Ltd.	**61**	–
– Guizhou Quantu Jingxuan Liquor Co., Ltd.	**–**	5,916
– Mr. Ran Changxian	**4,753**	4,466
Amounts due to related parties		
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	**(536)**	(302)
– Xinchuangjian (Guangdong) Investment Co., Ltd.	**(68)**	(64)
– Hunan Huayu Xiaoxiang Liquor Co., Ltd.	**(2,414)**	(392)
– Henan Huayu Dingli Liquor Co., Ltd.	**(3,031)**	–
– Guizhou Huayu Shenqian Liquor Co., Ltd.	**(59)**	–
– Shanxi Huayu Hengyun Liquor Co., Ltd.	**(172)**	–
– Beijing Huayu Shengjing Liquor Co., Ltd.	**(2,142)**	–
Amount due to the controlling shareholder of the Company	**(101,976)**	(101,976)
Other borrowing from a related company		
– Xinchuangjian (Guangdong) Investment Co., Ltd.	**(115,457)**	(108,470)
Interest payable on borrowings from a related company		
– Xinchuangjian (Guangdong) Investment Co., Ltd.	**(5,103)**	(4,780)
	(226,144)	(205,602)

Balances with Huayu Investment and the controlling shareholder of the Company represented advances made from related parties of the Group. These advances are unsecured and interest-free.

26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(D) KEY MANAGEMENT PERSONNEL REMUNERATION

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2020	2019
	$'000	$'000
Short-term employee benefits	**4,728**	4,726

Total remuneration is included in "staff costs" (see note 5(b)).

(E) APPLICABILITY OF THE LISTING RULES RELATING TO CONNECTED TRANSACTIONS

The related party transactions in respect of note 26(b) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, they are exempted from the disclosure requirements in Chapter 14A of the Listing Rules.

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2020 $'000	2019 $'000
Non-current assets			
Interests in subsidiaries	12	**158,131**	158,131
Advance to subsidiaries		**11,176**	14,283
		169,307	172,414
Current asset			
Cash and cash equivalents		**1,559**	1,560
Current liabilities			
Amounts due to subsidiaries		**9,826**	4,469
Accruals and other payables		**3,729**	4,479
		13,555	8,948
Net current liabilities		**11,996**	7,388
Total assets less current liabilities		**157,311**	165,026
Non-current liability			
Amount due to the controlling shareholder of the Company		**5,797**	5,797
NET ASSETS		**151,514**	159,229
CAPITAL AND RESERVES			22
Share capital		**4,126**	4,126
Reserves		**147,388**	155,103
TOTAL EQUITY		**151,514**	159,229

Approved and authorised for issue by the board of directors on 26 March 2021.

Chan Yeung Nam	**Mai Qing Quan**
Chairman	*Chief Executive Officer and Executive Director*

(Expressed in Hong Kong dollars unless otherwise indicated)

28 IMMEDIATE AND ULTIMATE CONTROLLING COMPANY

At 31 December 2020, the directors consider the immediate parent and ultimate controlling party of the Group to be Velocity International Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to HKFRS 3, Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16, Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, Classification of Liabilities as Current or Non-current	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.