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## HUAYU EXPRESSWAY GROUP LIMITED

### 華昱高速集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1823)

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The board of directors (the “Board”) of Huayu Expressway Group Limited (the “Company”) hereby announces the consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2020, together with comparative figures for the year ended 31 December 2019 as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>Revenue</b>	4	<b>505,962</b>	456,986
Cost of sales		<b>(319,161)</b>	(237,800)
<b>Gross profit</b>		<b>186,801</b>	219,186
Other revenue	5	<b>2,762</b>	2,151
Other net income/(loss)	5	<b>15,230</b>	(6,456)
Administrative expenses		<b>(42,066)</b>	(43,349)
Selling and distribution costs		<b>(10,694)</b>	(20,837)
<b>Profit from operations</b>		<b>152,033</b>	150,695
Financial costs	6(a)	<b>(51,705)</b>	(54,594)
Share of profits of associates	6(c)	<b>3,434</b>	308
<b>Profit before taxation</b>	6	<b>103,762</b>	96,409
Income tax	7	<b>(22,900)</b>	(27,784)
<b>Profit for the year</b>		<b>80,862</b>	68,625
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>70,299</b>	50,420
Non-controlling interests		<b>10,563</b>	18,205
<b>Profit for the year</b>		<b>80,862</b>	68,625
<b>Earnings per share (HK cents)</b>			
Basic and diluted	8	<b>17.04</b>	12.22

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*At 31 December 2020*

	<i>Note</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>18,517</b>	19,042
Intangible asset – service concession arrangement		<b>1,312,774</b>	1,236,431
Interests in associates		<b>22,129</b>	2,423
Deferred tax assets		<b>145,390</b>	140,387
		<u><b>1,498,810</b></u>	<u>1,398,283</u>
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<b>Current assets</b>			
Inventories		<b>94,495</b>	63,880
Prepayments and other receivables	<i>9</i>	<b>34,983</b>	55,924
Amounts due from related parties		<b>4,814</b>	10,382
Cash and cash equivalents		<b>230,775</b>	234,863
Other current assets		<b>459</b>	–
		<u><b>365,526</b></u>	<u>365,049</u>
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<b>Current liabilities</b>			
Accruals and other payables	<i>10</i>	<b>79,794</b>	90,690
Contract liabilities		<b>6,591</b>	25,287
Amounts due to related parties		<b>8,422</b>	758
Bank loan and other borrowing		<b>106,938</b>	89,304
Lease liabilities		<b>1,285</b>	1,291
		<u><b>203,030</b></u>	<u>207,330</u>
		-----	-----
<b>Net current assets</b>		<u><b>162,496</b></u>	<u>157,719</u>
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<b>Total assets less current liabilities</b>		<u><b>1,661,306</b></u>	<u>1,556,002</u>
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	<i>Note</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Non-current liabilities</b>			
Bank loan and other borrowing		<b>935,315</b>	934,532
Amount due to the controlling shareholder of the Company		<b>101,976</b>	101,976
Lease liabilities		<b>947</b>	1,787
		<u><b>1,038,238</b></u>	<u>1,038,295</u>
<b>NET ASSETS</b>		<u><b>623,068</b></u>	<u>517,707</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>4,126</b>	4,126
Reserves		<b>491,481</b>	404,676
<b>Total equity attributable to equity shareholders of the Company</b>		<b>495,607</b>	408,802
<b>Non-controlling interests</b>		<b>127,461</b>	108,905
<b>TOTAL EQUITY</b>		<u><b>623,068</b></u>	<u>517,707</u>

## NOTES

*(Expressed in Hong Kong dollars unless otherwise stated)*

### 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 21 April 2009 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in the construction, operation and management of an expressway and the trading of liquor and spirits in the People's Republic of China ("PRC").

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Preparation

The consolidated annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2020 but are extracted from those financial statements.

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.

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.

#### (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.

### 3. CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by the HKICPA 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.

### 4. 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 4(b).

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

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

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

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

**(b) Segment 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.

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.

	<b>For the year ended 31 December 2020</b>		
	<b>the Expressway</b>	<b>Liquor and spirits</b>	<b>Total (Note)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Disaggregated by timing of revenue recognition</b>			
Point in time	<u>140,486</u>	<u>365,476</u>	<u>505,962</u>
<b>Revenue from external customers</b>	<u>140,486</u>	<u>365,476</u>	<u>505,962</u>
<b>Reportable segment revenue</b>	<u><u>140,486</u></u>	<u><u>365,476</u></u>	<u><u>505,962</u></u>
<b>Reportable segment profit (adjusted EBITDA)</b>	<u><u>110,607</u></u>	<u><u>76,700</u></u>	<u><u>187,307</u></u>
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			
<b>Reportable segment assets</b>	<b>1,415,358</b>	<b>238,325</b>	<b>1,653,683</b>
<b>Reportable segment liabilities</b>	<b>1,294,962</b>	<b>30,550</b>	<b>1,325,512</b>

	For the year ended 31 December 2019		
	the Expressway <i>HK\$'000</i>	Liquor and spirits <i>HK\$'000</i>	Total ( <i>Note</i> ) <i>HK\$'000</i>
<b>Disaggregated by timing of revenue recognition</b>			
Point in time	192,419	264,567	456,986
<b>Revenue from external customers</b>	192,419	264,567	456,986
<b>Reportable segment revenue</b>	192,419	264,567	456,986
<b>Reportable segment profit (adjusted EBITDA)</b>	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			
<b>Reportable segment assets</b>	1,500,913	187,214	1,688,127
<b>Reportable segment liabilities</b>	1,260,644	47,744	1,308,388

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

	2020 <i>HK\$'000</i>	2019 <i>(Note)</i> <i>HK\$'000</i>
<b>Profit</b>		
Reportable segment profit (adjusted EBITDA)	<u>187,307</u>	<u>197,798</u>
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	<u>(10,247)</u>	<u>(10,046)</u>
Consolidated profit before taxation	<u><u>103,762</u></u>	<u><u>96,409</u></u>
	2020 <i>HK\$'000</i>	2019 <i>(Note)</i> <i>HK\$'000</i>
<b>Assets</b>		
Reportable segment assets	1,653,683	1,688,127
Elimination of inter-segment receivables	<u>(1,147)</u>	<u>(1,077)</u>
Unallocated head office and corporate assets	<u>1,652,536</u> <u>211,800</u>	1,687,050 76,282
Consolidated total assets	<u><u>1,864,336</u></u>	<u><u>1,763,332</u></u>
	2020 <i>HK\$'000</i>	2019 <i>(Note)</i> <i>HK\$'000</i>
<b>Liabilities</b>		
Reportable segment liabilities	1,325,512	1,308,388
Elimination of inter-segment payables	<u>(190,887)</u>	<u>(171,605)</u>
Unallocated head office and corporate liabilities	<u>1,134,625</u> <u>106,643</u>	1,136,783 108,842
Consolidated total liabilities	<u><u>1,241,268</u></u>	<u><u>1,245,625</u></u>

## 5. OTHER REVENUE AND NET INCOME

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

## 6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

### (a) Finance costs

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on bank loan and other borrowing	51,569	54,448
Interest on lease liabilities	136	146
	<u>51,705</u>	<u>54,594</u>

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

### (b) Staff costs

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
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
	<u>32,527</u>	<u>39,356</u>

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

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

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 <i>HK\$’000</i>	2019 <i>HK\$’000</i>
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	-
	<u>3,434</u>	<u>308</u>

(d) **Other items**

	2020 <i>HK\$’000</i>	2019 <i>HK\$’000</i>
Auditors’ remuneration		
– Annual audit and interim review services	2,690	2,792
– Other service	899	450
Depreciation	5,786	4,372
Amortisation	35,309	30,142
	<u>35,309</u>	<u>30,142</u>

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

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax – PRC corporate income tax	19,078	13,581
Deferred tax – Reversal and origination of temporary differences	<u>3,822</u>	<u>14,203</u>
	<u><b>22,900</b></u>	<u><b>27,784</b></u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and BVI.
- (ii) No provision has been made for Hong Kong profits tax as the Group did not have assessable profits subject to Hong Kong profits tax during the years ended 31 December 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.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit before taxation	<u><b>103,762</b></u>	<u><b>96,409</b></u>
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	<u>(10)</u>	<u>–</u>
Income tax	<u><b>22,900</b></u>	<u><b>27,784</b></u>

## 8. EARNINGS PER SHARE

### (a) Basic earnings per share

	2020 <i>'000</i>	2019 <i>'000</i>
Issued ordinary shares at 1 January	<u>412,608</u>	<u>412,608</u>
Weighted average number of ordinary shares at 31 December	<u>412,608</u>	<u>412,608</u>

The calculation of basic earnings per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company of HK\$70,299,000 (2019: profit of HK\$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.

## 9. PREPAYMENTS AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Prepayments	24,128	14,004
Other receivables	<u>10,855</u>	<u>41,920</u>
	<u>34,983</u>	<u>55,924</u>

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

## 10. ACCRUALS AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
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 payable	<u>5,339</u>	<u>3,520</u>
	<u>79,794</u>	<u>90,690</u>

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

## 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:

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

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

## **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 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.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained the prescribed public float of not less than 25% of the Company’s entire issued share capital (“Shares”) as required under the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for the year ended 31 December 2020.

## **PURCHASE, SALES OR REDEMPTION OF THE COMPANY’S SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares for the year ended 31 December 2020.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

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

The Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximise interests of the shareholders of the Company.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

## **REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE**

The Company has established an audit committee in compliance with Rule 3.21 of the Listing Rules with written terms of reference in compliance with the CG Code. The audit committee is accountable to the Board and the primary duties of which include the review and supervision of the Group’s financial reporting process and internal control measures. The audit committee comprises all three independent non-executive Directors, namely Mr. Chu Kin Wang, Peleus, Mr. Sun Xiao Nian and Mr. Hu Lie Ge. Mr. Chu Kin Wang, Peleus is the chairman of the audit committee of the Company and has professional qualification and experience in financial matters in compliance with the requirements of the Listing Rules.

The audit committee of the Company has met and discussed with the external auditors of the Company, KPMG, and has reviewed the accounting principles and practices adopted by the Group and the results of the Group for the year ended 31 December 2020. The audit committee considered that the consolidated results of the Group for the year ended 31 December 2020 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made. The auditor of the Company, KPMG, has agreed that the financial figures in respect of the Group’s annual results for the year ended 31 December 2020 contained in this announcement are consistent with the amounts set out in the Group’s draft consolidated financial statements for the year.

## **FINAL DIVIDEND**

The Board does not recommend any final dividend payment for the year ended 31 December 2020.

## **ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS**

The annual general meeting of the Company will be held in Hong Kong on 11 June 2021. Notice of the annual general meeting will be issued and dispatched to shareholders of the Company in due course. The Company's register of members will be closed from 8 June 2021 to 11 June 2021 (both days inclusive), during such period no transfer of the Shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all transfers of Shares accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 7 June 2021.

## **PUBLICATION OF 2020 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This announcement is also published on the website of the Company ([www.huayu.com.hk](http://www.huayu.com.hk)), and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the 2020 annual report of the Company containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

## **APPRECIATION**

I would like to take this opportunity to express thanks and gratitude on behalf of the Company to the Group's management and staff who dedicated their endless efforts and devoted services, and to our shareholders, suppliers and bankers for their continuous support.

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

Hong Kong, 26 March 2021

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