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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

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

- Revenue for the Period was approximately HK\$624.3 million, representing an increase of approximately 202.8% over the corresponding period of last year.
- Gross profit for the Period was approximately HK\$237.2 million, representing an increase of approximately 317.5% over the corresponding period of last year.
- Profit attributable to the equity shareholders of the Company for the Period was approximately HK\$103.1 million, representing an increase of approximately 22.8 times over the corresponding period of last year.
- Basic and diluted earnings per share for the Period amounted to HK25.00 cents, representing an increase of approximately 22.8 times over the corresponding period of last year.

The board (the “Board”) of directors (the “Directors”) of Huayu Expressway Group Limited (the “Company”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2021 (the “Period”), together with the comparative figures for the corresponding period in 2020. The interim financial report for the Period is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”, issued by the Hong Kong Institute of Certified Public Accountants.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021 – unaudited

		Six months ended 30 June	
		2021	2020
	<i>Note</i>	HK\$'000	HK\$'000
			(restated)
Revenue	3	624,314	206,186
Cost of sales		<u>(387,127)</u>	<u>(149,376)</u>
Gross profit		237,187	56,810
Other revenue		3,339	1,947
Other net income/(loss)		2,157	(4,631)
Administrative expenses		(29,750)	(19,807)
Selling and distribution costs		<u>(8,316)</u>	<u>(4,884)</u>
Profit from operations		204,617	29,435
Finance costs	4(a)	(28,176)	(26,873)
Share of profit or loss of associates		<u>10,556</u>	<u>833</u>
Profit before taxation	4	186,997	3,395
Income tax	5	<u>(48,348)</u>	<u>(5,319)</u>
Profit/(loss) for the period		<u>138,649</u>	<u>(1,924)</u>
Attributable to:			
Equity shareholders of the Company		103,134	4,325
Non-controlling interests		<u>35,515</u>	<u>(6,249)</u>
Profit/(loss) for the period		<u>138,649</u>	<u>(1,924)</u>
Earnings per share (HK Cents)			
Basic and diluted	6	<u>25.00</u>	<u>1.05</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021 – unaudited

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
		(restated)
Profit/(loss) for the period	138,649	(1,924)
Other comprehensive income for the period:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of:		
– financial statements of subsidiaries outside Hong Kong	<u>9,002</u>	<u>(7,982)</u>
Total comprehensive income for the period	<u>147,651</u>	<u>(9,906)</u>
Attributable to:		
Equity shareholders of the Company	109,762	(1,634)
Non-controlling interests	<u>37,889</u>	<u>(8,272)</u>
Total comprehensive income for the period	<u>147,651</u>	<u>(9,906)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021 – unaudited

		At 30 June 2021 <i>HK\$'000</i>	At 31 December 2020 <i>HK\$'000</i> (restated)
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		28,078	19,323
Intangible assets – service concession arrangements		1,479,051	1,497,518
Interests in associates		38,122	22,129
Deferred tax assets		139,673	145,390
		<u>1,684,924</u>	<u>1,684,360</u>
Current assets			
Inventories		60,645	94,495
Prepayments and other receivables	7	202,193	36,562
Amounts due from related parties		24,142	57,913
Cash and cash equivalents		279,597	246,545
Other current assets		–	459
		<u>566,577</u>	<u>435,974</u>
Current liabilities			
Accruals and other payables	8	113,806	91,976
Contract liabilities		5,121	6,591
Amounts due to related parties		17,769	9,988
Bank loans and other borrowing		138,207	154,466
Lease liabilities		1,325	1,285
		<u>276,228</u>	<u>264,306</u>
Net current assets		<u>290,349</u>	<u>171,668</u>
Total assets less current liabilities		<u>1,975,273</u>	<u>1,856,028</u>

	At 30 June 2021 <i>HK\$'000</i>	At 31 December 2020 <i>HK\$'000</i> (restated)
<i>Note</i>		
Non-current liabilities		
Bank loan and other borrowing	1,103,160	935,315
Amount due to the controlling shareholder of the Company	101,976	101,976
Lease liabilities	1,569	947
	<u>1,206,705</u>	<u>1,038,238</u>
NET ASSETS	<u>768,568</u>	<u>817,790</u>
CAPITAL AND RESERVES		
Share capital	4,126	4,126
Reserves	523,401	608,315
Total equity attributable to equity shareholders of the Company	527,527	612,441
Non-controlling interests	<u>241,041</u>	205,349
TOTAL EQUITY	<u>768,568</u>	<u>817,790</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 20 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial report as comparative information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2020 are available from the Company's registered office. In the auditors' report dated 26 March 2021, the auditors expressed an unqualified opinion on those financial statements.

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

Merger accounting for business combination involving a subsidiary under common control

On 7 April 2021, Good Sign Limited (a wholly-owned subsidiary of the Company, the “Purchaser”) entered into an Equity Transfer Agreement with Shenzhen Huayu Investment & Development Group Co., Ltd.¹ (the “Vendor”), a company wholly-owned by Mr. Chan Yeung Nam (“Mr. Chan”). Mr. Chan is an ultimate controlling shareholder of the Company and Shenzhen Huayu Expressway Investment Co., Ltd. (the “Target Company”). Pursuant to the Equity Transfer Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the 60% equity interests in the Target Company (representing the entire equity interests held by the Vendor in the Target Company) at a consideration of RMB127.2 million (approximately HK\$152.9 million) (the “Acquisition”).

The consideration of the Acquisition is 60% of the completion net asset value, being defined as the sum of (i) net asset value of the Target Company at the date of completion and (ii) the fair value gain of land and buildings of the Target Company, being the difference between the book value and the fair value of the land and buildings at the date of completion.

The Vendor is ultimately and beneficially owned by Mr. Chan as to 100.00% of its effective interest. Mr. Chan is a controlling shareholder of the Company interested in 72.71% of the Company through Velocity Partners Limited. As such, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Acquisition constituted a connected transaction under the Listing Rules. The principal activities of the Target Company are construction, operation and management of the First Phase of Qing-Ping Expressway (S209). Details of the Acquisition are set out in the Company’s circular dated 30 April 2021.

The Acquisition were completed on 29 June 2021 (“Completion Date”). The consideration was amounted to HK\$152.9 million. The consideration was satisfied by the Company through the payment in cash.

The Acquisition was considered as a business combination under common control as the Company and its subsidiaries and the Target Company are both ultimately controlled by Mr. Chan. The acquisition of the Target Company was accounted for using merger accounting in accordance with Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” (“AG 5”) issued by the HKICPA. The Group and the Target company are regarded as continuing entities.

Under merger accounting, based on the guidance set out in AG 5, the interim financial information incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party’s perspective. No amount is recognised in respect of goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest. The adjustments to eliminate share/registered capital of the combining entities or businesses against the related investment costs have been made to other reserve in the consolidated statement of changes in equity.

¹ Chinese official name of the Vendor is “深圳華昱投資開發(集團)有限公司”. The English name of the Vendor is translation and for identification purposes only.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the prior periods have been restated to include the results of the Target Company as if these acquisitions had been completed since the date the respective business first came under the common control of the Company. The consolidated statement of financial position as at 31 December 2020 have been restated to adjust the carrying amounts of the assets and liabilities of the Target Company which had been in existence as at 31 December 2020 as if those entities or businesses were combined from the date when they first came under the common control of the Company (see below for the financial impacts).

- (i) Effect on the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2020:

	The Group (before business combination under common control) HK\$'000 (originally stated)	Business combination of entities under common control HK\$'000	Consolidated HK\$'000 (unaudited and restated)
Revenue	186,397	19,789	206,186
Cost of sales	(125,784)	(23,592)	(149,376)
Gross profit/(loss)	60,613	(3,803)	56,810
Other revenue	1,244	703	1,947
Other net (loss)/income	(4,726)	95	(4,631)
Administrative expenses	(16,607)	(3,200)	(19,807)
Selling and distribution costs	(4,884)	–	(4,884)
Profit/(loss) from operations	35,640	(6,205)	29,435
Finance costs	(25,007)	(1,866)	(26,873)
Share of profit or loss of associates	833	–	833
Profit/(loss) before taxation	11,466	(8,071)	3,395
Income tax	(5,319)	–	(5,319)
Profit/(loss) for the period	<u>6,147</u>	<u>(8,071)</u>	<u>(1,924)</u>
Attributable to:			
Equity shareholders of the Company	9,168	(4,843)	4,325
Non-controlling interests	(3,021)	(3,228)	(6,249)
Profit/(loss) for the period	<u>6,147</u>	<u>(8,071)</u>	<u>(1,924)</u>

(ii) Effect on the condensed consolidated statement of financial position as at 31 December 2020:

	The Group (before business combination under common control) HK\$'000	Business combination of entities under common control HK\$'000	Adjustments HK\$'000	Consolidated HK\$'000 (restated)
Non-current assets				
Property, plant and equipment	18,517	806	–	19,323
Intangible assets – service concession arrangements	1,312,774	184,744	–	1,497,518
Interests in associates	22,129	–	–	22,129
Deferred tax assets	145,390	–	–	145,390
	<u>1,498,810</u>	<u>185,550</u>	<u>–</u>	<u>1,684,360</u>
Current assets				
Inventories	94,495	–	–	94,495
Prepayments and other receivables	34,983	1,579	–	36,562
Amounts due from related parties	4,814	53,099	–	57,913
Cash and cash equivalents	230,775	15,770	–	246,545
Other current assets	459	–	–	459
	<u>365,526</u>	<u>70,448</u>	<u>–</u>	<u>435,974</u>
Current liabilities				
Accruals and other payables	79,794	12,182	–	91,976
Contract liabilities	6,591	–	–	6,591
Amounts due to related parties	8,422	1,566	–	9,988
Bank loans and other borrowing	106,938	47,528	–	154,466
Lease liabilities	1,285	–	–	1,285
	<u>203,030</u>	<u>61,276</u>	<u>–</u>	<u>264,306</u>
Net current assets	<u>162,496</u>	<u>9,172</u>	<u>–</u>	<u>171,668</u>
Total assets less current liabilities	<u>1,661,306</u>	<u>194,722</u>	<u>–</u>	<u>1,856,028</u>
Non-current liabilities				
Bank loan and other borrowing	935,315	–	–	935,315
Amount due to the controlling shareholder of the Company	101,976	–	–	101,976
Lease liabilities	947	–	–	947
	<u>1,038,238</u>	<u>–</u>	<u>–</u>	<u>1,038,238</u>
NET ASSETS	<u>623,068</u>	<u>194,722</u>	<u>–</u>	<u>817,790</u>
CAPITAL AND RESERVES				
Share capital	4,126	159,120	(159,120)	4,126
Reserves	491,481	35,602	81,232	608,315
Total equity attributable to equity shareholders of the Company	<u>495,607</u>	<u>194,722</u>	<u>(77,888)</u>	<u>612,441</u>
Non-controlling interests	<u>127,461</u>	<u>–</u>	<u>77,888</u>	<u>205,349</u>
TOTAL EQUITY	<u>623,068</u>	<u>194,722</u>	<u>–</u>	<u>817,790</u>

- (iii) The effect of the restatement on the Group's equity on 31 December 2019 is summarised as follows:

	The Group (before business combination under common control) HK\$'000 (originally stated)	Business combination of entities under common control HK\$'000	Adjustments HK\$'000 Note	Consolidated HK\$'000 (restated)
Share capital	4,126	159,120	(159,120)	4,126
Share premium	80,118	–	–	80,118
Statutory reserve	4,215	9,784	(3,914)	10,085
Other reserve	825,196	–	95,472	920,668
Share-based compensation reserve	1,945	–	–	1,945
Exchange reserve	27,928	7,891	(3,156)	32,663
Accumulated losses	(534,726)	168	(67)	(534,625)
Total	408,802	176,963	(70,785)	514,980
Non-controlling interests	108,905	–	70,785	179,690
Total	517,707	176,963	–	694,670

Note: The adjustments represent the reclassification of reserves to conform with the presentation of the Group's condensed consolidated financial statements

- (iv) The effect of the restatement on the Group's basic and diluted earnings per share for the six months ended 30 June 2020 is as follows:

	Six months ended 30 June 2020
Basic and diluted earnings per share (HK Cents)	
Unaudited and originally stated	2.22
Adjustments arising from business combination under common control	(1.17)
Restated	<u>1.05</u>

- (v) The effect of the restatement on the Group's cash flow for the six months ended 30 June 2020 is summarised as follows:

	Six months ended 30 June 2020 \$'000
Increase in net cash from operating activities	18,799
Increase in net cash used in investing activities	92
Decrease in net cash from financing activities	(1,866)
Increase in cash and cash equivalents at the end of period	<u>29,687</u>

2 CHANGES IN ACCOUNTING POLICIES

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

- Amendment to HKFRS 16, Covid-19-related rent concessions beyond 30 June 2021
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform – phase 2

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

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

3 REVENUE AND SEGMENT REPORTING

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

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
		(restated)
Revenue from contracts with customers		
within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Toll income	160,688	59,292
– Sales of liquor and spirits	463,626	146,894
	<u>624,314</u>	<u>206,186</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) Information about profit or loss, assets and liabilities

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

For the six months ended 30 June	The Expressway		Liquor and spirits		Total	
	2021 HK\$'000	2020 HK\$'000 (restated)	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000 (restated)
Reportable segment revenue	160,688	59,292	463,626	146,894	624,314	206,186
Interest income from bank deposits	(865)	(213)	(554)	(290)	(1,419)	(503)
Interest expenses	28,100	26,804	57	23	28,157	26,827
Depreciation and amortisation	37,629	27,422	911	238	38,540	27,660
Reportable segment profit (adjusted EBITDA)	125,971	30,788	121,680	35,733	247,651	66,521

As at 30 June/31 December

Reportable segment assets	1,641,320	1,706,647	386,381	192,960	2,038,542	1,899,607
Reportable segment liabilities	1,300,631	1,231,633	65,192	29,494	1,365,823	1,261,127

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.

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000 (restated)
Reportable segment profit (adjusted EBITDA)	247,651	66,521
Reportable segment profit derived from		
Group's external customers and associates	247,651	66,521
Other revenue	973	663
Other net income/(loss)	1,179	(4,958)
Depreciation and amortisation	(39,102)	(28,222)
Finance costs	(28,176)	(26,873)
Share of profits less losses of associates	10,556	833
Unallocated head office and corporate expenses	(6,084)	(4,569)
Consolidated profit before taxation	186,997	3,395

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Six months ended 30 June	
		2021	2020
		HK\$'000	HK\$'000
			(restated)
(a)	Finance costs:		
	Interest on bank loans and other borrowings	28,101	26,804
	Interest on lease liabilities	75	69
		<u>28,176</u>	<u>26,873</u>
(b)	Staff costs:		
	Salaries, wages and other benefits	23,182	19,323
	Contributions to defined contribution retirement plans	4,549	2,273
	Share-based payment expenses	771	802
		<u>28,502</u>	<u>22,398</u>
(c)	Other items:		
	Depreciation charge		
	– owned property, plant and equipment	2,630	2,659
	– right-of-use assets	917	579
	Amortisation	35,555	24,984
	Operating leases	665	461
		<u>39,767</u>	<u>32,783</u>

5 INCOME TAX

		Six months ended 30 June	
		2021	2020
		HK\$'000	HK\$'000
			(restated)
	Current tax – PRC corporate income tax	40,736	9,237
	Deferred tax – Origination and reversal of temporary differences	7,612	(3,918)
		<u>48,348</u>	<u>5,319</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 periods ended 30 June 2021 and 2020.		
(iii)	Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to PRC corporate income tax at a rate of 25% (six months ended 30 June 2020: 25%) on their assessable profits. Reversal and origination of temporary differences are in connection with the impairment provision and construction profit of intangible asset-service concession arrangement, deductible tax losses and other deductible temporary differences.		

6 EARNINGS PER SHARE

(a) Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to ordinary equity shareholders of the Company for the period of HK\$103,134,000 (six months ended 30 June 2020: HK\$4,325,000) and the weighted average number of 412,608,000 (six months ended 30 June 2020: 412,608,000) shares in issue during the interim period.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares for the six months ended 30 June 2021 and 2020, therefore, diluted earnings per share is equivalent to basic earnings per share.

7 PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000 (restated)
Prepayments	189,384	24,243
Other receivables	12,809	12,319
	<u>202,193</u>	<u>36,562</u>

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

8 ACCRUALS AND OTHER PAYABLES

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000 (restated)
Construction payables	34,533	47,498
Suspense receipts	1,463	2,297
Accruals	15,085	21,980
Taxes payable	30,878	7,277
Interest payable	1,574	6,516
Dividend payable	24,756	–
Other payables	5,517	6,408
	<u>113,806</u>	<u>91,976</u>

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

INTERIM DIVIDEND

The Board resolved not to declare the payment of interim dividend for the Period (six months ended 30 June 2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the Period, the Group recorded revenue of approximately HK\$624.3 million, increased by about 202.8% from approximately HK\$206.2 million for the corresponding period of last year. The increase was mainly due to the resumption of economic activities in the PRC after the COVID-19 pandemic period.

The toll revenue received from the Sui-Yue Expressway (Hunan Section) (the “Sui-Yue Expressway”) and the First Phase of Qing Ping Expressway (the “Qing Ping Expressway”, collectively the “Expressways”) for the Period was about HK\$160.7 million, increased by 171.0% from about HK\$59.3 million for the corresponding period of 2020. For the Sui-Yue Expressway, the toll revenue and the traffic flow were about HK\$108.6 million and 6.4 million vehicles respectively for the Period, increased by about 174.9% and 128.6% from the corresponding period of 2020. On the other hand, the toll revenue and the traffic flow of the Qing Ping Expressway were about HK\$52.1 million and 13.1 million vehicles respectively, increased by about 163.1% and 9.2% from the corresponding period of 2020.

The revenue generated from the sales of liquor and spirits was approximately HK\$463.6 million for the Period, increased by 215.6% from about HK\$146.9 million for the corresponding period of 2020. With the resumption of economic activities starting from the middle of 2020, the sales of liquor and spirits increased significantly in the Period.

Cost and gross profit

The Group recorded a gross profit of approximately HK\$237.2 million for the Period, increased by 317.5% from about HK\$56.8 million for the corresponding period of last year. The increase in gross profit was mainly due to recovery of business after the COVID-19 pandemic period. The gross profit ratio was about 38.0%, increased by 37.7% for the corresponding period of last year from about 27.6%. For the Expressways, the segment gross profit was approximately HK\$97.9 million and the gross profit ratio was about 60.9% for the Period. After the COVID-19 pandemic period, the gross profit ratio significantly increased from the corresponding period of last year. For the trading of liquor and spirits, the segment gross profit was about HK\$139.2 million and its gross profit ratio was about 30.0% for the Period, which is nearly the same as that of the corresponding period of last year.

Other revenue and other net (loss)/income

The Group recorded other revenue of approximately HK\$3.3 million for the Period, as compared to an amount of approximately HK\$1.9 million for the corresponding period of last year. Other revenue of the Group mainly referred to the rental income from the billboard along the Expressways and interest income from bank deposits. In addition, the other net income was about HK\$2.2 million for the Period. Other net income/loss mainly represented the exchange gain/loss recorded during the Period.

Administrative expenses

Administrative expenses for the Period were approximately HK\$29.8 million, increased by 50.2% from approximately HK\$19.8 million for the corresponding period of last year. The increase was mainly due to the increase in the staff-related cost after the COVID-19 pandemic period.

Selling and distribution costs

The Group recorded about HK\$8.3 million selling and distribution costs for the Period, increased by 70.3% from approximately HK\$4.9 million for the corresponding period of last year. The selling and distribution costs mainly represented the advertising fees and staff salaries for the liquor and spirits trading business. The increase was mainly due to the resumption of promotion and marketing activities after the COVID-19 pandemic period.

Finance costs

During the Period, the finance costs of the Group were about HK\$28.2 million, increased by about 4.8% from approximately HK\$26.8 million for the corresponding period of last year. The increase was mainly due to the increase in the average exchange rate during the Period.

Profit for the Period

The profit of the Group for the Period was approximately HK\$138.6 million, comparing to the loss for the corresponding period of last year was about HK\$1.9 million. The improvement in profit was mainly due to the recovery of business of the Group after the COVID-19 pandemic period.

Liquidity and financial resources

During the Period, the Group financed its operations and capital expenditures with its internal resources, borrowings from the controlling shareholder of the Company and the non-controlling shareholder of Hunan Daoyue Expressway Industry Co., Ltd. and long-term bank loans. As at 30 June 2021, total bank loans drawn by the Group amounted to about HK\$1,241.4 million (as at 31 December 2020: approximately HK\$974.3 million), the amount due to the controlling shareholder of the Company was approximately HK\$102.0 million (as at 31 December 2020: approximately HK\$102.0 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to approximately HK\$279.6 million (as at 31 December 2020: approximately HK\$246.5 million). The loan from the non-controlling shareholder of Hunan Daoyue Expressway Industry Co., Ltd was fully repaid during the year.

The Group has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with its daily operation and any demands for capital in future development. As at 30 June 2021, total banking facilities of the Group amounted to approximately HK\$1,241.4 million from banks in the PRC, which were mainly for the settlement of construction costs of the Expressways. The ratio of total outstanding bank loan and other borrowings to total equity was 1.62 (as at 31 December 2020: 1.33).

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

Intangible assets – service concession arrangements

The service concession arrangements represent the right of the Group to operate the Expressways and receive toll fees therefrom. According to the accounting policy adopted by the Group, the amount of the intangible assets 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 Period.

Employees and emoluments

As at 30 June 2021, the Group employed a total of 494 (as at 31 December 2020: 473) employees in the PRC and Hong Kong, which included the Management, engineers, technicians and general staff. During the Period, the Group's total expenses on the remuneration of employees were approximately HK\$28.5 million (six months ended 30 June 2020: approximately HK\$22.4 million).

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

Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong dollars. As at 30 June 2021, the Group had not entered into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group. The Management will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

PLEDGE OF ASSETS

As at 30 June 2021, the bank loan of approximately HK\$1,241.4 million from banks in the PRC was secured by a pledge of the toll collection right owned by the Expressways.

BUSINESS REVIEW

SUI-YUE EXPRESSWAY

Due to the COVID-19 pandemic and the toll fee exemption policy, the operation of Sui-Yue Expressway was significantly affected in 2020. With the resumption of the economy after the lock down policy, the economic activities were back to normal in 2021. Average traffic flow for the Period was about 1.06 million vehicles per month, significantly increased from 460,000 vehicles per month for the corresponding period of last year. The average toll for the Period was about HK\$17.0 per vehicle, increased by 20.6% from HK\$14.1 per vehicle for the corresponding period of last year.

QING PING EXPRESSWAY

On 7 April 2021, the Group entered into an equity transfer agreement to acquire 60% interests in Shenzhen Huayu Expressway Investment Co., Ltd., which possessed an exclusive right to operate Qing Ping Expressway. Qing Ping Expressway is a six-lane expressway that connects Shenzhen Qingshuihe Checkpoint and Bulong Interchange on Shuiguan Expressway. Shuiguan Expressway is a major expressway linking the central business district of Shenzhen with Longgang District and Pingshan New Zone. The acquisition was completed on 29 June 2021.

For the Period, the total toll revenue of Qing Ping Expressway was about HK\$52.1 million, increased by 163.1% from about HK\$19.8 million for the corresponding period of last year. The average traffic flow was about 2.2 million vehicles per month, increased by about 9.2% from about 2.0 million vehicles per month for the corresponding period of last year. Average toll for the Period was about HK\$4.0 per vehicle.

TRADING OF LIQUOR AND SPIRITS

With the ease of restrictions and resumption of the economy in the PRC after the COVID-19 pandemic from mid-2020, the demand and consumption of liquor and spirits resumed rapidly. The Group recorded a total revenue of HK\$463.6 million, which was about 3.2 times of that for the corresponding period of last year. During the Period, more active marketing campaigns and promotions were organised. With the established marketing network and efficient distribution channel, the reportable segment profit (adjusted EBITDA) for the Period of the liquor and spirits segment was about HK\$121.7 million, about 3.4 times of that of the corresponding period last year.

SPECIAL INTERIM DIVIDEND

The Group declared a special interim dividend of HK\$0.06 per share to the shareholders of the Company on 31 May 2021 after considering the business, financial and cashflow position of the Group. The dividend was paid on or about 9 July 2021.

PROSPECTS

With the outbreak of the COVID-19 pandemic in the PRC in 2020, the Group faced an unprecedented challenge in its business. But from mid-2020, with the ease of restrictions and resumption of the economy in the PRC, the difficult period was over and the business has been rapidly back to normal. During the Period, the traffic flow and the toll revenue of the Expressways resumed to the level before the pandemic period. Although there were some occasional, short interruptions in the operation because of the minor occasional COVID-19 outbreak from April to May 2021, with the recovery and growth in the economic activities around the Expressways, the future of the expressway business is positive.

During the Period, the Group acquired 60% equity interests of Qing Ping Expressway. The acquisition will expand the Group's portfolio of experience in managing and operating expressways, which will give the Group a competitive edge when bidding for construction, operation and management rights of other expressways in the PRC in the future. Therefore, the acquisition will further increase the market shares and scale of the Group's core business, producing great synergistic effect in term of business growth and the Group's future developments. As Qing Ping Expressway is located in Shenzhen, one of major cities in the PRC, the prospect of it is promising. The Group believes that the acquisition can enhance the Group's competitiveness, further strengthen the Group's reputation within the industry and improve its earning base in the future.

The business of trading liquor and spirits also recovered and improved significantly. The Group is full of confidence about the performance of this business segment in the post COVID-19 pandemic period. In the near future, we will continue our effort in developing the distribution network. More sales and marketing activities will be arranged, such as the tasting events and promotion conference in the coming months.

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

In accordance with the said strategy, the Group may pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, the Group 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

CORPORATE GOVERNANCE

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

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. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code adopted by the Company throughout the Period.

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) which is accountable to the Board and the primary duties of which include the reviewing and supervising of the Group’s financial reporting process and internal control measures. The Audit Committee is comprised of three independent non-executive Directors, namely Mr. Chu Kin Wang, Peleus, Mr. Sun Xiao Nian and Mr. Hu Lie Ge. Mr. Chu Kin Wang, Peleus is the chairman of the Audit Committee. The chairman of the Audit Committee has professional qualification and experience in financial matters in compliance with the requirement of the Listing Rules.

The Audit Committee has met and discussed with the external auditors of the Company, KPMG, and has reviewed the accounting principles and practices adopted by the Group and the unaudited results of the Group for the Period. The Audit Committee considered that the unaudited consolidated results of the Group for the Period are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND DESPATCH OF INTERIM REPORT

This announcement is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.huayu.com.hk), and the 2021 interim report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Company and the Stock Exchange in due course.

By Order of the Board
Huayu Expressway Group Limited
Chan Yeung Nam
Chairman

Hong Kong, 20 August 2021

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