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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 2023**

##### **FINANCIAL HIGHLIGHTS**

- Revenue from continuing operations for the Period was approximately RMB276.8 million, representing an increase of approximately 19.9% over the corresponding period of last year.
- Gross profit from continuing operations for the Period was approximately RMB86.8 million, representing an increase of approximately 22.1% over the corresponding period of last year.
- Profit attributable to the equity shareholders of the Company for the Period was approximately RMB339.9 million, representing an increase of approximately 823.6% over the corresponding period of last year.
- Basic and diluted earnings per share for the Period amounted to RMB82.4 cents, representing an increase of approximately 822.7% over the corresponding period of last year.
- The Board did not recommend the payment of any interim dividends for the six month ended 30 June 2023 (2022: Nil).

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 2023 (the “Period”), together with the comparative figures for the corresponding period in 2022. 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 2023 – unaudited

(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2023 RMB'000	2022 RMB'000 (restated) (Note 12)
<b>Continuing operations</b>			
<b>Revenue</b>	3	276,808	230,853
Cost of sales		<u>(190,019)</u>	<u>(159,784)</u>
<b>Gross profit</b>		<b>86,789</b>	71,069
Other revenue		1,536	1,994
Other net loss		(1,804)	(1,860)
Administrative expenses		(34,997)	(18,050)
Selling and distribution costs		<u>(9,082)</u>	<u>(10,130)</u>
<b>Profit from operations</b>		<b>42,442</b>	43,023
Finance costs	4(a)	(872)	(1,128)
Share of profit of associates		<u>3,198</u>	<u>4,496</u>
<b>Profit before taxation</b>	4	<b>44,768</b>	46,391
Income tax	5	<u>(17,125)</u>	<u>(11,960)</u>
<b>Profit from continuing operations</b>		<u><b>27,643</b></u>	<u>34,431</u>
<b>Discontinued Sui-Yue Expressway operation</b>			
Profit from discontinued Sui-Yue Expressway operation, net of tax	6	<u>342,400</u>	<u>24,587</u>
<b>Profit for the period</b>		<u><b>370,043</b></u>	<u>59,018</u>

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2023	2022
	Note	RMB'000	RMB'000
			(restated)
			(Note 12)
<b>Profit attributable to:</b>			
Equity shareholders of the Company			
– continuing operations		14,846	22,071
– discontinued Sui-Yue Expressway operation		325,092	14,751
		<u>339,938</u>	<u>36,822</u>
Non-controlling interests			
– continuing operations		12,797	12,360
– discontinued Sui-Yue Expressway operation		17,308	9,836
		<u>30,105</u>	<u>22,196</u>
Profit for the period		<u>370,043</u>	<u>59,018</u>
<b>Basic and diluted earnings per share (RMB cents)</b>			
	7		
– continuing operations		3.60	5.35
– discontinued Sui-Yue Expressway operation		78.79	3.58
		<u>82.39</u>	<u>8.93</u>

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

For the six months ended 30 June 2023 – unaudited  
(Expressed in Renminbi)

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000 (restated) (Note 12)
<b>Profit for the period</b>	<b>370,043</b>	59,018
<b>Other comprehensive income for the period:</b>		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of:		
– financial statements of entities comprising the Group not using Renminbi as functional currency	<u>1,659</u>	<u>(1,628)</u>
<b>Total comprehensive income for the period</b>	<b><u>371,702</u></b>	<b><u>57,390</u></b>
<b>Attributable to:</b>		
Equity shareholders of the Company		
– continuing operations	<b>16,505</b>	20,443
– discontinued Sui-Yue Expressway operation	<b>325,092</b>	14,751
	<u>341,597</u>	<u>35,194</u>
Non-controlling interests		
– continuing operations	<b>12,797</b>	12,360
– discontinued Sui-Yue Expressway operation	<b>17,308</b>	9,836
	<u>30,105</u>	<u>22,196</u>
<b>Total comprehensive income for the period</b>	<b><u>371,702</u></b>	<b><u>57,390</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 – unaudited

(Expressed in Renminbi)

		<b>30 June 2023</b>	31 December 2022
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>5,830</b>	7,094
Intangible assets – service concession arrangements		<b>97,370</b>	115,091
Interests in associates	8	<b>158,847</b>	125,883
Deferred tax assets		<b>4</b>	1,382
Contingent consideration receivables	9	<b>23,768</b>	–
		<b>285,819</b>	249,450
<b>Current assets</b>			
Inventories		<b>150,439</b>	159,933
Other current assets		<b>20,677</b>	12,261
Trade and other receivables	10	<b>105,543</b>	55,478
Amounts due from related parties		<b>26,435</b>	21,214
Cash and cash equivalents		<b>424,512</b>	205,659
Contingent consideration receivables	9	<b>64,030</b>	–
Assets of the disposal group held for sale		–	1,251,957
		<b>791,636</b>	1,706,502
<b>Current liabilities</b>			
Accruals and other payables	11	<b>21,093</b>	24,694
Amounts due to related parties		<b>4,021</b>	4,086
Contract liabilities		<b>41,632</b>	37,936
Bank loan		<b>50,000</b>	50,000
Lease liabilities		<b>884</b>	1,387
Current taxation		<b>17,826</b>	1,983
Amount due to the controlling shareholder of the Company		–	91,091
Liabilities directly associated with the disposal group held for sale		–	941,482
		<b>135,456</b>	1,152,659
<b>Net current assets</b>		<b>656,180</b>	553,843
<b>Total assets less current liabilities</b>		<b>941,999</b>	803,293

	<b>30 June 2023</b>	31 December 2022
<i>Note</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Non-current liability</b>		
Lease liability	—	263
	—	263
	<b>941,999</b>	803,030
<b>NET ASSETS</b>		
<b>CAPITAL AND RESERVES</b>		
Share capital	3,634	3,634
Reserves	812,364	514,534
<b>Total equity attributable to equity shareholders of the Company</b>	<b>815,998</b>	518,168
<b>Non-controlling interests</b>	<b>126,001</b>	284,862
<b>TOTAL EQUITY</b>	<b>941,999</b>	803,030

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in Renminbi 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 30 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in note 2(a).

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 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

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

The financial information relating to the financial year ended 31 December 2022 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

### 2 CHANGES IN ACCOUNTING POLICIES

#### (a) New and amended HKFRSs

The group has applied the following new and amended HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, *Income taxes: International tax reform – Pillar Two model rules*

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

**(b) Changes in accounting estimate**

In view of that the actual traffic volume of Qing Ping Expressway in recent years differs greatly from the total projected traffic volume due to the influence of COVID-19 pandemic and the change in the estimate useful life after confirming with the relevant government authority in Guangdong, the Group appointed an independent professional traffic consultant to re-predicts the total projected traffic volume of Qing Ping Expressway in the remaining operation period. The Group has adjusted the unit amortisation amount of Qing Ping Expressway based on the updated total projected traffic volume. This change in accounting estimates is effective from 1 January 2023, and the impact of which on the Group's consolidated financial statements for the current period is as follow:

***Items in the consolidated statement of financial position***

	<i>RMB'000</i>
Decrease in intangible asset – service concession arrangement	(7,816)
Decrease in total equity attributable to equity shareholders of the Company	(4,690)
Decrease in non-controlling interests	<u>(3,126)</u>

***Items in the consolidated statement of profit and loss***

	<i>RMB'000</i>
Increase in cost of sales	7,816
Decrease in profit for the period	(7,816)
Decrease in profit for the period attributable to equity shareholders of the Company	(4,690)
Decrease in profit for the period attributable to non-controlling interests	<u>(3,126)</u>

**(c) Change in presentation currency**

As set out in the 2022 annual financial statements, prior to 2022, the Company adopted RMB as the presentation currency for the consolidated financial statements of the Group effective from the year ended 31 December 2022. On the basis that the functional currency of the companies comprising the Group remained unchanged, the change of the presentation currency and restatement of the comparative figures from HKD to RMB did not give rise to any impact on foreign exchange gain or loss.

The combined effect of change in presentation currency of the Group and the disposal of Daoyue as set out in note 6 to the comparative figures of the consolidated statement of profit or loss is set out in note 12 to the interim financial report.

**3 REVENUE AND SEGMENT REPORTING**

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geographical location. 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 three reportable segments:

Continuing reportable segments:

- Qing Ping Expressway, construction, operation and management of the Qing Ping Expressway;
- Liquor and spirits, mainly distribution of Huamaojiu and Xijiushaofang.



Discontinued reportable segment:

- Sui-Yue Expressway, construction, operation and management of the Sui-Yue Expressway, which ceased to be the subsidiary of the Company upon the completion of the disposal in April 2023.

**(a) Disaggregation of revenue**

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

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	<b>RMB'000</b>
		(restated)
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Disaggregated by major products or service lines		
<b>Continuing operations:</b>		
– Toll income	37,793	32,463
– Sales of liquor and spirits	<u>239,015</u>	<u>198,390</u>
	<u>276,808</u>	<u>230,853</u>
<b>Discontinued Sui-Yue Expressway operation:</b>		
– Toll income	<u>69,669</u>	<u>85,458</u>
	<u>346,477</u>	<u>316,311</u>

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

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

The Group's customer base is concentrated and includes 1 (six months ended 30 June 2022: 1) customer with whom transaction has accounted for approximately 48% (six months ended 30 June 2022: 31%) of the Group's revenues for the six months ended 30 June 2023.

**(b) 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 deferred tax assets and other corporate assets. Segment liabilities include accruals, bills payable and lease liabilities attributable to the expressways operations 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”. To arrive at adjusted EBITDA, the Group’s earnings are further adjusted for items not specifically attributed to individual segments, such as 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 period is set out below.

	<b>Six months ended 30 June 2023</b>				
	<b>Continuing operations</b>			<b>Discontinued Sui-Yue Expressway operation</b>	<b>Total RMB'000</b>
	<b>Qing Ping Expressway RMB'000</b>	<b>Liquor and spirits RMB'000</b>	<b>Subtotal RMB'000</b>	<b>Sui-Yue Expressway RMB'000</b>	
<b>Reportable segment revenue</b>	<b>37,793</b>	<b>239,015</b>	<b>276,808</b>	<b>69,669</b>	<b>346,477</b>
<b>Reportable segment profit (adjusted EBITDA)</b>	<b>19,114</b>	<b>69,932</b>	<b>89,046</b>	<b>386,169</b>	<b>475,215</b>
Interest income from bank deposits	76	540	616	723	1,339
Interest expense	–	(860)	(860)	(13,835)	(14,695)
Depreciation and amortisation	(18,022)	(875)	(18,897)	–	(18,897)
<b>As at 30 June 2023</b>					
<b>Reportable segment assets</b>	<b>144,128</b>	<b>723,448</b>	<b>867,576</b>	<b>–</b>	<b>867,576</b>
<b>Reportable segment liabilities</b>	<b>7,679</b>	<b>107,185</b>	<b>114,864</b>	<b>–</b>	<b>114,864</b>

## Six months ended 30 June 2022 (restated)

	Continuing operations			Discontinued Sui-Yue Expressway operation	Total RMB'000
	Qing Ping Expressway RMB'000	Liquor and spirits RMB'000	Subtotal RMB'000	Sui-Yue Expressway RMB'000	
<b>Reportable segment revenue</b>	<u>32,463</u>	<u>198,390</u>	<u>230,853</u>	<u>85,458</u>	<u>316,311</u>
<b>Reportable segment profit (adjusted EBITDA)</b>	<u>11,741</u>	<u>51,796</u>	<u>63,537</u>	<u>72,622</u>	<u>136,159</u>
Interest income from bank deposits	56	645	701	568	1,269
Interest expense	–	(1,102)	(1,102)	(22,691)	(23,793)
Depreciation and amortisation	(8,520)	(1,374)	(9,894)	(17,747)	(27,641)
<b>As at 31 December 2022</b>					
<b>Reportable segment assets</b>	181,041	501,075	682,116	1,139,782	1,821,898
<b>Reportable segment liabilities</b>	11,425	127,532	138,957	938,867	1,077,824

## (c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000 (restated)
Reportable segment profit (adjusted EBITDA)	<b>475,215</b>	136,159
Less: segment profit from discontinued Sui-Yue Expressway operation	<b>(386,169)</b>	(72,622)
Reportable segment profit from continuing operations	<b>89,046</b>	63,537
Other revenue	<b>502</b>	461
Other net loss	<b>(2,277)</b>	(2,109)
Depreciation and amortisation	<b>(18,897)</b>	(9,894)
Finance costs	<b>(860)</b>	(1,102)
Unallocated head office and corporate expenses	<b>(22,746)</b>	(4,502)
Consolidated profit before taxation	<b>44,768</b>	46,391

#### 4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Six months ended 30 June	
		2023	2022
		<i>RMB'000</i>	<i>RMB'000</i> (restated)
(a)	<b>Finance costs:</b>		
	<b><i>Continuing operations:</i></b>		
	Interest on bank loans and other borrowing	840	1,062
	Interest on lease liabilities	32	66
		<u>872</u>	<u>1,128</u>
	<b><i>Discontinued Sui-Yue Expressway operation:</i></b>		
	Interest on bank loans and other borrowing	13,835	22,691
		<u>13,835</u>	<u>22,691</u>
(b)	<b>Staff costs:</b>		
	<b><i>Continuing operations:</i></b>		
	Salaries, wages and other benefits	29,334	17,326
	Contributions to defined contribution retirement plans	1,180	1,172
	Share-based payment expenses	–	643
		<u>30,514</u>	<u>19,141</u>
	<b><i>Discontinued Sui-Yue Expressway operation:</i></b>		
	Salaries, wages and other benefits	3,723	5,715
	Contributions to defined contribution retirement plans	628	917
		<u>4,351</u>	<u>6,632</u>
(c)	<b>Other items:</b>		
	<b><i>Continuing operations:</i></b>		
	Depreciation charge		
	– owned property, plant and equipment	784	1,173
	– right-of-use assets	754	801
	Amortisation	17,720	8,314
		<u>19,258</u>	<u>10,288</u>
	<b><i>Discontinued Sui-Yue Expressway operation:</i></b>		
	Depreciation charge		
	– owned property, plant and equipment	–	1,785
	Amortisation	–	15,962
		<u>–</u>	<u>17,747</u>

## 5 INCOME TAX

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
		(restated)
<b>Continuing operations:</b>		
Current tax – PRC corporate income tax	<b>15,747</b>	10,879
Deferred tax – Origination and reversal of temporary differences	<b>1,378</b>	1,081
	<u><b>17,125</b></u>	<u>11,960</u>
<b>Discontinued Sui-Yue Expressway operation:</b>		
Current tax – PRC corporate income tax	<b>6,028</b>	5,434
Deferred tax – Origination and reversal of temporary differences	<b>3,452</b>	2,731
Income tax on gain on sale of discontinued Sui-Yue Expressway operation	<b>21,177</b>	–
	<u><b>30,657</b></u>	<u>8,165</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 2023 and 2022.
- (iii) Pursuant to the income tax rules and regulations of Chinese Mainland, the subsidiaries in Chinese Mainland are liable to PRC corporate income tax at a rate of 25% (six months ended 30 June 2022: 25%) on their assessable profits. Reversal and origination of temporary differences are in connection with the deductible tax losses and other deductible temporary differences.

## 6 DISCONTINUED SUI-YUE EXPRESSWAY OPERATION

On 1 December 2022, the Group and NWS (Guangdong) Investment Company Limited (“NWS”) entered into a sale and purchase agreement (“Disposal Agreement”) to dispose 60% equity interest of 湖南道岳高速公路實業有限公司 (“Daoyue”) at a consideration of RMB555,700,000 (“Consideration”), subject to adjustment (“Estimated Adjustments”) in the Disposal Agreement. The disposal of Daoyue (“Disposal”) was completed on 25 April 2023 (“Completion Date”).

The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to re-present the Sui-Yue Expressway operation as a discontinued operation.

(a) **Results of discontinued Sui-Yue Expressway operation**

		<b>1 January 2023 to 25 April 2023 RMB'000</b>	1 January 2022 to 30 June 2022 RMB'000 (restated)
Revenue	3	<b>69,669</b>	85,458
Cost of sales		<b>(6,228)</b>	(25,879)
Gross profit		<b>63,441</b>	59,579
Other revenue		<b>723</b>	843
Other net income		<b>6,157</b>	506
Administrative expenses		<b>(3,736)</b>	(5,485)
Profit from operation		<b>66,585</b>	55,443
Finance costs	4(a)	<b>(13,835)</b>	(22,691)
Profit before taxation	4	<b>52,750</b>	32,752
Income tax	5	<b>(9,480)</b>	(8,165)
Profit for the period		<b>43,270</b>	24,587
Gain on disposal of discontinued Sui-Yue Expressway operation	6(d)	<b>320,307</b>	–
Income tax on gain on sale of discontinued Sui-Yue Expressway operation	5	<b>(21,177)</b>	–
Profit from discontinued Sui-Yue Expressway operation for the period		<b>342,400</b>	24,587
Basic and diluted earnings per share		<b>78.79</b>	3.58

(b) **Cash flows of discontinued Sui-Yue Expressway operation**

		<b>1 January 2023 to 25 April 2023 RMB'000</b>	1 January 2022 to 30 June 2022 RMB'000 (restated)
Net cash generated from operating activities		<b>46,451</b>	62,404
Net cash generated from/(used in) investing activities		<b>642</b>	(15,405)
Net cash used in financing activities		<b>(13,835)</b>	(62,691)
Net cash flow for the period		<b>33,258</b>	(15,692)

(c) **Effect of disposal on the financial position of the Group**

	25 April 2023 <i>RMB'000</i>
Property, plant and equipment	15,079
Intangible asset – service concession arrangement	1,062,711
Deferred tax assets	108,723
Trade and other receivables	10,236
Cash and cash equivalents	87,672
Accruals and other payables	(50,240)
Amounts due to related parties	(1,551)
Bank loans and other borrowing	(877,924)
Current taxation	(1,541)
Non-controlling interests	(141,266)
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Net assets attributable to the Group	211,899
	<hr/> <hr/>
Cash received during the period*	444,560
Net cash and cash equivalents disposed of	(87,672)
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Net cash inflows during the reporting period	356,888
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\* Pursuant to Disposal Agreement, the Consideration of RMB555,700,000 would be settled in three instalments. The first instalment of RMB444,560,000 was received during the interim period and the second and third instalments of RMB72,241,000 and RMB38,899,000 will be settled respectively upon fulfilment (or waiver) of the conditions precedent and are subject to estimated adjustments, details of which are set out in note 6(d).

(d) **Gain on disposal of discontinued Sui-Yue Expressway operation is calculated as follows:**

	<i>RMB'000</i>
Consideration for the Disposal	555,700
Less: Estimated Adjustments*	(23,494)
	<hr/>
Fair value consideration for the Disposal	532,206
Net assets attributable to the Group disposed of	(211,899)
	<hr/>
Gain on disposal	320,307
	<hr/> <hr/>

\* Pursuant to Disposal Agreement, the Consideration for the Disposal are subject to an upwards or downwards adjustments (as the case may be) for the certain incidents (“Estimated Adjustments”). The details of Estimated Adjustments are set as below, the occurrence of which resulted in the adjustments to be made to the Consideration:

RMB'000

Estimated fees for obtaining of the title registration certificate(s) of the land and properties of the Daoyue (i)	(33,361)
Net profit attributable to the Group between reference date and the Completion date (ii)	16,644
Others	<u>(6,777)</u>
Estimated Adjustments	<u><u>(23,494)</u></u>

(i) The amount represents an accrual of RMB33,361,000 recognised in Daoyue for land-transferring fees, valuation fees and other fees for obtaining of the title registration certificates of a piece of occupied land, which was estimated by the relevant government authority.

(ii) The amount represents the net profit of Daoyue attributable to the Group between the reference date of the Disposal and the Completion Date.

## 7 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per shares is based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

#### (i) Profit attributable to ordinary shareholders (basic)

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i> (restated)
From continuing operations	14,846	22,071
From discontinued Sui-Yue Expressway operation	<u>325,092</u>	<u>14,751</u>
Profit attributable to ordinary shareholders	<u><u>339,938</u></u>	<u><u>36,822</u></u>

#### (ii) Weighted-average number of ordinary shares (basic)

	2023	2022
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares in issue during the period	<u><u>412,608</u></u>	<u><u>412,608</u></u>

### (b) Diluted earnings per share

There are no dilutive potential ordinary shares for the six months ended 30 June 2023. The effect of share options of the Group were anti-dilutive for the six months ended 30 June 2022.

## 8 Interests in associates

During the six months ended 30 June 2023, the Group additionally injected RMB31,000,000 to Guizhou Renhuai Huayu Wine Co., Ltd. (“Guizhou Renhuai”). The aggregated paid-in capital injected by the Group amounted to RMB117,600,000 as at 30 June 2023.



## 9 Contingent consideration receivables

	<b>30 June 2023 RMB'000</b>	31 December 2022 RMB'000
Contingent consideration receivables		
– Current	64,030	–
– Non-current	23,768	–
	<u>87,798</u>	<u>–</u>

Pursuant to Disposal Agreement, the Consideration in respect of disposal of Daoyue would be settled in three instalments. The first instalment of RMB444,560,000 was received during the period. The second and third instalments of the Consideration will be received upon fulfilment (or waiver) of the conditions precedent and adjusted in accordance with Estimated Adjustments as set out in note 6 (“Consideration Receivables”). Accordingly, the Group recognised the Consideration Receivables as contingent consideration receivables. The contingent consideration receivables are measured at fair value, which is calculated as Consideration less Estimated Adjustments and discounted at an effective interest rate of 3.95% per annum.

As at 30 June 2023, considering the progress of fulfilment of the conditions to the settlement of the Consideration Receivables, the directors assessed that the second instalment and third instalment of Consideration Receivables will be recovered in one year and two years respectively.

## 10 TRADE AND OTHER RECEIVABLES

	<b>30 June 2023 RMB'000</b>	31 December 2022 RMB'000
Trade receivables	768	1,007
Prepayments	100,599	47,886
Other receivables	4,176	6,585
	<u>105,543</u>	<u>55,478</u>

All trade receivables, based on the invoice date, are aged within three months.

The balance of prepayments mainly represents prepayment to suppliers of liquor and spirits business.

## 11 ACCRUALS AND OTHER PAYABLES

	<b>30 June 2023 RMB'000</b>	31 December 2022 RMB'000
Construction payables	4,539	5,537
Payroll and other staff benefits payable	2,094	7,544
VAT and surcharges	2,721	1,175
Other payables	11,739	10,438
	<u>21,093</u>	<u>24,694</u>

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

## 12 Comparative figures

As set out in note 2(c), the Group has changed the presentation currency of these financial statements from HKD to RMB. The comparative information has been restated retrospectively due to such change.

In addition, as set out in note 6, as a result of the disposal of Daoyue, the comparative amounts in the consolidated statement of profit or loss have been restated as if the operations had been discontinued at the beginning of the comparative period. Certain comparative amounts in segment report as set out in note 3(b) have also been restated accordingly.

The combined effect of the change in presentation currency and the proposed disposal of Daoyue to the consolidated statement of profit or loss for the six months ended 30 June 2022 is set out below:

	Six months ended 30 June 2022			As restated RMB'000
	As previously reported HKD'000	Translated to RMB* RMB'000 (note 2(c))	Reclassification to discontinued Sui-Yue Expressway operation RMB'000 (note 6)	
<b>Continuing operations</b>				
<b>Revenue</b>	380,838	316,311	(85,458)	230,853
Cost of sales	(223,538)	(185,663)	25,879	(159,784)
<b>Gross profit</b>	157,300	130,648	(59,579)	71,069
Other revenue	3,417	2,837	(843)	1,994
Other net loss	(1,630)	(1,354)	(506)	(1,860)
Administrative expenses	(28,336)	(23,535)	5,485	(18,050)
Selling and distribution costs	(12,196)	(10,130)	–	(10,130)
<b>Profit from operations</b>	118,555	98,466	(55,443)	43,023
Finance costs	(28,678)	(23,819)	22,691	(1,128)
Share of profit of associates	5,413	4,496	–	4,496
<b>Profit before taxation</b>	95,290	79,143	(32,752)	46,391
Income tax	(24,231)	(20,125)	8,165	(11,960)
<b>Profit from continuing operations</b>	<u>71,059</u>	<u>59,018</u>	<u>(24,587)</u>	<u>34,431</u>
<b>Discontinued Sui-Yue Expressway operation</b>				
<b>Profit from discontinued Sui-Yue Expressway operation, net of tax</b>	–	–	24,587	24,587
<b>Profit for the period</b>	<u>71,059</u>	<u>59,018</u>	<u>–</u>	<u>59,018</u>

\* The consolidated statement of profit or loss for the six months ended 30 June 2022 is translated at the average exchange rate of RMB1:HKD1.2040.

## **INTERIM DIVIDEND**

The Board resolved not to declare the payment of interim dividend for the Period (six months ended 30 June 2022: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### **Revenue**

With the ease of major restrictions and resumption of the economy in the People's Republic of China (the "PRC") from the beginning of 2023, the most difficult time was over and the business gradually returned to normal. During the Period, the Group recorded a revenue of approximately RMB276.8 million, increased by about 19.9% from approximately RMB230.9 million for the corresponding period of last year. The total toll revenue received from the First Phase of Qing Ping Expressway (the "Qing Ping Expressway") for the Period was about RMB37.8 million, increased by about 16.3% from about RMB32.5 million for the corresponding period of 2022. The total traffic flow of the Qing Ping Expressway was about 11.9 million vehicles, increased by about 20.2% from about 9.9 million vehicles for the corresponding period of 2022.

The revenue generated from the sales of liquor and spirits was approximately RMB239.0 million for the Period, increased by about 20.5% from about RMB198.4 million for the corresponding period of 2022. Steady growth was recorded after the pandemic period as the market continued to digest the inventory cumulated in the distribution channel.

#### **Cost and gross profit**

The Group recorded a gross profit of approximately RMB86.8 million for the Period, increased by about 22.1% from about RMB71.1 million for the corresponding period of last year. The increase in gross profit was in line with the rise in the total revenue of the Group for the Period. The relevant gross profit ratio was about 31.4%, increased by about 0.6% for the corresponding period of last year from about 30.8%.

For the Qing Ping Expressway, the segment gross profit was approximately RMB4.8 million and the gross profit ratio was about 12.7% for the Period. Due to the change of accounting estimates about the unit amortisation charge of the intangible assets, there was a substantial increase in the total amortisation cost during the Period.

For the trading of liquor and spirits, the segment gross profit was about RMB82.0 million and the gross profit ratio was about 34.3% for the Period, representing a slight increase over the corresponding period of last year.

### **Other revenue and other net (loss)/income**

The Group recorded other revenue of approximately RMB1.5 million for the Period, as compared to an amount of approximately RMB2.0 million for the corresponding period of last year. Other revenue of the Group mainly comprised the rental income from the highway billboard advertising business and interest income from bank deposits.

In addition, the other net loss was about RMB1.8 million for the Period, as compared to an amount of approximately RMB1.9 million for the corresponding period of last year. Other net loss mainly reflected the exchange loss recorded during the Period.

### **Administrative expenses**

Administrative expenses for the Period were approximately RMB35.0 million, increased by about 93.4% from approximately RMB18.1 million for the corresponding period of last year. The increase was mainly due to the one-off special bonus to the staff responsible for the disposal of the Sui-Yue Expressway during the Period.

### **Selling and distribution costs**

The Group recorded selling and distribution costs of about RMB9.1 million for the Period, decreased by about 9.9% from approximately RMB10.1 million for the corresponding period of last year. The selling and distribution costs mainly comprised the advertising expenses and staff costs for the liquor and spirits trading business.

### **Finance costs**

During the Period, the finance costs of the Group amounted to about RMB0.9 million, decreased by about 18.2% from approximately RMB1.1 million for the corresponding period of last year. The finance cost represented the interest expense for the short term bank loans of the Group.

### **Profit for the Period**

The profit of the Group for the Period amounted to approximately RMB370.0 million, increased by about 527.1% from approximately RMB59.0 million for the corresponding period of last year. The increase was mainly due to the one-off profit of about RMB320.3 million from the disposal of the Sui-Yue Expressway.

## **Liquidity and financial resources**

During the Period, the Group financed its operating and capital expenditures with its internal resources and short-term bank loans. As at 30 June 2023, the total bank loans drawn by the Group amounted to approximately RMB50.0 million (as at 31 December 2022: approximately RMB50.0 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to approximately RMB424.5 million (as at 31 December 2022: approximately RMB205.7 million).

The Group has always pursued a prudent treasury management policy and maintained its liquidity position with sufficient standby banking facilities to meet its daily operation and any demands for capital in the future development. As at 30 June 2023, the total banking facilities of the Group with the banks in the PRC amounted to approximately RMB50.0 million, which were mainly for the working capital of the trading of liquor and spirits business segment. The ratio of total outstanding bank loans and other borrowings to total equity was 0.05 (as at 31 December 2022: 0.06).

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 the interest rate risk. Any substantial fluctuation of the interest rate may cause negative financial impacts on the Group. The management of the Company (the "Management") will continue to monitor the Group's interest rate risk 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 confer the right of the Group to operate the Qing Ping Expressway 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. No further impairment was recognised for the Period.

## **Employees and emoluments**

As at 30 June 2023, the Group employed a total of 273 (as at 31 December 2022: 457, of which 172 employees were from the discontinued operation of the Sui-Yue Expressway) 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 amounted to approximately RMB30.5 million (six months ended 30 June 2022: approximately RMB19.1 million).

The Group's emolument policies are formulated based on the performance of individual employees and are subject to a periodical review. Apart from the provident fund scheme (pursuant 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 their individual performance.

## **Foreign exchange risk**

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Some of the Group's cash and bank deposits are denominated in Hong Kong dollars. As at 30 June 2023, the Group had not entered into any hedging arrangements to hedge against exposure in the foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause negative 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 2023, the short-term bank loan of RMB50.0 million borrowed by a subsidiary of the Company was guaranteed by the Company and a director of the subsidiary of the Company.

## **BUSINESS REVIEW**

### **QING PING EXPRESSWAY**

Following the end of the COVID-19 pandemic, the toll road business returned to normal in the first half of 2023. During the Period, the total toll revenue of the Qing Ping Expressway was about RMB37.8 million, increased by approximately 16.3% from about RMB32.5 million for the corresponding period of last year. The average traffic flow was about 2.0 million vehicles per month, increased by about 17.6% from about 1.7 million vehicles per month for the corresponding period of last year. Average toll for the Period was about RMB3.2 per vehicle.

### **TRADING OF LIQUOR AND SPIRITS**

Business of the trading of liquor and spirits steadily recovered during the first half of 2023 after the cessation of lock down policy and the ease of restrictions in the social activities. The Group recorded a revenue of trading of liquor and spirits of approximately RMB239.0 million, increased by approximately 20.5% from approximately RMB198.4 million for the corresponding period of last year. During the Period, active marketing campaigns and promotions were organised to strengthen the marketing network and the efficiency of the distribution channel. Segment profit, the adjusted EBITDA, for the Period was about RMB69.9 million.

## **ACQUISITION OF 65% EQUITY INTERESTS IN HUAJIA WINERY (SHENZHEN) CO., LTD. (“HUAJIA”)**

On 29 June 2023, the Group entered into an equity transfer agreement, pursuant to which the Group has conditionally agreed to acquire 65% equity interests in Huajia, which is principally engaged in wine trading and investment in Guizhou Zunpeng Winery Co., Ltd. (“**Guizhou Zunpeng**”), which is owned as to approximately 44.94% by Huajia as at the date of the equity transfer agreement. Guizhou Zunpeng is principally engaged in the production and sales of base wine (基酒), which is a common raw material for production of Chinese liquor, and has commenced the initial stage of production and sales of base wine since 2020. The major customers of Guizhou Zunpeng include the Kweichow Moutai Group, a leading Chinese liquor and spirits producer in the PRC. Upon completion of the acquisition, Huajia will become a 65%-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group. As at 30 June 2023, the acquisition of Huajia has not been completed.

By leveraging on the resources and expertise of the joint venture partners in operation of Guizhou Zunpeng, it is expected that the acquisition of Huajia would enable the Group to benefit from the potential upside of Huajia and Guizhou Zunpeng in the long term. While the Group has been in collaboration with the Kweichow Moutai Group as its sole distributor of Huamaojiu for years, the acquisition would enable the Group to also tap into the manufacturing side of the wine supply chain. The acquisition represents a strategic investment of the Group along the wine supply chain in furtherance of the Group’s liquor and spirits trading business, which is in line with the business expansion strategy of the Group.

## **ACQUISITION OF 21% EQUITY INTERESTS IN GUIZHOU RENHUI HUAYU WINE CO., LTD. (“GUIZHOU RENHUI”)**

On 16 June 2023, the Group acquired additional 21% equity interests in Guizhou Renhui. Upon completion of the acquisition, the Group will hold 51% equity interests in Guizhou Renhui. As a result, Guizhou Renhui will become an indirect 51%-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group. The acquisition of Guizhou Renhui has not been completed as at 30 June 2023.

Guizhou Renhui will commence its business in winemaking and engage in other related business. At present, the major assets of Guizhou Renhui are three pieces of land parcels collectively covering not less than 150,000 square meters and situating in Renhui city of the Guizhou Province in the PRC. It is intended that the land parcels will be developed into a winery and a comprehensive operating center comprising wine storage and packaging, office and carpark. It is expected that the construction of the abovementioned winery and operating center will commence later this year.

## **DISPOSAL OF 60% EQUITY INTERESTS IN HUNAN DAOYUE EXPRESSWAY INDUSTRY CO., LTD. (“DAOYUE”)**

On 1 December 2022, the Group entered into a sales and purchase agreement with NWS (Guangdong) Investment Company Limited, a minority shareholder who owned 40% equity interests in Daoyue. Pursuant to the sale and purchase agreement, the Group agreed to sell 60% equity interests in Daoyue at a consideration of RMB555.7 million. The disposal was completed in April 2023. Upon the completion of the disposal, the Group recorded a one-off net gain on the disposal of approximately RMB320.3 million and the substantial amount of consideration received by the Group improved the cash position of the Group. The disposal provides an opportunity to the Group to unlock the Group’s investment amid the uncertain economic environment and fluctuating COVID-19 pandemic condition in the PRC.

## **CHANGES IN ACCOUNTING ESTIMATE**

In view of that the actual traffic volume of the Qing Ping Expressway in recent years differs greatly from the total projected traffic volume due to the influence of COVID-19 pandemic and the change in the estimate useful life after confirming with the relevant government authority in Guangdong, the Group appointed an independent professional traffic consultant to re-predict the total projected traffic volume of the Qing Ping Expressway in the remaining operation period. The Group has adjusted the unit amortisation amount of the Qing Ping Expressway based on the updated total projected traffic volume. This change in accounting estimate is effective from 1 January 2023, and its impact on the Group’s consolidated financial statements for the Period is resulting in an increase of approximately RMB7.82 million in amortisation of intangible assets, and a decrease of approximately RMB7.82 million in net profit of the Group for the Period, details of which are set out in note 2(b).

## **SPECIAL INTERIM DIVIDEND**

The Group declared a special interim dividend of HK\$0.121 (equivalent to RMB0.106) per share to the shareholders of the Company on 2 March 2023 (and later updated on 22 March 2023 and 20 April 2023 respectively) after considering the business, financial and cashflow position of the Group. The special interim dividend was paid on 18 May 2023.

## **PROSPECTS**

With the gradual recovery of the economy in the PRC in the first half of 2023, the Group is now focusing on the business strategy in the post pandemic period. The revenue and the profit of the Group were gradually returning to normal and recorded a steady growth during the Period.

For the Qing Ping Expressway, with the recovery and growth in the economic activities in Shenzhen, the traffic flow and the toll revenue are expected to grow steadily and the toll revenue is expected to become one of the major sources of steady cash inflow of the Group.



The business of trading liquor and spirits also recovered and is expected to have substantial improvement in the second half of 2023. The Group is full of confidence about the performance of this business segment in the post pandemic period. With the established marketing network and efficient distribution channel, the Group will continue to make effort in the brand building for Huamaojiu and Xijiushaofang. More sales and marketing activities will be arranged in the future, such as the wine tasting events and promotion conference.

With the experience of the Directors in successfully completing various 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 strategies, 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 (the "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 its primary duties include the review and supervision 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. Lam Hon Kuen 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 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](http://www.hkexnews.hk)) and the Company ([www.huayu.com.hk](http://www.huayu.com.hk)), and the 2023 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, 30 August 2023

*As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Chan Yeung Nam, Mr. Fu Jie Pin and Ms. Liu Bao Hua and three independent non-executive Directors, namely, Mr. Chu Kin Wang, Peleus, Mr. Hu Lie Ge and Mr. Lam Hon Kuen.*