

Huayu Expressway Group Limited

華昱高速集團有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1823

INTERIM REPORT

2023

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Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Chan Yeung Nam (*Chairman*)
Fu Jie Pin (*Chief Executive Officer*)
Liu Bao Hua

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chu Kin Wang, Peleus
Hu Lie Ge
Lam Hon Kuen (appointed on 3 April 2023)
Sun Xiao Nian (resigned on 3 April 2023)

BOARD COMMITTEES

AUDIT COMMITTEE

Chu Kin Wang, Peleus (*Chairman*)
Hu Lie Ge
Lam Hon Kuen (appointed on 3 April 2023)
Sun Xiao Nian (resigned on 3 April 2023)

NOMINATION COMMITTEE

Lam Hon Kuen (*Chairman*) (appointed on 3 April 2023)
Sun Xiao Nian (*Chairman*) (resigned on 3 April 2023)
Hu Lie Ge
Fu Jie Pin

REMUNERATION COMMITTEE

Hu Lie Ge (*Chairman*)
Chu Kin Wang, Peleus
Fu Jie Pin

COMPANY SECRETARY

Sin Ka Man *HKICPA, FCCA*

AUTHORISED REPRESENTATIVES

Chan Yeung Nam
Sin Ka Man

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1205, 12/F
Tower 1, Lippo Centre
89 Queensway
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court
Camana Bay
Grand Cayman
KY1-1100
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

AUDITORS

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8/F, Prince's Building
10 Chater Road
Central, Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Stevenson, Wong & Co.
39/F Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

China Merchants Bank
China Construction Bank Corporation

COMPANY WEBSITE

www.huayu.com.hk

STOCK CODE

1823

Management Discussion and Analysis

FINANCIAL REVIEW

REVENUE

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 six months ended 30 June 2023 (the "Period"), Huayu Expressway Group Limited (the "Company") and its subsidiaries (collectively, 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any material contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in this interim financial report, the Group did not make any material acquisitions or disposals of subsidiaries or associates during the Period.

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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).

Management Discussion and Analysis

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 Xijushaofang. 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 of the Company (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.

Corporate Governance and Other Information

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

As at 30 June 2023, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules of Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director	Nature of Interest	Long Position in Ordinary Shares Held	Number of Share Options	Total	Percentage
Mr. Chan Yeung Nam (<i>Note</i>)	Interest of controlled corporation	300,000,000	–	300,000,000	72.71%

Note: Mr. Chan Yeung Nam, an executive Director and chairman of the Board of the Directors (the "Board"), is deemed to be interested in 300,000,000 shares of the Company (the "Shares") held by Velocity International Limited by virtue of it being wholly-owned by him.

On 29 May 2023, Velocity International Limited had pledged 300,000,000 Shares to Integrated Capital (Asia) Limited (which is wholly owned by Mr. Yam Tak Cheung) as security for another term loan facility provided to Velocity International Limited.

Apart from the foregoing, as at 30 June 2023, none of the Directors or chief executive of the Company or any of their spouses or children under 18 years of age had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time during the Period was the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO) a party to any arrangements to enable any Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO).

Corporate Governance and Other Information

SHARE OPTION SCHEME

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

The maximum number of Shares which may be issued upon exercise of all share options (the “Option”) to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at 11 June 2020, i.e. 41,260,800 Shares. No Option may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the Options granted and to be granted to the grantee in any 12-month period exceeds 1% of the Shares in issue from time to time.

The Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before 30 days after the offer date. The exercise price of the Option is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange’s daily quotations sheet on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange’s daily quotation sheet for the five business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from 11 June 2020, after which no further Option will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

Since the Share Option Scheme was effective on 11 June 2020, 40,000,000 Options were granted and subsequently lapsed. No Options have been exercised and no new Shares have been issued under the Share Option Scheme.

The total number of Shares available for issue under the Share Option Scheme is 41,260,800, representing approximately 10.0% of the Company’s issued share capital as at the date of the Company’s 2022 annual report and as at the date of this interim financial report, respectively.

Apart from the forgoing, at no time during the Period was the Company, or any of its holding companies or subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Corporate Governance and Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2023, so far as is known to any Directors or chief executive of the Company, the persons (other than the Directors and the chief executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were directly or indirectly, interested in 10% of more of the nominal value of any shares of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Name of Shareholders	Capacity/Nature of Interest	Long Position in Ordinary Shares Held	Percentage of Total Issued Shares
Velocity International Limited (Note)	Beneficial owner	300,000,000	72.71%
Integrated Capital (Asia) Limited (Note)	Person having security interest in shares	300,000,000	72.71%
Yam Tak Cheung (Note)	Interest of Controlled Corporation	300,000,000	72.71%

Note: The entire issued share capital of Velocity International Limited is owned by Mr. Chan Yeung Nam, an executive Director and chairman of the Board. On 29 May 2023, Velocity International Limited had pledged 300,000,000 Shares to Integrated Capital (Asia) Limited (which is wholly-owned by Yam Tak Cheung) as security for a term loan facility provided to Velocity International Limited.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the 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 Listing Rules. The Company has complied with the code provisions contained in the CG Code throughout the Period.

Corporate Governance and Other Information

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) which is accountable to the Board and 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.

REVIEW OF THE INTERIM REPORT

This interim financial report for the Period has not been audited, but has been reviewed by the Audit Committee and KPMG, Certified Public Accountants, the external auditors of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code adopted by the Company throughout the Period.

PUBLICATION AND DESPATCH OF INTERIM REPORT

This 2023 interim report of the Company is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.huayu.com.hk) respectively.

EVENTS AFTER THE REPORTING PERIOD

No significant events occurred subsequent to 30 June 2023 up to the date of this interim financial report.

On behalf of the Board of
Huayu Expressway Group Limited

Chan Yeung Nam
Chairman

Hong Kong, 30 August 2023

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 21)
Continuing operations			
Revenue	3	276,808	230,853
Cost of sales		(190,019)	(159,784)
Gross profit		86,789	71,069
Other revenue	4	1,536	1,994
Other net loss	4	(1,804)	(1,860)
Administrative expenses		(34,997)	(18,050)
Selling and distribution costs		(9,082)	(10,130)
Profit from operations		42,442	43,023
Finance costs	5(a)	(872)	(1,128)
Share of profit of associates		3,198	4,496
Profit before taxation	5	44,768	46,391
Income tax	6	(17,125)	(11,960)
Profit from continuing operations		27,643	34,431
Discontinued Sui-Yue Expressway operation			
Profit from discontinued Sui-Yue Expressway operation, net of tax	7	342,400	24,587
Profit for the period		370,043	59,018

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 21)
Profit attributable to:			
Equity shareholders of the Company			
– continuing operations		14,846	22,071
– discontinued Sui-Yue Expressway operation		325,092	14,751
		339,938	36,822
Non-controlling interests			
– continuing operations		12,797	12,360
– discontinued Sui-Yue Expressway operation		17,308	9,836
		30,105	22,196
Profit for the period		370,043	59,018
Basic and diluted earnings per share (RMB cents)			
	8		
– continuing operations		3.60	5.35
– discontinued Sui-Yue Expressway operation		78.79	3.58
		82.39	8.93

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 21)
Profit for the period	370,043	59,018
Other comprehensive income for the period:		
<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	1,659	(1,628)
Total comprehensive income for the period	371,702	57,390
Attributable to:		
Equity shareholders of the Company		
– continuing operations	16,505	20,443
– discontinued Sui-Yue Expressway operation	325,092	14,751
	341,597	35,194
Non-controlling interests		
– continuing operations	12,797	12,360
– discontinued Sui-Yue Expressway operation	17,308	9,836
	30,105	22,196
Total comprehensive income for the period	371,702	57,390

The notes on pages 21 to 42 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2023 – unaudited
(Expressed in Renminbi)

	Note	30 June 2023 RMB'000	31 December 2022 RMB'000
Non-current assets			
Property, plant and equipment	9	5,830	7,094
Intangible assets – service concession arrangements	10	97,370	115,091
Interests in associates	11	158,847	125,883
Deferred tax assets		4	1,382
Contingent consideration receivables	13	23,768	–
		285,819	249,450
Current assets			
Inventories		150,439	159,933
Other current assets		20,677	12,261
Trade and other receivables	12	105,543	55,478
Amounts due from related parties	19(b)	26,435	21,214
Cash and cash equivalents	14	424,512	205,659
Contingent consideration receivables	13	64,030	–
Assets of the disposal group held for sale		–	1,251,957
		791,636	1,706,502
Current liabilities			
Accruals and other payables	15	21,093	24,694
Amounts due to related parties	19(b)	4,021	4,086
Contract liabilities		41,632	37,936
Bank loan	16	50,000	50,000
Lease liabilities		884	1,387
Current taxation		17,826	1,983
Amount due to the controlling shareholder of the Company	19(b)	–	91,091
Liabilities directly associated with the disposal group held for sale		–	941,482
		135,456	1,152,659
Net current assets		656,180	553,843
Total assets less current liabilities		941,999	803,293

Consolidated Statement of Financial Position

At 30 June 2023 – unaudited
(Expressed in Renminbi)

	Note	30 June 2023 RMB'000	31 December 2022 RMB'000
Non-current liability			
Lease liability		–	263
		–	263
NET ASSETS			
CAPITAL AND RESERVES			
	17		
Share capital		3,634	3,634
Reserves		812,364	514,534
Total equity attributable to equity shareholders of the Company		815,998	518,168
Non-controlling interests		126,001	284,862
TOTAL EQUITY		941,999	803,030

Approved and authorised for issue by the Board of Directors on 30 August 2023.

Chan Yeung Nam
Chairman

Fu Jie Pin
Director

The notes on pages 21 to 42 form part of this interim financial report.

Consolidated Statement of Changes in Equity

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

	Attributable to equity shareholders of the Company								Non-controlling interests	Total
	Share capital	Share premium	Statutory reserve	Other reserve	Share-based compensation reserve	Exchange reserve	Accumulated losses	Total		
	Note 17(a) RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at 1 January 2022	3,634	51,487	23,100	680,422	32,857	(17,024)	(302,889)	471,587	246,489	718,076
Changes in equity for the six months ended 30 June 2022:										
Profit for the period	-	-	-	-	-	-	36,822	36,822	22,196	59,018
Other comprehensive income	-	-	-	-	-	(1,628)	-	(1,628)	-	(1,628)
Total comprehensive income	-	-	-	-	-	(1,628)	36,822	35,194	22,196	57,390
Equity settled share-based transactions	-	-	-	-	495	-	-	495	146	641
Appropriation to statutory reserve	-	-	2,783	-	-	-	(2,783)	-	-	-
Capital injection from non-controlling shareholders	-	-	-	-	-	-	-	-	188	188
Balance at 30 June 2022 and 1 July 2022 (restated)	3,634	51,487	25,883	680,422	33,352	(18,652)	(268,850)	507,276	269,019	776,295
Changes in equity for the six months ended 31 December 2022:										
Profit for the period	-	-	-	-	-	-	12,206	12,206	15,690	27,896
Other comprehensive income	-	-	-	-	-	(1,816)	-	(1,816)	-	(1,816)
Total comprehensive income	-	-	-	-	-	(1,816)	12,206	10,390	15,690	26,080
Equity settled share-based transactions	-	-	-	-	502	-	-	502	153	655
Appropriation to statutory reserve	-	-	1,789	-	-	-	(1,789)	-	-	-
Release of expired option to accumulated losses	-	-	-	-	(28,769)	-	28,769	-	-	-
Balance at 31 December 2022	3,634	51,487	27,672	680,422	5,085	(20,468)	(229,664)	518,168	284,862	803,030

Consolidated Statement of Changes in Equity

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

	Attributable to equity shareholders of the Company							Total	Non-controlling interests	Total
	Share capital	Share premium	Statutory reserve	Other reserve	Share-based compensation reserve	Exchange reserve	Accumulated (losses)/ profits			
	Note 17(a) RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
Balance at 1 January 2023	3,634	51,487	27,672	680,422	5,085	(20,468)	(229,664)	518,168	284,862	803,030
Changes in equity for the six months ended 30 June 2023:										
Profit for the period	-	-	-	-	-	-	339,938	339,938	30,105	370,043
Other comprehensive income	-	-	-	-	-	1,659	-	1,659	-	1,659
Total comprehensive income	-	-	-	-	-	1,659	339,938	341,597	30,105	371,702
Appropriation to statutory reserve	-	-	20,112	-	-	-	(20,112)	-	-	-
Special interim dividends declared (note 17(b))	-	-	-	-	-	-	(43,767)	(43,767)	-	(43,767)
Dividends declared to non-controlling interests	-	-	-	-	-	-	-	-	(47,700)	(47,700)
Disposal of interests in a subsidiary (note 7(c))	-	-	-	-	-	-	-	-	(141,266)	(141,266)
Balance at 30 June 2023	3,634	51,487	47,784	680,422	5,085	(18,809)	46,395	815,998	126,001	941,999

The notes on pages 21 to 42 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

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 21)
Operating activities			
Cash generated from operations		77,413	111,541
PRC corporate income tax paid		(28,183)	(20,344)
Net cash generated from operating activities		49,230	91,197
Investing activities			
Payment for the purchase of property, plant and equipment		(413)	(5,716)
Payment for intangible assets		(2,434)	(15,960)
Payment for investment in associates		(34,800)	(61,600)
Interest received		1,743	1,864
Payment to a related party		(5,200)	(4,000)
Payment for other investments		(7,800)	(6,000)
Proceeds from disposal of subsidiaries, net of cash disposed of	7	356,888	–
Dividends received from associates		5,034	–
Proceeds from disposal of property, plant and equipment		38	–
Other cash flows arising from investing activities		–	(800)
Net cash generated from/(used in) investing activities		313,056	(92,212)
Financing activities			
Capital element of lease rentals paid		(772)	(783)
Interest element of lease rentals paid		(32)	(66)
Proceeds of bank loan		50,000	50,000
Repayment of bank loan		(50,000)	(70,000)
Capital injection from non-controlling interests		–	188
Borrowing costs paid		(14,674)	(23,751)
Net proceeds from disposal of partial interests in subsidiaries		–	11,714
Repayment to controlling shareholder of the Company		(91,091)	–
Dividends to non-controlling shareholders		(47,700)	–
Dividends paid to equity shareholders of the Company		(43,767)	–
Net cash used in financing activities		(198,036)	(32,698)
Net increase/(decrease) in cash and cash equivalents		164,250	(33,713)
Cash and cash equivalents as stated in the statement of financial position at 1 January	14	205,659	271,911
Cash and cash equivalents of the disposal group held for sale at 1 January		54,415	–
Effect of foreign exchange rate changes		188	142
Cash and cash equivalents at 30 June	14	424,512	238,340

The notes on pages 21 to 42 form part of this interim financial report.

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. KPMG's independent review report to the Board of Directors is included on pages 43 to 44.

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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES AND ESTIMATE

(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

	RMB'000
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	(3,126)

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES AND ESTIMATE (CONTINUED)

(B) CHANGES IN ACCOUNTING ESTIMATE (CONTINUED)

Items in the consolidated statement of profit and loss

	RMB'000
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	(3,126)

(C) CHANGE IN PRESENTATION CURRENCY

As set out in the 2022 annual financial statements, 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 7 to the comparative figures of the consolidated statement of profit or loss is set out in note 20 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

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

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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(B) SEGMENT RESULTS, ASSETS AND LIABILITIES (CONTINUED)

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.

	Six months ended 30 June 2023				
	Continuing operations			Discontinued operation	
	Qing Ping Expressway RMB'000	Liquor and spirits RMB'000	Subtotal RMB'000	Sui-Yue Expressway RMB'000	Total RMB'000
Reportable segment revenue	37,793	239,015	276,808	69,669	346,477
Reportable segment profit (adjusted EBITDA)	19,114	69,932	89,046	386,169	475,215
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)
As at 30 June 2023					
Reportable segment assets	144,128	723,448	867,576	–	867,576
Reportable segment liabilities	7,679	107,185	114,864	–	114,864

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(B) SEGMENT RESULTS, ASSETS AND LIABILITIES (CONTINUED)

	Six months ended 30 June 2022 (restated)				
	Continuing operations			Discontinued operation	Total
	Qing Ping Expressway RMB'000	Liquor and spirits RMB'000	Subtotal RMB'000	Sui-Yue Expressway RMB'000	
Reportable segment revenue	32,463	198,390	230,853	85,458	316,311
Reportable segment profit (adjusted EBITDA)	11,741	51,796	63,537	72,622	136,159
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)
As at 31 December 2022					
Reportable segment assets	181,041	501,075	682,116	1,139,782	1,821,898
Reportable segment liabilities	11,425	127,532	138,957	938,867	1,077,824

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(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)	475,215	136,159
Less: segment profit from discontinued Sui-Yue Expressway operation	(386,169)	(72,622)
Reportable segment profit from continuing operations	89,046	63,537
Other revenue	502	461
Other net loss	(2,277)	(2,109)
Depreciation and amortisation	(18,897)	(9,894)
Finance costs	(860)	(1,102)
Unallocated head office and corporate expenses	(22,746)	(4,502)
Consolidated profit before taxation	44,768	46,391

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

4 OTHER REVENUE AND NET (LOSS)/GAIN

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000 (restated)
Other revenue		
<i>Continuing operations:</i>		
Interest income from bank deposits	1,118	1,295
Others	418	699
	1,536	1,994
<i>Discontinued Sui-Yue Expressway operation:</i>		
Interest income from bank deposits	625	568
Others	98	275
	723	843
Other net (loss)/gain		
<i>Continuing operations:</i>		
Net foreign exchange loss	(2,430)	(2,109)
Gain on the changes in fair value of contingent consideration receivables	152	–
Others	474	249
	(1,804)	(1,860)
<i>Discontinued Sui-Yue Expressway operation:</i>		
Net foreign exchange gain/(loss)	66	(65)
Reversal of compensation for litigation	5,834	–
Others	257	571
	6,157	506

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION

PROFIT BEFORE TAXATION IS ARRIVED AT AFTER CHARGING:

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

6 INCOME TAX

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000 (restated)
Continuing operations:		
Current tax – PRC Corporate Income Tax	15,747	10,879
Deferred tax – Origination and reversal of temporary differences	1,378	1,081
	17,125	11,960
Discontinued Sui-Yue Expressway operation:		
Current tax – PRC Corporate Income Tax	6,028	5,434
Deferred tax – Origination and reversal of temporary differences	3,452	2,731
Income tax on gain on sale of discontinued Sui-Yue Expressway operation	21,177	–
	30,657	8,165

- (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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

7 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 Hunan Daoyue Expressway Industry Co., Ltd. (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 have been restated to re-present the Sui-Yue Expressway operation as a discontinued operation.

(A) RESULTS OF DISCONTINUED SUI-YUE EXPRESSWAY OPERATION

	Note	1 January 2023 to 25 April 2023 RMB'000	1 January 2022 to 30 June 2022 RMB'000 (restated)
Revenue	3	69,669	85,458
Cost of sales		(6,228)	(25,879)
Gross profit		63,441	59,579
Other revenue	4	723	843
Other net income	4	6,157	506
Administrative expenses		(3,736)	(5,485)
Profit from operation		66,585	55,443
Finance costs	5(a)	(13,835)	(22,691)
Profit before taxation	5	52,750	32,752
Income tax	6	(9,480)	(8,165)
Profit for the period		43,270	24,587
Gain on disposal of discontinued Sui-Yue Expressway operation	7(d)	320,307	–
Income tax on gain on sale of discontinued Sui-Yue Expressway operation	6	(21,177)	–
Profit from discontinued Sui-Yue Expressway operation for the period		342,400	24,587
Basic and diluted earnings per share		78.79	3.58

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

7 DISCONTINUED SUI-YUE EXPRESSWAY OPERATION (CONTINUED)

(B) CASH FLOWS OF DISCONTINUED SUI-YUE EXPRESSWAY OPERATION

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

(C) EFFECT OF DISPOSAL ON THE FINANCIAL POSITION OF THE GROUP

	25 April 2023 RMB'000
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)
Net assets attributable to the Group	211,899
Cash received during the period*	444,560
Net cash and cash equivalents disposed of	(87,672)
Net cash inflows during the reporting period	356,888

* 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 7(d).

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

7 DISCONTINUED SUI-YUE EXPRESSWAY OPERATION (CONTINUED)

(D) GAIN ON DISPOSAL OF DISCONTINUED SUI-YUE EXPRESSWAY OPERATION IS CALCULATED AS FOLLOWS:

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

* 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	(6,777)
Estimated Adjustments	(23,494)

- (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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

8 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 in issue during the period.

(i) Profit attributable to ordinary shareholders (basic)

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

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

	2023	2022
	'000	'000
Weighted average number of ordinary shares in issue during the period	412,608	412,608

(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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

9 PROPERTY, PLANT AND EQUIPMENT

(A) RIGHT-OF-USE ASSETS

During the six months ended 30 June 2023, there was no addition to right-of-use assets (six months ended 30 June 2022: RMB535,000).

(B) ACQUISITIONS AND DISPOSAL OF OWNED ASSETS

During the six months ended 30 June 2023, the Group acquired items of equipment with a total cost of RMB269,000 (six months ended 30 June 2022: RMB220,000). No item was disposed of during the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

10 INTANGIBLE ASSETS – SERVICE CONCESSION ARRANGEMENTS

The service concession arrangement represents the Group's right to operate the First Phase of Qing-Ping Expressway (S209) (the "Qing-Ping Expressway") and receive fees therefrom.

The amortisation of intangible asset – service concession arrangements is recognised in profit or loss on a unit of usage basis over the estimated useful life, which is the period when it is available for use to the end of the concession period.

The recoverable amount of the cash generating unit of the Qing-Ping Expressway was determined by value in use, based on the expected free cash flows up to the end of the service concession arrangements period, and a pre-tax discount rate. The discount rate is a pre-tax measure estimated using the Capital Asset Pricing Model based on the industry average ratios and the CGU's specific risks.

11 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

12 TRADE AND OTHER RECEIVABLES

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

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.

13 CONTINGENT CONSIDERATION RECEIVABLES

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

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 7 (“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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

14 CASH AND CASH EQUIVALENTS

	30 June 2023 RMB'000	31 December 2022 RMB'000
Cash at bank and on hand	424,512	205,659

15 ACCRUALS AND OTHER PAYABLES

	30 June 2023 RMB'000	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
	21,093	24,694

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

16 BANK LOAN

	30 June 2023 RMB'000	31 December 2022 RMB'000
Short-term bank loan	50,000	50,000

The bank loan was repayable as follows:

	30 June 2023 RMB'000	31 December 2022 RMB'000
Within 1 year or on demand	50,000	50,000

As at 30 June 2023, the short-term bank loan of RMB50,000,000 borrowed by a subsidiary of the Group was guaranteed by the Company and a director of the subsidiary.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

17 CAPITAL, RESERVES AND DIVIDENDS

(A) SHARE CAPITAL

	Number of shares	Amount \$'000
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
As at 30 June 2023 and 31 December 2022	10,000,000,000	100,000

	Number of shares	Amount \$'000	Amount RMB'000 (equivalent)
Ordinary shares of HK\$0.01 each			
<i>Ordinary shares, issued and fully paid:</i>			
As at 30 June 2023 and 31 December 2022	412,608,000	4,126	3,634

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company's residual assets.

(B) DIVIDENDS

Dividends payable to equity shareholders approved and paid during the interim period:

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Special Interim dividend declared of HKD0.121 (equivalent to RMB0.106) per share	43,767	–

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

18 COMMITMENTS

Commitments outstanding at 30 June 2023 not provided for in the interim financial report:

	30 June 2023 RMB'000	31 December 2022 RMB'000
Investment in Guizhou Renhuai	137,400	63,400

19 MATERIAL RELATED PARTY TRANSACTIONS

(A) PARTICULARS OF SIGNIFICANT TRANSACTIONS BETWEEN THE GROUP AND RELATED PARTIES DURING THE PERIOD ARE AS FOLLOWS:

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000 (restated)
Sales to associates	61,331	58,640
Expense paid on behalf by		
– Companies controlled by ultimate controlling shareholder	1,058	790
– Non-controlling interest	–	150
Rendering of services to a company controlled by non-controlling interest	393	417
Receiving services from companies controlled by the ultimate controlling shareholder	528	641

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

19 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(B) BALANCES WITH RELATED PARTIES

As at 30 June 2023 and 31 December 2022, the Group had the following balances with related parties:

	30 June 2023 RMB'000	31 December 2022 RMB'000
Amounts due from related parties		
Non-trade nature		
– A company controlled by ultimate controlling shareholder	2,370	2,370
– Non-controlling interests	24,065	18,844
	26,435	21,214
Amounts due to related parties		
Non-trade nature		
– Companies controlled by ultimate controlling shareholder	80	194
– A company controlled by a non-controlling interest	141	92
Trade nature		
– Associates	3,800	3,800
	4,021	4,086
Contract liabilities		
– Associates	26,903	21,473
Amount due to the controlling shareholder of the Company*		
Non-trade nature	–	91,091

All the balances with related parties are unsecured and interest-free.

* During the six months ended 30 June 2023, the Group repaid all the amount due to the controlling shareholder of the Company upon the completion of the disposal of Daoyue.

20 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 7, 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

20 COMPARATIVE FIGURES (CONTINUED)

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 previously reported HKD'000	Translated to RMB* RMB'000 (note 2(c))	Reclassification to discontinued Sui-Yue Expressway operation RMB'000 (note 7)	As restated RMB'000
Continuing operations				
Revenue	380,838	316,311	(85,458)	230,853
Cost of sales	(223,538)	(185,663)	25,879	(159,784)
Gross profit	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)
Profit from operations	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
Profit before taxation	95,290	79,143	(32,752)	46,391
Income tax	(24,231)	(20,125)	8,165	(11,960)
Profit from continuing operations	71,059	59,018	(24,587)	34,431
Discontinued Sui-Yue Expressway operation				
Profit from discontinued Sui-Yue Expressway operation, net of tax	–	–	24,587	24,587
Profit for the period	71,059	59,018	–	59,018

* 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.

21 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

During the six months ended 30 June 2023, the Group entered into an agreement with certain shareholders of Guizhou Renhuai to acquire additional 21% equity interests in Guizhou Renhuai. The acquisition has not been completed as at 30 June 2023. Upon the completion of the acquisition, Guizhou Renhuai will become a subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group.

Review Report of Interim Financial Report



Review report to the board of directors of Huayu Expressway Group Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 13 to 42 which comprises the consolidated statement of financial position of Huayu Expressway Group Limited (“the Company”) and its subsidiaries (together “the Group”) as of 30 June 2023 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Review Report of Interim Financial Report

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2023 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

30 August 2023