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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)

**(1) VERY SUBSTANTIAL DISPOSAL
(2) CONNECTED TRANSACTION
AND
(3) RESUMPTION OF TRADING**

Financial Adviser to the Company



Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders



THE AGREEMENT

The Board is pleased to announce that on 18 October 2018 (after trading hours), the Purchaser, the Vendor 1 (a subsidiary of the Group, and being a vendor and a warrantor), the Vendor 2 (a company wholly-owned by Mr. Chan, and being a vendor and a warrantor), the Company (being a guarantor), Mr. Chan (being a guarantor) and the Target Company (being a warrantor) entered into the Agreement.

Pursuant to the Agreement, the parties have agreed, among other things, that:

- 1) the Purchaser has conditionally agreed to acquire, and the Vendor 1 and the Vendor 2 have conditionally agreed to sell, 30% and 10% equity interest in the Target Company respectively free from all encumbrances;
- 2) after the Purchaser becomes a shareholder of the Target Company, the Vendor 1 and the Purchaser shall provide the Target Company with the Financial Support in proportion to their respective equity interest in the Target Company for the Target Company to repay (a) the Shareholder's Loans and (b) the Outstanding Construction Payables;
- 3) the Joint Venture Agreement and the Articles shall be entered into between the Vendor 1 and the Purchaser to regulate their respective shareholders' rights in the Target Company;

- 4) a first right of refusal and a tag along right shall be granted to the Purchaser with respect to any future sale of the direct or indirect interest in Top Talent and the Vendor 1 by the Company (as described in more details in the sub-section headed “Post-completion undertakings” in this announcement); and
- 5) Mr. Chan undertakes in favour of the Purchaser that he shall remain as the de facto controller of the Company and maintain his interests, either direct or indirect, in the Company at a shareholding percentage of exceeding 50% during the Lock-up Period.

The Total Consideration is RMB469.93 million which shall be payable to the Vendor 1 and the Vendor 2 by reference to the equity interest in the Target Company to be disposed of by them respectively, being the Consideration 1 of approximately RMB352.45 million (subject to Adjustment) and the Consideration 2 of approximately RMB117.48 million (subject to Adjustment) respectively.

Completion will be conditional upon the fulfilment (or waiver as the case may be) of all the conditions precedent under the Agreement.

Upon Completion, the Group will hold 60% equity interest in the Target Company and the Target Company will remain as the subsidiary of the Group. Financial results of the Target Company will be continued to be consolidated into the financial accounts of the Group after Completion.

LISTING RULES IMPLICATION

As at the date of this announcement, the Company is beneficially owned as to approximately 72.71% by Mr. Chan. The Vendor 2 is wholly-owned by Mr. Chan, an executive Director and a controlling Shareholder. Therefore, the Vendor 2 is an associate of Mr. Chan and a connected person of the Company.

As the relevant percentage ratio applicable to the Company in respect of the Disposal 1 exceeds 75%, the Disposal 1 constitutes a very substantial disposal to the Company under the Listing Rules. Since the Vendor 2 is a connected person of the Company, the Disposal 1 also constitutes a connected transaction for the Company under the Listing Rules. The Disposal 1 is therefore subject to the reporting, announcement, circular and the Independent Shareholders’ approval requirements under the Listing Rules. The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Disposal 1, the Agreement and the transactions contemplated thereunder.

DESPATCH OF CIRCULAR

A circular containing, among other things, (i) information on the Disposal 1, the Agreement and the transactions contemplated thereunder; (ii) the financial information of the Group; (iii) the unaudited pro forma financial information of the Group; (iv) the recommendation of the independent board committee; (v) the advice of the independent financial adviser regarding the Disposal 1, the terms of the Agreement and the transactions contemplated thereunder; (vi) the notice of the EGM; and (vii) other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 23 November 2018.

GENERAL

Completion is subject to the satisfaction and/or waiver of the conditions precedent in the Agreement and therefore, may or may not take place. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

The payment of the dividend is subject to, among other things, Completion having taken place, and approval of the Board and/or Shareholders having been obtained. Accordingly, the payment of the dividend may or may not materialize.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares has been halted from 9:00 a.m. on 19 October 2018 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading of the Shares from 9:00 a.m. on 25 October 2018.

INTRODUCTION

The Board is pleased to announce that on 18 October 2018 (after trading hours), the Purchaser, the Vendor 1 (a subsidiary of the Group, and being a vendor and a warrantor), the Vendor 2 (a company wholly-owned by Mr. Chan, and being a vendor and a warrantor), the Company (being a guarantor), Mr. Chan (being a guarantor) and the Target Company (being a warrantor) entered into the Agreement.

Pursuant to the Agreement, the parties have agreed, among other things, that:

- 1) the Purchaser has conditionally agreed to acquire, and the Vendor 1 and the Vendor 2 have conditionally agreed to sell, 30% and 10% equity interest in the Target Company respectively free from all encumbrances;
- 2) after the Purchaser becomes a shareholder of the Target Company, the Vendor 1 and the Purchaser shall provide the Target Company with the Financial Support in proportion to their respective equity interest in the Target Company for the Target Company to repay (a) the Shareholder's Loans and (b) the Outstanding Construction Payables;
- 3) the Joint Venture Agreement and the Articles shall be entered into between the Vendor 1 and the Purchaser to regulate their respective shareholders' rights in the Target Company;
- 4) a first right of refusal and a tag along right shall be granted to the Purchaser with respect to any future sale of the direct or indirect equity interest in Top Talent or the Vendor 1 by the Company (as described in more details in the sub-section headed "Post-completion undertakings" in this announcement); and
- 5) Mr. Chan undertakes in favour of the Purchaser that he shall remain as the de facto controller of the Company and maintain his interests, either direct or indirect, in the Company at a shareholding percentage of exceeding 50% during the Lock-up Period.

The Total Consideration is RMB469.93 million which shall be payable to the Vendor 1 and the Vendor 2 by reference to the equity interest in the Target Company to be disposed of by them respectively, being the Consideration 1 of approximately RMB352.45 million (subject to Adjustment) and the Consideration 2 of approximately RMB117.48 million (subject to Adjustment) respectively.

Completion will be conditional upon the fulfilment (or waiver as the case may be) of all the conditions precedent under the Agreement.

Upon Completion, the Group will hold 60% equity interest in the Target Company and the Target Company will remain as the subsidiary of the Group. Financial results of the Target Company will be continued to be consolidated into the financial accounts of the Group after Completion.

Details of the Agreement are set out as below.

THE AGREEMENT

Date

18 October 2018 (after trading hours)

Parties

Vendors: the Vendor 1 and the Vendor 2.

Purchaser: 廣東新川有限公司 (Guangdong Xin Chuan Co., Ltd.), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of NWS.

To the best of the Directors' knowledge, information and belief and after having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Warrantors: the Vendors and the Target Company.

Guarantors: the Company (as guarantor guaranteeing the performance by the Vendor 1 of all its obligations and liabilities under, arising out of or in connection with the Agreement) and Mr. Chan (as guarantor guaranteeing the performance by the Vendor 1 and the Vendor 2 of all their respective obligations and liabilities under, arising out of or in connection with the Agreement).

Assets to be disposed of by the Vendor 1 (the Disposal 1)

30% equity interest in the Target Company free from all encumbrances.

Assets to be disposed of by the Vendor 2 (the Disposal 2)

10% equity interest in the Target Company free from all encumbrances.

Consideration

Pursuant to the Agreement, the Total Consideration is RMB469.93 million (subject to Adjustment) which shall be payable to the Vendor 1 and the Vendor 2 by reference to the equity interest in the Target Company to be disposed of by them respectively (being the Consideration 1 of approximately RMB352.45 million (subject to Adjustment) and the Consideration 2 of approximately RMB117.48 million (subject to Adjustment) respectively). The Total Consideration is payable by the Purchaser in cash and in RMB to the Vendors within seven business days after the fulfillment of the conditions under the sub-section headed “Payment” in this announcement.

The Total Consideration was determined after arm’s length negotiations between the Vendors and the Purchaser with reference to, among other things, the performance and prospects of the Target Company. The Total Consideration for the 40% equity interest of the Target Company values the entire equity interest of the Target Company at approximately RMB1,174.8 million (equivalent to approximately HK\$1,326.3 million). The value of the entire Target Company therefore represents a historical price earning multiple of approximately 47.2 times of the Target Company’s unaudited profit of approximately HK\$28.1 million for the year ended 31 December 2017. The historical price earning multiples of peer companies listed on the Main Board of the Stock Exchange and principally engaged in the toll road business in the PRC by reference to their respective latest annual revenue (namely, Anhui Expressway Company Limited (stock code: 995), Hopewell Highway Infrastructure Limited (stock code: 737), Jiangsu Expressway Company Limited (stock code: 177), Qilu Expressway Company Limited (stock code: 1576), Shenzhen Expressway Company Limited (stock code: 548), Shenzhen International Holdings Limited (stock code: 152), Yuexiu Transport Infrastructure Limited (stock code: 1052), Zhejiang Expressway Co. Ltd. (stock code: 576)) do not exceed 17 times as at the date of this announcement (source: Bloomberg), and are lower than the implied price earning multiple of the disposal of approximately 47.2 times. On this basis, the Board considers the Consideration 1, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Deduction and Adjustment

If the Target Company and/or the Purchaser (as the case may be) suffer losses due to any of the following Incidents (as defined below), and

- (i) the amount of loss suffered by the Target Company and/or the Purchaser (as the case may be) in respect of each individual Incident (as defined below) exceeds RMB50,000; and
- (ii) the accumulative amount of loss suffered by the Target Company and/or the Purchaser (as the case may be) in respect of all Incidents (as defined below) exceeds RMB1,000,000,

then the Purchaser may make deduction (the “**Deduction**”) of such amount of loss suffered from the Total Consideration in respect of any of the incidents (the “**Incidents**”) below:

- 1) breach of warranties or material breach of other terms of the Agreement by the Warrantors (collectively, the “**Breaches**”);
- 2) non-disclosure of any actual or potential liabilities of the Target Company occurring prior to the Completion Date;

- 3) failure on the part of the Target Company to obtain any requisite operational permits prior to the Completion Date; or
- 4) non-disclosure of any existing litigation, arbitration or administrative penalties, or any potential litigation, arbitration or administrative penalties arising as a result of matters occurring prior to the Completion Date in relation to the Target Company and the Target Expressway.

The Purchaser may proceed to Completion irrespective of any Breaches. If the Purchaser elects to proceed to Completion irrespective of any Breaches, provided that the amount of such losses suffered by the Purchaser equal to or exceeds RMB400,000, the Purchaser shall be entitled to make a Deduction from the Total Consideration in the amount of losses suffered by the Purchaser as a result of the occurrence of any Breaches.

If the difference (the “**Difference**”) between the audited net asset value of the Target Company (excluding accumulated depreciation of fixed assets) as at the Completion Date as prepared by the PRC auditors mutually agreed and engaged by the Vendors and the Purchaser in accordance with the PRC generally accepted accounting principles and such value as at the Reference Date is more than RMB1 million as a result of the ordinary course of business of the Target Company (and not because of other acts of the Vendors as stipulated in the Agreement), the Total Consideration shall be subject to upwards or downwards Adjustment (as the case may be) in the amount of the Difference.

Payment

Payment of the Total Consideration in RMB shall be made within seven business days after the fulfilment (or waiver in writing) of the conditions summarised below:

- 1) Conditions remaining to be satisfied;
- 2) due registration and filing of the Purchaser as the owner of the 40% equity interest in the Target Company with 工商局 (Industry and Commerce Administration Bureau) and 湖南省商務廳 (Department of Commerce of Hunan Province);
- 3) the Vendors and the Purchaser having agreed on the amounts of the Adjustment and/or the Deduction (if applicable);
- 4) the Target Company having completed the relevant foreign exchange amendment registration procedures and obtained 業務登記憑證 (Business Registration Certificate) issued by the relevant foreign exchange clearing bank;
- 5) in relation to the payment of the Consideration 1: (i) the Purchaser and the Vendor 1 having completed the relevant PRC foreign payment tax recordation; (ii) on behalf of the Vendor 1, the Purchaser having withheld and paid the relevant PRC profits tax and stamp duty payable by the Vendor 1 and obtained the sealed 服務貿易等專案對外支付稅務備案表 (Taxation Recordation Form for Foreign Payments under Trade in Services and Other Items) from the competent tax authority; and
- 6) the Vendors having issued the payment notice to the Purchaser.

Completion and Conditions

Completion of the Agreement is conditional, among other things, upon the fulfilment (or waiver in writing where applicable) of the Conditions summarised below and the provision of the relevant document proof five business days prior to the Completion:

- 1) the Purchaser being satisfied with the results of due diligence review on the Target Company and the construction of the Target Expressway;
- 2) the Agreement having been signed and become effective;
- 3) the Joint Venture Agreement and the Articles having been signed by the Purchaser and the Vendor 1, and approved by the board of directors of the Target Company;
- 4) all necessary consents or approvals in connection with the Agreement having been obtained and, if applicable, become unconditional, and such consents or approvals not subsequently being revoked or withdrawn by third parties (including government authorities or other competent authorities). The necessary consents or approvals include:
 - (i) each of the Target Company, the Purchaser and the Vendors having obtained all the necessary approvals in respect of the entering into and performance of any transactions pursuant to the Agreement, including but not limited to board approvals;
 - (ii) each of the Vendors having agreed to waive its pre-emptive right on the disposal by the other as contemplated under the Agreement;
 - (iii) 湖南省交通運輸廳 (Department of Transportation of Hunan Province) having approved or filed as record of the transactions contemplated under the Agreement;
 - (iv) the lending bank of the Target Company having consented to the transactions contemplated under the Agreement;
 - (v) the Company having obtained the Board's approval and the approval of the Independent Shareholders as required under the Listing Rules to undertake the transactions contemplated under the Agreement;
 - (vi) Mr. Chan having obtained consent from all his relevant creditor(s) in respect of the Disposal 1;
- 5) the Purchaser having received the resignation letter of the deputy chairman of the Target Company and four individuals designated by the Purchaser having been elected, appointed and registered as directors, supervisors and senior management of the Target Company in accordance with applicable laws and the Articles;
- 6) the warranties provided by the Warrantors under the Agreement remaining true, accurate, without material omission and not misleading at all times between the date of the Agreement and the Completion Date; and the Warrantors' acknowledgement that the Purchaser entered into the Agreement based on the representations, warranties and undertakings set out in the Agreement remaining valid;

- 7) the Warrantors complying fully with their obligations as warrantors as set out in the Agreement;
- 8) there being no judgement, order, pending or threatened litigation, arbitration or court judgement or order; laws, regulations, directives or policies announced or pending announcement or other matters which may:
 - (i) affect the Completion;
 - (ii) adversely affect the Purchaser's interest in acquiring the 40% equity interest in the Target Company or investing in the Target Company; or
 - (iii) adversely affect the Target Company's interests in its assets and the operation of the Target Expressway;
- 9) there being no material adverse change in the financial condition, prospects, assets or obligations of the Target Company up to the Completion Date (including the Completion Date); and
- 10) within ten business days prior to the Completion Date, the Purchaser having completed its review on the Target Company and being satisfied that no material adverse change has occurred to the Target Company from the Reference Date up to the Completion Date.

Save for Conditions 4(v) above, all other Conditions can be waived by the Purchaser. If any of the Conditions is not fulfilled (or waived where applicable) on or before 31 March 2019 (or such other date as may be agreed by the Purchaser and the Vendors in writing), the Purchaser is not obligated to proceed to Completion and the Agreement will lapse except certain provisions set out in the Agreement.

Post-completion undertakings

Financial Support

Pursuant to the terms of the Agreement:

- 1) After the registration of the Purchaser as a shareholder of the Target Company and on or before 31 March 2019 (or such other date as may be agreed by the Vendor 1 and the Purchaser in writing), the Purchaser and the Vendor 1 shall provide the Target Company with the Financial Support in proportion to their respective equity interest in the Target Company for the repayment of (a) the Shareholder's Loans and (b) the Outstanding Construction Payables.

- 2) The Vendor 1 and the Purchaser shall further discuss and agree the means and amount of the Financial Support.

If the Financial Support is to be provided by way of loans from the Group and the Purchaser, it is expected that the loans will be provided on normal commercial terms, and no security or collateral will be involved. The Company will comply with the relevant requirements under the Listing Rules, including but not limited to Chapter 14A of the Listing Rules, in respect of the Financial Support to be provided by the Purchaser to the Target Company after Completion.

The Shareholder's Loans are unsecured and interest-free. Pursuant to the terms of the letter of support issued by Mr. Chan and the Vendor 2, the Shareholder's Loans shall not be repayable prior to 31 December 2019.

- 3) The Vendor 2 undertakes not to demand the repayment of the Shareholder's Loans before the provision of the Financial Support by the Vendor 1 and the Purchaser in accordance with the terms of the Agreement.

First right of refusal and tag-along right

The Company, through Top Talent, wholly owns the Vendor 1. Pursuant to the terms of the Agreement, save for any proposed transfer of interests in Top Talent and the Vendor 1 for the purpose of the Group's internal restructuring and/or under which Mr. Chan and/or associates (as defined under the Listing Rules) controlled by him is/are the transferee(s), the Purchaser has a first right of refusal to acquire any equity interest in Top Talent or the Vendor 1 in the event of any proposed transfer of interests in Top Talent or the Vendor 1. If the Purchaser decides not to exercise its first right of refusal, the Purchaser has a tag-along right to request the Vendor 1, the Guarantors or designated third party to purchase the Purchaser's entire equity interest in the Target Company. The exercise of the first right of refusal and the tag-along right shall comply with the Listing Rules.

Shareholding level of Mr. Chan

Pursuant to the Agreement and in a separate deed of undertaking, Mr. Chan undertakes in favour of the Purchaser that he shall maintain his equity interest, either directly or indirectly, in the Company of not less than 50% and without the prior written consent from the Purchaser, he shall not dispose of and shall procure his associate(s) not to in any way directly or indirectly dispose of any Shares to such an extent that immediately following such disposal, the aggregate shareholding of him and his associate(s) in the Company would not be more than 50% during the Lock-up Period.

Mr. Chan has pledged all his Shares to a creditor as at the date of the Agreement. Mr. Chan further (i) warrants to inform the Purchaser promptly if there is occurrence of event triggering such creditor to be able to enforce its power of sale of the pledged shares; and (ii) undertakes that he shall procure such creditor to notify the Purchaser in writing at least two business days before it exercises its power of sale of the pledged Shares of Mr. Chan; and grant a first right of refusal to the Purchaser or its designated third party such that the Purchaser or its designated third party shall have a first right of refusal to acquire the pledged Shares of Mr. Chan. The undertakings from Mr. Chan and such creditor shall cease to have effect when NWS (a) ceases to be directly or indirectly interested in the entire equity interest in the Purchaser; or (b) is directly or indirectly interested in less than 40% beneficial interests in the Target Company.

THE JOINT VENTURE AGREEMENT

The Joint Venture Agreement shall be entered into by the Vendor 1 and the Purchaser to regulate their respective shareholders' rights in the Target Company. Key terms of the Joint Venture Agreement are summarised below:

Duration of the Target Company

The duration of the business operation of the Target Company shall be 50 years from the date of issue of its business license, provided that upon proposal by a party to the Joint Venture Agreement and the unanimous approval by its board of directors, the Target Company may, within 6 months prior to expiration of its duration of business operation, apply to the applicable authority for an extension of its duration of business operation.

Board composition

The board of directors of the Target Company shall comprise six directors. The Vendor 1 and the Purchaser shall be entitled to appoint four directors and two directors respectively.

The chairman and the vice chairman of the Target Company shall be appointed by the Vendor 1 and the Purchaser respectively.

Board approval

The following significant matters shall require the unanimous approval by all directors of the Target Company:

- (a) increase, reduction or transfer of the registered capital of the Target Company;
- (b) amendment and supplement for, and interpretation of the articles of association of the Target Company;
- (c) the provision of guarantee, security and pledge in favour of third parties by the Target Company;
- (d) mergers, subdivisions or changes in the corporate form of the Target Company;
- (e) termination, suspension, extension or winding up of the Target Company;

- (f) approval of proposal regarding profit distribution or loss compensation of the Target Company;
- (g) external investment by the Target Company;
- (h) decision for transfer of entire or part of business of the Target Company, or acquisition of other parties' business by the Target Company;
- (i) appointment and change of auditors of the Target Company;
- (j) approval of transaction between the Target Company and related persons for transaction over certain monetary amounts; and
- (k) matters agreed between the Vendor 1 and the Purchaser to be approved by directors unanimously.

Save for the above, other matters are subject to approval of two-thirds or higher majority of directors of the Target Company.

Management and supervisors

The general manager and financial controller of the Target Company shall be appointed by the Vendor 1 while the vice general manager shall be appointed by the Purchaser. The Target Company shall have two supervisors. Each of the Vendor 1 and the Purchaser shall be entitled to appoint a supervisor.

Lock up of interests held by the Vendor 1 and the Purchaser

Each of the Purchaser and the Vendor 1, without prior written consent of the other, shall not (1) transfer, pledge, charge or dispose of all or part of its interests in the Target Company; or (2) transfer or dispose of its rights to receive income; or (3) create encumbrances on its equity interest in the Target Company.

As long as the Purchaser remains directly or indirectly wholly-owned by NWS and the Purchaser remains interested in 40% equity interest in the Target Company, the Vendor 1 undertakes and warrants that there would not be change of its shareholder except with prior written consent from the Purchaser. Prior written consent from the Purchaser is not required for internal group restructuring of the Group and transfer of interests to Mr. Chan and/or associates (as defined under the Listing Rules) controlled by him.

Pre-emptive rights for increase of registered capital

Any increase of registered capital of the Target Company shall first be offered to the Vendor 1 and the Purchaser on a pro-rata basis by reference to their respective interests in the Target Company.

Transfer of equity interest in the Target Company

The transfer of equity interest in the Target Company shall be subject to consent of the other shareholder of the Target Company. Each shareholder of the Target Company proposing to sell its equity interest in the Target Company shall be subject to the right of first refusal of the other shareholder to purchase such equity interest.

In addition, in the event that (a) the Vendor 1 proposes to sell its equity interest in the Target Company to a third party when the Purchaser holds equity interest of the Target Company; and (b) the Purchaser does not exercise its right of first refusal, the Purchaser is entitled to exercise the co-sale right to participate in the proposed disposition on the same terms.

Profit sharing and risk bearing

Profit of the Target Company will be shared between the Vendor 1 and the Purchaser in proportion to their respective equity interest in the Target Company. Any risk and liabilities in relation to the operation of the Target Company shall be borne by the Vendor 1 and the Purchaser in proportion to their respective interests in the Target Company.

INFORMATION OF THE PURCHASER

The Purchaser is a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of NWS. The Purchaser is principally engaged in the investment in infrastructure business of toll roads and power plant.

NWS is a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 659). Its principal activity is investment holding and the principal activities of its subsidiaries include:

- (1) the development, investment, operation and/or management of roads, environmental projects, commercial aircraft leasing as well as ports and logistics facilities; and
- (2) the investment in and/or operation of facilities, duty free shops, healthcare, construction, transport and strategic investments.

INFORMATION OF THE TARGET COMPANY

Business of the Target Company

The Target Company is principally engaged in the construction, operation and management of the Target Expressway in the PRC.

Financial information of the Target Company

Set out below is the financial information of the Target Company as extracted from its unaudited management accounts prepared in accordance with Hong Kong Financial Reporting Standards for the two financial years ended 31 December 2016 and 2017, and the six months ended 30 June 2018.

	Year ended 31 December		Six months ended
	2016	2017	30 June 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	138,972	166,928	104,775
Net profit (before taxation)	11,013	33,507	29,622
Net profit (after taxation)	2,662	28,069	25,302

The unaudited net assets of the Target Company amounted to approximately HK\$145.1 million on 30 June 2018.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Through its 90% equity interest in the Target Company, the Group is principally engaged in the construction, operation and management of the Target Expressway in the PRC.

The Company entered into the Agreement because of the following reasons and benefits:

(a) Introduction of a strategic partner

As set out in the section headed “Information of the Purchaser” above, the Purchaser is indirectly wholly-owned by NWS which is engaged in, among other things, the investment in, operation and/or management of roads. It was disclosed in NWS’ annual report for the financial year ended 30 June 2018 that its road portfolio as at 30 June 2018 included 15 roads projects in strategic locations in Mainland China, namely Guangdong, Zhejiang, Guangxi, Shanxi, Tianjin and Hubei, covering approximately 700 km in length.

In view of leading market position of NWS in the roads business, the Directors (excluding the independent non-executive Directors who will express their view after considering the advice of the independent financial adviser) are of the view that NWS is a suitable strategic partner of the Group. The Purchaser will participate in the management of the Target Company following Completion. Moreover, the Company believes that such a partnership with NWS can enhance the Group’s profile, sending a message to the stakeholders that the Group is making immense efforts to succeed in the industry. On this basis, the executive Directors consider that the introduction of NWS as a strategic partner will benefit the Group’s long term development, and is in the interest of the Company and the Shareholders.

(b) Unlocking the value of the Target Company

The Consideration 1 of approximately RMB352.45 million (equivalent to approximately HK\$397.9 million and subject to Adjustment) payable to the Vendor 1 represents about 1.85 times of the market capitalisation of the Company of approximately HK\$214.6 million as at the date of the Agreement. Accordingly, the Disposal 1 provides the Company with an opportunity to unlock the value of the Target Company which is considered by the Directors (excluding the independent non-executive Directors who will express their view after considering the advice of the independent financial adviser) to be in the interests of the Company and the Shareholders as a whole.

(c) Possible dividend distribution

It is intended that part of the net proceeds from the Disposal 1 in an amount of approximately HK\$50 million will be applied for dividend distribution so as to provide an opportunity for the Shareholders to share in the fruit of the Disposal 1.

Assuming (1) the Disposal 1 having been approved by the Independent Shareholders; (2) Completion having taken place; and (3) there being no change of number of issued Shares of 412,608,000 during the period from the date of this announcement to the record date for entitlement of the dividend (to be determined by the Board), it is expected that the dividend in an amount of approximately HK\$0.121 per Share may be proposed by the Board.

Taking into account (a) the Consideration 1 of approximately RMB352.45 million (equivalent to approximately HK\$397.9 million) payable to the Vendor 1; (b) the unaudited net asset value of the Target Company of approximately HK\$145.1 million as at 30 June 2018; and (c) the estimated related expenses and taxes for the Disposal 1, it is expected that an estimated gain after taxation in an amount of approximately HK\$329.2 million would be materialized in the consolidated equity accounts of the Group in respect of the Disposal 1. Such a gain is non-recurring in nature and will be reflected in the consolidated equity account of the Group for the year ending 31 December 2018 assuming Completion takes place in that financial year. The actual gain after taxation on the Disposal 1 to be materialized by the Group, which will be calculated by reference to the financial position of the Target Company at the time of Completion, may be different from the above figure. Moreover, the working capital and cash position of the Group are anticipated to be strengthened after Completion.

Having considered the above reasons and benefits, the Directors (excluding the independent non-executive Directors who will express their opinion after considering the advice of the independent financial adviser) consider that the terms of the Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors confirm as at the date hereof, that the Company does not have any intention or plan, and has not entered into or proposed to enter into any agreement, arrangement, undertaking or negotiation to dispose of any further equity interest in the Target Company, nor downsize or dispose of its existing business nor acquire any new business.

USE OF NET PROCEEDS FROM THE DISPOSAL

The net proceeds from the Disposal 1 after deducting the related expenses and taxes are estimated to be approximately HK\$372.7 million. The Company intends to use the net proceeds from the Disposal 1 as below:

- (a) approximately HK\$164.5 million for the provision of the Financial Support pursuant to the Agreement;
- (b) approximately HK\$50 million for the payment of possible dividend to be proposed by the Board. If the Board determines not to declare any dividend, such amount shall be deployed by the Group for business development; and
- (c) remaining balance of approximately HK\$158.2 million as general working capital of the Group. The auditors of the Company stated in its review report contained in the 2018 interim report of the Company that the Group had net current liabilities of approximately HK\$127.7 million and accumulated losses of approximately HK\$638.0 million as of 30 June 2018. The validity of the interim report to be prepared on a going concern basis depended upon the ongoing support from the Group's bankers and the controlling Shareholder, and the Group's ability to generate sufficient cash flows from future operations to cover the Group's operating costs and to meet its financing commitments. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Similar concern had also been raised by the auditors in its report contained in the 2017 annual report of the Company. Therefore, the remaining balance of approximately HK\$158.2 million will be applied as general working capital of the Group to address the possible going concern issue.

The payment of the dividend is subject to, among other things, Completion having taken place, and approval of the Board and/or Shareholders having been obtained. Accordingly, the payment of the dividend may or may not materialize.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Company is beneficially owned as to approximately 72.71% by Mr. Chan. The Vendor 2 is wholly-owned by Mr. Chan, an executive Director and a controlling Shareholder. Therefore, the Vendor 2 is an associate of Mr. Chan and a connected person of the Company.

As the relevant percentage ratio applicable to the Company in respect of the Disposal 1 exceeds 75%, the Disposal 1 constitutes a very substantial disposal to the Company under the Listing Rules. Since the Vendor 2 is a connected person of the Company, the Disposal 1 also constitutes a connected transaction for the Company under the Listing Rules. The Disposal 1 is therefore subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under the Listing Rules. The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Agreement and the transactions contemplated thereunder.

Mr. Chan (the chairman of the Board and an executive Director), who has material interest in the Disposal 1, has abstained from voting on the relevant Board resolution approving the Disposal 1.

GENERAL

Mr. Chan owns the entire issued share capital of Velocity International Limited which is interested in approximately 72.71% of the issued share capital of the Company as at the date of this announcement. Mr. Chan and his associates (including Velocity International Limited), and any Shareholder with a material interest in the Disposal 1 are required to abstain from voting in respect of the ordinary resolution(s) approving the Agreement and transactions contemplated thereunder proposed to be passed at the EGM.

An independent board committee comprising all of the three independent non-executive Directors, namely Mr. Sun Xiao Nian, Mr. Chu Kin Wang, Peleus and Mr. Hu Lie Ge, has been constituted to advise the Independent Shareholders as regards the Disposal 1, the terms of the Agreement and the transactions contemplated thereunder. Lego Corporate Finance Limited has been appointed as the independent financial adviser to advise the independent board committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) information on the Disposal 1, the Agreement and the transactions contemplated thereunder; (ii) the financial information of the Group; (iii) the unaudited pro forma financial information of the Group; (iv) the recommendation of the independent board committee; (v) the advice of the independent financial adviser regarding the Disposal 1, the terms of the Agreement and the transactions contemplated thereunder; (vi) the notice of the EGM; and (vii) other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 23 November 2018.

Completion is subject to the satisfaction and/or waiver of the conditions precedent in the Agreement and therefore, may or may not take place. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

The payment of the dividend is subject to, among other things, Completion having taken place, and approval of the Board and/or Shareholders having been obtained. Accordingly, the payment of the dividend may or may not materialize.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares has been halted from 9:00 a.m. on 19 October 2018 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading of the Shares from 9:00 a.m. on 25 October 2018.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Adjustment”	adjustment to the Consideration 1 and the Consideration 2 according to the equity interest in the Target Company to be disposed of by the Vendor 1 and the Vendor 2 respectively pursuant to the Agreement
“Agreement”	the conditional sale and purchase agreement dated 18 October 2018 entered into among the Vendors, the Purchaser, the Company, Mr. Chan and the Target Company in relation to the Disposal 1 and the Disposal 2
“Articles”	articles of association of the Target Company to be entered into between the Vendor 1 and the Purchaser as shareholders of the Target Company
“Board”	board of the Directors
“Company”	Huayu Expressway Group Limited, a company incorporated in Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1823)
“Completion”	completion of the Disposal 1 and the Disposal 2 in accordance with the terms of the Agreement
“Completion Date”	date of Completion
“Conditions”	conditions precedent to Completion as set out in the Agreement
“connected person(s)”	has the same meaning as defined in the Listing Rules
“Consideration 1”	consideration of the Disposal 1
“Consideration 2”	consideration of the Disposal 2
“Director(s)”	director(s) of the Company

“Disposal 1”	proposed disposal of 30% equity interest in the Target Company by the Vendor 1 to the Purchaser
“Disposal 2”	proposed disposal of 10% equity interest in the Target Company by the Vendor 2 to the Purchaser
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Disposal 1, the Agreement and the transactions contemplated thereunder
“Financial Support”	financial support and funding to be provided to the Target Company by the Vendor 1 and the Purchaser pursuant to the Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than Mr. Chan and his associates
“Joint Venture Agreement”	a sino-foreign joint venture agreement of the Target Company to be entered into between the Vendor 1 and the Purchaser
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Lock-up Period”	the period from the Completion Date to (1) the third anniversary of the Completion Date; or (2) the day on which NWS ceases to hold, directly or indirectly, (i) the entire equity interest in the Purchaser; or (ii) 40% of the equity interest in the Target Company, whichever the earliest
“Mr. Chan”	Mr. Chan Yeung Nam, the chairman of the Board, an executive Director and a controlling Shareholder
“NWS”	NWS Holdings Limited, a company incorporated in Bermuda whose shares are listed on the Main Board of the Stock Exchange (stock code: 659)

“Outstanding Construction Payables”	the payables owed to independent third party contractors for the construction of the Target Expressway with an amount of approximately RMB63.4 million as at the date of the Agreement
“PRC”	the People’s Republic of China and, for the purpose of this announcement, excluding Hong Kong, Macao Special Administrative Region of the People’s Republic of China and Taiwan
“Purchaser”	廣東新川有限公司 (Guangdong Xin Chuan Co., Ltd.), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of NWS
“Reference Date”	31 August 2018
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholder’s Loans”	various unsecured and non-interest bearing loans owed by the Target Company to the Vendor 2 in an aggregate outstanding amount of approximately RMB179.5 million as at the date of the Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	湖南道岳高速公路實業有限公司 (Hunan Daoyue Expressway Industry Co., Ltd.), a company established in the PRC and a 90%-owned subsidiary of the Company as at the date of the Agreement
“Target Expressway”	隨岳高速公路湖南段 (Sui-Yue Expressway (Hunan Section)) located in Hunan Province of the PRC owned and operated by the Target Company
“Top Talent”	Top Talent Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Total Consideration”	the aggregate of the Consideration 1 and the Consideration 2
“Vendor 1”	Good Sign Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company

“Vendor 2”	深圳華昱投資開發(集團)有限公司 (Shenzhen Huayu Investment & Development Group Co., Ltd.), a wholly foreign-owned enterprise established in the PRC wholly-owned by Mr. Chan
“Vendors”	the Vendor 1 and the Vendor 2
“Warrantors”	the Vendors and the Target Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By Order of the Board
Huayu Expressway Group Limited
Sin Ka Man
Company Secretary

Hong Kong, 25 October 2018

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

For the purpose of this announcement, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the approximate exchange rate of RMB1.00 = HK\$1.129. This exchange rate is for the purpose of illustration only and do not constitute a representation that any amounts in RMB and HK\$ have been, could have been or may be converted at such rate or any other exchange rate.

English translation of the Chinese name is for information purposes only, and should not be regarded as the official English translation of such name.