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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)

**(I) VERY SUBSTANTIAL DISPOSAL
AND CONNECTED TRANSACTION
RELATING TO THE PROPOSED DISPOSAL OF
60% EQUITY INTERESTS IN A SUBSIDIARY HOLDING THE
SUI-YUE EXPRESSWAY (HUNAN SECTION);
AND
(II) RESUMPTION OF TRADING**

Financial Adviser to the Company



THE SALE AND PURCHASE AGREEMENT

The Board is pleased to announce that on 1 December 2022 (after trading hours), the Vendor, a wholly-owned subsidiary of the Group, the Purchaser, the Target Company and the Guarantors entered into the Sale and Purchase Agreement, pursuant to which (i) the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares at the Consideration (subject to Adjustments); and (ii) the Guarantors have agreed to provide the Guarantee, in favour of the Purchaser, over the due performance and observance by the Vendor of all its Guaranteed Obligations.

Upon Completion, the Target Company will cease to be a subsidiary of the Group and its financial results, assets and liabilities will no longer be consolidated into the consolidated financial statements of the Group.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Target Company is beneficially owned as to 60% by the Company and 40% by the Purchaser. As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed Disposal exceeds 75%, the Proposed Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules, and is therefore subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

In light of the Purchaser's shareholding in the Target Company, the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules. The Proposed Disposal therefore constitutes a connected transaction of the Company entered into with a connected person at the subsidiary level under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.101 of the Listing Rules, since the Board has approved the Proposed Disposal and the independent non-executive Directors have confirmed that the terms of the Proposed Disposal were fair and reasonable and the Proposed Disposal was entered into on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, the Proposed Disposal is exempt from the circular, independent financial advice and shareholders' approval requirements.

In light of the provision of the Guarantee and the intended partial allocation of the net proceeds from the Proposed Disposal for the full repayment of the amount due to Mr. Chan, further details of which are set out in the section headed "EXPECTED USE OF PROCEEDS" in this announcement, Mr. Chan is considered to have a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder. Accordingly, Mr. Chan has abstained from voting on the relevant Board resolution(s) approving the Sale and Purchase Agreement and the transactions contemplating thereunder, and he and his associates will abstain from voting on the relevant resolution(s) to be proposed at the EGM. Save for the above, to the best of the knowledge, information and belief of the Board, none of the Shareholders has a material interest in the Sale and Purchase Agreement and the transactions contemplating thereunder and hence, no other Shareholder will be required to abstain from voting on the resolution(s) to be proposed at the EGM to approve the same.

GENERAL

The EGM will be convened for the purposes of considering, and if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

As additional time is required for the preparation of the relevant information, a circular containing, among other things, (i) details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the financial information of the Group; (iii) the financial information of the Target Company; (iv) the notice of the EGM; and (v) other information as required under the Listing Rules, is expected to be despatched to the Shareholders on or before 6 January 2023.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 2 December 2022 at the request of the Company pending the issue and publication of this announcement. An application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 9:00 a.m. on 9 December 2022.

Completion is conditional upon the fulfilment of the Conditions in full 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.

INTRODUCTION

On 1 December 2022 (after trading hours), the Vendor, a wholly-owned subsidiary of the Group, the Purchaser, the Target Company and the Guarantors entered into the Sale and Purchase Agreement, pursuant to which (i) the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares at the Consideration (subject to Adjustments); and (ii) the Guarantors have agreed to provide the Guarantee, in favour of the Purchaser, over the due performance and observance by the Vendor of all its Guaranteed Obligations.

Details of the Sale and Purchase Agreement are set out below.

THE SALE AND PURCHASE AGREEMENT

Date

1 December 2022 (after trading hours)

Parties

Vendor	:	Good Sign Limited, a wholly-owned subsidiary of the Company
Purchaser	:	NWS (Guangdong) Investment Company Limited
Target Company	:	湖南道岳高速公路實業有限公司 (Hunan Daoyue Expressway Industry Co., Ltd.)
Guarantors	:	(i) the Company; and (ii) Mr. Chan

Assets to be disposed of

The Sale Shares, representing 60% of the issued equity interests in the Target Company.

Consideration

Pursuant to the Sale and Purchase Agreement, the Consideration is RMB555,700,000 (equivalent to approximately HK\$611,270,000) (subject to Adjustments) which shall be payable to the Vendor in cash in the manners set out in the section headed “Payment” in this announcement.

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to, among other things, the net asset value of the Target Company as at the Reference Date. In addition, the Board has also made reference to the price-to-earnings multiples of other companies principally engaged in the toll road business in the PRC. Considering that the Consideration represents a premium over the unaudited net asset value of the Target Company as at 31 August 2022 in proportion to 60% equity interests therein, and that the price-to-earnings multiple of the Target Company of approximately 18.1, which is calculated based on (i) the implied Consideration of approximately HK\$1,018,783,000 in respect of 100% of the equity interests of the Target Company with reference to the Consideration of approximately HK\$611,270,000; and (ii) the net profit after taxation of the Target Company for the year ended 31 December 2021 of approximately HK\$56,431,000, is in line with those of the peer companies, the Board considers the Consideration to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Payment

The Consideration (subject to Adjustment) shall be settled by the Purchaser in cash in the following manners:

- (1) as to 80%, or RMB444,560,000 (equivalent to approximately HK\$489,016,000), being the first instalment of the Consideration (the "**First Instalment**"), shall be deposited by the Purchaser to the bank account designated by the Vendor within ten Business Days after the fulfilments or waivers granted by the Purchaser in writing (as the case may be) of the conditions below:
 - (i) the Conditions having been fulfilled or waived by the relevant parties in accordance with the terms of the Sale and Purchase Agreement, details of which are set out in the section headed "Conditions" below;
 - (ii) the Proposal Disposal having been registered and filed with the Yueyang Administration for Market Regulation of the PRC, and the Purchaser having been registered as the owner of the Sale Shares and the shareholder of the Target Company as to the entire issued share capital thereof;
 - (iii) the Vendor and the Purchaser having agreed on the amount of the Adjustments (if applicable) as stipulated in the Sale and Purchase Agreement;
 - (iv) the Target Company having completed the relevant procedures in relation to the change in basic information and obtained the business registered certificate from the relevant foreign exchange settlement bank;
 - (v) the Vendor and the Purchaser having completed the relevant tax filing procedures for the transfer of the Consideration, and the Purchaser having completed the payment of the relevant income tax on behalf of the Vendor as well as obtained the tax filing form issued and confirmed by the tax authority; and
 - (vi) the Vendor having issued the payment notice of the First Instalment to the Purchaser within 20 Business Days before the Completion Date.

- (2) as to 13%, or RMB72,241,000 (equivalent to approximately HK\$79,465,000), being the second instalment of the Consideration (the “**Second Instalment**”), shall be adjusted in accordance with paragraphs (1) and (7) set out under the section headed “Adjustments” below and the portion after the aforesaid Adjustments, being approximately RMB71,063,000 (equivalent to approximately HK\$78,169,000 shall be deposited by the Purchaser to the bank account designated by the Vendor within ten Business Days after the fulfilment or waiver granted by the Purchaser in writing (as the case may be) of the conditions below:
- (i) the receivables of the Target Company as disclosed in the Accounts having been recovered in full;
 - (ii) the payables owed by the Target Company to the constructors and contractors relating to the engineering projects of the Target Company having been settled in full;
 - (iii) the pending appeal against the judgement of the litigation relating to construction contract dispute commenced before the Completion Date whereby the Target Company is a defendant having concluded and any debts or liabilities under the relevant proceedings be borne by the Target Company therefrom having been settled in full;
 - (iv) in respect of any outstanding amount payable by the Target Company to constructors, the Vendor having coordinated with the relevant constructors to enter into settlement agreements with the Target Company as approved by the Purchaser, to confirm that the Target Company shall not be liable for the payment of such outstanding amount, both the Target Company and the relevant constructors have fully fulfilled their responsibilities and obligations under the relevant agreements, and that there is no objection or dispute between the parties regarding the performance and settlements under the relevant agreements; and
 - (v) the Vendor having issued the payment notice of the Second Instalment to the Purchaser within 20 Business Days before the payment of the Second Instalment.

In the event that condition (iii) to the payment of the Second Instalment set out above has not been fulfilled or waived in writing within two years following the Completion Date, the amount of the Second Instalment shall be reduced by RMB30,000,000 (equivalent to approximately HK\$33,000,000) and paid by the Purchaser to the Vendor within ten Business Days after the receipt of the payment notice to be issued by the Vendor under condition (v) to the payment of the Second Instalment set out above and the expiry of the second year following the Completion Date.

- (3) as to the remaining 7%, or RMB38,899,000 (equivalent to approximately HK\$42,789,000), being the third instalment of the Consideration (the “**Third Instalment**”), shall be deposited by the Purchaser to the bank account designated by the Vendor within ten Business Days after the fulfilment or waiver granted by the Purchaser in writing (as the case may be) of the conditions below:
- (i) all matters relating to any illegal land occupation¹ having been settled, and all title registration certificate(s) of the land and properties of the Target Expressway having been obtained in accordance with the relevant laws and regulations, by the Target Company;
 - (ii) all obligations or responsibilities of the Vendor as stipulated under the Sale and Purchase Agreement having been fulfilled as at the date of payment of the Third Instalment; and
 - (iii) the Vendor having issued the payment notice of the Third Instalment to the Purchaser within 20 Business Days before the payment of the Third Instalment.

Any compensation and damages payable by the Vendor pursuant to the Sale and Purchase Agreement that have not been deducted from the First Instalment or the Second Instalment may be directly made against the Third Instalment.

In the event that the conditions to the payment of the Third Instalment set out above has not been fulfilled or waived in writing within three years following the Completion Date, the amount of the Third Instalment shall be reduced by RMB43,000,000 (equivalent to approximately HK\$47,300,000), of which RMB38,899,000 (equivalent to approximately HK\$42,789,000) shall be directly deducted from the amount of the Third Instalment, while the remaining amount shall be deducted from the Vendor’s Attributable Net Profit. In the event that the Vendor’s Attributable Net Profits is less than the aforesaid remaining amount, the difference shall be paid by the Vendor to the Purchaser within ten Business Days after expiry of the third year following the Completion Date. The aforesaid maximum amount of the potential reduction of RMB43,000,000 was mainly determined with reference to condition (3)(i) to the payment of the Third Instalment above, which consists of the potential liabilities to be incurred by the Target Company from the obtaining of the title registration certificates of the land illegally occupied by the Target Expressway as well as other properties of the Target Expressway.

¹ *As at the date of this announcement, the Target Expressway illegally occupied land in Yunxi District of Yueyang City. The relevant aggregate penalty and the transferring fees, taxes, fines and overdue fines and the fees for obtaining of the title registration certificates of the land occupied by the Target Expressway was expected to be approximately RMB33,361,000. After the consultation with the Yunxi District Government, the Target Company has reached a preliminary agreement that the Target Company will supplement and complete relevant land use and title registration procedures which may take years.*

Adjustments

Set out below are certain material incidents, the occurrence of which may result in the Adjustments to be made to the Consideration:

- (1) the liability falling on the Target Company as a result of the overdue tax payment and/or the penalties due to late tax payment for the period from 1 January 2016 up to and including 31 December 2018 and the period from 1 January 2019 up to and including 31 December 2021 stated in the tax assessment results issued by the relevant authority and confirmed by the Purchaser and the Vendor, under which the Consideration shall be adjusted downward by an amount equivalent to 60% of the aforesaid liability, being approximately RMB1,365,000 (equivalent to approximately HK\$1,502,000) in aggregate;
- (2) in the event that the receivables of the Target Company as disclosed in the Accounts (being approximately RMB6,573,000 (equivalent to approximately HK\$7,230,000) as at 31 August 2022 which primarily consisted of the toll fee receivable from an independent toll fee collection management company in the PRC) fail to be recovered in full as scheduled within 30 days after the Completion Date, the Consideration shall be adjusted downward by an amount equivalent to 60% of such outstanding amount of receivables;
- (3) any fines or penalties incurred by the Target Company due to any illegal land occupation², and any transferring fees, taxes, fines and overdue fines are incurred by the Target Company from the obtaining of the title registration certificate(s) of the land and properties of the Target Expressway, under which the Consideration shall be adjusted downward by an amount equivalent to the aforesaid amount (save for such fines or penalties deducted as referred to in subparagraph (7)(iii) below under this section);
- (4) in the event that any costs or liabilities are to borne by the Target Company in connection with the pending appeal against the judgement of the litigation relating to construction contract dispute as referred to in subparagraph (2)(iii) under the section headed "Payment" above (save for such debts or liabilities disclosed in the Accounts), the Consideration shall be adjusted downward by an amount equivalent to 60% of the aforesaid debts or liabilities;
- (5) in the event that any compensation is to borne by the Target Company in connection with the termination of employment contracts between the Target Company and all its directors, supervisors and senior management previously appointed by the Vendor, the Consideration shall be adjusted downward by an amount equivalent to the total compensation;
- (6) the Vendor's Attributable Net Profit assigned by the Purchaser at face value (if applicable);

² *As at the date of this announcement, the Target Expressway illegally occupied land in Yunxi District of Yueyang City. The relevant aggregate penalty and the transferring fees, taxes, fines and overdue fines and the fees for obtaining of the title registration certificates of the land occupied by the Target Expressway was expected to be approximately RMB33,361,000. After the consultation with the Yunxi District Government, the Target Company has reached a preliminary agreement that the Target Company will supplement and complete relevant land use and title registration procedures which may take years.*

- (7) a sum of approximately RMB188,000 (equivalent to approximately HK\$207,000) to be resulted from the setting-off of:
- (i) a sum payable by the Target Company to the Vendor in respect of the lease, transfer of operation right relating to the service area³ of the Target Expressway;
 - (ii) a sum payable by the Vendor to the Target Company equivalent to the difference between the project settled account (as disclosed to the Purchaser) of the Target Expressway and the project final account; and
 - (iii) a sum payable by the Vendor to the Target Company in respect of illegal land occupation⁴ by the Target Expressway;

as agreed in the sale and purchase agreement dated 18 October 2018 entered into between, among others, the Vendor and the Purchaser shall be added to the Consideration;

- (8) an amount, being approximately RMB705,000 (equivalent to approximately HK\$776,000), equivalent to 40% of the liability falling on the Target Company as a result of the overdue tax payment and/or the penalties due to late tax payment for the period from 1 January 2016 up to and including 31 December 2018 stated in the tax assessment results issued by the relevant authority and confirmed by the Purchaser and the Vendor may be deducted from the Consideration;
- (9) in the event that any loss, damage, cost or expenses are incurred by the Purchaser as a result of any violations of the Guarantees or severe violations of other terms of the Sale and Purchase Agreement by any of the Guarantors, and the amount of loss, damage, cost or expense exceeds RMB50,000 on an individual basis or RMB1,000,000 on an aggregation basis, or the amount of loss, damage, cost or expense suffered by the Purchaser before Completion equal to or exceeds RMB400,000 on an aggregation basis the Consideration may be adjusted downward by an amount equivalent to the aforesaid amount;

³ *The service area, being part of the Target Expressway, has always been owned by the Target Company. The Target Company licensed the rights to operate and manage the service area to an independent third party at a fee of approximately RMB5,000,000 in around September 2012. Subject to the terms and conditions of the sale and purchase agreement dated 18 October 2018, the Vendor could be entitled to the license fee, which had not been paid to the Vendor by the Target Company as at the date of this announcement.*

⁴ *Due to illegal occupation of land in Yunxi District of Yueyang City by certain barriers of the toll booths and a service area of the Target Expressway, the relevant authorities of Yueyang City issued penalty notices against the Target Company in August 2020 and September 2020. Pursuant to the penalty notices, the Target Company shall (i) remove the structures on and vacant the land and (ii) be liable for an aggregate penalty of approximately RMB428,000. As at the date of this announcement, the Target Company fully settled the penalty but had not recovered nor returned the land to the relevant municipals considering the normal operation of the gas station within the service area, and the competent authorities have not enforced the demolition. After the consultation with the Yunxi District Government, the Target Company has reached a preliminary agreement that the Target Company will supplement and complete relevant land use and title registration procedures which may take years.*

- (10) in the event that any fees are demanded by any contractors or constructors not involved in the maintenance projects of the Target Expressway which had been incurred or not been fully settled on or before the Completion Date, and that the aggregate amount of such fees exceeds the amount as disclosed in the Accounts, the Consideration shall be adjusted downward by an amount equivalent to 60% of the amount in excess;
- (11) in the event that any losses are incurred by the Target Company as a result of the judgement of the litigation relating to construction contract dispute as referred to in subparagraph (2)(iii) under the section headed "Payment" above, the Consideration shall be adjusted downward by an amount equivalent to 40% of the aforesaid losses.

Conditions

Completion of the Sale and Purchase Agreement is conditional upon the fulfilment of the Conditions summarised below to the satisfaction of the Purchaser or the waiver granted by the Purchaser in writing (save for Conditions (3)(vi) and (3)(vii) which are not capable of being waived by the Purchaser):

- (1) the Purchaser having been satisfied with the results of the financial and legal due diligence of the Target Company as well as the traffic engineering-related due diligence in respect of the Target Expressway;
- (2) the Sale and Purchase Agreement having been signed and becoming effective;
- (3) all necessary consents or approvals in connection with the Completion having been obtained and not subsequently being revoked or withdrawn by third parties (including but not limited to government authorities or other authorities with jurisdiction over the Proposed Disposal), and in the event that such consent(s) or approval(s) are subject to conditions affecting either party to the Sale and Purchase Agreement, such conditions having been accepted by the affected party, and if such conditions must be fulfilled prior to Completion, such conditions having been fulfilled prior to Completion. The necessary consents or approvals include:
 - (i) approval(s) required by the Purchaser for Completion in accordance with internal procedures;
 - (ii) the approvals by the board of directors or the shareholders of the Vendor as well as the authorised authorities for Completion;
 - (iii) approval(s) by the board of directors of the Target Company for the Proposed Disposal;
 - (iv) the filing by the Department of Transportation of Hunan Province (湖南省交通運輸廳) in respect of the Proposed Disposal;
 - (v) the consent from the lending bank of the Target Company on the Proposed Disposal, and in the event that such consent is subject to any condition(s), such condition(s) having been accepted by both the Vendor and the Purchaser;
 - (vi) the approvals by the Board and the Shareholders on the Proposed Disposal in accordance with the requirements under the Listing Rules; and

- (vii) the consent having been obtained by Mr. Chan from all relevant creditors, and other approval documents required based on the prevailing situations and in accordance with the law and regulations.
- (4) the resignation letters from all directors, supervisors and senior management of the Target Company who have been previously appointed by the Vendor having been received by the Purchaser;
- (5) the warranties provided by the Guarantors as stipulated under the Sale and Purchase Agreement having been true, accurate, free from significant omissions and not misleading from the date of the Sale and Purchase Agreement up to and including the Completion Date, and that the Guarantors having acknowledged that the Purchaser has entered into the Sale and Purchase Agreement on the basis of such warranties;
- (6) the Target Company and the Vendor having fully complied with the clauses relating to, among to others, the operations of the Target Company and the reporting to the Purchaser on the operations of the Target Company prior to Completion as stipulated in the Sale and Purchase Agreement;
- (7) there having no judgements, awards, or pending or potential lawsuits, arbitrations, court decisions, rulings, or laws, regulators, requirements and policies etc., the existence of which may (i) affect the execution of Completion; (ii) impose adverse impacts on the Sale Shares and the Target Company; or (iii) impose adverse impacts on the assets of the Target Company and the operation of the Target Expressway.
- (8) as at the Completion Date, there having no events which may have a material adverse impact on the financial conditions, prospects, assets or obligations of the operations of the Target Company;
- (9) the Vendor and the Purchaser having entered into the termination agreement to the sino-foreign joint venture agreement of the Target Company entered into by the parties on 14 December 2018 in relation to the previous disposal of 40% equity interest of the Target Company by the Vendor to the Purchaser; and
- (10) the assessment of the Target Company having been completed by the Purchaser within ten Business Days before the Completion Date and the results of which having indicated that no material adverse impacts have occurred to the Target Company between the Reference Date and the Completion Date; and that the Vendor and the Target Company having cooperated in their good faith during the assessment by the Purchaser.

The Vendor shall use its best endeavour to fulfil the relevant Conditions applicable to it on or before 28 February 2023 (or such other date as may be agreed by the Purchaser and the Vendors in writing). As at the date of this announcement, none of the Conditions has been fulfilled.

Completion

Upon fulfilments or waivers (as the case may be) of the Conditions, the Vendor shall issue a written notification to the Purchaser. Completion shall take place on the Completion Date, which shall be the fifth Business Day following the receipt of the aforesaid written notification by the Purchaser or other dates as may be agreed between the Vendor and the Purchaser in writing, upon which the Purchaser shall be entitled to all rights attached to the Sale Shares.

The Target Company shall complete the relevant industrial and commercial registrations and filing procedures in respect of change in shareholders within seven Business Days following the Completion Date, as well as complete the relevant registrations with the foreign exchange settlement bank within 10 Business Days following the Completion Date.

Termination

The Sale and Purchase Agreement may be terminated, among others, in the following circumstances:

- (1) If any of the Conditions has not been fulfilled or waived by the Purchaser (as the case may be) on or before the 30 June 2023 (or such other date as may be agreed by the Purchaser and the Vendors in writing), the Purchaser is not obligated to proceed with Completion and the Sale and Purchase Agreement will lapse except certain provisions set out in the Sale and Purchase Agreement;
- (2) If, prior to the Completion Date, the Purchaser is aware of any breach of representations, warranties and undertakings of the Sale and Purchase Agreement or that the Vendor or the Target Company cannot provide any such representations and warranties and satisfy any such undertakings in practice, the Purchaser may terminate the Sale and Purchase Agreement by notifying the Vendor and the Target Company in writing and may seek damages from the Vendor and the Target Company for its losses and costs incurred in connection with the Proposed Disposal before the termination of the Sale and Purchase Agreement. The Purchaser shall not be liable to the Vendor and the Target Company for the termination of the Sale and Purchase Agreement under such circumstances; and
- (3) If the Purchaser fails to settle the Consideration in accordance with the Sale and Purchase Agreement for more than 30 days since the due date of the Consideration, the Vendor may terminate the Sale and Purchase Agreement by notifying the Purchaser in writing and may seek damages in an amount that is equivalent to 20% of the Consideration.

In the event of any breaches of the provision by any parties to the Sale and Purchase Agreement, such party shall, in addition to performing other obligations stipulated under the Sale and Purchase Agreement, compensate and bears all losses, damages, expenses and responsibilities incurred or suffered by the non-breaching parties due to the breach.

INFORMATION OF THE PURCHASER

To the best of the Directors' knowledge, information and belief and after having made all reasonable enquiries, the Purchaser is an investment holding company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of NWS Holdings Limited. The Purchaser is principally engaged in the investment in infrastructure businesses of toll roads and power plant. As at the date of this announcement, the Target Company is owned as to 40% by the Purchaser.

NWS Holdings Limited is a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 659). The principal businesses of NWS Holdings Limited and its subsidiaries include: (i) the development, investment in and/or operation of roads, commercial aircraft leasing, construction and insurance; and (ii) the investment in and/or operation of logistics and facilities management.

INFORMATION OF THE TARGET COMPANY

The Target Company is a company established in the PRC with limited liabilities, and is principally engaged in the construction, operation and management of the Target Expressway.

As at the date of this announcement, the Target Company is owned as to 60% by the Group and 40% by the Purchaser.

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 2021 and the eight months ended 31 August 2022, respectively.

	For the financial year ended		For the eight
	31 December		months ended
	2020	2021	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	2022
			<i>HK\$'000</i>
Revenue	140,486	217,685	141,207
Net profit before taxation	12,671	75,707	43,878
Net profit after taxation	9,480	56,431	31,408

The unaudited net assets of the Target Company amounted to approximately HK\$340,082,000 as at 31 August 2022.

For the year ended 31 December 2021, the revenue of the Target Company has exhibited a significant year-on-year increase due to the year-on-year increase in traffic flow of the Target Expressway during the same year and the implementation of toll fee exemption policy in the PRC during the first half of the year ended 31 December 2020, which significantly limited toll receivables during the year ended 31 December 2020. The Target Company recorded a significant year-on-year increase in its net profit after taxation for the year ended 31 December 2021 mainly due to the aforesaid increase in the revenue.

For the eight months ended 31 August 2022, the revenue of the Target Company has declined slight as compared to the preceding corresponding period mainly due to the fluctuation of the exchange rate of HK\$ against RMB during the two periods. The Target Company recorded a decline in the net profit after taxation for the eight months ended 31 August 2022 as compared to that for the preceding corresponding period mainly due to the provision made for the eight months ended 31 August 2022 in respect of the compensations and liabilities to be borne by the Target Company under the legal proceedings relating to construction contract dispute commenced in 2021 whereby the Target Company was a defendant.

FINANCIAL IMPACTS

Immediately prior to Completion, the Target Company is owned as to 60% by the Group. Upon Completion, the Target Company will cease to be a subsidiary of the Group and its financial results, assets and liabilities will no longer be consolidated into the consolidated financial statements of the Group.

As at the date of this announcement, it is expected that the Group will record a net gain on Proposed Disposal of approximately HK\$337,269,000, which is calculated with reference to the Consideration of RMB555,700,000 (equivalent to approximately HK\$611,270,000), the net asset value of the Target Company as at 31 August 2022 in proportional to 60% equity interests therein of approximately HK\$204,049,000, the Adjustments, and the relevant transaction costs and expenses and taxation.

Shareholders should note that the actual amount of the net gain from the Proposed Disposal to be recognised in the consolidated financial statements of the Group depends on, among others, the financial positions of the Target Company at Completion and is subject to final audit.

EXPECTED USE OF PROCEEDS

Based on the Consideration, the net proceeds from the Proposed Disposal (after deducting the potential liabilities of the Group arising from the Adjustments, the related transaction costs and expenses and taxation) are expected to be approximately HK\$541,318,000. Subject to the final amount of the Adjustments which may result in a potential downward adjustment to the Consideration, the Group intends to apply the net proceeds from the Proposed Disposal in the following order:

- (i) approximately HK\$50,000,000 (representing approximately 9.2% of the total net proceeds) for the payment of dividend to be proposed by the Board in the Board meeting to be held around Completion;
- (ii) approximately HK\$102,000,000 (representing approximately 18.8% of the total net proceeds), for the full repayment of the amount due to the controlling shareholder of the Company, further details of which are set out below in the section headed “Reasons for and benefits of the Proposed Disposal”;

- (iii) approximately HK\$288,600,000 (representing approximately 53.3% of the total net proceeds) for the development and expansion of the liquor and spirits business of the Group including but not limited to acquisition of wine manufacturing business shall the appropriate opportunities arise. As at the date of this announcement, the Group has not entered into any agreements for potential transactions in relation to the aforesaid business development and expansion; and
- (iv) the balance of approximately HK\$100,718,000 (representing approximately 18.7% of the total net proceeds) for general working capital purpose.

REASONS FOR AND BENEFITS OF THE PROPOSED DISPOSAL

The Group is principally engaged in the construction, operation and management of the Target Expressway and the First Phase of Qing Ping Expressway, as well as the trading of liquor and spirits in the PRC.

According to the interim report of the Company for the six months ended 30 June 2022, the total toll revenue received from the Target Expressway and the traffic flow of the Target Expressway amounted to approximately HK\$102,891,000 and 6.0 million vehicles, respectively, for the six months ended 30 June 2022, decreased by approximately 5.2% and approximately 6.3% from that for the previous corresponding period. The decrease was mainly due to the economic downturn brought by the outbreak of the COVID-19 pandemic in the PRC and an increase in the price of petroleum. The Consideration of approximately RMB555,700,000 (equivalent to approximately HK\$611,270,000 and subject to Adjustments) payable to the Vendor represents a premium of approximately 199.6% over the proportionate net asset value of the Target Company of approximately HK\$204,049,000 as at 31 August 2022. Further, as set out in the section headed “Financial impacts” above in this announcement, it is expected that the Group will record a net gain on the Proposal Disposal of approximately HK\$337,269,000. Accordingly, the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder provides the Company with an opportunity to unlock the Group’s investment in the Target Company amid the recent uncertain economic environment and fluctuating COVID-19 pandemic condition in the PRC. Save and except for the Proposed Disposal, as at the date of this announcement, the Company does not have any intention to, or has not entered into any negotiation, arrangement, undertaking or understanding in respect of the disposal of any assets and/or business.

On the other hand, it is intended that the net proceeds from the Proposed Disposal shall be used by the Group for repaying the amount due to the controlling shareholder of the Company in full and for general working purposes. The aforesaid amount due to the controlling shareholder of the Company, which is interest-free, unsecured and without any specific due date, was arisen from the loan facility provided by Mr. Chan to the Company since around the year of listing of the Shares on the Stock Exchange when the Target Expressway was still in construction stage. The Company ceased to make any further withdrawals after around 2018. Considering that such loan facility with favourable terms was provided by Mr. Chan as his personal support to the Company’s development of the Target Expressway during its initial stage which heavily required capital support, and that the Company shall cease to have any equity interests in the Target Expressway upon Completion, the Board considers that it is justifiably reasonable to utilise part of the net proceeds from the Proposed Disposal for repaying the amount due to the controlling shareholder of the Company in full. In addition, gearing ratio of the Group has been continuously remained at a relatively high level of approximately 165.7% and approximately 145.6% as at 31 December 2021 and

30 June 2022, respectively. Accordingly, by utilising the net proceeds to repay the amount due to controlling shareholder of the Company in full, the gearing position of the Group shall be improved. Also, the resulting reduction in leverage of the Group, together with the intended allocation of a significant portion of the net proceeds for general working capital purpose, shall provide the Group with enhanced internal resources and financing capacity for, among others, future development should suitable opportunities arise, potentially enhancing the rate of return of the Company and the Shareholders' value in the future.

In addition, it is intended that the net proceeds from the Proposed Disposal shall be used by the Group for expanding its liquor and spirits business. For the year ended 31 December 2021, attributable to, among others, the reopening of economic activities in the PRC and sole distributorship for a brand of wine granted to the Group, the Group recorded satisfactory performance from the sales of liquor and spirits with a significant year-on-year increase in the segment revenue. Notwithstanding that the performance of the segment for the first half of 2022 was affected by the lock down policy due to the ongoing COVID-19 pandemic in the PRC, in light of the generally high vaccination rate in the PRC and the well-established distribution network of the Group, the Group remains confident in the performance of the business of trading liquor and spirits, and has been taking steps to boost the sales and marketing activities such as organising tasting events and promotion conference. Accordingly, the intended utilisation of the net proceeds from the Proposed Disposal for expanding the liquor and spirits business aligns with the business strategy of the Group.

Further, it is intended that approximately HK\$50,000,000 of the net proceeds from the Proposed Disposal shall be applied for dividend distribution so as to provide an opportunity for the Shareholders to share in the fruit of the Proposed Disposal. Assuming (i) the Proposed Disposal having been approved by the Shareholders; (ii) Completion having taken place; and (iii) that there is no change in the number of the Shares of 412,608,000 during the period from the date of this announcement to the record date for entitlement of the dividend, which shall 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, which is in the interest of the Shareholders.

Having considered the above reasons and benefits, the Directors (including the independent non-executive Directors) consider that the terms of the Sale and Purchase Agreement are fair and reasonable and the transactions contemplated thereunder are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Target Company is beneficially owned as to 60% by the Company and 40% by the Purchaser. As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed Disposal exceeds 75%, the Proposed Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules, and is therefore subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

In light of the Purchaser's shareholding in the Target Company, the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules. The Proposed Disposal therefore constitutes a connected transaction of the Company entered into with a connected person at the subsidiary level under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.101 of the Listing Rules, since the Board has approved the Proposed Disposal and the independent non-executive Directors have confirmed that the terms of the Proposed Disposal were fair and reasonable and the Proposed Disposal was entered into on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, the Proposed Disposal is exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

In light of the provision of the Guarantee and the intended partial allocation of the net proceeds from the Proposed Disposal for the full repayment of the amount due to Mr. Chan, further details of which are set out in the section headed "EXPECTED USE OF PROCEEDS" in this announcement, Mr. Chan is considered to have a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder. Accordingly, Mr. Chan has abstained from voting on the relevant Board resolution(s) approving the Sale and Purchase Agreement and the transactions contemplating thereunder, and he and his associates will abstain from voting on the relevant resolution(s) to be proposed at the EGM. Save for the above, to the best of the knowledge, information and belief of the Board, none of the Shareholders has a material interest in the Sale and Purchase Agreement and the transactions contemplating thereunder and hence, no other Shareholder will be required to abstain from voting on the resolution(s) to be proposed at the EGM to approve the same.

GENERAL

The EGM will be convened for the purposes of considering, and if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

As additional time is required for the preparation of the relevant information, a circular containing, among other things, (i) details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the financial information of the Group; (iii) the financial information of the Target Company; (iv) the notice of the EGM; and (v) other information as required under the Listing Rules, is expected to be despatched to the Shareholders on or before 6 January 2023.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 2 December 2022 at the request of the Company pending the issue and publication of this announcement. An application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 9:00 a.m. on 9 December 2022.

Completion is conditional upon the satisfaction of the Conditions in full 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.

DEFINITIONS

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

“Accounts”	collectively, the audited financial statements (including balance sheet, income statement and cash flow statement) of the Target Company for each of the year ended 31 December 2020 and 2021 under the General Accepted Accounting Principles of the PRC, as well as the unaudited financial statements of the Target Company for the period ended the Reference Date, as provided by the Target Company to the Purchaser pursuant to the terms of the Sale and Purchase Agreement
“Adjustments”	potential adjustments to the Consideration pursuant to the terms and conditions of the Sale and Purchase Agreement
“Board”	board of the Directors
“Business Day”	any day on which government organisations in the PRC are normally open for operation (i.e., Monday to Friday), including any Saturday or Sunday declared to be a temporary business day by the PRC government, but excluding any statutory holiday or any Saturday or Sunday that is not a declared temporary business day
“Company”	Huayu Expressway Group Limited, a company incorporated in Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange (stock code: 1823)
“Completion”	completion of the Proposed Disposal
“Completion Date”	date of Completion pursuant to the terms and conditions of the Sale and Purchase Agreement
“Condition(s)”	the condition(s) precedent to the Completion
“connected person(s)”	has the same meaning as defined in the Listing Rules
“Consideration”	the maximum total consideration for the Proposed Disposal
“Director(s)”	director(s) of the Company
“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 Sale and Purchase Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries

“Guarantee”	the joint and several guarantee to be provided by the Guarantors in favour of the Purchaser over the due performance and observance by the Vendor of all its Guaranteed Obligations pursuant to the terms and conditions of the Sale and Purchase Agreement with the total amount liable to the Purchaser by the Guarantors not exceeding the amount of the Consideration
“Guaranteed Obligations”	the due performance and observance by the Vendor of all its representations, warranties, undertaking, obligations and indemnities pursuant to the terms and conditions of the Sale and Purchase Agreement
“Guarantors”	collectively, the Company and Mr. Chan
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chan”	Mr. Chan Yeung Nam, the chairman of the Board, an executive Director and a controlling Shareholder
“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
“Proposed Disposal”	the proposed disposal of the Sale Shares by the Vendor to the Purchaser
“Purchaser”	NWS (Guangdong) Investment Company Limited, a company established in the PRC with limited liabilities and an indirect wholly-owned subsidiary of NWS Holdings Limited whose shares are listed on the Stock Exchange (stock code: 659)
“Reference Date”	31 August 2022
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 1 December 2022 entered into between, among others, the Vendor, the Purchaser and the Target Company in relation to the Proposed Disposal
“Sale Shares”	an aggregate of 60% of the issued equity interests in the Target Company as at the date of the Sale and Purchase Agreement
“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)
“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 with limited liabilities and a 60%-owned subsidiary of the Company as at the date of the Sale and Purchase Agreement
“Target Expressway”	随岳高速公路湖南段 (Sui-Yue Expressway (Hunan Section)) located in Hunan Province of the PRC owned and operated by the Target Company
“Vendor”	Good Sign Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Vendor’s Attributable Net Profit”	The amount of net profit of the Target Company attributable to the Vendor between the Reference Date and the Completion Date
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of PRC
%	per cent.

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

Hong Kong, 8 December 2022

As at the date of this announcement, the executive Directors are Mr. Chan Yeung Nam, Mr. Fu Jie Pin and Ms. Liu Bao Hua 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\$1.10. 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.