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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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ACQUISITION OF THE TARGET COMPANY

References are made to the announcements of Huayu Expressway Group Limited (i) dated 29 June 2023 (the “**Announcement**”) in relation to the Acquisition; and (ii) dated 25 August 2023 in relation to the delay in despatch of a circular. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

THE SUPPLEMENTAL AGREEMENT

The Board announces that on 27 September 2023 (after trading hours of the Stock Exchange), the Purchaser, the Vendor, Mr. Chan and the Target Company entered into the Supplemental Agreement to amend and supplement certain terms of the Equity Transfer Agreement, the major amendments of which are set out as follows:

Assets to be acquired

The Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire the Sale Interests, being 28% equity interests in the Target Company, subject to the terms and conditions of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement).

Consideration and payment terms

Pursuant to the Supplemental Agreement, the initial Consideration shall be revised to RMB140,000,000 (equivalent to HK\$152,600,000), which shall be payable by the Purchaser to the Vendor in the following manner:

- (i) as to the first instalment of Consideration of RMB130,000,000 (equivalent to HK\$141,700,000), being approximately 92.86% of the initial Consideration, or as adjusted in accordance with the below section headed “Adjustment to the Consideration”, shall be paid within 30 business days upon fulfilment (or waiver) of the Conditions Precedent; and
- (ii) as to the second instalment of Consideration of RMB10,000,000 (equivalent to HK\$10,900,000), being approximately 7.14% of the initial Consideration, or as adjusted in accordance with the below section headed “Adjustment to the Consideration”, shall be paid within five years from the Completion Date and within 30 business days upon fulfilment (or waiver) of the conditions precedent to payment of the second instalment of Consideration.

The revised Consideration was determined after arm's length negotiation between the Company and the Vendor with reference to the unaudited net asset value of the Target Company of approximately RMB499.85 million (equivalent to approximately HK\$544.84 million) as at 31 May 2023, having accounted for the Provision Amount (as defined below). The net asset value attributable to the Sale Interests amounted to approximately RMB139.96 million (equivalent to approximately HK\$152.56 million) as at 31 May 2023.

Adjustment to the Consideration

(i) Adjustment due to declaration of profits or dividends

In the event that the Target Company declares a distribution of profits or dividends before the Completion Date, the Purchaser shall have the right to deduct the portion of such distribution amount in proportion to the Sale Interests from the first instalment of Consideration in accordance with the following formula:

Adjusted first instalment of Consideration = RMB130,000,000 – distribution amount x 28%

(ii) Adjustment due to penalty arising from the Land Parcels

In consideration of the potential penalty and all related reasonable expenses in relation to the latest status of the Land Parcels, provision was made and reflected in the net asset value of the Target Company as at 31 May 2023, where the corresponding amount attributable to the Sale Interests amounted to approximately RMB3.63 million (the “**Provision Amount**”). The Purchaser and the Vendor agreed that subject to the actual penalty amount incurred within five years from the Completion Date attributable to the Sale Interests (the “**Penalty Amount**”), adjustment shall be made to the second instalment of Consideration as below:

Adjusted second instalment of Consideration = Initial Consideration – first instalment of Consideration + (Provision Amount – Penalty Amount)

In the event that the actual Penalty Amount incurred within five years from the Completion Date is less than the Provision Amount, the second instalment of the Consideration shall be adjusted upward by such difference. In the event that the actual Penalty Amount incurred within five years from the Completion Date exceeds the Provision Amount, the Purchaser shall have the right to deduct such excess amount from the second instalment of Consideration to be paid. In the event that the Penalty Amount exceeds the second instalment of Consideration and the Provision Amount, no further Consideration shall be paid by the Purchaser, and the Vendor shall compensate the Purchaser such excess amount within 15 business days upon receipt of written notice from the Purchaser.

The major amendments include the reduction in the Sale Interests from 65% to 28% and reduction of the Provision Amount, and all other corresponding changes arising from or relating to such reduction. Save as disclosed above, all other principal terms and conditions of the Equity Transfer Agreement shall remain unchanged and continue to be in full force and effect in all respects.

Following Completion, the Target Company will be owned as to 28% by the Purchaser, 37% by the Vendor and 35% by Shenzhen Meishanghui, respectively. Upon Completion, the Target Company will be accounted for by the Group using the equity method.

REASONS FOR ENTERING INTO THE SUPPLEMENTAL AGREEMENT

While the Group remains confident in the performance of the wine and spirits market in the PRC, following the execution of the Equity Transfer Agreement and after considering the unexpected substantial time required for preparation of the financial information of the Target Company (including the accountants' report of Guizhou Zunpeng) to be included in the circular to be despatched to the Shareholders, the Purchaser has agreed to acquire the Sale Interests, which represents a reduction from 65% to 28%, as a first step of investment in the Target Company. By acquiring a minority stake of the Target Company, it is expected that the Acquisition would still enable the Company to benefit from the potential upside of the Target Company and Guizhou Zunpeng in the long term through returns from equity investment. Subject to performance of the Target Company, the Company may consider to acquire further equity interest of the Target Company in the future.

The Directors (excluding members of the Independent Board Committee whose view will be formed after taking into account the advice from the Independent Financial Adviser) consider that the terms of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) exceeds 5% but all of the applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Mr. Chan, an executive Director and a controlling Shareholder, is interested in approximately 72.71% of the issued share capital of the Company through Velocity International Limited. The Vendor is wholly-owned by Mr. Chan. Therefore, the Vendor is an associate of Mr. Chan and a connected person of the Company. Accordingly, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Shareholders in respect of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder. Quam Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this regard.

An EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

GENERAL INFORMATION

A circular containing, among other things, (i) further details of the Acquisition; (ii) the recommendation from the Independent Board Committee to the Shareholders in respect of the Acquisition; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and Shareholders in respect of the Acquisition; and (iv) a notice convening the EGM, is expected to be despatched to the Shareholders on or before 25 October 2023 in order to allow sufficient time for preparation of the relevant information to be included in the circular.

DEFINITIONS

Unless the context otherwise requires, the following expressions shall have the following meanings in this announcement:

“Acquisition”	the acquisition of the Sale Interests by the Purchaser from the Vendor as contemplated under the Equity Transfer Agreement (as supplemented by the Supplemental Agreement)
“Consideration”	the consideration for the Sale Interests pursuant to the Equity Transfer Agreement (as supplemented by the Supplemental Agreement)
“Sale Interests”	28% of the equity interest in the Target Company
“Supplemental Agreement”	the supplemental agreement dated 27 September 2023 entered into among the Purchaser, the Vendor, Mr. Chan and the Target Company to amend and supplement certain terms of the Equity Transfer Agreement

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

Hong Kong, 27 September 2023

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. Chu Kin Wang, Peleus, Mr. Hu Lie Ge and Mr. Lam Hon Kuen.

For the purpose of illustration only and unless otherwise stated, conversion of RMB to HK\$ in this announcement is calculated at the approximate exchange rate of RMB1.00 to HK\$1.09.