THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in Huayu Expressway Group Limited (the "**Company**"), you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, the licensed securities dealer or registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or the transferee(s).

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
AND
(2) CONNECTED TRANSACTION

Financial adviser to the Company

VMS鼎珮

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

Lego Corporate Finance Limited
力高企業融資有限公司

A letter from the Board is set out on pages 6 to 30 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 31 of this circular.

A letter from Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 32 to 57 of this circular. A notice convening the EGM to be held at Unit 1205, 12/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong on Thursday, 13 December 2018 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22 Hopewell Centre 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the appointed time for holding the meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof (as the case may be) if you so wish.

23 November 2018

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In this circular, unless the context requires otherwise, the following terms have the following meanings:

"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
"associate(s)"	has the same meaning as defined in the Listing Rules
"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
"Concession Agreement"	a concession agreement entitled "Suizhou to Yueyang Expressway Hunan Section Project – 隨州至岳陽高速公路湖南段項目－特許投資、建設、經營、養護管理合同(Concessionary Investment, Construction, Operation and Maintenance Agreement)" entered into between 湖南省交通廳 (Department of Transport of Hunan Province) and the Target Company on 24 November 2009
"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 Board Committee"	independent committee of the Board comprising Mr. Sun Xiao Nian, Mr. Chu Kin Wang, Peleus and Mr. Hu Lie Ge, all being independent non-executive Directors
"Independent Financial Adviser"	Lego Corporate Finance Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO; and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder
"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
"Latest Practicable Date"	22 November 2018, being the latest practicable date prior to printing of this circular for ascertaining certain information contained in this circular
"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 circular, 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

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) as amended, supplemented or otherwise from time to time
"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 Top Talent
"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.

The English translations of the Chinese names are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.

For the purpose of illustration, the exchange rate between Renminbi and Hong Kong dollars provided in this circular is RMB1 = HK$1.129 (unless otherwise stated). The provision of such exchange rates does not mean that Hong Kong dollars could be converted into Renminbi based on such exchange rate.

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)

Executive Directors:
Mr. Chan Yeung Nam *(Chairman)*
Mr. Mai Qing Quan
Mr. Fu Jie Pin

Independent non-executive Directors:
Mr. Sun Xiao Nian
Mr. Chu Kin Wang, Peleus
Mr. Hu Lie Ge

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

Principal place of business in Hong Kong:
Unit 1205
12/F, Tower 1
Lippo Centre
89 Queensway
Hong Kong

23 November 2018

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL DISPOSAL AND (2) CONNECTED TRANSACTION

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 for the obligations of the Vendor 1), Mr. Chan (being a guarantor for the obligations of the Vendor 1 and the Vendor 2) 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 circular); 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.

As at the date of the Agreement and at the Latest Practicable Date, 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.

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.

The purpose of this circular is to provide you with, 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; required under the Listing Rules.

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" below in this letter.

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 Board has not engaged an independent valuer to perform an independent valuation on the Target Company in determining the Consideration 1. The Group is principally engaged in the toll road business in the PRC. In determining whether the consideration for the Disposal 1 is fair and reasonable, the Board has conducted comparable analysis for peer companies principally engaged in the toll road business in the PRC with annual revenue from such business segment having accounted for more than 50% of the total consolidated revenue during their respective latest financial years by reference to their latest published annual reports or prospectus available as at the date immediately before the Latest Practicable Date and primarily listed on the Main Board of the Stock Exchange. Since there are a few peer companies solely engaged in toll road business in the PRC, the Company conducts the analysis by reference to peer companies with revenue from toll road business in the PRC accounting for more than 50% of their respective annual revenue to achieve reasonable sample size and assessment. 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 multiples ("**P/E**") 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 table below sets out the comparison of historical P/Es of the Target Company and the peer companies:

Peer companies	**Market capitalization as at the date of Agreement** *(Approximately) HK$ million (Note 1)*	**Profit attributable to equity holders for the latest financial year** *(Approximately) HK$ million (Note 2)*	**Historical P/E** *(Approximately) times (Note 4)*
Anhui Expressway Company Limited (stock code: 995)	8,707.5	1,223.0 *(Note 3)*	7.12
Hopewell Highway Infrastructure Limited (stock code: 737)	12,542.5	789.8	15.88
Jiangsu Expressway Company Limited (stock code: 177)	48,596.6	4,050.7 *(Note 3)*	12.00
Qilu Expressway Company Limited (stock code: 1576)	3,320.0	596.3 *(Note 3)*	5.57
Shenzhen Expressway Company Limited (stock code: 548)	18,423.3	1,602.6 *(Note 3)*	11.50
Shenzhen International Holdings Limited (stock code: 152)	31,189.5	3,841.8	8.12
Yuexiu Transport Infrastructure Limited (stock code: 1052)	9,788.0	1,070.2 *(Note 3)*	9.15
Zhejiang Expressway Company Limited (stock code: 576)	28,186.8	3,615.2 *(Note 3)*	7.80
Maximum			15.88
Minimum			5.57
Average			9.64
The Disposal 1			47.2

Notes:

1. Market capitalisation of the peer companies are sourced from Bloomberg.

2. Figures are extracted from the latest published annual reports or prospectus of the peer companies available as at the date immediately before Latest Practicable Date.

3. The amount is converted into HK$ from RMB with the exchange rate applied in this circular.

4. The historical P/Es of the peer companies are calculated based on (1) their respective closing market capitalisation as at the date of Agreement; and (2) their profit attributable to equity holders for the latest financial year.

The historical P/E 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. As set out in the table above, the maximum historical P/E of peer companies is 15.88 times which is substantially lower than the implied P/E 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

The Agreement will only take effect after 湖南省交通運輸廳 (Department of Transportation of Hunan Province) has approved or filed as record of the transactions contemplated under the Agreement. 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 the provisions set out in the Agreement intended to survive termination of the Agreement in relation to fees and tax, confidentiality, governing law and dispute resolutions, notice, and validity and others. Pursuant to the fees and tax clause, the parties of the Agreement will bear their respective transaction costs, expenses and taxes arising from the preparation, negotiation, and execution of the Agreement. As at the Latest Practicable Date, the Purchaser and the Vendors have no intention to waive any of the above waivable conditions and no conditions of the above has been satisfied.

The Board expects that the Completion is going to take place on or before 31 March 2019.

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, including construction cost of approximately RMB29.9 million, land collection related fee of approximately RMB29.1 million, evaluation and consultancy fee of approximately RMB2.7 million and construction supervision fee of approximately RMB1.7 million. The Outstanding Construction Payables are due to independent contractors and expected to be settled within first half of 2019.

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.

As at the Latest Practicable Date, the Purchaser has commenced the due diligence review, and the Purchaser and Vendor 1 had not yet arrived a timetable for the provision of the Financial Support. Nevertheless, the Financial Support shall be provided to the Target Company on or before 31 March 2019 (or such other date as may be agreed by the Vendor 1 and the Purchaser in writing) pursuant to the Agreement.

3) 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.

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 Purchaser requested in the course of negotiation and the Company agreed that the Purchaser shall have a first right of refusal and a tag-along right. 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.

The grant of first right of refusal and tag-along right to incoming investor is common and widely adopted protection mechanism in joint ventures and infrastructure projects. The Group is entitled to appoint two-thirds of directors of the Target Company, and shall continue to manage the business of the Target Company after Completion. Accordingly, the Company considers that it is not unreasonable for the Purchaser to request for this protection. On this basis together with benefits set out in the section headed "Reasons for and benefits of the disposal" below, the Board considers the granting of the first right of refusal and tag-along right to the Purchaser to be fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

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.

SHAREHOLDING STRUCTURE OF THE TARGET COMPANY

The following table illustrates the shareholding structure of the Target Company as at the Latest Practicable Date and upon Completion of the Disposal 1 and the Disposal 2:

Shareholders	**As at the Latest Practicable Date**	**Immediately after completion of the Disposal 1 and the Disposal 2**
	%	%
The Vendor 1	90.0	60.0
The Vendor 2	10.0	0.0
The Purchaser	0.0	40.0
Total	100.0	100.0

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.

The Purchaser approached the Group to explore the potential acquisition of the equity interest in the Target Company.

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.

The Target Expressway was completed and opened to traffic in December 2011 and is approximately 24.08 km. It is one of the expressways with high economic potential in the PRC and is strategically located in Hunan Province, which is one of the high economic growth provinces in the PRC. Also, the Target Expressway is an integral part of the major artery between Hunan Province and Hubei Province.

Pursuant to the Concession Agreement, the concession period, during which the Group will operate the Target Expressway (excluding construction period), is 27 years. The concession period commenced from 29 December 2011 and will end on 28 December 2038. The Target Expressway was built based on the "build-operate-transfer" model. According to the Concession Agreement, all legal profits derived from operation of the Target Expressway during the concession period shall belong to the Target Company.

The Target Company obtains bank loan to finance partially the construction of the Target Expressway. The Company provides a single guarantee in favour of the bank in respect of the entire amount of bank loan.

Financial information of the Target Company

Set out below is the unaudited financial information of the Target Company as set out in Appendix II to this circular for the three financial years ended 31 December 2015, 2016 and 2017, and the six months ended 30 June 2018.

	Year ended 31 December			**Six months ended**
	2015	**2016**	**2017**	**30 June 2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	180,624	138,972	166,928	104,775
Net (loss)/profit (before taxation)	(185,925)	11,013	33,507	29,622
Net (loss)/profit (after taxation)	(188,010)	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.

Since August, 2017 武漢軍山長江大橋 (Wuhan Junshan Yangtze River Bridge) has been under maintenance and a large number of trucks were directed to use the Target Expressway. This is the primary reason for the significant increase in net profit in 2017 as compared to that in 2016.

Further details of the unaudited financial information of the Target Company are set out in Appendix II to this circular.

Roles and responsibilities of the Company and the Purchaser in the management of the Target Company and Target Expressway

Following Completion, the Purchaser will participate in the management of the Target Company by appointing various management positions. The board of directors of the Target Company shall comprise of 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. 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.

While both of the Purchaser and the Vendor 1 will provide the Financial Support pursuant to the Agreement after Completion, the Company will be responsible for the day-to-day operation of the Target Company except for certain corporate business as set out in sub-section headed "The Joint Venture Agreement" of the Target Company require unanimous board approval, and maintenance of the Target Expressway.

Business development plan of the Target Company

The Target Company aims to maintain and improve the quality of services to the users of the Target Expressway and to cater for the additional traffic led to the Target Expressway followed by the opening of a near-by expressway, 岳望高速 (Yue-Wang Expressway) which was opened to traffic in September 2018. 岳望高速 (Yue-Wang Expressway) is the southern extension of the Target Expressway and will complete the whole vertical corridor to bring new long-distance traffic on the Target Expressway. There was no plan to have material capital expenditure or capital commitment as of the Latest Practicable Date.

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 in this letter, 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 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 and provide the Target Company with the Financial Support in proportion to the Purchaser's equity interest in 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. The Company understands from the Purchaser that the Purchaser intends to appoint to the board of directors of the Target Company two directors who are executive directors of NWS as at the Latest Practicable Date to participate in the management of the Target Company. The Board is of the view that such two directors to be appointed by the Purchaser can benefit and contribute to the business development of the Target Company. On this basis, the 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 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 Latest Practicable Date 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 the respective 30% of it of approximately HK$43.5 million; and (c) the estimated related expenses of approximately HK$6 million and taxes of approximately HK$19.2 million 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.

In assessing the merits of the Disposal 1, the Directors have taken into consideration that the post-Completion profits or losses of the Target Company will be shared among the Vendor 1 and the Purchaser in proportion to their respective interests in the Target Company. The sharing of post-Completion profits or losses of the Target Company by the Group shall drop from 90% to 60% after the Completion.

Having considered the above reasons and benefits, the Directors 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 Latest Practicable Date, that the Company does not have any intention or plan, and has not entered into or proposed to enter into any agreement, arrangement, understanding or undertaking or negotiation whether formal or informal and whether expressed or implied to acquire any new business or dispose of any further equity interest in the Target Company, nor downsize or dispose of its existing business. The Company intends to continue the operation of the Target Company after Completion.

In order to promote business of the Group, the Group intends to develop wine trading business itself by the Group's internal resources. At the Latest Practicable Date, the Company's subsidiary signed a memorandum with a PRC wine manufacturer for the supply of wine. Pursuant to the memorandum dated 26 September 2018, the Group can request the PRC wine manufacturer to supply up to 300 tons of wine and the price of wine shall be determined by the PRC wine manufacturer from time to time. The memorandum shall expire on 31 December 2018 and can be renewed upon agreement among parties. For prudent management, the Group does not intend to devote substantial resources to develop the wine trading business at this stage. The Group has paid approximately RMB6 million to the PRC wine manufacturer for ordering the wine and is in the process of looking for suitable customers for commencing business. Subject to market response of the wine, the Group may consider to renew the memorandum upon its expiry. Since the Group had not yet received the wine, no revenue had been recorded by the Group as at the Latest Practicable Date. The wine trading business may generate certain amount of revenue for coming few months.

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 on or before 31 March 2019 (or such other date as may be agreed by the Vendor 1 and the Purchaser in writing) pursuant to the Agreement;

(b) approximately HK$50 million for the payment of possible dividend to be proposed by the Board in the forthcoming Board meeting held for considering and approving the interim or annual results of the Company after Completion. If the Board determines not to declare any dividend, such amount shall be deployed by the Group for business development such as enhancing facilities such as toll system, monitoring system, snow blower, geothermal heat pump, diesel generator set and sweeper truck for promotion and enhancing the business; and

(c) remaining balance of approximately HK$158.2 million as general working capital of the Group for the payment of operating costs such as staff costs, and/or reserve for possible repayment of loans and liabilities such as bank loan to lower level of indebtedness 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 at 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 Group recorded net current liabilities of approximately HK$127.7 million on 30 June 2018. As set out in the unaudited pro forma consolidated statement of financial position of the Group shown in Appendix III to this circular, the Group would record net current assets of approximately HK$245.0 million. Accordingly, the Company is of the view that the improvement of net assets position can strengthen the financial position of the Group to address the possible going concern issue.

As shown in Appendix II to this circular, the unaudited net profit of the Target Company surged from approximately HK$2.7 million in 2016 to HK$28.1 million in 2017. The Target Company recorded unaudited net profit of approximately HK$25.3 million for the first half of 2018. The significant improvement of net profits of the Target Company was due to the increase of trucks using the Target Expressway from August 2017 as a result of maintenance work of 武漢軍山長江大橋 (Wuhan Junshan Yangtze River Bridge). There is no assurance that the number of vehicles using the Target Expressway will remain at current level after completion of maintenance work of 武漢軍山長江大橋 (Wuhan Junshan Yangtze River Bridge). The drop of vehicles using the Target Expressway may have material adverse impact on the Group's financial results. For prudent financial management, the Company considers it to be appropriate to apply approximately HK$158.2 million as general working capital for the payment of operating costs, such as staff costs and/or lowering the indebtedness of the Group by possible repayment of loans and liabilities such as bank loan.

As of 30 June 2018, the Group had outstanding bank loan of approximately HK$1,091 million, and repayable as follows:

	At 30 June 2018 *HK$ million*
Within 1 year or on demand	77.1
After 1 year but within 2 years	89.0
After 2 years but within 5 years	338.0
After 5 years	587.1
	1,091.2

The other liabilities as of 30 June 2018 include mainly accruals and other payables (excluding construction payable) of approximately HK$40.2 million incurred in the normal course of business which was repayable within one year, and amount due to controlling shareholder of the Company of approximately HK$125.8 million which will not be requested for repayment until after 31 December 2019, unless the Group has obtained funding from other sources and is in a position to meet all repayment obligations at that time.

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.

FINANCIAL EFFECT OF THE DISPOSAL 1

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.

Based on the 2018 interim report, the Group had total assets, total liabilities and net assets attributable to Shareholders of the Company of approximately HK$1,582.5 million, HK$1,528.1 million and HK$39.9 million, respectively as at 30 June 2018. Following Completion, based on the unaudited pro forma financial information of the Group as set out in Appendix III to this circular, the Group's pro forma total assets, total liabilities and net assets attributable to Shareholders of the Company would be approximately HK$1,955.2 million, HK$1,528.1 million and HK$369.1 million, respectively. The increase in total assets is mainly attributable to the net proceeds from the Disposal 1. The estimated one-off gain on disposal contributes primarily the increase of pro-forma net assets attributable to Shareholders.

As of 30 June 2018, the consolidated cash and cash equivalent of the Group were approximately HK$43.5 million and the cash and cash equivalent to total assets ratio was approximately 2.8%. As set out in the unaudited pro forma financial information of the Group shown in Appendix III to this circular, upon Completion, the unaudited pro forma cash and cash equivalent of the Group would be approximately HK$416.2 million and the cash and cash equivalent to total assets ratio was approximately 21.3%. The unaudited pro forma cash and cash equivalent of the Group of approximately HK$416.2 million has not taken into account the usage of net proceeds for the committed Financial Support of approximately HK$164.5 million set out in the section headed "Use of net proceeds for the disposal" above.

The profit attributable to equitable Shareholders of the Company of the Group amounted to approximately HK$15.8 million for the year ended 31 December 2017. As based on the unaudited pro forma financial information of the Group as set out in Appendix III to this circular, upon Completion, the unaudited pro forma profit attributable to equity shareholders of the Company would be decreased by approximately HK$8.4 million to approximately HK$7.4 million for the year ended 31 December 2017, mainly because an additional 30% of the profit of the Target Company for the year ended 31 December 2017 would have been shared by the non-controlling interest had the Disposal 1 taken place on 1 January 2017.

The net increase in cash and cash equivalents was approximately HK$18.7 million for the year ended 31 December 2017. As based on the unaudited pro forma financial information of the Group as set out in Appendix III to this circular, upon Completion, the unaudited pro forma net increase in cash and cash equivalents would be approximately HK$391.4 million for the year ended 31 December 2017. The increase is mainly attributable to the net proceeds from the Disposal 1.

The estimated gain on disposal after taxation to be recognized in the consolidated equity accounts of approximately HK$329.2 million represents an one-off gain from the Disposal 1. Subsequent to the Completion, the post-Completion profits or losses of the Target Company will be shared among the Vendor 1 and the Purchaser in proportion to their respective interests in the Target Company. The sharing of the profits of the Target Company by the Group shall be reduced from 90% prior to the Completion to 60% after Completion.

Further details of the unaudited pro forma financial information of the Group are set out in Appendix III to this circular.

LISTING RULES IMPLICATIONS

As at the date of the Agreement, 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.

EGM

The EGM will be held to consider and, if thought fit, pass, with or without modification, the ordinary resolution to approve, among other things, the Agreement and the transactions contemplated thereunder by way of poll. Mr. Chan owns the entire issued share capital of Velocity International Limited which is interested in, approximately 72.71% of the share capital of the Company as at the Latest Practicable Date, Mr. Chan and its 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 approving the Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, other than the Mr. Chan and its associates, no other Shareholder had a material interest in the Agreement and transactions contemplated thereunder as at the Latest Practicable Date.

A form of proxy for use by the Independent Shareholders at the EGM is accompanied with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the appointed time for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

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.

RECOMMENDATION

The Board considers that the terms of the Agreement are fair and reasonable; and the Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve, among other things, the Agreement and the transactions contemplated thereunder.

Your attention is drawn to the advice of the Independent Board Committee set out in its letter on page 31 of this circular and the letter of advice from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Agreement and the transactions contemplated thereunder, and the principal factors and reasons considered by them in arriving at such advice set out on pages 32 to 57 in this circular.

The Independent Board Committee, having taken into account the advice of Independent Financial Adviser, considers that the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable; the Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; and accordingly the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve, among other things, the Agreement and the transactions contemplated thereunder.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the EGM, the register of members and transfer books of the Company will be closed from 10 December 2018 to 13 December 2018 (both days inclusive), during which period no transfer of Shares will be registered. The record date for entitlement to attend and vote at the EGM is 13 December 2018. In order to qualify to attend and vote at the EGM, all transfers of Shares, accompanied by relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 7 December 2018.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular.

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

The following is a full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in this circular:

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)

23 November 2018

To the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL DISPOSAL AND (2) CONNECTED TRANSACTION

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder, details of which are set out in the Letter from the Board in the circular dated 23 November 2018 to the Shareholders (the "**Circular**"). Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder. Having taken into account the advice of the Independent Financial Adviser, we are of the view that notwithstanding the Agreement and the transactions contemplated thereunder are not implemented in the ordinary and usual course of business of the Company (being the construction, operation and management of the Target Expressway in the PRC) the Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve, among other things, the Agreement and the transactions contemplated thereunder.

Yours faithfully,

Sun Xiao Nian | **Chu Kin Wang, Peleus** | **Hu Lie Ge**

Independent Board Committee

The following is the full text of the letter from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this Circular.

Lego Corporate Finance Limited
力高企業融資有限公司

23 November 2018

To: The Independent Board Committee and the Independent Shareholders of
Huayu Expressway Group Limited

Dear Sirs and Madams,

(1) VERY SUBSTANTIAL DISPOSAL AND (2) CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 23 November 2018 (the "**Circular**"), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

Reference is made to the announcement of the Company dated 25 October 2018, according to which on 18 October 2018 (after trading hours), the Purchaser, the Vendor 1 (a subsidiary of the Group; as a vendor and a warrantor), the Vendor 2 (a company wholly-owned by Mr. Chan; as a vendor and a warrantor), the Company (as a guarantor for the obligations of the Vendor 1), Mr. Chan (as a guarantor for the obligations of the Vendor 1 and the Vendor 2) and the Target Company (as a warrantor) entered into the Agreement.

Pursuant to the Agreement, among others:

(i) the Purchaser has conditionally agreed to acquire, and the Vendor 1 and the Vendor 2 have conditionally agreed to sell 30% and 10% equity interests in the Target Company, respectively, free from all encumbrances;

(ii) 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 interests in the Target Company for the Target Company to repay (a) the Shareholder's Loans; and (b) the Outstanding Construction Payables;

(iii) 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;

(iv) 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; and

(v) 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 (subject to Adjustment), comprising the Consideration 1 of approximately RMB352.45 million (subject to Adjustment) and the Consideration 2 of approximately RMB117.48 million (subject to Adjustment), which shall be payable in cash by the Purchaser to the Vendor 1 and the Vendor 2 by reference to the equity interests in the Target Company to be disposed of by them respectively.

As at the Latest Practicable Date, the Company was beneficially owned as to approximately 72.71% by Mr. Chan, and the Vendor 2 was wholly-owned by Mr. Chan, an executive Director and a controlling Shareholder. Therefore, as at the Latest Practicable Date, the Vendor 2 was an associate of Mr. Chan and therefore 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 for 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. Therefore, the Disposal 1 is 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.

According to the Letter from the Board, as at the Latest Practicable Date, Mr. Chan owned the entire issued share capital of Velocity International Limited, which was interested in approximately 72.71% of the share capital of the Company. Accordingly, 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 approving the Agreement and the transactions contemplated thereunder proposed to be passed at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The 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 established to advise the Independent Shareholders as regards the terms of the Agreement and the transactions contemplated thereunder.

We, Lego Corporate Finance Limited, have been appointed by the Company as the Independent Financial Adviser in accordance with the requirements of the Listing Rules to advise the Independent Board Committee and the Independent Shareholders as regards the Agreement and the transactions contemplated thereunder. Our appointment has been approved by the Independent Board Committee.

During the past two years, save for the engagement in connection with the Agreement and the transactions contemplated thereunder, we had not been engaged by the Company for the provision of other services that would affect our independence. Apart from the normal professional fees for our services to the Company in connection with the engagement to act as the Independent Financial Adviser, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Group, Vendor 2, the Purchaser, Mr. Chan or any of their respective substantial shareholders, directors or chief executives, or of their respective associates that could reasonably be regarded as relevant to our independence. We are independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Agreement and the transactions contemplated thereunder.

BASIS OF OUR ADVICE

In formulating our opinions and recommendations, we have reviewed, *inter alia*, the Agreement, the announcement of the Company dated 25 October 2018, the respective annual reports of the Company for the financial years ended 31 December 2015, 31 December 2016 and 31 December 2017 (respectively, the "**2015 Annual Report**", the "**2016 Annual Report**" and the "**2017 Annual Report"**), and the interim report of the Company for the six months ended 30 June 2018 (the "**2018 Interim Report**"). We have also reviewed certain information provided by the management of the Company relating to the operations, financial conditions and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the terms of the Agreement and the transactions contemplated thereunder, the businesses and future outlook of the Group. We have taken reasonable steps to ensure that such information and statements, and any representation made to us, which we have relied upon in formulating our opinions, are true, accurate and complete in all material respects as of the Latest Practicable Date and the Shareholders shall be notified of any material changes, if any, as soon as possible.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Letter from the Board and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Letter from the Board have been arrived at after due and careful consideration and there are no other facts not contained in the Letter from the Board, the omission of which would make any statement herein or in the Letter from the Board misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of and reasons for entering into the Agreement and the transactions contemplated thereunder to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us as at the Latest Practicable Date.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Agreement and the transactions contemplated thereunder. Except for its inclusion in the Circular, this letter shall not be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions in respect of the Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1 Background information on the Group

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

Set out below in Table 1 is certain financial information of the Group for the three financial years ended 31 December 2017 as extracted from the Annual Report 2016 and the Annual Report 2017, and for each of the six months ended 30 June 2017 and 30 June 2018 as extracted from the 2018 Interim Report.

Table 1: Financial information of the Group

	For the six months ended 30 June		For the year ended 31 December		
	2018	2017	2017	2016	2015
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	104,775	74,711	166,928	138,972	180,624
Profit/(loss) for the period	21,992	4,290	18,652	(10,211)	(199,508)

	As at 30 June	As at 31 December		
	2018	2017	2016	2015
	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	1,510,080	1,557,768	1,406,235	1,520,732
Current assets	72,415	52,445	16,845	28,048
Current liabilities	(200,136)	(209,888)	(130,240)	(763,614)
Net current liabilities	(127,721)	(157,443)	(113,395)	(735,566)
Non-current liabilities	(1,327,984)	(1,366,034)	(1,284,383)	(760,563)
Net assets	54,375	34,291	8,457	24,603

For the year ended 31 December 2016

The total revenue of the Group decreased by approximately 23.06% from approximately HK$180.62 million for the year ended 31 December 2015 to approximately HK$138.97 million for the year ended 31 December 2016. Based on the Annual Report 2016, such decrease in revenue was attributable to the decreases in both of the total toll fee revenue and total rental income arising from the Target Expressway during the reporting year. According to the Annual Report 2016, total amount of toll fee revenue of the Target Expressway for the year ended 31 December 2016 was approximately HK$119.67 million, representing a decrease of approximately 14.23% from that of approximately HK$139.52 million in the preceding year. Such decrease in total amount of toll fee revenue was mainly due to the implementation of traffic restrictions in Hunan Province regarding over-loaded vehicles, which has significantly reduced the numbers of over-loaded vehicles and the average toll fee per vehicle under the toll-by-weight charging system. On the other hand, rental income from the service area along the Target Expressway for the year ended 31 December 2016 was approximately HK$19.31 million, representing a decrease of approximately 53.03% from that of approximately HK$41.11 million for the preceding year. It is stated in the Annual Report 2016 that such decrease in rental income was due to the inception concession arrangement in place for the then renewed lease for the service area along the Target Expressway, resulting in a relatively lower annual rental income for the first few years as compared to the average rental for the entire lease term.

For the year ended 31 December 2016, the Group recognised loss of approximately HK$10.21 million, demonstrating an improvement as compared to its loss of approximately HK$199.51 million recorded for the year ended 31 December 2015. Based on the Annual Report 2016, such improvement was mainly due to the recognition of significant impairment loss of intangible assets of approximately HK$157.99 million for the year ended 31 December 2015, while no such loss was recorded for the year ended 31 December 2016. According to the Annual Report 2015, in light of (i) the impact of the then traffic restriction in Hunan Province regarding motor vehicles on the toll revenue of the Target Expressway for the then financial year; (ii) the then negotiations between the Group and the lessee on the renewal of the rental agreement of the service areas within the Target Expressway; and (iii) the estimated impact of the prevailing downturn of the economic environment in the PRC on the then rental revenue to be generated from the service areas within the Target Expressway, the Group carried out an assessment of the recoverable amount of the cash generating unit containing the Target Expressway, upon which the carrying amount of the intangible asset-service concession arrangement related to the Target Expressway was written down by approximately HK$157.99 million for the year ended 31 December 2015.

As at 31 December 2016, the Group recorded net current liabilities and net assets of approximately HK$113.40 million and approximately HK$8.46 million, respectively.

For the year ended 31 December 2017

For the year ended 31 December 2017, total revenue of the Group increased by approximately 20.12% from approximately HK$138.97 million for the preceding year to approximately HK$166.93 million. Based on the Annual Report 2017, such increase in revenue was mainly attributable to the year-on-year increase in total toll fee revenue from the Target Expressway, which was primarily due to the induction of a significant amount of traffic by the continuous improvement in the highway network system within the districts around the Target Expressway, as well as the maintenance work of the Wuhan Junshan Bridge during the reporting year.

For the year ended 31 December 2017, the Group recognised profit of approximately HK$18.65 million against the loss of approximately HK$10.21 million as recorded for the preceding year. Based on the Annual Report 2017, such turnaround was mainly attributable to the above-mentioned year-on-year increase in total revenue and the saving in the interest cost resulted from the partial repayment of bank loan made during the year ended 31 December 2017.

As at 31 December 2017, the Group recorded net current liabilities and net assets of approximately HK$157.44 million and approximately HK$34.29 million, respectively.

For the six months ended 30 June 2018

For the six months ended 30 June 2018, total revenue of the Group was approximately HK$104.78 million, representing an increase of approximately 40.25% as compared to that of approximately HK$74.71 million for the preceding corresponding period. Based on the Interim Report 2018, such increase in revenue was mainly attributable to the significant increase in total toll revenue from the Target Expressway, which was resulted from the induction of a significant amount of traffic by the continuous improvement in the highway network system within the districts around the Target Expressway during the six months ended 30 June 2018.

For the six months ended 30 June 2018, the Group recognised profit of approximately HK$21.99 million, representing a significant increase of approximately 412.59% from that of approximately HK$4.29 million for the preceding corresponding period. Based on the Interim Report 2018, such improvement was mainly attributable to the above-mentioned significant increase in total toll revenue from the Target Expressway during the six months ended 30 June 2018.

As at 30 June 2018, the Group recorded net current liabilities and net assets of approximately HK$127.72 million and approximately HK$54.38 million, respectively.

2 Background information on the Target Company

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

Set out below in Table 2 is certain financial information of the Target Company for each of the three financial years ended 31 December 2017 and the six months ended 30 June 2018, prepared in accordance with Hong Kong Financial Reporting Standards and as extracted from Appendix II to the Circular.

Table 2: Financial information of the Target Company

	For the six months ended 30 June 2018	For the year ended 31 December 2017	2016	2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	104,775	166,928	138,972	180,624
Net profit/(loss) (before taxation)	29,622	33,507	11,013	(185,925)
Net profit/(loss) (after taxation)	25,302	28,069	2,662	(188,010)

	As at 30 June 2018	As at 31 December 2017	2016	2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	1,510,079	1,557,768	1,406,234	1,520,733
Current assets	65,974	45,760	11,059	21,048
Current liabilities	(198,197)	(206,286)	(126,426)	(759,807)
Net current liabilities	(132,223)	(160,526)	(115,367)	(738,759)
Non-current liabilities	(1,232,737)	(1,275,536)	(1,204,278)	(692,239)
Net assets	145,119	121,706	86,589	89,735

3 Reasons for and benefits of the entering into of the Agreement and the transactions contemplated thereunder

In assessing the fairness and reasonableness of entering into the Agreement and the transactions contemplated thereunder, we have primarily taken into account the factors of (i) the potential strategic partnership to be established with NWS; and (ii) the partial realisation of investment in the Target Company and the intended use of net proceeds.

3.1 Potential strategic partnership to be established with NWS

In conducting our analysis under this sub-section, we have mainly considered the business development of the Group as well as the background of the Purchaser and NWS.

Business development of the Group

As previously mentioned, through its 90% equity interests in the Target Company, the Group is principally engaged in the construction, operation and management of the Target Expressway, which in turn is the main revenue driver of the Group. Strategically located in Hunan Province, Target Expressway was completed and opened to traffic in December 2011, and is an integral part of the major artery between Hunan Province and Hubei Province. Driven by the recent completion of the Hang-Rui Expressway (Hunan Section) and Yue-Wang Expressway, which respectively connects the Target Expressway to the whole expressway network of Hunan province and completes the whole vertical transport corridor in Hunan Province, a significant amount of new traffic has been induced to the Target Expressway. With reference to the Interim Report 2018, the average monthly traffic flow of the Target Expressway and the average toll revenue per vehicle for the six months ended 30 June 2018 increased by approximately 39.71% and approximately 13.57% respectively as compared to the respective corresponding figures recorded for the six months ended 30 June 2017. With the continuous improvement in the highway network system within the districts nearby, it is expected that the prospect of the Target Expressway will remain positive in the near future.

While Target Expressway has been, and will continue to be, a principal business project of the Group, it is mentioned in the recent annual reports and interim reports of the Company that the Group will also consider exploring into other business opportunities including other infrastructure projects in the PRC with an aim to generate a satisfactory return on investment. As at the Latest Practicable Date, the Company did not have any intention or plan, and had not entered into or proposed to enter into any agreement, arrangement, understanding, undertaking or negotiation, whether formal or informal and whether expressed or implied, to acquire any new business or dispose of further interest in the Target Company, nor downsize or dispose of its existing business. By its internal resources, the Group intends to develop wine trading business itself, further details of the development progress of which are set out in the section headed "REASONS FOR AND BENEFITS OF THE DISPOSAL" of the Letter from the Board.

Background of the Purchaser and NWS

According to the Letter from the Board, 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 plants.

NWS is an investment holding company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 659). The subsidiaries of NWS are principally engaged in (i) the infrastructure division through the development, investment, operation and/or management of roads, environmental projects, commercial aircraft leasing as well as ports and logistics facilities; and (ii) the services division through the investment in and/or operation of facilities, duty free shops, healthcare, construction, transport and strategic investments.

According to the latest annual report of NWS for the financial year ended 30 June 2018, attributable operating profit of NWS and its subsidiaries (the "**NWS Group**") for the year ended 30 June 2018 increased by 8.09% to approximately HK$5.23 billion as compared with the preceding financial year, reflecting a significant increase of approximately 21.39% for the infrastructure division and a decrease of approximately 16.10% for the services division. The infrastructure division indeed has consistently been the main contributor to the total annual attributable operating profits of the NWS Group, with the proportion of such contribution having been increased annually throughout at least the past five years. According to the official website of NWS (*https://www.nws.com.hk/*), several infrastructure projects (including road projects) of the NWS Group had achieved industrial awards including the "Excellent Enterprise of National Transportation and Cultural Construction Award" and the selection as the "Safe Road of Guangdong Province for 2016" in 2017. As at 30 June 2018, the NWS Group operated 97 infrastructure projects in aggregate, among which 15 of them belonged to the roads segment, which spread across six different provinces in the PRC including Guangdong, Zhejiang, Guangxi, Shanxi, Tianjin and Hubei, and collectively covered approximately 700 kilometres in length. Having accounted for over 50% of the total attributable operating profit of the NWS Group's infrastructure division and achieved the highest percentage growth in such figure during the year ended 30 June 2018, road segment represents one of the most important infrastructure segments of the NWS Group with significant growth potentials in the future.

Upon Completion, toll road business shall continue to be the principal business of the Group. Leveraging on the industrial recognition for, and the extensive footprint of the NWS Group's roads segment along with its solid segmental financial performance, the strategic partnership with NWS to be established under the Agreement and the transactions contemplated thereunder shall help foster the development of the Group's existing toll road business through the operation of Target Expressway, as well as facilitate the potential expansion of such business from Hunan Province to other strategic areas in the PRC including the Pearl River Delta Region. Further, it is expected that the expertise and know-how, business network and the established resources of the NWS Group with respect to other segments under the infrastructure division, namely, environment, logistics and aviation may help the Group with tapping into other suitable business opportunities should they arise, which may ultimately enhance returns to the Shareholders.

3.2 Partial realisation of investment in the Target Company and the intended use of net proceeds

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, we concur with the views of the Directors that the Disposal 1 provides the Company with an opportunity to unlock part of its investment in the Target Company. After deducting the related expenses and taxation, net proceeds from the Disposal 1 are estimated to be approximately HK$372.7 million.

It is intended that out of the net proceeds from the Disposal 1, approximately HK$164.5 million will be used for the Group's provision of the proportionate Financial Support on or before 31 March 2019 (or such other date as may be agreed by the Vendor 1 and the Purchaser in writing) pursuant to the Agreement, and approximately HK$158.2 million will be used as the Group's general working capital for the payment of operating costs and/or reserve for possible repayment of loans and liabilities of the Group. As shown in Table 1 above, the Group recorded net current liabilities as at 31 December 2015, 2016 and 2017, as well as 30 June 2018. In fact, the auditors of the Company have drawn attention in their review report contained in the Interim Report 2018 to the net current liabilities and accumulated losses of the Group as at 30 June 2018 of approximately HK$127.72 million and approximately HK$638.05 million, respectively, and stated that the validity of the Interim Report 2018 being prepared on a going concern basis depended upon the ongoing support from the Group's bankers and the controlling Shareholder, as well as 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. Based on the total liabilities and net assets of the Group of approximately HK$1,528.12 million and approximately HK$54.38 million, respectively, gearing ratio of the Group as at 30 June 2018 remained at a relatively high level of approximately 2,810.08%. As advised by the management of the Company, as at the date of the Agreement, the outstanding balance of the Shareholder's Loans amounted to approximately RMB179.5 million, whereas the Outstanding Construction Payables amounted to approximately RMB63.4 million. By utilising a majority of the net proceeds from Disposal 1 for such repayments, the risk of breach of the underlying repayment obligations shall be mitigated and the existing gearing position of the Target Company, and therefore that of the Group, shall be improved. Further, the resulting reduction in leverage of the Group, together with the intended allocation of a significant portion of net proceeds for its general working capital purpose, shall provide the Group with enhanced internal resources and financing capacity for, among others, future development should suitable opportunities arise, easing the possible going concern issue of the Group and/or ultimately enhancing the rate of return of the company and the Shareholders' value in the future. With reference to Appendix III to the Circular, assuming completion of the Disposal 1 had taken place on 30 June 2018, net current assets of approximately HK$245.02 million would be recorded by the Remaining Group as opposed to net current liabilities if otherwise.

On the other hand, it is intended that approximately HK$50 million of the net proceeds from the Disposal 1 will be used for the Group's payment of possible dividend to be proposed by the Board in the forthcoming Board meeting to be held for considering and approving the interim or annual results of the Company after Completion, or for the Group's business development if the aforesaid possible dividend payment does not materialise eventually. Assuming that (i) Disposal 1 has been approved by the Independent Shareholders; (ii) Completion has taken place; and (iii) there is no change in the number of issued Shares of 412,608,000 during the period from the Latest Practicable Date to the record date for entitlement of the dividend (to be determined by the Board), it is expected that subject to the approval by the Board, the dividend in an amount of approximately HK$0.121 per Share may be proposed by the Board. We are of the view that such possible dividend distribution is in the interests of the Independent Shareholders.

In conclusion, in light of the foregoing, we are of the view that the entering into of the Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

4 Principal terms of the Agreement and the transactions contemplated thereunder

Pursuant to the Agreement, among others, the Purchaser has conditionally agreed to acquire, and Vendor 1 and Vendor 2 have conditionally agreed to sell 30% and 10% equity interests in the Target Company, respectively, free from all encumbrances.

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

Completion will be conditional upon the fulfilment or waiver, as the case may be, of all the conditions precedent to the Agreement, details of which are set out in the sub-section headed "Completion and Conditions" in the Letter from the Board.

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

4.1 Assessment of the Consideration 1

According to the Letter from the Board, the Consideration was determined after arm's length negotiations between the Vendors and the Purchasers with reference to, among others, the performance and prospects of the Target Company. The Board has not engaged any independent valuer to perform any independent valuation on the Target Company in determining the Consideration 1. The Total Consideration of RMB469.93 million (subject to Adjustment) values 40% of the entire equity interest of the Target Company at approximately RMB1,174.8 million (equivalent to approximately HK$1,326.3 million). By determining the Consideration 1 and the Consideration 2 with reference to the respective equity interests in the Target Company to be disposed of by the Vendor 1 and the Vendor 2, it is noted that the Consideration 1 of approximately RMB352.45 million (subject to Adjustment) and the Consideration 2 of approximately RMB117.48 million (subject to Adjustment) are equivalent to 30% and 10% of the entire equity interests of the Target Company at approximately RMB1,174.8 million (equivalent to approximately HK$1,326.3 million), respectively.

4.1.1 Determination of the Consideration 1

In assessing the fairness and reasonableness of the Consideration 1, we have also conducted a comparison with comparable companies by considering the price-to-earnings ("**P/E**") valuation approach and the price-to-book ("**P/B**") valuation approach, which respectively indicate the Consideration 1 to be received by the Group on each HK$ of the earnings and net assets respectively attributable to the 30% equity interest in the Target Company to be disposed of under the Disposal 1.

In conducting the P/E and P/B analyses, considering that the Target Company is solely engaged in the toll road business in the PRC, we have initially identified companies from the public domain that (i) are listed on the Stock Exchange; and (ii) are solely engaged in the operation of toll roads in the PRC. Yet, on a best-effort basis, merely two comparables, namely Yuexiu Transport Infrastructure Limited (stock code: 1052.HK) and Anhui Expressway Company Limited (stock code: 995.HK/600012.CH) were identified to have met all of the above selection criteria. In order to obtain a reasonable sample size for the comparable analysis, we have therefore extended the selection criteria to include all listed companies in Hong Kong which are primarily engaged in the operation of toll roads in the PRC with annual revenue from such business segment having accounted substantially for more than 50% of the total consolidated revenue during their respective latest financial years (the "**Selection Criteria**"). On a best-effort basis, we have identified an exhaustive list of nine comparable companies that have met all of the Selection Criteria (the "**Comparables**"). Notwithstanding the Comparables may or may not be identical to the Target Company in terms of the principal business, operations and financial position, we consider that our analysis, which was conducted based on the Selection Criteria, could provide a general reference for our assessment of the Consideration 1 by making reference to other companies in the market with principal business being substantially comparable to that of the Target Company.

It is worth noting that the implied P/E and implied P/B of the Target Company in proportion to the 30% equity interests therein to be disposed of under the Disposal 1 (respectively, the "**Implied P/E**" and the "**Implied P/B**") are respectively compared with the P/E and P/B of the Comparables in our analysis based on the assumption that interests in private companies can be converted into cash quickly at minimum costs in an active open market as the interests in public companies. Yet, in reality, interests in private companies generally do not possess such characteristics due to their lack of marketability and are therefore generally worth less than the interests in public companies. Accordingly, the Implied P/E and the Implied P/B of the Target Company, a private company, in our analyses are subject to a potential downward bias in comparison to the P/E and P/B of the Comparables, being publicly listed companies. Our findings are summarised in Table 3 below.

Table 3: A summary of the Comparables

Listed issuer	Stock code	Market Capitalisation	P/E	P/B
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*
		(HK$ million)	*(times)*	*(times)*
		(approximate)	*(approximate)*	*(approximate)*
Shenzhen International Holdings Limited	152	31,189.45	8.12	1.30
Jiangsu Expressway Company Limited	177/600377	48,571.46	11.99	1.73
China Resources and Transportation Group Limited *(Note 7)*	269	543.29	n/a *(Note 5)*	n/a *(Note 6)*
Shenzhen Expressway Company Limited	548/600548	18,414.45	11.43	1.17
Zhejiang Expressway Co., Ltd.	576	28,186.81	7.80	1.18
Hopewell Highway Infrastructure Limited	737	12,542.48	16.93	2.16
Yuexiu Transport Infrastructure Limited	1052	9,788.00	9.15	0.89
Anhui Expressway Company Limited	995/600012	8,703.02	7.12	0.80
Qilu Expressway Company Limited	1576	3,320.00	5.89	1.28
		Minimum	**5.89**	**0.80**
		Maximum	**16.93**	**2.16**
		Average	**9.80**	**1.31**
Target Company			**47.25** *(Note 8)*	**9.14** *(Note 9)*

Sources

1. *The official website of the Stock Exchange (http://www.hkexnews.hk/)*

2. *The official website of Shanghai Stock Exchange (http://www.sse.com.cn/)*

Notes

1. Comparables with additional stock codes starting with "600" are the "A+H Companies" whose ordinary shares are listed simultaneously on the Stock Exchange as well as either one of the Shenzhen Stock Exchange and the Shanghai Stock Exchange.

2. Computed based on the closing share price data and the total number of outstanding ordinary shares of the Comparables as at the date of the Agreement.

3. Computed by dividing the respective market capitalisations of the Comparables as at the date of the Agreement by the respective reported profits after taxation attributable to the owners of the Comparables for their respective latest financial years, as extracted from the latest annual reports or the listing documents of the Comparables (as the case may be).

4. Computed by dividing the respective market capitalisations of the Comparables as at the date of the Agreement by the respective latest reported net assets attributable to the owners of the Comparables, as extracted from the latest annual reports, the latest interim reports or the listing documents of the Comparables (as the case may be).

5. Not applicable since such relevant Comparable recognised a net loss after taxation attributable to owners of the Comparables during its latest financial year.

6. Not applicable since such relevant Comparable recognised net liabilities attributable to owners of such Comparable as of the end of its latest financial year.

7. China Resources and Transportation Resources Group Limited was excluded from the P/E and P/B analyses due to the impracticality of computing its P/E and P/B as explained in note 5 and note 6 above, respectively.

8. Computed based on the net profit after taxation of the Target Company for the year ended 31 December 2017, which represents the entire amount of net profit after taxation attributable to owners of the Target Company for the year ended 31 December 2017.

9. Computed based on the net asset value of the Target Company as at 30 June 2018, which represents the entire amount of net asset value attributable to owners of the Target Company as at 30 June 2018.

Based on (i) the implied value with respect to 100% equity interests in the Target Company of the Consideration 1 in the amount of approximately HK$1,326.3 million; and (ii) the profit after taxation of the Target Company for the year ended 31 December 2017 in the amount of approximately HK$28.07 million, the Implied P/E amounts to approximately 47.25 times. As illustrated in Table 3, the P/E of the Comparables range from approximately 5.89 times to approximately 16.93 times, with the average of approximately 9.80 times. Therefore, notwithstanding the above-mentioned potential downward bias on the results of the P/E analysis, the Implied P/E of approximately 47.25 times exceeds the maximum P/E of the Comparables of approximately 16.93 times.

Based on (i) the implied value with respect to 100% equity interests in the Target Company of the Consideration 1 in the amount of approximately HK$1,326.3 million; and (ii) the unaudited net asset value of the Target Company as at 30 June 2018 in the amount of approximately HK$145.12 million, the Implied P/B amounts to approximately 9.14 times. As illustrated in Table 3, the P/B of the Comparables range from approximately 0.80 times to approximately 2.16 times, with the average of approximately 1.31 times. Therefore, notwithstanding the above-mentioned potential downward bias on the results of the P/B analysis, the Implied P/B of approximately 9.14 times exceeds the maximum P/B of the Comparables of approximately 2.16 times.

Considering that (i) the Total Consideration represents the value of the entire equity interest of the Target Company in proportion to the total percentage of equity interests therein to be disposed of under the Agreement, and each of the Consideration 1 and the Consideration 2 is equivalent to the Total Consideration in proportion to the corresponding percentage of equity interests in the Target Company to be disposed of under the Disposal 1 or the Disposal 2, as the case may be; (ii) the Implied P/E exceeds the maximum P/E of the Comparables; and (iii) the Implied P/B exceeds the maximum P/B of the Comparables, we are of the view that the determination of the Consideration 1 in the amount of approximately RMB352.45 million is fair and reasonable.

4.1.2 Deduction and Adjustment

Pursuant to the terms of the Agreement, the Total Consideration in the amount of RMB469.93 million is subject to the Deduction arising from the Incidents and the Adjustment arising from the Difference, details of which are set out in the sub-section headed "Deduction and Adjustment" in the Letter from the Board. The Deduction principally serves as a dollar-to-dollar claim by the Purchaser, a potential minority shareholder of the Target Company upon Completion, which protects it from its loss, if any and subject to the reach of the thresholds as stipulated in the Agreement, due to any of the Incidents to be potentially triggered by the acts of other parties to the Agreement prior to the Completion Date. The Adjustment arising from the Difference, on the other hand, addresses the potential mismatch between the net asset value of the Target Company as at the Reference Date and that as at the Completion Date on a dollar-to-dollar basis.

In assessing the fairness and reasonableness of the Deduction and the Adjustment arising from the Difference, reference has been made to the practice adopted by other listed companies in Hong Kong when implementing acquisitions and disposals. Based on our independent research conducted on best-effort and exhaustive bases, during the month preceding and up to the date of the Agreement, an aggregate of 11 initially announced acquisition and disposal transactions of other listed companies in Hong Kong involved (i) arrangements principally for the potential claims to be made by the underlying purchasers for their loss, if any, as a result of incident(s) similar in nature to the Incidents (the "**Incident Arrangement(s)**"); and/or (ii) mechanisms for the potential adjustments to be made to the underlying considerations principally with reference to the net asset values of the underlying target groups as at the respective completion dates (or the dates near the respective completion dates) of the underlying agreements (the "**NAV Mechanism(s)**"). Our findings are summarised in table 4 below.

Table 4: A summary of the Incident Arrangements and NAV Adjustments of acquisition and disposal transactions recently announced by other listed companies in Hong Kong

Listed issuer	**Stock code**	**Date of relevant announcement**	**Involvement of Incident Arrangement(s) (Y/N)** *(Note 1)*	**Involvement of NAV Mechanism(s) (Y/N)** *(Note 2)*
Eagle Nice (International) Holdings Limited	2368	18/10/2018	N	Y
Hyfusin Group Holdings Limited	8512	15/10/2018	Y	N
China Green Broad Greenstate Group Company Limited	1253	12/10/2018	Y	N
Synertone Communication Corporation	1613	12/10/2018	Y	N
Brilliance China Automotive Holdings Limited	1114	11/10/2018	Y	N
Cloud Investment Holdings Limited	8129	9/10/2018	N	Y
Cloud Investment Holdings Limited	8129	9/10/2018	N	Y
Wan Kei Group Holdings Limited	1718	2/10/20181	Y	N
China Sandi Holdings Limited	910	21/09/2018	Y	N
Luen Thai Holdings Limited	311	21/09/2018	N	Y
Spring Real Estate Investment Trust	1426	19/09/2018	Y	Y

Sources: The official website of the Stock Exchange (http://www.hkexnews.hk/)

Notes

1. "Y" indicates that Incident Arrangement(s) was(were) involved in the underlying acquisition or disposal transaction of the listed issuer in subject; where as "N" indicates that either the Incident Arrangements were not involved in such transaction or there was no information explicitly demonstrating any involvement of the Incident Arrangements in such transaction.

2. "Y" indicates that NAV Mechanisms(s) was(were) involved in the underlying acquisition or disposal transaction of the listed issuer in subject; where as "N" indicates that either the NAV Mechanisms were not involved in such transaction or there was no information explicitly demonstrating any involvement of the NAV Mechanisms in such transaction.

Taking into account (i) the Deduction and the Adjustment arising from the Difference in nature serve as a protection provided to the Purchaser, a potential minority shareholder of the Target Company upon Completion, for its loss due to the Incidents to be triggered by the acts of other parties to the Agreement and address the potential change in net asset value of the Target Company from the Reference Date up to the Completion Date, respectively, which in our view are fair and reasonable; (ii) arrangements and mechanisms similar to the Deduction and Adjustment arising from the Difference were also involved in the acquisition and disposal transactions as recently announced by other listed companies in Hong Kong; and (iii) each of the Deduction and the Adjustment arising from the Difference is on a dollar-to-dollar basis, we are of the view that the Deduction and the Adjustment arising from the Difference are fair and reasonable.

In light of the foregoing, we are of the view that the Consideration 1 of approximately RMB352.45 million (subject to Adjustment) is fair and reasonable.

4.2 Provision of the Financial Support

Pursuant to the Agreement:

(i) 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 interests in the Target Company for the repayment of (a) the Shareholders' Loans; and (b) the Outstanding Construction Payables, which comprise the construction cost of approximately RMB29.9 million, the land collection related fee of approximately RMB29.1 million, the evaluation and consultancy fee of approximately RMB2.7 million and the construction supervision fee of approximately RMB1.7 million. The Outstanding Construction Payables are due to independent contractors and are expected to be settled within the first half of 2019.

(ii) 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.

As at the Latest Practicable Date, the Purchaser had commenced the due diligence review, and the Purchaser and the Vendor 1 had not yet arrived at a timetable for the provision of the Financial Support. Nevertheless, the Financial Support shall be provided to the Target Company on or before 31 March 2019 (or such other date as may be agreed by the Vendor 1 and the Purchaser in writing) pursuant to the Agreement.

(iii) The Shareholders' 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.

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

Taking into account (i) the Financial Support to be provided by the Purchaser and the Vendor 1 shall be proportional to their respective equity interests in the Target Company upon Completion; (ii) the provision of the Financial Support will help relieve the liability burden of the Target Company, saving part of its existing internal fund and resources as well as providing it with enhanced financing capacity for future business development, which may in turn benefit the Group as a result of the potential improvement in the financial position of the Target Company; and (iii) in the event that the Financial Support is to be provided by way of loans, such loans are expected to be provided on normal commercial terms without any security or collateral requirements, and relevant requirements under the Listing Rules will be complied by the Company as appropriate, we are of the view that the provision of the Financial Support is fair and reasonable.

4.3 First right of refusal and tag-along right

Pursuant to the terms of the Agreement, save for any proposed transfer of interest 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. 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.

The granting of first right of refusal and tag-along right are not unusual arrangements used to safeguard the minority shareholders' interest within a strategic business partnership in the event of any changes to the identities of other shareholders. Based on our research conducted on a non-exhaustive basis, during the seven months preceding the date of the Agreement, two companies listed on the Stock Exchange, namely Suchuang Gas Corporation Limited (stock code: 1430) and Rici Healthcare Holdings Limited (stock code: 1526), respectively entered into agreements with other strategic partners pursuant to which, the minority shareholders of the respective underlying investments were granted with both of the first right of refusal and the tag-along right, or right similar in nature to tag-along right that allows the minority shareholder to sell its equity interests in such investment if the underlying controlling shareholder proposes to sell its equity interests in the investments. Further, upon Completion, the Target Company will be respectively beneficially owned as to 60% by the Group through its equity interests in Top Talent and accordingly Vendor 1, and 40% by the Purchaser. Pursuant to the terms of the Joint Venture Agreement, further details of which are set out in the sub-section headed "4.4 The Joint Venture Agreement" below in this letter, upon Completion, the Vendor 1 will be entitled to appoint the majority of the members including the chairman of the board of directors of the Target Company as well as important personnels such as the general manager and financial controller, whereas the Purchaser, as a prevailing minority shareholder, will have a lower degree of influences over the board composition and senior management appointment of the Target Company. Considering the above, we are of the view that it is justifiably reasonable to grant the Purchaser, a potential strategic partner of the Group, the aforesaid first right of refusal and tag-along right under the Agreement which allow it to have rights but not obligations to (i) acquire the equity interests in Top Talent or the Vendor 1 in priority to other potential investors so as to gain its control over the business operations and strategic decisions of the Target Company should there be any proposed transfer of interests in Top Talent and the Vendor 1; and (ii) to secure or designate the potential purchaser of its equity interests in the Target Company should it decide to make an exit of the investment along with the Company, subject to compliance with the relevant Listing Rules.

4.4 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. Set out below are the principal terms of the Joint Venture Agreement.

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:

(i) increase, reduction or transfer of the registered capital of the Target Company;

(ii) amendment and supplement for, and interpretation of the articles of association of the Target Company;

(iii) the provision of guarantee, security and pledge in favour of third parties by the Target Company;

(iv) mergers, subdivisions or changes in the corporate form of the Target Company;

(v) termination, suspension, extension or winding up of the Target Company;

(vi) approval of proposal regarding profit distribution or loss compensation of the Target Company;

(vii) external investment by the Target Company;

(viii) decision for transfer of entire or part of business of the Target Company, or acquisition of other parties' business by the Target Company;

(ix) appointment and change of auditors of the Target Company;

(x) approval of transaction between the Target Company and related persons for transaction over certain monetary amounts; and

(xi) 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 (i) transfer, pledge, charge or dispose of all or part of its interests in the Target Company; or (ii) transfer or dispose of its rights to receive income; or (iii) 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 (i) 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 (ii) 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.

Upon our review of the principal terms of the Joint Venture Agreement, we were not aware of any terms thereof being unusual. Considering that the terms of the Joint Venture Agreement were arrived at after arms' length negotiations between the Vendor 1 and the Purchaser and, in particular, (i) the Vendor 1 shall be entitled to appoint the majority of members including the chairman of the board of directors of the Target Company, which shall have significance to the strategic decisions of the Target Company by way of approval; and (ii) any profit sharing and risk bearing between the Vendor 1 and the Purchaser with respect to the Target Company shall be implemented in proportion to their respective interests in the Target Company, we are of the view that the terms of the Joint Venture Agreement are normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

In addition, we have reviewed other principal terms of the Agreement including but not limited to the terms of payment and the conditions precedent thereto, further details of which are set out in the sub-sections respectively headed ''Payment'' and ''Completion and Conditions' in the Letter from the Board, and are not aware of any terms being unusual. In view of the above, we are of the view that the Agreement and the transactions contemplated thereunder on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

5 Financial impacts of the Disposal 1

According to the Letter from the Board, taking into account (i) the Consideration 1 of approximately RMB352.45 million (equivalent to approximately HK$397.9 million) payable to the Vendor 1; (ii) the unaudited net asset value of the Target Company of approximately HK$145.1 million as at 30 June 2018, and such value in proportion to the 30% equity interests in the Target Company to be disposed of under the Disposal 1 in the amount of approximately HK$43.5 million; and (iii) the estimated related expenses of approximately HK$6 million and taxation of approximately HK$19.2 million for the Disposal 1, it is expected that an estimated gain after taxation in an amount of approximately HK$329.2 million will be materialised in the consolidated equity accounts of the Group in respect of the Disposal 1. Such 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 materialised 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.

Reference is made to the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this Circular. For illustration purposes, if completion of the Disposal 1 had been taken place on 1 January 2017, profit after taxation of the Remaining Group for the period ended 31 December 2017 shall remain as approximately HK$18.65 million. On the other hand, if completion of the Disposal 1 had been taken place on 30 June 2018, net current assets of approximately HK$245.02 million would be recorded by the Remaining Group as opposed to net current liabilities of approximately HK$127.72 million if otherwise, and the net assets of the Remaining Group would increase from approximately HK$54.38 million to approximately HK$427.12 million.

RECOMMENDATIONS

Having considered the above principal factors and reasons including the potential financial impacts on the Group thereof, we are of the view that notwithstanding the Agreement and the transactions contemplated thereunder are not implemented in the ordinary and usual course of business of the Company, being the construction, operation and management of the Target Expressway in the PRC, the Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed for approving the Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Gary Mui
Chief Executive Officer

Mr. Gary Mui is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in the finance and investment banking industry.

FINANCIAL SUMMARY OF THE GROUP

The published audited consolidated financial statements of the Group for the three years ended 31 December 2015, 2016 and 2017 are disclosed in the annual reports of the Company for the three years ended 31 December 2015, 2016 and 2017. The published reviewed consolidated financial statements of the Group for the six months ended 30 June 2018 is disclosed in the interim report of the Company. The above annual reports and interim report can be accessed on the website of the Company (http://www.huayu.com.hk), and the website of the Stock Exchange as set out below:

Document	Link
Interim report for the six months ended 30 June 2018	http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0903/LTN201809032849.pdf
Annual report for the year ended 31 December 2017	http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0404/LTN201804041855.pdf
Annual report for the year ended 31 December 2016	http://www3.hkexnews.hk/listedco/listconews/SEHK/2017/0412/LTN201704121375.pdf
Annual report for the year ended 31 December 2015	http://www3.hkexnews.hk/listedco/listconews/SEHK/2016/0407/LTN201604071493.pdf

INDEBTEDNESS

At the close of business on 30 September 2018, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding secured bank loans guaranteed by the Company in favour of the bank of approximately HK$1,045.5 million. As at the close of business on 30 September 2018, the Group had unguaranteed and unsecured Shareholder's Loan of approximately RMB179.5 million and an unguaranteed and unsecured loan from the controlling shareholder of the Company (i.e. Mr. Chan) of approximately HK$100.2 million. The Shareholder's Loan of approximately RMB179.5 million and the loan from the controlling shareholder of the Company of approximately HK$100.2 million will not be requested for repayment until after 31 December 2019, unless the Group has obtained funding from other sources and is in a position to meet all repayment obligations at that time.

Save as aforesaid and apart from intra-group liabilities and normal trade payable, at the close of business on 30 September 2018, the Group did not have any outstanding loan capital, debt securities, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases commitments or guarantees.

At the close of business on 30 September 2018, the Group had no material contingent liabilities.

MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

WORKING CAPITAL

The sufficiency of the working capital of the Group in the next 12 months from the date of the circular is dependent on the proceeds of the partial disposal of the Group's interest in the Target Company and the ongoing support from the controlling shareholder and the Vendor 2.

The Directors, after due and careful enquiry, are of the opinion that the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of the circular, after taking into account (i) the net proceeds of the partial disposal of entity interest in the Target Company, (ii) the Group's available financial resources including internally generated cash flows, cash on hand, and other external facilities from banks, and (iii) that the controlling shareholder of the Company has undertaken that repayment of the Shareholder's Loans of approximately RMB179.5 million and a loan from the controlling shareholder of the Company (i.e. Mr. Chan) of approximately HK$100.2 million as at 30 September 2018 will not be requested for repayment until after 31 December 2019, unless the Group has obtained funding from other sources and is in a position to meet all repayment obligations at that time.

FINANCIAL AND TRADING PROSPECTS

It is stated in the ''Letter from the Board'' contained in this Circular that 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 continue to be consolidated into the financial accounts of the Group after Completion.

The Target Expressway is one of the expressways with high economic potential in the PRC. It is strategically located in Hunan Province, which is one of the high economic growth provinces in the PRC. Also, the Target Expressway will be an integral part of the major artery between Hunan Province and Hubei Province. With the new connection to the adjacent expressways in the coming years, the management of the Company consider that the business of the Group can be promoted.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

For the six months ended 30 June 2018

Financial review

Revenue

For the six months ended 30 June 2018 (the ''Period''), Huayu Expressway Group Limited (the ''Company'', together with its subsidiaries, the ''Group'') recorded revenue of approximately HK$104.8 million, increased by about 40.2% from the corresponding period last year of approximately HK$74.7 million. The toll revenue received from the Target Expressway for the Period was about HK$104.8 million, increased by about 58.0% from about HK$66.3 million of the corresponding period in 2017. For the Period, continuous improvement in the highway network system within the districts around the Target Expressway induced significant amount of traffic to the Target Expressway. The average traffic flow of the Expressway was about 774,000 vehicles per month representing about 39.7% increase from the corresponding period last year.

Cost of sales and gross profit

Cost of sales and gross profit of the Group were approximately HK$37.0 million and HK$67.7 million for the Period respectively as compared to the corresponding period last year of approximately HK$26.7 million and HK$48.1 million respectively. The cost of sale of the Group was mainly attributable to the amortisation of the concession right of the Target Expressway, and increased in the similar proportion of the toll revenue. As a result, the cost of sales the Group increased by approximately 39.0% and the gross profit for the Period increased by about 40.9% from the corresponding period last year.

Other revenue

Other revenue of the Group was approximately HK$341,000 (2017: approximately HK$6,000) for the Period. It mainly represented the rental income from billboard(s) along the Target Expressway and the interest income generated from bank deposits.

Other net (loss)/income

The Group recorded other net loss of approximately HK$49,000 (2017 other net income: approximately HK$847,000) for the Period due to the exchange difference incurred during the Period.

Administrative expenses

Administrative expenses of the Group for the Period were approximately HK$12.7 million, increased by about 8.2% from approximately HK$11.7 million for the corresponding period in 2017. The increase of administrative expenses of the Group was mainly due to the increase of salaries and wages.

Finance costs

Finance costs of the Group for the Period were approximately HK$29.1 million, increased by about 0.9% from the corresponding period last year of approximately HK$28.8 million.

Profit attributable to equity shareholders of the Company

The profit attributable to equity shareholders of the Company for the Period was approximately HK$19.5 million, increased significantly by approximately 473.8% from the corresponding period last year of approximately HK$3.4 million. Opened to traffic in the Period, 岳望高速(Yue-Wang Expressway) is the southern extension of the Target Expressway and completed the whole vertical corridor to bring new long-distance traffic on the Target Expressway. This new expressway induced significant positive impact on the traffic volume of the Target Expressway. Due to the maintenance work of the 武漢軍山長江大橋 (Wuhan Junshan Bridge), trucks were prohibited from using it to cross the Yangtze River from August 2017 and a large number of trucks are induced to the Target Expressway. Such maintenance work is scheduled to complete by the end of 2018.

Liquidity and financial resources

During the Period, the Group financed its operations and capital expenditures with internal resources of the Company, finance from the controlling shareholder and long term bank loan. As at 30 June 2018, total bank loan drawn by the Group amounted to about HK$1,091.2 million (as at 31 December 2017: approximately HK$1,143.6 million) and the total cash and cash equivalents, including bank deposits and cash on hand amounted to approximately HK$43.5 million (as at 31 December 2017: approximately HK$30.5 million).

The Group has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital in future development. As at 30 June 2018, total banking facilities of the Group amounted to approximately HK$1,304.7 million from China Merchants Bank, which were mainly for the settlement of construction costs of the Target Expressway. The ratio of total outstanding bank loan to total equity was 2,006.8% (as at 31 December 2017: 3,334.9%).

As at 30 June 2018, the bank loan was repayable as follows:

	As at 30 June 2018
	HK$'000
Within 1 year or on demand	77,097
After 1 year but within 2 years	88,958
After 2 years but within 5 years	338,039
After 5 years	587,119
	1,091,213

The Group's borrowings were mainly arranged on a floating rate basis. During the Period, the Group did not enter into any hedging arrangements to hedge against exposure in interest rate risk. As such, any substantial fluctuation of interest rate may cause financial impacts on the Group. The management of the Company will continue to monitor the Group's interest rate exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

Employees and emoluments

As at 30 June 2018, the Group employed a total of 241 (as at 31 December 2017: 269) employees in the PRC and Hong Kong, which included the management staff, engineers, technicians and general staff. For the Period, the Group's total expenses on the remuneration of employees were approximately HK$11.1 million (2017: approximately HK$10.0 million).

The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

As at 30 June 2018, the currencies profile of the Group's cash and cash equivalents and bank loans are as follows:

The following table details the currencies profile of the Group's cash and cash equivalents and bank loans at 30 June 2018. For presentation purposes, the amounts are expressed in Hong Kong dollars and translated using the spot rate at 30 June 2018.

	As at 30 June 2018		
	RMB	**HK$**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cash and cash equivalents	37,623	5,859	43,482
Bank loans	1,091,213	–	1,091,213
	1,128,836	5,859	1,134,695

Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong dollars.

As at 30 June 2018, the Group had not entered into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group. The management of the Company will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

Pledge of assets

As at 30 June 2018, the bank loan of approximately HK$1,091.2 million from China Merchants Bank was secured by a pledge of the toll collection right owned by the Expressway.

Business review

The Target Expressway

Due to the improvement in the highway network system in the districts along the Target Expressway, there was a significant increase in the traffic flow in the Target Expressway during the Period, from about 554,000 vehicles per month for the six months ended 30 June 2017 to about 774,000 vehicles per month for the Period. Opened to traffic in the Period, Yue-Wang Expressway "岳望高速" is the southern extension of the Target Expressway and completed the whole vertical corridor to bring new long-distance traffic on the Target Expressway. This new expressway induced significant positive impact on the traffic volume of the Target Expressway. Due to the maintenance work of the 武漢軍山長江大橋 (Wuhan Junshan Yangtze River Bridge), trucks were prohibited from using it to cross the Yangtze River from August 2017, large number of trucks are induced to the Target Expressway. The average toll revenue per vehicle increased from about HK$19.9 for the six months ended 30 June 2017 to about HK$22.6 for the Period. As a result, the total toll revenue recorded an increase of about 58.0% to approximately HK$104.8 million for the Period. With the continuous growth in the traffic flow, the management are confident with the prospect of the Target Expressway.

Material acquisition and disposal and future plans for material investments

For the period ended 30 June 2018, there was no material acquisition and disposal of subsidiaries and associated companies.

There was no plan for material investment.

For the year ended 31 December 2017

With the significant traffic introduced by the new adjacent expressways, total toll revenue increased substantially during the year ended 31 December 2017. The Group reported a profit for the year of about HK$18.7 million.

Revenue

For the year ended 31 December 2017, the Group recorded a revenue of approximately HK$166.9 million, increased by 20.1% from that for the year ended 31 December 2016 of approximately HK$139.0 million. Total amount of toll fee revenue of the Target Expressway was about HK$166.9 million, increased substantially by 39.5% from about HK$119.7 million for the year ended 31 December 2016. Average traffic of the Target Expressway was about 576,000 vehicles per month, increased by 32.1% from about 436,000 vehicles per month for the year ended 31 December 2016. Average toll per vehicle increased by about 5.7% from about HK$22.9 per vehicle for the year ended 31 December 2016 to about HK$24.2 per vehicle for the year ended 31 December 2017.

During the year, continuous improvement in the highway network system within the districts around the Target Expressway induced significant amount of traffic to the Target Expressway. The 杭瑞高速(湖南段) (Hang-Rui Expressway (Hunan Section)), which opened to traffic in late 2016, connected the Target Expressway to the whole expressway network of Hunan province and induced new traffic to the Target Expressway. Since the maintenance work of the 武漢軍山長江大橋 (Wuhan Junshan Yangtze River Bridge) prohibited trucks using it to cross the Yangtze River, large number of trucks are introduced to the Target Expressway from August 2017. As a result, both the portion of truck traffic to passenger cars during the year and the average toll per vehicle of the Target Expressway increased.

Cost of sales and Gross profit

Cost of sales and gross profit of the Group were approximately HK$62.1 million and HK$104.9 million for the year ended 31 December 2017 respectively as compared to the last year of approximately HK$49.2 million and HK$89.8 million respectively. The cost of sales of the Group was mainly attributable to the amortisation of the concession right of the Target Expressway, and its increase was mainly due to the increase in traffic of the year. As a result, the cost of sales of the Group was increased by approximately 26.1%.

The Group had a gross profit of HK$104.9 million for the year ended 31 December 2017, which increased by 16.8% from about HK$89.8 million for the year ended 31 December 2016. The increase in gross profit was mainly due to the growth in toll revenue during the year.

The gross profit ratios were about 62.8% and 64.6% for the year ended 31 December 2017 and 2016 respectively.

Other revenue and other net income/(loss)

The Group recorded other revenue of approximately HK$0.4 million for both of the years ended 31 December 2017 and 2016. In addition, the other net income was about HK$2.1 million for the year ended 31 December 2017 while the other net loss for the year ended 31 December 2016 was about HK$0.4 million. Other revenue of the Group was mainly the rental income from the billboard along the Target Expressway and interest income from bank deposits. Other net income/(loss) mainly represented the exchange gain/(loss) recorded during the year.

Administrative expenses

Administrative expenses for the year ended 31 December 2017 was approximately HK$23.4 million, decreased by 13.4 % from approximately HK$27.1 million for the year ended 31 December 2016. The decrease was mainly because of the saving in the staff cost and the decrease in the depreciation charges for the property, plant and equipment.

Finance costs

For the year ended 31 December 2017, the finance costs of the Group was about HK$59.8 million, decreased by 7.3% from approximately HK$64.5 million for the year ended 31 December 2016. The decrease was mainly due to the partial repayment of the bank loan.

Profit/(loss) for the year

With the increase in the toll revenue and the saving in the interest cost, the Group recorded a profit for the year of approximately HK$18.7 million for the year ended 31 December 2017 compared to the loss of approximately HK$10.2 million for the year ended 31 December 2016.

Liquidity and financial resources

During the year ended 31 December 2017, the Group financed its operations and capital expenditures by the capital of the Company, long-term secured bank loan and interest free loans from the controlling shareholder of the Company. As at 31 December 2017, total bank loans drawn by the Group were about HK$1,143.6 million (2016: HK$1,137.7 million), the amount due to the controlling shareholder of the Company was HK$121.3 million (2016: HK$109.0 million), the amount due to a related company was HK$180.0 million (2016: HK$106.7 million) and the total cash and cash equivalents, including bank deposits and cash on hand, amounted to approximately HK$30.5 million (2016: HK$10.8 million).

The Group has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital for future development. As at 31 December 2017, total available banking facilities of the Group amounted to HK$1,315.9 million from China Merchants Bank, which is mainly for the construction cost of the Target Expressway, among which the outstanding secured bank loan was HK$1,143.6 million (2016: HK$1,137.7 million). The ratio of outstanding bank loans to total equity was 3,334.9% (2016: 13,453.2%).

As at 31 December 2017, the bank loan was repayable as follows:

	2017
	HK$'000
Within 1 year or on demand	78,855
After 1 year but within 2 years	83,741
After 2 years but within 5 years	323,001
After 5 years	657,965
	1,143,562

The Group's borrowings were mainly arranged on a floating rate basis. As at 31 December 2017, the Group did not enter into any hedging arrangements to hedge against exposure in interest risk.

As at 31 December 2017, the currencies profile of the Group's cash and cash equivalents and bank loans are as follows:

The following table details the currencies profile of the Group's cash and cash equivalents and bank loans at 31 December 2017. For presentation purposes, the amounts are expressed in Hong Kong dollars and translated using the spot rate at 31 December 2017.

	As at 31 December 2017		
	RMB	**HK$**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cash and cash equivalents	24,427	6,097	30,524
Bank loans	1,143,562	–	1,143,562
	1,167,989	6,097	1,174,086

Foreign currency risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong dollars.

As at 31 December 2017, the Group did not enter into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group, the management of the Company will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

Pledge of assets

As at 31 December 2017, the bank loans of HK$1,143.6 million from China Merchants Bank were secured by the pledge of the toll collection right in relation to the Target Expressway.

Capital commitments

As at 31 December 2017, there was no material capital commitment outstanding for the Company.

Business review

The Target Expressway

Due to the improvement in the highway network system in the districts along the Target Expressway, there was a significant increase in the traffic flow in the Target Expressway during the year ended 31 December 2017, from about 436,000 vehicles per month for the year ended 31 December 2016 to about 576,000 vehicles per month for the year ended 31 December 2017. Opened to traffic in late 2016, Hang-Rui Expressway (Hunan Section) "杭瑞高速(湖南段)" connected the Target Expressway to the whole expressway network of Hunan province and induced new traffic to the Target Expressway. In addition, the maintenance work in the adjacent bridge over Yangtze River in Wuhan induced substantial truck traffic to the Target Expressway from the middle of the year. As a result, the total toll revenue recorded an increase of about 20.1% to approximately HK$166.9 million for the year.

Employees and emoluments

As at 31 December 2017, the Group employed a total of 269 (2016: 272) employees in the PRC and Hong Kong which included management staff, engineers and technicians. For the year ended 31 December 2017, the Group's total expenses on the remuneration of employees were approximately HK$20.8 million (2016: HK$21.7 million).

The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the MPF Scheme (for Hong Kong employees) and the definded contribution retirement benefit scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of their performance.

The Company adopted a share option scheme on 30 November 2009 for the purpose of motivating eligible persons to optimise their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. No options have been granted under the share option scheme as at 31 December 2017.

Material acquisition and disposal and future plans for material investments

For the year ended 31 December 2017, there was no material acquisition and disposal of subsidiaries and associated companies.

There was no plan for material investment.

For the year ended 31 December 2016

Due to the implementation of the traffic restrictions in Hunan Province regarding over-loaded vehicles, total revenue decreased substantially during the year ended 31 December 2016. In addition, the rental income from the service area along the Target Expressway decreased significantly for the year ended 31 December 2016. The Group incurred a loss of the year of about HK$10.2 million.

Revenue

For the year ended 31 December 2016, the Group recorded a revenue of approximately HK$139.0 million, decreased by 23.1% from that for the year ended 31 December 2015 of approximately HK$180.6 million. The total amount of toll fee revenue of the Target Expressway was about HK$119.7 million, decreased by 14.2% from about HK$139.5 million for the year ended 31 December 2015. The average traffic of the Target Expressway was about 436,000 vehicles per month, increased by 12.1% from about 389,000 vehicles per month for the year ended 31 December 2015. However, the average toll per vehicle decreased substantially by about 23.4% from about HK$29.9 per vehicle for the year ended 31 December 2015 to about HK$22.9 per vehicle for the year ended 31 December 2016. The implementation of traffic restrictions in Hunan Province regarding over-loaded vehicles, including measures to increase the toll rate for the overloading portion of trucks and imposing higher penalty for the traffic violation, significantly reduced the numbers of over-loaded vehicles and the average toll fee per vehicle under the toll-by-weight charging system.

Rental income from the service area along the Target Expressway was about HK$19.3 million, decreased by 53.0% from about HK$41.1 million for the year ended 31 December 2015. The Group renewed the lease for the service area along the Target Expressway. Since there is some inception concession arrangement for the service area along the Target Expressway, the rental income for the first few years will be lower than the average rental for the entire lease term.

Cost of sales and Gross profit

Cost of sales and gross profit of the Group were approximately HK$49.2 million and HK$89.8 million for the year ended 31 December 2016 respectively as compared to the last year of approximately HK$74.2million and HK$106.5 million respectively. The cost of sales of the Group was mainly attributable to the amortisation of the concession right of the Target Expressway. From 1 January 2016, the Group has adjusted the amortisation unit for the related concession intangible assets according to the revised total projected traffic volume on a prospective basis. As a result, the cost of sales of the Group was decreased by approximately 33.6%.

The Group had a gross profit of HK$89.8 million for the year ended 31 December 2016, decreased by 15.7% from about HK$106.5 million for the year ended 31 December 2015. The decrease in gross profit was mainly because of the contraction of revenue during the year ended 31 December 2016.

The gross profit ratios were about 64.6% and 58.9% for the year ended 31 December 2016 and 2015 respectively. The increase in the gross profit ratio was mainly due to the decrease in the amortisation of intangible asset – service concession arrangement.

Other revenue and other net loss

The Group recorded other revenue and other net loss of approximately HK$0.4 million and HK$0.4 million respectively for the year ended 31 December 2016 compared to other revenue and other net loss of approximately HK$0.6 million and HK$37.6 million for the year ended 31 December 2015. Other revenue of the Group was mainly the rental income from the billboard along the Target Expressway and interest income from bank deposits. Other net loss mainly represented the exchange loss recorded in the books of a PRC subsidiary from the year end translation of a Hong Kong dollar denominated bank loan to RMB. Since the loan was replaced by a RMB denominated bank loan in February 2016 in order to reduce the currency risk exposure of the Group, other net loss decreased substantially during the year ended 31 December 2016.

Administrative expenses

Administrative expenses for the year ended 31 December 2016 were approximately HK$27.1 million, increased by 12.2% from approximately HK$24.1 million for the year ended 31 December 2015. The increase was mainly because of the increased office rental in Hong Kong.

Impairment loss of intangible asset – service concession arrangement

The Group has made contractual service arrangement with local government authorities for its participation in the construction, operation and management of the Target Expressway. According to the accounting policy of the Group, internal and external sources of information are reviewed at the end of each reporting period to identify indications that the assets may be impaired. As at 31 December 2016, there is no material discrepancy between the recoverable amount and the carrying value of the intangible asset. Therefore, no impairment loss was made for the year ended 31 December 2016.

Finance costs

For the year ended 31 December 2016, the finance costs of the Group were about HK$64.5 million, decreased by 23.9% from approximately HK$84.8 million for the year ended 31 December 2015. The decrease was mainly due to the partial repayment of the bank loans and the fluctuation of effective bank loan interest rate.

Loss for the year

The Group recorded a loss for the year of approximately HK$10.2 million for the year ended 31 December 2016. As the Group did not incur significant amounts of impairment loss of intangible asset and exchange losses as for the year ended 31 December 2015, the loss for the year decreased substantially from HK$199.5 million for the year ended 31 December 2015.

Liquidity and financial resources

During the year ended 31 December 2016, the Group financed its operations and capital expenditures by the capital of the Company, long-term secured bank loans and interest free loan from the controlling shareholder of the Company. As at 31 December 2016, total bank loans drawn by the Group were about HK$1,137.7 million (2015: HK$1,290.8 million), the amount due to the controlling shareholder of the Company was HK$109.0 million (2015: HK$99.1 million), the amount due to a related party of the Company was HK$106.7 million (2015: HK$14.3 million) and the total cash and cash equivalents, including bank deposits and cash on hand, amounted to approximately HK$10.8 million (2015: HK$9.1 million).

The Group has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital for future development. As at 31 December 2016, total available banking facilities of the Group amounted to HK$1,229.7 million from China Merchants Bank, which is mainly for the construction cost of the Target Expressway, among which the outstanding secured bank loan was HK$1,137.7 million (2015: HK$1,290.8 million). The ratio of outstanding bank loans to total equity was 13,453.2% (2015: 5,246.3%).

As at 31 December 2016, the bank loans repayable are as follows:

	2016
	HK$'000
Within 1 year or on demand	69,121
After 1 year but within 2 years	73,687
After 2 years but within 5 years	268,296
After 5 years	726,635
	1,137,739

The Group's borrowings were mainly arranged on a floating rate basis. As at 31 December 2016, the Group did not enter into any hedging arrangements to hedge against exposure in interest risk.

As at 31 December 2016, the currencies profile of the Group's cash and cash equivalents and bank loans are as follows:

The following table details the currencies profile of the Group's cash and cash equivalents and bank loans at 31 December 2016. For presentation purposes, the amounts are expressed in Hong Kong dollars and translated using the spot rate at 31 December 2016.

	As at 31 December 2016		
	RMB	**HK$**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cash and cash equivalents	5,586	5,220	10,806
Bank loans	1,137,739	–	1,137,739
	1,143,325	5,220	1,148,545

Foreign currency risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong dollars.

As at 31 December 2016, the Group did not enter into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group, the management of the Company will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

Pledge of assets

As at 31 December 2016, the bank loans of HK$1,137.7 million from China Merchants Bank were secured by the pledge of the toll collection right in relation to the Target Expressway.

Capital commitments

As at 31 December 2016, there was no material capital commitment outstanding for the Company.

Business review

The Target Expressway

The continuous specific traffic restrictions in Hunan Province regarding motor vehicles, including measures to increase the toll rate for the overloading portion of trucks and impose higher penalty for traffic violations, adversely affected our average toll per vehicles under the toll-by-weight charging system. The average toll revenue per vehicles decreased from about HK$29.9 for the year ended 31 December 2015 to about HK$22.9 for the year ended 31 December 2016. As a result, the total toll revenue, which was approximately HK$139.5 million for the year ended 31 December 2015, decreased by about 14.2% to approximately HK$119.7 million for the year ended 31 December 2016.

On the other hand, the policies enhanced traffic efficiency of the Target Expressway and exerted a positive effect on the comprehensive governing of over-loaded vehicles and maintaining the safety of the Target Expressway. The average traffic per month increased from about 389,000 vehicles for the year ended 31 December 2015 to about 436,000 vehicles for the year ended 31 December 2016.

The Directors perform a periodic assessment of the total projected traffic volume. In December 2016, the Group appointed an independent professional traffic consultant to reassess the future traffic volume of the Target Expressway.

In addition, the rental income from the service area along the Target Expressway contributed a significant amount to the turnover of the Group.

Employees and emoluments

As at 31 December 2016, the Group employed a total of 272 (2015: 248) employees in the PRC and Hong Kong which included management staff, engineers and technicians. For the year ended 31 December 2016, the Group's total expenses on the remuneration of employees were approximately HK$21.7 million (2015: HK$23.9 million).

The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the MPF Scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) and the definded contribution retirement benefit scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of their performance.

The Company adopted a share option scheme on 30 November 2009 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. No options have been granted under the share option scheme as at 31 December 2016.

Material investment and disposal and future plans for material investments

For the year ended 31 December 2016, there was no acquisition and disposal of subsidiaries and associated companies for material investment.

There was no plan for material investment.

For the year ended 31 December 2015

The traffic and the toll fee revenue of the Target Expressway has maintained a stable level for the year ended 31 December 2015. Due to the exceptional impairment loss of intangible asset and the exchange loss, the Group incurred a loss of about HK$199.5 million for the year ended 31 December 2015.

Revenue

For the year ended 31 December 2015, the Group recorded a revenue of approximately HK$180.6 million, representing a decrease of 2.0% from that of approximately HK$184.3 million for the year ended 31 December 2014. Total amount of toll fee revenue of the Target Expressway was about HK$139.5 million, representing a decrease of 2.2% from about HK$142.6 million for the year ended 31 December 2014. Average traffic of the Target Expressway was about 389,000 vehicles per month for the year ended 31 December 2015 (of which, about 49% were heavy vehicles), representing an increase of 12.1% from about 347,000 vehicles per month for the year ended 31 December 2014. Average toll per vehicle decreased by about 12.6% from about HK$34.2 per vehicle for the year ended 31 December 2014 to about HK$29.9 per vehicle for the year ended 31 December 2015. Rental income from the service area along the Target Expressway was about HK$41.1 million, representing a decrease of 1.4% from about HK$41.7 million for the year ended 31 December 2014.

Cost of sales and Gross profit

Cost of sales and gross profit of the Group were approximately HK$74.2 million and HK$106.5 million for the year ended 31 December 2015 respectively as compared to the last year of approximately HK$66.3million and HK$118.1 million respectively. The cost of sales of the Group was mainly attributable to the increase of staff cost which was mainly due to the increase of basic salary of operating staff of the Target Expressway and the increase of amortisation of the concession right of the Target Expressway which was mainly due to the increase in traffic during the year. As a result, the cost of sales of the Group was increased by approximately 11.9%.

The Group had a gross profit of HK$106.5 million for the year ended 31 December 2015, decreased by 9.8% from about HK$118.1 million for the year ended 31 December 2014. The decrease in gross profit was mainly attributable to the increase of staff cost and the amortisation of the intangible asset – service concession arrangement of the Target Expressway. The gross profit ratio was about 58.9% for the year ended 31 December 2015 as compared to about 64.0% for the year ended 31 December 2014.

Other revenue and other net loss

The Group recorded other revenue and other net loss of approximately HK$0.6 million and HK$37.6 million respectively for the year ended 31 December 2015 compared to the other revenue and other net loss of approximately HK$0.7 million and HK$1.1 million, respectively, for the year ended 31 December 2014. Other revenue of the Group was mainly the rental income from the billboard along the Target Expressway and interest income from bank deposits. Other net loss mainly represented the exchange loss recorded in the books of a PRC subsidiary resulting from the year end translation of a Hong Kong dollar denominated bank loan to RMB. Since there has been a continuous depreciation of RMB against Hong Kong dollars, the loan was subsequently replaced by a RMB denominated long-term bank loan in February 2016 in order to reduce the currency risk exposure of the Group.

Administrative expenses

Administrative expenses for the year ended 31 December 2015 was approximately HK$24.1 million, decreased by 7.3% from that for the year ended 31 December 2014. The decrease was mainly due to the cost saving action such as the reduction of numbers of middle management staff.

Impairment loss of intangible asset – service concession arrangement

The Group has entered into contractual service arrangement with local government authorities for its participation in the construction, operation and management of the Target Expressway. According to the accounting policy of the Group, internal and external sources of information are reviewed at the end of each reporting period to identify indications that the assets may be impaired. For the year ended 31 December 2015, the actual toll revenue of the Expressway was about 5.1% lower than the amount previously projected in March 2015, which was mainly due to the impact of traffic restriction in Hunan Province regarding motor vehicles (including measures to raise the toll rate for the overloading portion of trucks, and impose higher penalty for traffic violations). In addition, the Group is negotiating with the lessee on the renewal of rental agreement of the service areas within the Target Expressway. It is estimated that the rental revenue to be generated from service areas within the Target Expressway will be lower than the amount previously projected in March 2015, which is mainly due to the downturn of the economic environment in the PRC. As a result, an impairment loss of about HK$158.0 million was recorded for the year, which is about 7.1% of the total cost of the Target Expressway.

The Group has assessed the recoverable amount of the cash generating unit (CGU) containing the Target Expressway. The recoverable amount of the CGU was determined by the value in use, based on the expected free cash flow up to the end of the service concession arrangement period, and a post-tax discount rate of 14.1% (equivalent to a pre-tax discount rate of 16.3%).

The impairment loss was fully allocated to the intangible asset – service concession arrangement.

Key assumptions used for the value in use calculation are as follows:

	2015
Period of operation	23 years
Average annual toll revenue growth rate over the concession period	5.0%
Pre-tax discount rate	16.3%

The discount rate is estimated using the Capital Asset Pricing Model ("**CAPM**") based on the industry average ratios and the CGU's specific risks.

The toll revenue growth rates were projected by the directors based on traffic survey, historic traffic data, historic economic indices and expected toll network development at nearby areas.

Finance costs

For the year ended 31 December 2015, the finance costs of the Group was about HK$84.8 million, representing a decrease of 6.9% from approximately HK$91.1 million for the year ended 31 December 2014. The decrease was mainly due to the fluctuation of effective bank loan interest rate.

Loss for the year

As the Group incurred significant amounts of exchange loss of about HK$38.6 million due to the depreciation of RMB against Hong Kong Dollar and impairment loss of intangible asset of about HK$158.0 million, the Group recorded a loss of approximately HK$199.5 million for the year ended 31 December 2015, compared to approximately HK$1.5 million for the year ended 31 December 2014.

Liquidity and financial resources

During the year ended 31 December 2015, the Group financed its operations and capital expenditures by the capital of the Company, long-term secured bank loans and interest free loan from controlling shareholder. As at 31 December 2015, total bank loans drawn by the Group was about HK$1,290.8 million (2014: HK$1,355.8 million), the amount due to the controlling Shareholder of the Company was HK$99.1 million (2014: HK$87.6 million) and the total cash and cash equivalents, including bank deposits and cash on hand, amounted to approximately HK$9.1 million (2014: HK$14.1 million).

The Group has always pursued a prudent treasury management policy and actively manages its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital for future development. As at 31 December 2015, total available banking facilities of the Group amounted to HK$1,313.0 million from China Merchants Bank and Wing Lung Bank Limited, which is mainly for the construction cost of the Target Expressway, among which the outstanding secured bank loan was HK$1,290.8 million (2014: HK$1,355.8 million). The ratio of outstanding bank loans to total equity was 5,246.3% (2014: 643.2%).

As at 31 December 2015, the bank loans are repayable as follows:

	2015
	HK$'000
Within 1 year or on demand	629,278
After 1 year but within 2 years	32,877
After 2 years but within 5 years	138,084
After 5 years	490,513
	1,290,752

The Group's borrowings were mainly arranged on a floating rate basis. As at 31 December 2015, the Group did not enter into any hedging arrangements to hedge against exposure in interest risk.

As at 31 December 2015, the currencies profile of the Group's cash and cash equivalents and bank loans are as follows:

The following table details the currencies profile of the Group's cash and cash equivalents and bank loans at 31 December 2015. For presentation purposes, the amounts are expressed in Hong Kong dollars and translated using the spot rate at 31 December 2015.

	As at 31 December 2015		
	RMB	**HK$**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cash and cash equivalents	2,709	6,411	9,120
Bank loans	1,290,752	–	1,290,752
	1,293,461	6,411	1,299,872

Foreign currency risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong dollars.

As at 31 December 2015, the Group did not enter into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group, the management of the Company will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

For the year ended 31 December 2015, the Group incurred an exchange loss of about HK$37.6 million which represented the loss recorded in the books of a PRC subsidiary resulting from the year end translation of a Hong Kong dollar denominated bank loan to RMB. Since there has been a continuous depreciation of RMB against Hong Kong dollars, the loan was subsequently replaced by a RMB denominated bank loan in February 2016 in order to reduce the currency risk exposure of the Group.

Pledge of assets

As at 31 December 2015, the bank loans of HK$1,290.8 million from China Merchants Bank and Wing Lung Bank Limited were secured by the pledge of the toll collection right in relation to the Target Expressway.

Capital commitments

As at 31 December 2015, there was no material capital commitments outstanding for the Company.

Business review

The Target Expressway

Even with the economic downturn in the PRC and specific traffic restrictions in Hunan Province regarding motor vehicles, including measures to raise the toll rate for the overloading portion of trucks and impose higher penalty for traffic violations, there was an increase of approximately 12.1% in average traffic from about 347,000 vehicles per month for the year ended 31 December 2014 to 389,000 vehicles per month for the year ended 31 December 2015. Transportation network improvement around the Target Expressway caused a slight diversion which impacted on the traffic of the Target Expressway. Since there was a decrease in the percentage of overloading heavy vehicles, the average toll revenue per vehicles decreased from about HK$34.2 for the year ended 31 December 2014 to about HK$29.9 for the year ended 31 December 2015. As a result, the total toll revenue decreased slightly by about 2.2% to HK$139.5 million for the year ended 31 December 2015. The overall performance of the Target Expressway was satisfactory. In addition, the rental income from the service area along the Target Expressway contributed significantly to the revenue of the Group.

Employees and Emoluments

As at 31 December 2015, the Group employed a total of 248 (2014: 246) employees in the PRC and Hong Kong which included management staff, engineers, technicians, etc. For the year ended 31 December 2015, the Group's total expenses on the remuneration of employees was approximately HK$23.9 million (2014: HK$19.5 million). The increment was mainly due to the increase of basic salary of operating staff of the Target Expressway.

The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the MPF Scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) and the definded contribution retirement benefit scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

The Company adopted a share option scheme on 30 November 2009 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. No options have been granted under the share option scheme as at 31 December 2015.

Material acquisition and disposal and future plans for material investments

For the year ended 31 December 2015, there was no plans for material acquisition and disposal.

There was no plan for material investment.

UNAUDITED FINANCIAL INFORMATION OF THE TARGET COMPANY

Set out below are the unaudited statements of financial position of Hunan Daoyue Expressway Industry Co., Ltd. (the "**Target Company**") as at 31 December 2015, 2016 and 2017 and 30 June 2018, and the unaudited statements of profit or loss, unaudited statements of profit or loss and other comprehensive income, unaudited statements of changes in equity and unaudited cash flow statements for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, and explanatory notes (collectively referred to as the "**Financial Information**"), which have been prepared by the Directors of the Company on the basis set out below and prepared in accordance with paragraph 14.68(2)(a)(i)(A) of the Listing Rules.

The Company's auditors, KPMG, was engaged to review the Financial Information of the Target Company set out in pages II-2 to II-11 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal", issued by the Hong Kong Institute of Certified Public Accountants.

A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the auditors to obtain assurance that the auditors would become aware of all significant matters that might be identified in an audit. Accordingly, the auditors do not express an audit opinion. Based on their review, nothing has come to their attention that causes them to believe that the Financial Information of the Target Company for the relevant periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Financial Information of the Target Company. However, the auditors has included a "Material uncertainty related to going concern" section (without qualification) in the review report which states that:

"Without qualifying our conclusion, we draw attention to note 2 to the Financial Information of the Target Company which indicates that the Target Company had net current liabilities of HK$132,223,000 and accumulated losses of HK$585,932,000 as of 30 June 2018. As explained in note 2 to the Financial Information of the Target Company, the Financial Information of the Target Company has been prepared on a going concern basis, the validity of which depends upon the ongoing support from the Target Company's bankers and the Company's controlling shareholder, and the Target Company's ability to generate sufficient cash flows from future operations to cover the Target Company's operating costs and to meet its financing commitments. These conditions, along with other matters as set forth in note 2 to the Financial Information of the Target Company, indicate the existence of a material uncertainty which may cast significant doubt on the Target Company's ability to continue as a going concern."

UNAUDITED STATEMENTS OF PROFIT OR LOSS

For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018
(Expressed in Hong Kong dollars)

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	180,624	138,972	166,928	74,711	104,775
Cost of sales	(74,156)	(49,220)	(62,056)	(26,652)	(37,045)
Gross profit	106,468	89,752	104,872	48,059	67,730
Other revenue	566	385	410	5	340
Other net (loss)/income	(35,750)	1,215	260	62	185
Administrative expenses	(14,420)	(15,849)	(12,233)	(6,228)	(9,574)
Impairment loss of intangible asset – service concession arrangement	(157,988)	–	–	–	–
(Loss)/profit from operations	(101,124)	75,503	93,309	41,898	58,681
Finance costs	(84,801)	(64,490)	(59,802)	(28,794)	(29,059)
(Loss)/profit before taxation	(185,925)	11,013	33,507	13,104	29,622
Income tax	(2,085)	(8,351)	(5,438)	(4,132)	(4,320)
(Loss)/profit for the year/period	(188,010)	2,662	28,069	8,972	25,302

UNAUDITED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018

(Expressed in Hong Kong dollars)

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(Loss)/profit for the year/period	(188,010)	2,662	28,069	8,972	25,302
Other comprehensive income for the year/period					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translation to presentation currency	(15,923)	(5,808)	7,048	2,822	(1,889)
Total comprehensive income for the year/period	(203,933)	(3,146)	35,117	11,794	23,413

UNAUDITED STATEMENTS OF FINANCIAL POSITION

At 31 December 2015, 2016 and 2017 and 30 June 2018

(Expressed in Hong Kong dollars)

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	15,394	14,067	13,376	12,405
Intangible asset – service concession arrangement	1,366,208	1,269,848	1,419,122	1,377,646
Deferred tax assets	139,131	122,319	125,270	120,028
	1,520,733	1,406,234	1,557,768	1,510,079
Current assets				
Prepayments and other receivables	4,301	5,807	21,689	28,702
Pledged bank deposits	14,395	–	–	–
Cash at bank and on hand	2,352	5,252	24,071	37,272
	21,048	11,059	45,760	65,974
Current liabilities				
Accruals and other payables	116,200	57,305	127,431	120,952
Amounts due to related companies	14,329	–	–	148
Bank loans	629,278	69,121	78,855	77,097
	759,807	126,426	206,286	198,197
Net current liabilities	(738,759)	(115,367)	(160,526)	(132,223)
Total assets less current liabilities	781,974	1,290,867	1,397,242	1,377,856

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Bank loans	661,474	1,068,618	1,064,707	1,014,116
Amount due to a related company	–	106,737	179,999	188,039
Amount due to the controlling shareholder of the Company	30,765	28,923	30,830	30,582
	692,239	1,204,278	1,275,536	1,232,737
NET ASSETS	89,735	86,589	121,706	145,119
CAPITAL AND RESERVES				
Share capital	685,443	685,443	685,443	685,443
Reserves	(595,708)	(598,854)	(563,737)	(540,324)
TOTAL EQUITY	89,735	86,589	121,706	145,119

UNAUDITED STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018

(Expressed in Hong Kong dollars)

	Paid-in capital *HK$'000*	Capital reserve *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2015	685,443	8	62,172	(453,955)	293,668
Changes in equity for the year ended 31 December 2015:					
Loss for the year	–	–	–	(188,010)	(188,010)
Other comprehensive income					
– Exchange differences	–	–	(15,923)	–	(15,923)
Total comprehensive income for the year	–	–	(15,923)	(188,010)	(203,933)
Balance at 31 December 2015 and 1 January 2016	685,443	8	46,249	(641,965)	89,735
Changes in equity for the year ended 31 December 2016:					
Profit for the year	–	–	–	2,662	2,662
Other comprehensive income					
– Exchange differences	–	–	(5,808)	–	(5,808)
Total comprehensive income for the year	–	–	(5,808)	2,662	(3,146)
Balance at 31 December 2016 and 1 January 2017	685,443	8	40,441	(639,303)	86,589
Changes in equity for the year ended 31 December 2017:					
Profit for the year	–	–	–	28,069	28,069
Other comprehensive income					
– Exchange differences	–	–	7,048	–	7,048
Total comprehensive income for the year	–	–	7,048	28,069	35,117
Balance at 31 December 2017	685,443	8	47,489	(611,234)	121,706

	Paid-in capital *HK$'000*	Capital reserve *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2018	685,443	8	47,489	(611,234)	121,706
Changes in equity for six months ended 30 June 2018:					
Profit for the period	–	–	–	25,302	25,302
Other comprehensive income					
– Exchange differences	–	–	(1,889)	–	(1,889)
Total comprehensive income for the period	–	–	(1,889)	25,302	23,413
Balance at 30 June 2018	685,443	8	45,600	(585,932)	145,119
Balance at 1 January 2017	685,443	8	40,441	(639,303)	86,589
Changes in equity for six months ended 30 June 2017:					
Profit for the period	–	–	–	8,972	8,972
Other comprehensive income					
– Exchange differences	–	–	2,822	–	2,822
Total comprehensive income for the period	–	–	2,822	8,972	11,794
Balance at 30 June 2017	685,443	8	43,263	(630,331)	98,383

UNAUDITED CASH FLOW STATEMENTS

For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018

(Expressed in Hong Kong dollars)

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities					
(Loss)/profit before taxation	(185,925)	11,013	33,507	13,104	29,622
Adjustments for:					
Depreciation	5,390	5,501	2,656	1,347	1,323
Amortisation	48,376	24,774	37,082	16,280	24,764
Impairment loss of intangible assets	157,988	–	–	–	–
Finance costs	84,801	64,490	59,802	28,794	29,059
Interest income	(34)	(21)	(95)	(26)	(42)
Gain on disposal of property, plant and equipment	(41)	–	–	–	–
Foreign exchange loss/(gain)	36,826	29	(117)	(51)	15
Changes in working capital:					
Decrease/(increase) in prepayments and other receivables	1,257	(1,706)	(7,036)	(15,789)	(7,447)
(Decrease)/increase in accruals and other payables	(3,699)	(17,067)	5,944	7,102	23,134
(Decrease)/increase in amounts due to related companies	(3,421)	146	153	72	243
Net cash generated from operating activities	141,518	87,159	131,896	50,833	100,671
Investing activities					
Payment for the purchase of property, plant and equipment	(802)	(5,137)	(1,033)	(1,394)	(437)
Payment for intangible asset	(28,488)	(42,027)	(38,992)	(26,238)	(22,863)
Proceeds from disposal of property, plant and equipment	101	–	–	–	–
Interest received	34	21	95	26	42
Net cash used in investing activities	(29,155)	(47,143)	(39,930)	(27,606)	(23,258)

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financing activities					
(Increase)/decrease in pledged bank deposits	(14,395)	14,377	–	–	–
Repayment of bank loans	(20,800)	(661,291)	(71,483)	(34,978)	(44,083)
Increase in amount due to a related company	–	97,411	55,493	88,249	9,819
Borrowing costs paid	(88,278)	(76,859)	(58,145)	(28,794)	(29,276)
Proceeds of bank borrowings	–	589,780	–	–	–
Net cash (used in)/generated from financing activities	(123,473)	(36,582)	(74,135)	24,477	(63,540)
Net (decrease)/increase in cash and cash equivalents	(11,110)	3,434	17,831	47,704	13,873
Cash and cash equivalents at the beginning of year/period	8,706	2,352	5,252	5,252	24,071
Effect of foreign exchange rate changes	4,756	(534)	988	1,094	(672)
Cash and cash equivalents at the end of year/period	2,352	5,252	24,071	54,050	37,272

NOTES TO THE FINANCIAL INFORMATION

For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018

(Expressed in Hong Kong dollars)

1 General

Hunan Daoyue Expressway Industry Co., Ltd. (the "**Target Company**") was incorporated with limited liability in the People's Republic of China ("**PRC**") on 22 December 2006. Its ultimate holding company is Huayu Expressway Group Limited (the "**Company**"), a company incorporated in Cayman Islands with its shares listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its immediate holding company is Good Sign Limited ("**Good Sign**"), a company incorporated in Hong Kong. Good Sign holds 90% of the Target Company's equity interest and the remaining 10% equity interest is held by Shenzhen Huayu Investment & Development (Group) Co., Ltd. ("**Shenzhen Huayu**"), a limited company incorporated in PRC. The Company and its subsidiaries hereinafter are collectively referred to as "**the Group**".

On 18 October 2018, Good Sign, Shenzhen Huayu, Guangdong Xin Chuan Co., Ltd.（廣東新川有限公司）(the "**Purchaser**"), the Company, Mr. Chan and the Target Company entered into a conditional sale and purchase agreement, pursuant to which Good Sign will dispose of 30% equity interest in the Target Company to the Purchaser (the "**Disposal 1**"). The Purchaser is an indirect wholly-owned subsidiary of NWS Holdings Limited ("**NWS**").

Upon the completion of the Disposal, the Target Company will continue to be a subsidiary of the Company.

The functional currency of the Target Company is Renminbi while the Financial Information for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018 (the "**Relevant Periods**") is presented in Hong Kong Dollar for the convenience of the shareholders of the Company.

2 Basis of preparation of the unaudited financial information

The unaudited financial information of the Target Company for the years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2017 and 2018 (the "**Financial Information**") has been prepared in accordance with paragraph 14.68(2)(a)(i) of the Listing Rules, and solely for the purpose of inclusion in this circular to be issued by the Company in connection with the Disposal 1.

The Financial Information has been prepared by the Directors in accordance with the same accounting policies as those adopted by the Group in the preparation of the consolidated financial statements of the Group for the Relevant Periods. The consolidated financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The Financial Information has been approved and authorised for issue by the Board of Directors on 23 November 2018.

The Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised), *Presentation of Financial Statements*, or a complete condensed interim financial report as defined in Hong Kong Accounting Standard 34, *Interim Financial Reporting,* issued by the HKICPA and should be read in connection with the relevant published annual reports and interim reports of the Group for the Relevant Periods.

As at 30 June 2018, the Target Company had net current liabilities of HK$132,223,000 and accumulated losses of HK$585,932,000. The Target Company is dependent upon the financial support from its bankers, the Company's controlling shareholder, and its ability to generate sufficient cash flows from future operations to cover its operating costs and to meet its financing commitments. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Target Company's ability to continue as a going concern.

The Directors of the Company have made an assessment and concluded that the Target Company is able to continue as a going concern for at least the next twelve months from 30 June 2018 and to meet its obligations, as and when they fall due, having regard to the following:

i the Target Company expects to generate positive operating cash flows for the next twelve months;

ii the controlling shareholder of the Company has undertaken that repayment of a loan from the controlling shareholder of the Company Mr. Chan of HK$30,582,000 and the Shareholder's Loan of HK$188,039,000 at 30 June 2018 will not be requested until after 31 December 2019 and only if the Target Company has obtained funding from other sources and is in a position to meet all repayment obligations at that time; and

iii the controlling shareholder of the Company confirms its intention to provide adequate financial support to the Target Company as is necessary to ensure the Target Company's continuing operation for a period of at least 12 months from 30 June 2018.

Consequently, the Financial Information has been prepared on a going concern basis. The Financial Information does not include any adjustments that would result should the Target Company be unable to operate as a going concern.

(A) THE UNAUDITED PRO FORMA INFORMATION OF THE GROUP

1 Introduction

The unaudited pro forma financial information presented below is prepared to illustrate (i) the financial position of the Group as at 30 June 2018 as if the proposed disposal of 30% equity interest in Hunan Daoyue Expressway Industry Co., Ltd. (the "**Target Company**") (the "**Disposal 1**") had been completed on 30 June 2018; (ii) the results and cash flows of the Group for the year ended 31 December 2017 as if the Disposal 1 had been completed on 1 January 2017. The unaudited pro forma financial information is prepared based on the historical financial information set out in the published annual report of the Group for the year ended 31 December 2017 and the published interim report of the Group for the six months ended 30 June 2018, after giving effect to the pro forma adjustments described in the notes that are directly attributable to the Disposal 1 and factually supportable.

The unaudited Pro Forma Financial Information is prepared by the Directors of the Company in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of illustrating the effect of the Disposal 1 only and because of its hypothetical nature, it may not give a true picture of the financial results, cash flows and financial position of the Group had the Disposal 1 been completed as at the specified dates or any other dates.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Company for the year ended 31 December 2017 and published interim report of the Company for the six months ended 30 June 2018 and other financial information included elsewhere in this Circular.

2 Unaudited Pro Forma Consolidated Statement of Financial Position of the Group at 30 June 2018

	The Group as at 30 June 2018	Pro forma adjustments	The Group as at 30 June 2018
	HK$'000	*HK$'000*	*HK$'000*
	Note(a)	*Note(b)*	
Non-current assets			
Property, plant and equipment	12,405		12,405
Intangible asset – service concession arrangement	1,377,647		1,377,647
Deferred tax assets	120,028		120,028
	1,510,080		1,510,080
Current assets			
Trade and other receivables	28,932		28,932
Cash and cash equivalents	43,483	372,742	416,225
	72,415		445,157
Current liabilities			
Accruals and other payables	122,892		122,892
Amount due to a related company	147		147
Bank loan	77,097		77,097
	200,136		200,136
Net current (liabilities)/assets	(127,721)		245,021
Total assets less current liabilities	1,382,359		1,755,101

	The Group as at 30 June 2018	Pro forma adjustments	The Group as at 30 June 2018
	HK$'000	*HK$'000*	*HK$'000*
	Note(a)	*Note(b)*	
Non-current liabilities			
Bank loan	1,014,116		1,014,116
Amount due to the controlling shareholder of the Company	125,829		125,829
Amount due to a related company	188,039		188,039
	1,327,984		1,327,984
NET ASSETS	54,375		427,117
CAPITAL AND RESERVES			
Share capital	4,126		4,126
Reserves	35,737	329,206	364,943
Total equity attributable to equity shareholders of the Company	39,863		369,069
Non-controlling interests	14,512	43,536	58,048
TOTAL EQUITY	54,375		427,117

3 Unaudited Pro Forma Consolidated Statement of Profit or Loss of the Group for the year ended 31 December 2017

	The Group for the year ended 31 December 2017	Pro forma adjustments	The Group for the year ended 31 December 2017
	HK$'000	*HK$'000*	*HK$'000*
	Note(c)	*Note(d)*	
Revenue	166,928		166,928
Cost of sales	(62,056)		(62,056)
Gross profit	104,872		104,872
Other revenue	411		411
Other net income	2,057		2,057
Administrative expenses	(23,448)		(23,448)
Profit from operations	83,892		83,892
Finance costs	(59,802)		(59,802)
Profit before taxation	24,090		24,090
Income tax	(5,438)		(5,438)
Profit for the year	18,652		18,652
Attributable to:			
Equity shareholders of the Company	15,845	(8,421)	7,424
Non-controlling interests	2,807	8,421	11,228
Profit for the year	18,652		18,652

4 Unaudited Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Group for the year ended 31 December 2017

	The Group for the year ended 31 December 2017	Pro forma adjustments	The Group for the year ended 31 December 2017
	HK$'000	*HK$'000*	*HK$'000*
	Note(c)	*Note(d)*	
Profit for the period	18,652		18,652
Other comprehensive income for the year:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
– Financial statements of subsidiaries outside Hong Kong	7,182		7,182
Total comprehensive income for the year	25,834		25,834
Attributable to:			
Equity shareholders of the Company	22,322	(10,536)	11,786
Non-controlling interests	3,512	10,536	14,048
Total comprehensive income for the year	25,834		25,834

5 Unaudited Pro Forma Condensed Consolidated Cash Flow Statement of the Group for the year ended 31 December 2017

	The Group for the year ended 31 December 2017	Pro forma adjustments	The Group for the year ended 31 December 2017
	HK$'000	*HK$'000*	*HK$'000*
	Note(c)	*Note(e)*	
Operating activities			
Cash generated from operations	120,469		120,469
Tax paid	–		–
Net cash generated from operating activities	120,469		120,469
Investing activities			
Payment for the purchase of fixed assets	(1,033)		(1,033)
Payment for intangible assets	(38,992)		(38,992)
Other cash flows arising from investing activities	96		96
Net cash used in investing activities	(39,929)		(39,929)
Financing activities			
Repayment of bank loan	(71,483)		(71,483)
Increase in amount due to the controlling shareholder of the Company	12,300		12,300
Increase in amount due to a related company	55,493		55,493
Borrowing costs paid	(58,145)		(58,145)
Proceeds from disposal of partial interests in a subsidiary	–	372,742	372,742
Net cash (used in)/generated from financing activities	(61,835)		310,907
Net increase in cash and cash equivalents	18,705		391,447
Cash and cash equivalents at 1 January	10,806		10,806
Effect of foreign exchange rate changes	1,013		1,013
Cash and cash equivalents at 31 December	30,524		403,266

Notes to the Unaudited Pro Forma Financial Information of the Group

(a) The amounts are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2018 as set out in the published interim report of the Company for the six months ended 30 June 2018.

(b) The following pro forma adjustments have been made to the unaudited pro forma consolidated statement of financial position assuming the Disposal 1 had taken place on 30 June 2018:

(i) The adjustment to cash and cash equivalent represents the initial consideration of the Disposal 1 of RMB352,450,000 (equivalent to approximately HK$397,916,000 for the purpose of this pro forma financial information, translated at the exchange rate of RMB1 to HK$1.129). No representation is made that RMB denominated amounts have been, could have been or could be converted to HK$, or vice versa, at the rate applied or at any other rates or at all.

This initial consideration is subject to an upwards or downwards adjustment (as the case may be) in the amount of the difference between net asset value of the Target Company (excluding accumulated depreciation of fixed assets) at 31 August 2018 and the completion date of the Disposal 1 if such difference is more than RMB 1 million details of which are set out in the section "Letter from the Board" of this circular. The initial consideration is not adjusted for the purpose of this pro forma financial information on the basis that the calculation involves financial information at future dates not yet available at the time of preparation of this unaudited pro forma financial information.

(ii) The adjustment to reserves represents the estimated net gain on the Disposal 1 as if it had taken place on 30 June 2018, which is calculated as follows:

	HK$'000
Total consideration for the Disposal 1 *(Note (b)(i))*	397,916
Less: Estimated professional costs directly attributable to the Disposal 1*	(6,000)
Estimated stamp tax in relation to the Disposal 1**	(199)
Estimated income tax in relation to the gain on the Disposal 1 calculated at the applicable tax rate***	(18,975)
Estimated net proceeds from the Disposal 1	372,742
Less: 30% of net assets of the Target Company as at 30 June 2018****	(43,536)
Estimated gain (net of tax) on the Disposal 1	329,206

* Estimated professional costs directly attributable to the Disposal 1 represents proposal fees to professional advisors based on management's budget, including financial advisor, independent financial adviser, legal advisors, agencies, printer and the auditors of the Company and other miscellaneous costs.

** Estimated stamp tax in relation to the Disposal 1 represents the People's Republic of China (the "**PRC**") stamp tax of HK$199,000, which is calculated based on a tax rate of 0.05% and the total initial consideration of HK$397,916,000 for the Disposal 1 in relation to transfer of equity interest in the Target Company.

*** Estimated income tax in relation to the Disposal 1 represents the PRC enterprise income tax of HK$18,975,000, which is calculated based on a tax rate of 10% and taxable disposal gain arising from the transfer of equity interest in the Target Company.

**** Net assets of the Target Company as at 30 June 2018 was extracted from Appendix II to this Circular. 30% of net assets of the Target Company is calculated as follows:

	HK$'000
Net assets of the Target Company as at 30 June 2018	145,119
Percentage of equity interest disposed of	30%
Net assets of the Target Company in relation to the Disposal 1	43,536

(c) The amounts are extracted from the consolidated statement of profit or loss, the statement of profit or loss and other comprehensive income and the cash flow statement of the Group for the year ended 31 December 2017 as set out in the published annual report of the Company for the year ended 31 December 2017.

(d) The following pro forma adjustments have been made to the unaudited pro forma consolidated statement of profit or loss and the unaudited pro forma statement of profit or loss and other comprehensive income assuming the Disposal 1 had taken place on 1 January 2017:

(i) The estimated net effect on profit attributable to equity shareholders of the Company and non-controlling interests is calculated as follows:

	HK$'000
Profit of the Target Company for the year ended 31 December 2017	28,069
Percentage of equity interest disposed of	30%
Net effect on non-controlling interests in relation to shareholders of the Disposal 1	8,421
Net effect on profit attributable to equity shareholders of the Company in relation to the Disposal 1	(8,421)

(ii) The estimated net effects on total comprehensive income attributable to the equity shareholders of the Company and non-controlling interest are calculated as follows:

	HK$'000
Total comprehensive income of the Target Company for the year ended 31 December 2017	35,117
Percentage of equity interest disposed of	30%
Net effect on total comprehensive income attributable to the non-controlling interests in relation to the Disposal 1	10,536
Net effect on total comprehensive income attributable to the equity shareholders of the Company in relation to the Disposal 1	(10,536)

(e) The adjustments represent the net cash flow as if the Disposal 1 had taken place on 1 January 2017:

	HK$'000
Total consideration for the Disposal 1 *(Note (e)(i))*	397,916
Less: Estimated professional costs directly attributable to the Disposal 1*	(6,000)
Estimated stamp tax in relation to the Disposal 1**	(199)
Estimated income tax in relation to the gain on the Disposal 1 calculated at the applicable tax rate***	(18,975)
Net proceeds from the Disposal 1	372,742

(f) The adjustments in respect of the unaudited pro forma consolidated statement of profit or loss and unaudited pro forma consolidated statement of profit or loss and other comprehensive income are expected to have a continuing effect on the Group. The adjustment in respect of the unaudited pro forma consolidated cash flow statement above are not expected to have a continuing effect on the Group.

(g) The estimated gain on the Disposal 1, net proceeds from the Disposal 1 and the amounts of the consideration as illustrated above are subject to change. The actual carrying amount of the Target Company, and thus the gain on Disposal 1 and net proceeds from the Disposal 1 at the date of Completion will likely be different from those stated in the pro forma financial information.

(h) No adjustment has been made to reflect any trading results or other transaction of the Group entered into subsequent to 30 June 2018 for the unaudited pro forma consolidated statement of financial position and 31 December 2017 for the unaudited pro forma consolidated statement of profit and loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated cash flow statement. In particular, no adjustments have been made in respect of a possible dividend distribution of HK$50 million and financial support and funding to be provided by the purchaser, 廣東新川有限公司 (Guangdong Xin Chuan Co., Ltd.).

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the Directors of Huayu Expressway Group Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Huayu Expressway Group Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2018 and the unaudited pro forma consolidated statement of profit or loss,the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the pro forma condensed consolidated cash flow statement for the year ended 31 December 2017 and related notes as set out in Part A of Appendix III to the circular dated 23 November 2018 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix III to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed disposal of 30% equity interest in Hunan Daoyue Expressway Industry Co., Ltd. (the "**Target Company**") (the "**Disposal 1**") on the Group's financial position as at 30 June 2018 and the Group's financial performance and cash flows for the year ended 31 December 2017 as if the Disposal 1 had taken place at 30 June 2018 and 1 January 2017 respectively. As part of this process, information about the Group's financial position as at 30 June 2018 has been extracted by the Directors from the interim report of the Group for the six months ended 30 June 2018, on which a review report has been published. Information about the Group's financial performance and cash flows for the year ended 31 December 2017 has been extracted by the Directors from the consolidated financial statements of the Group for the year ended 31 December 2017, on which an audit report has been published.

The audit report for the consolidated financial statements of the Company for the year ended 31 December 2017 and the review report for the interim financial report of the Company for the six months ended 30 June 2018 each contain a "Material Uncertainty Related to Going Concern" paragraph on the Group's ability to continue as a going concern, as more fully described in the annual report of the Company for the year ended 31 December 2017 published on 23 March 2018 and the interim report of the Company for the six months ended 30 June 2018 published on 24 August 2018 respectively. These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2018 or 1 January 2017 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong
23 November 2018

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Directors and chief executive' interests

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO, which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she was taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(1) The Company

Name of Directors	Nature of Interest	Number of Shares	Approximate percentage of shareholding
Mr. Chan *(Note)*	Interest of controlled corporation	300,000,000 (L)	72.71%

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

On 12 January 2018, Velocity International Limited had pledged 300,000,000 shares of the Company to TCG Capital Investment Limited (which is wholly owned by Mr. Chan Weng Lin) as security for another term loan facility provided to Velocity International Limited.

(2) Associated corporation – Target Company

Name of Directors	Nature of Interest	Approximate percentage of shareholding
Mr. Chan *(Note)*	Interest of controlled corporation	10%

Note: Mr. Chan is holding 100% of the equity interest in the Vendor 2 thus is deemed to be interested in the 10% interest in the Target Company by Vendor 2.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO, which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she was taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed below, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the Shares, debentures or underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO.

(ii) Substantial Shareholders' interests

So far as is known to any Directors or chief executive of the Company, as at the Latest Practicable Date, the following persons (other than the Directors and the chief executive of the Company) (a) who had, or were deemed to have, interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; (b) who were or were expected, directly or indirectly, interested in 10% or more of the Shares or any issued voting shares of any other member of the Group; or (c) who had interest which should be recorded in the register of the Company required to be kept under section 336 of the SFO, were as follows:

Name of Shareholders	Nature of Interest	Number of Shares	Percentage
Velocity International Limited *(Note)*	Beneficial owner	300,000,000 (L)	72.71%
TCG Capital Investment Limited *(Note)*	Person having security interest in shares	300,000,000 (L)	72.71%
Chan Weng Lin *(Note)*	Interest of controlled corporation	300,000,000 (L)	72.71%

Note: The entire issued share capital of Velocity International Limited is owned by Mr. Chan, an executive Director and chairman of the Board. On 12 January 2018, Velocity International Limited had pledged 300,000,000 Shares to TCG Capital Investment Limited (which is wholly-owned by Mr. Chan Weng Lin) as security for a term loan facility provided to Velocity International Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any persons (other than the Directors and the chief executive of the Company) (a) who had, or were deemed to have, interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; (b) who were or were expected, directly or indirectly, interested in 10% or more of the Shares or any issued voting shares of any other member of the Group; or (c) who had interest which should be recorded in the register of the Company required to be kept under section 336 of the SFO.

3. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

(i) Interests in contracts

Save for the interest in the Agreement, details of which are disclosed in this circular, as at the Latest Practicable Date, there was no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Group.

(ii) Interests in assets

Save for the interest in the Target Company by Mr. Chan, none of the Directors had, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2017, the date to which the latest published audited consolidated financial statements of the Group were made up.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, each of the Directors (including executive and independent non-executive Directors) had entered into a service contract with the Company for an initial term of three years, subject to termination in accordance with the provisions of the services contracts or by either party servicing the others not less than three months prior written notice.

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any expire or is not determined by the Group within one year without payment of compensation (other than statutory compensation).

6. MATERIAL CONTRACTS

Save as the Agreement, no material contract (not being contracts entered into in the ordinary course of business) entered into by members of the Group within the two years immediately preceding the Latest Practicable Date.

7. LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualifications
KPMG	Certified Public Accountants
Lego Corporate Finance Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities as defined under the SFO

As at the Latest Practicable Date, none of the above experts had any direct or indirect shareholdings in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group, or any interests, directly or indirectly, in any assets which had been acquired, disposed of or leased to or which were proposed to be acquired, disposed of or leased to the Group or any of their respective subsidiaries, respectively, since 31 December 2017, the date to which the latest published audited consolidated financial statements of the Group were made up.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its reports and references to its name in the form and context in which they appear.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during 9:00 a.m. to 6:00 p.m., Monday to Friday (except public holidays) at the Company's principal place of business in Hong Kong at Unit 1205, 12/F, Tower 1, Lippo Centre, 88 Queensway, Hong Kong from the date of this circular up to and including the date of the EGM:

(i) the memorandum and article of association of the Company;

(ii) the annual reports of the Company for each of the three financial years ended 31 December 2015, 2016 and 2017 and the interim reports of the Company for each of the six months ended 30 June 2017 and 2018;

(iii) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 31 of this circular;

(iv) the letter of independent advice from the Independent Financial Adviser, the text of which is set out on page 32 in this circular;

(v) the unaudited financial information of the Target Company, the text of which is set out in Appendix II to this circular;

(vi) the report from KPMG in relation to the unaudited pro forma financial information of the Group, the text of which is set out in Appendix III to this circular;

(vii) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(viii) the written consents referred to in the section headed "Qualifications and Consents of Experts" in this appendix; and

(ix) a copy of this circular.

10. GENERAL

(i) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business in Hong Kong is Unit 1205, 12/F, Tower 1, Lippo Centre, 88 Queensway, Hong Kong.

(ii) The Company's Hong Kong branch share registrar and transfer office is Tricor Services Limited which is situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(iii) The company secretary of the Company is Mr. Sin Ka Man. Mr. Sin has over 25 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He became an associate member of The Hong Kong Institute of Certified Public Accountants (the "HKICPA") (formerly known as Hong Kong Society of Accountants) in January 1996, a fellow member of the Association of Chartered Certified Accountants in July 1997 and a certified practising accountant of the CPA Australia in December 2000. Mr. Sin obtained his bachelor degree in Social Sciences from the University of Hong Kong in December 1989, master degree in Finance from the University of Strathclyde, the United Kingdom in November 1993 and a master degree in Accounting from Curtin University of Technology, Australia in June 1998.

(iv) The English texts of this circular and proxy form shall prevail over the Chinese texts.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**EGM**") of Huayu Expressway Group Limited (the "**Company**") will be held at Unit 1205, 12/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong on Thursday, 13 December 2018 at 11:00 a.m. for the following purposes:

AS SPECIAL BUSINESS

ORDINARY RESOLUTION

"**THAT**:

(a) the agreement (the "**Agreement**") (a copy of which is tabled at the EGM, marked "A" and initialed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder which constitute a very substantial disposal (as defined under the Listing Rules) and a connected transaction (as defined under the Listing Rules) to the Company, be and are hereby approved, confirmed and ratified; and

(b) any one director ("**Director**") and/or the company secretary of the Company be and is hereby authorised to perform all such acts, deeds and things and execute all documents as he/they consider necessary or expedient to effect and implement the Agreement and the transactions contemplated thereunder which constitute a very substantial disposal (as defined under the Listing Rules) and a connected transaction (as defined under the Listing Rules) to the Company."

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

Hong Kong, 23 November 2018

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

Notes:

1. The register of members of the Company will be closed from 10 December 2018 to 13 December 2018 (both days inclusive) during which no transfer of Share(s) will be registered. Members whose names appear on the register of members of the Company at the close of business on 7 December 2018 will be entitled to attend and vote at the Meeting.

2. Any shareholder entitled to attend and vote at the Meeting is entitled to appoint another person as his/her proxy to attend and vote on his/her behalf. A shareholder of the Company who is the holder of two or more Shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.

3. Where there are joint registered holders of any Shares, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Shares as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most, or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand in the register in respect of the relevant joint holding.

4. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjournment thereof.