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 a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional independent advisers.

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

HUAYU EXPRESSWAY GROUP LIMITED
華昱高速集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1823)

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

Financial adviser to the Company

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

Capitalised terms used on this cover shall have the same meanings as defined in this circular unless otherwise requires.

A notice convening the EGM to be held at Unit 1205, 12/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong at 11 a.m. on Tuesday, 14 February 2023 is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). Whether or not you are intending to attend and vote at the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the EGM or any adjourned meeting (as the case may be) in person should you so desire.

20 January 2023

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

"Accounts"	collectively, the audited financial statements (including balance sheet, income statement and cash flow statement) of the Target Company for each of the year ended 31 December 2020 and 2021 under the General Accepted Accounting Principles of the PRC, as well as the unaudited financial statements of the Target Company for the period ended the Reference Date, as provided by the Target Company to the Purchaser pursuant to the terms of the Sale and Purchase Agreement
"Adjustments"	potential adjustments to the Consideration pursuant to the terms and conditions of the Sale and Purchase Agreement
"Announcement"	the announcement of the Company dated 8 December 2022 in relation to the Proposed Disposal
"Board"	board of the Directors
"Business Day"	any day on which government organisations in the PRC are normally open for operation (i.e., Monday to Friday), including any Saturday or Sunday declared to be a temporary business day by the PRC government, but excluding any statutory holiday or any Saturday or Sunday that is not a declared temporary business day
"Company"	Huayu Expressway Group Limited, a company incorporated in Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1823)
"Completion"	completion of the Proposed Disposal
"Completion Date"	date of Completion pursuant to the terms and conditions of the Sale and Purchase Agreement
"Condition(s)"	the condition(s) precedent to the Completion
"connected person(s)"	has the same meaning as defined in the Listing Rules
"Consideration"	the maximum total consideration for the Proposed Disposal
"Director(s)"	director(s) of the Company

"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"Guarantee"	the joint and several guarantee to be provided by the Guarantors in favour of the Purchaser over the due performance and observance by the Vendor of all its Guaranteed Obligations pursuant to the terms and conditions of the Sale and Purchase Agreement with the total amount liable to the Purchaser by the Guarantors not exceeding the amount of the Consideration
"Guaranteed Obligations"	the due performance and observance by the Vendor of all its representations, warranties, undertaking, obligations and indemnities pursuant to the terms and conditions of the Sale and Purchase Agreement
"Guarantors"	collectively, the Company and Mr. Chan
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	17 January 2023, being the latest practicable date prior to the printing of this circular for purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Chan"	Mr. Chan Yeung Nam, the chairman of the Board, an executive Director and a controlling Shareholder
"PRC"	the People's Republic of China and, for the purpose of this circular, excluding Hong Kong, Macao Special Administrative Region of the People's Republic of China and Taiwan
"Proposed Disposal"	the proposed disposal of the Sale Shares by the Vendor to the Purchaser

"Purchaser"	NWS (Guangdong) Investment Company Limited, a company established in the PRC with limited liabilities and an indirect wholly-owned subsidiary of NWS Holdings Limited whose shares are listed on the Stock Exchange (stock code: 659)
"Reference Date"	31 August 2022
"Remaining Group"	the Group excluding the Target Company upon Completion
"RMB"	Renminbi, the lawful currency of PRC
"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 1 December 2022 entered into between, among others, the Vendor, the Purchaser and the Target Company in relation to the Proposed Disposal
"Sale Shares"	60% of the issued equity interests in the Target Company as at the date of the Sale and Purchase Agreement
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	湖南道岳高速公路實業有限公司 (Hunan Daoyue Expressway Industry Co., Ltd.), a company established in the PRC with limited liabilities and a 60%-owned subsidiary of the Company as at the date of the Sale and Purchase Agreement
"Target Expressway"	随岳高速公路湖南段 (Sui-Yue Expressway (Hunan Section)) located in Hunan Province of the PRC owned and operated by the Target Company
"Vendor "	Good Sign Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company

"Vendor's Attributable Net Profit"	the amount of net profit of the Target Company attributable to the Vendor between the Reference Date and the Completion Date
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of PRC
%	per cent.

For the purpose of this circular, unless otherwise indicated, conversion of RMB into HK$ is calculated at the approximate exchange rate of RMB1.00 = HK$1.10. This exchange rate is for the purpose of illustration only and do not constitute a representation that any amounts in RMB and HK$ have been, could have been or may be converted at such rate or any other exchange rate.

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. Fu Jie Pin *(Chief Executive Officer)*
Ms. Liu Bao Hua

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

Registered Office:
Cricket Square, Hutchins Drive
PO 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

20 January 2023

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

Reference is made to the Announcement in relation to the Proposed Disposal. Pursuant to the Sale and Purchase Agreement, (i) the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares at the Consideration (subject to Adjustments); and (ii) the Guarantors have agreed to provide the Guarantee, in favour of the Purchaser, over the due performance and observance by the Vendor of all its Guaranteed Obligations.

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

The purpose of this circular is to provide you with, among others, (i) details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the financial information of the Group; (iii) the financial information of the Target Company; (iv) the notice of the EGM; and (v) other information as required under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT

Date

1 December 2022 (after trading hours)

Parties

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

To the best of the Directors' knowledge, information and having made all reasonable enquiry, as at the Latest Practicable Date, the Purchaser was a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules by virtue of its 40% equity interests in the Target Company; and Mr. Chan was a connected person of the Company under Chapter 14A of the Listing Rules by virtue of his position as an executive Director, the chairman of the Board and a controlling Shareholder of the Company.

Assets to be disposed of

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

Consideration

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

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to, among other things, the net asset value of the Target Company as at the Reference Date. Considering that the Target Company has been in operation for years with an established revenue-generating ability, and the Target Company has recorded profitable financial results for the recent years, details of which are set out in the section headed "Information of the Target Company" of the Letter from the Board and Appendix II to this circular, the Consideration was determined at a premium over the proportionate net asset value of the Target Company as at 31 August 2022, which was approximately 206.1%, and to an extent that the underlying price-to-earnings multiple ("**P/E**") and the underlying price-to-book multiple ("**P/B**") of the Target Company are higher than the ranges of P/E and P/B, respectively, of other companies principally engaged in the toll road business in the PRC.

The Board has conducted comparable analysis for peer companies (i) whose shares are listed on the Stock Exchange; and (ii) which are 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 as at 30 November 2022, being the trading day immediately preceding the date of the Sale and Purchase Agreement. The table below sets out the details of the exhaustive list of the identified peer companies having met the above selection criteria:

Company name (Stock code) *(Note 1)*	**Market capitalisation as at 30 November 2022**	**Profit/(loss) attributable to equity holders for the latest financial year**	**Historical P/E**	**The then latest available reported net assets/ (liabilities) attributable to equity holders**	**Historical P/B**
	(Approximately) HK$ million (Note 2)	*(Approximately) HK$ million*	*(Approximately) times (Note 3)*	*(Approximately) HK$ million*	*(Approximately) times (Note 4)*
Zhejiang Expressway Company Limited (stock code: 576)	8,316.4	5,238.7	1.6	31,481.8	0.3
China Resources and Transportation Group Limited (stock code: 269)	106.4	(4,358.0)	N/A	(13,060.5)	N/A
Yuexiu Transport Infrastructure Limited (stock code: 1052)	6,107.0	1,611.5	3.8	12,345.8	0.5
Qilu Expressway Company Limited (stock code: 1576)	2,728.0	938.8	2.9	5,756.3	0.5
Chengdu Expressway Company Limited (stock code: 1785)	839.2	438.7	1.9	4,304.5	0.2
Anhui Expressway Company Limited (stock code: 995/600012)	12,126.5	1,663.2	7.3	12,815.6	0.9
Shenzhen Investment Holdings Bay Area Development Company Limited (stock code: 737)	5,547.0	734.1	7.6	5,019.5	1.1
Jiangsu Expressway Company Limited (stock code: 177/600377)	42,307.4	4,596.7	9.2	34,497.3	1.2
Shenzhen Expressway Company Limited (stock code: 548/600548)	18,407.6	2,866.9	6.4	24,304.5	0.8
Maximum			9.2		1.2
Minimum			1.6		0.2
Average			5.1		0.6
The Target Company			18.3		3.1

Sources:

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

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

Notes:

1. Peer companies with additional stock codes starting with "600" are the "A+H Peer Companies" whose ordinary shares are listed simultaneously on the Stock Exchange as well as the Shanghai Stock Exchange;

2. Computed based on the closing share price data and the total number of outstanding ordinary shares of the peer companies as at 30 November 2022, which was the last trading day immediately preceding the date of the Sale and Purchase Agreement and hence were fair and reasonable for the purpose of the analysis in the Board's view;

3. The historical P/Es of the peer companies are calculated based on their respective closing market capitalisation as at 30 November 2022 and their profit attributable to equity holders for the latest financial year; and

4. The historical P/Bs of the peer companies are calculated based on their respective closing market capitalisations as at 30 November 2022 and their then latest available reported net assets attributable to equity holders of the companies.

Accordingly, in view of the established operation and revenue-generating ability of the Target Expressway, as well as the recent profitable track record of the Target Company, and considering that (i) the Consideration represents a premium over the net asset value of the Target Company as at 31 August 2022 in proportion to 60% equity interests therein; (ii) the P/B of the Target Company of approximately 3.1, which is calculated based on (a) the implied Consideration of approximately HK$1,018,783,000 in respect of 100% of the equity interests of the Target Company with reference to the Consideration of approximately HK$611,270,000 (the "**Implied Consideration**"); and (b) the net asset value of the Target Company as at 31 August 2022 of approximately HK$332,774,000, is higher than those of the peer companies which ranged from approximately 0.2 to approximately 1.2; and (iii) the P/E of the Target Company of approximately 18.3, which is calculated based on (a) the Implied Consideration of approximately HK$1,018,783,000; and (b) the net profit after taxation of the Target Company for the year ended 31 December 2021 of approximately HK$55,615,000, is higher than those of the peer companies which ranged from approximately 1.6 to approximately 9.2, the Board considers the Consideration to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Payment

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

(1) as to 80%, or RMB444,560,000 (equivalent to approximately HK$489,016,000), being the first instalment of the Consideration (the "**First Instalment**"), shall be deposited by the Purchaser to the bank account designated by the Vendor within ten Business Days after the fulfilments or waivers granted by the Purchaser in writing (as the case may be) of the conditions below:

(i) the Conditions having been fulfilled or waived by the relevant parties in accordance with the terms of the Sale and Purchase Agreement, details of which are set out in the section headed "Conditions" below;

(ii) the Proposal Disposal having been registered and filed with the Yueyang Administration for Market Regulation of the PRC, and the Purchaser having been registered as the owner of the Sale Shares and the shareholder of the Target Company as to the entire issued share capital thereof;

(iii) the Vendor and the Purchaser having agreed on the amount of the Adjustments (if applicable) as stipulated in the Sale and Purchase Agreement;

(iv) the Target Company having completed the relevant procedures in relation to the change in basic information and obtained the business registered certificate from the relevant foreign exchange settlement bank;

(v) the Vendor and the Purchaser having completed the relevant tax filing procedures for the transfer of the Consideration, and the Purchaser having completed the payment of the relevant income tax on behalf of the Vendor as well as obtained the tax filing form issued and confirmed by the tax authority; and

(vi) the Vendor having issued the payment notice of the First Instalment to the Purchaser within 20 Business Days before the Completion Date.

(2) as to 13%, or RMB72,241,000 (equivalent to approximately HK$79,465,000), being the second instalment of the Consideration (the "**Second Instalment**"), shall be adjusted in accordance with paragraphs (1) and (7) set out under the section headed "Adjustments" below and the portion after the aforesaid Adjustments, being approximately RMB71,063,000 (equivalent to approximately HK$78,169,000 shall be deposited by the Purchaser to the bank account designated by the Vendor within ten Business Days after the fulfilment or waiver granted by the Purchaser in writing (as the case may be) of the conditions below:

(i) the receivables of the Target Company as disclosed in the Accounts having been recovered in full;

(ii) the payables owed by the Target Company to the constructors and contractors relating to the engineering projects of the Target Company having been settled in full;

(iii) the pending appeal against the judgement of the litigation relating to construction contract dispute commenced before the Completion Date whereby the Target Company is a defendant having concluded and any debts or liabilities under the relevant proceedings be borne by the Target Company therefrom having been settled in full;

(iv) in respect of any outstanding amount payable by the Target Company to constructors, the Vendor having coordinated with the relevant constructors to enter into settlement agreements with the Target Company as approved by the Purchaser, to confirm that the Target Company shall not be liable for the payment of such outstanding amount, both the Target Company and the relevant constructors have fully fulfilled their responsibilities and obligations under the relevant agreements, and that there is no objection or dispute between the parties regarding the performance and settlements under the relevant agreements; and

(v) the Vendor having issued the payment notice of the Second Instalment to the Purchaser within 20 Business Days before the payment of the Second Instalment.

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

(3) as to the remaining 7%, or RMB38,899,000 (equivalent to approximately HK$42,789,000), being the third instalment of the Consideration (the "**Third Instalment**"), shall be deposited by the Purchaser to the bank account designated by the Vendor within ten Business Days after the fulfilment or waiver granted by the Purchaser in writing (as the case may be) of the conditions below:

(i) all matters relating to any illegal land occupation[1] having been settled, and all title registration certificate(s) of the land and properties of the Target Expressway having been obtained in accordance with the relevant laws and regulations, by the Target Company;

(ii) all obligations or responsibilities of the Vendor as stipulated under the Sale and Purchase Agreement having been fulfilled as at the date of payment of the Third Instalment; and

(iii) the Vendor having issued the payment notice of the Third Instalment to the Purchaser within 20 Business Days before the payment of the Third Instalment.

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

As at Completion, the Vendor will have received 80% of the Consideration, or RMB444,560,000 (equivalent to approximately HK$489,016,000), being the First Instalment. It is worth noting that certain conditions to the payment of the Second Instalment and the Third Instalment involve, among others, the obtaining of the conclusion of a pending appeal against the litigation judgement relating to construction contract as well as the full settlement of all matters relating to the illegal land occupation by the Target Company, which require a longer time to proceed or complete as compared to that required by the Conditions, whereas Completion is expected to take place on or around 28 February 2023. Accordingly, such consideration payment arrangement allows for a smooth and efficient Completion whereupon the First Instalment of RMB444,560,000 (equivalent to approximately HK$489,016,000) would have been secured by the Company regardless of the status of the fulfilment of any outstanding conditions as mentioned above, which would then be allocated by the Company for different uses including but not limited to the expansion of the liquor and spirits business and the dividend distribution which are beneficial to the Company and the Shareholders, further detail of which are set out in the

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

sections headed "Expected use of proceeds" and "Reasons for and benefits of the Proposed Proposal" of the Letter from the Board. The First Instalment of RMB444,560,000 (equivalent to approximately HK$489,016,000) represents a premium of approximately 144.9% over the proportionate net asset of the Target Company as at 31 August 2022. In addition, for illustration purpose only, such First Instalment represents a price-to-book ratio of approximately 2.4 based on the First Instalment of approximately HK$489,016,000 to be received by the Company as at Completion and the proportionate net asset of the Target Company of approximately HK$199,664,000 as at 31 August 2022, which is higher than the range of the underlying P/B of the peer companies. Based on the above, the Directors are of the view that the payment arrangement that only 80% of the Consideration would have been received by the Company as at Completion is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In the event of the Purchaser's default in paying the remaining 20% of the Consideration or any part thereof after Completion in accordance with the Sale and Purchase Agreement, a daily default interest of 0.03% shall be payable by the Purchaser to the Vendor any such outstanding amount and if such default continues for more than 30 days, the Vendor may terminate the Sale and Purchase Agreement by notifying the Purchaser in writing (the "**Notification**") whereupon the Vendor is entitled to seek damages, which is equivalent to 20% of the Consideration, from the Purchaser. In addition, in the event that the Vendor chooses to terminate the Sale and Purchase Agreement by issuing the Notification, pursuant to the terms of the Sale and Purchase Agreement, the Purchaser is obliged to work with the Vendor and facilitate the Target Company in unwinding the transaction and effecting the transfer of the Sale Shares back to the Vendor through entering into another equity transfer agreement with the Purchaser and completing registration and filing procedures resulting in the re-registration of the Vendor as the owner of the Sale Shares and pay the above damages to the Vendor within 20 Business Days after the Notification. Also, the Company may consider to take legal actions should they be necessary.

In the event of the Purchaser's default in paying the remaining 20% of the Consideration or any part thereof after Completion and the abovementioned daily default interest of 0.03% to the Vendor in accordance with the Sale and Purchase Agreement, the Company may consider to, among others, negotiate with the Purchaser for the extension of the deadlines for making the above payments, or terminate the Sale and Purchase Agreement by issuing the Notification whereupon the Vendor would be entitled to seek damages from the Purchaser and unwind the transaction and effect the transfer of the Sale Shares back to the Vendor, or take legal actions should they be necessary. Considering that the Vendor is entitled to take the above actions and the Purchaser is obliged to cooperate with the Vendor and facilitate the unwinding of the transaction by transferring the Sale Shares back to the Vendor (where applicable) pursuant to the Sale and Purchase Agreement, the Directors are of the view that the Company's interests are sufficiently and effectively safeguarded.

Furthermore, the Purchaser acquired 40% of the equity interests of the Target Company from the Vendor in 2018 and the Purchaser had fully paid the consideration in accordance with the terms of the then sale and purchase agreement without any delay. The Purchaser is an indirect wholly-owned subsidiary of NWS Holdings Limited (stock code: 659) which is listed on the Main Board of the Stock Exchange. The subsidiaries of NWS Holdings Limited 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 Holdings Limited for the financial year ended 30 June 2022, attributable operating profit of NWS Holdings Limited and its subsidiaries (the "**NWS Group**") for the year ended 30 June 2022 amounted to approximately HK$4.4 billion, net and current assets of the NWS Group amounted to approximately HK$53.9 billion and HK$41.5 billion, respectively, while the current liabilities of the NWS Group amounted to approximately HK$56.9 billion. The NWS Group maintained sturdy financial position for the year ended 30 June 2022. Its net debt balance as at 30 June 2022 decreased to HK$10.1 billion (30 June 2021: HK$14.5 billion), with net gearing ratio remaining at a low level of 19% (30 June 2021: 25%). Given the above including but not limited to the established operations and the recent sturdy financial position of the NWS Group, the Directors consider that the risk of the Purchaser's default in paying the remaining 20% of the Consideration is low.

In the event that the conditions to the payment of the Third Instalment set out above have not been fulfilled or waived in writing within three years following the Completion Date, the amount of the Third Instalment shall be reduced by RMB43,000,000 (equivalent to approximately HK$47,300,000), of which RMB38,899,000 (equivalent to approximately HK$42,789,000) shall be directly deducted from the amount of the Third Instalment, while the remaining amount shall be deducted from the Vendor's Attributable Net Profit. In the event that the Vendor's Attributable Net Profits is less than the aforesaid remaining amount, the difference shall be paid by the Vendor to the Purchaser within ten Business Days after expiry of the third year following the Completion Date. The aforesaid maximum amount of the potential reduction of RMB43,000,000 was mainly determined with reference to condition (3)(i) to the payment of the Third Instalment above, which consists of the potential liabilities to be incurred by the Target Company from the obtaining of the title registration certificates of the land illegally occupied by the Target Expressway as well as other properties of the Target Expressway. Given the relevant aggregate penalty and the transferring fees, taxes, fines and overdue fines and the fees for obtaining of the title registration certificates of the land occupied by the Target Expressway was expected to be approximately RMB33,361,000 and the additional costs to be incurred for obtaining the title registration certificates of other properties of the Target Expressway were expected to be not less than RMB10,000,000, the Directors are of the view that the arrangements of the potential reduction of RMB43,000,000 and that the Vendor may be required to pay the difference of RMB4.1 million to the Purchaser, are fair and reasonable and in the interest of the Company and its shareholders as a whole.

Adjustments

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

(1) the liability falling on the Target Company as a result of the overdue tax payment and/or the penalties due to late tax payment for the period from 1 January 2016 up to and including 31 December 2018 and the period from 1 January 2019 up to and including 31 December 2021 stated in the tax assessment results issued by the relevant authority and confirmed by the Purchaser and the Vendor, under which the Consideration shall be adjusted downward by an amount equivalent to 60% of the aforesaid liability, being approximately RMB1,365,000 (equivalent to approximately HK$1,502,000) in aggregate;

(2) in the event that the receivables of the Target Company as disclosed in the Accounts (being approximately RMB6,573,000 (equivalent to approximately HK$7,230,000) as at 31 August 2022 which primarily consisted of the toll fee receivable from an independent toll fee collection management company in the PRC) fail to be recovered in full as scheduled within 30 days after the Completion Date, the Consideration shall be adjusted downward by an amount equivalent to 60% of such outstanding amount of receivables;

(3) any fines or penalties incurred by the Target Company due to any illegal land occupation[2], and any transferring fees, taxes, fines and overdue fines are incurred by the Target Company from the obtaining of the title registration certificate(s) of the land and properties of the Target Expressway, under which the Consideration shall be adjusted downward by an amount equivalent to the aforesaid amount (save for such fines or penalties deducted as referred to in subparagraph (7)(iii) below under this section);

(4) in the event that any costs or liabilities are to borne by the Target Company in connection with the pending appeal against the judgement of the litigation relating to construction contract dispute as referred to in subparagraph (2)(iii) under the section

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

headed ''Payment'' above (save for such debts or liabilities disclosed in the Accounts), the Consideration shall be adjusted downward by an amount equivalent to 60% of the aforesaid debts or liabilities;

(5) in the event that any compensation is to borne by the Target Company in connection with the termination of employment contracts between the Target Company and all its directors, supervisors and senior management previously appointed by the Vendor, the Consideration shall be adjusted downward by an amount equivalent to the total compensation;

(6) the Vendor's Attributable Net Profit assigned by the Purchaser at face value (if applicable);

(7) a sum of approximately RMB188,000 (equivalent to approximately HK$207,000) to be resulted from the setting-off of:-

(i) a sum payable by the Target Company to the Vendor in respect of the lease, transfer of operation right relating to the service area[3] of the Target Expressway;

(ii) a sum payable by the Vendor to the Target Company equivalent to the difference between the project settled account (as disclosed to the Purchaser) of the Target Expressway and the project final account; and

(iii) a sum payable by the Vendor to the Target Company in respect of illegal land occupation[4] by the Target Expressway;

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

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

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

(8) an amount, being approximately RMB705,000 (equivalent to approximately HK$776,000), equivalent to 40% of the liability falling on the Target Company as a result of the overdue tax payment and/or the penalties due to late tax payment for the period from 1 January 2016 up to and including 31 December 2018 stated in the tax assessment results issued by the relevant authority and confirmed by the Purchaser and the Vendor may be deducted from the Consideration;

(9) in the event that any loss, damage, cost or expenses are incurred by the Purchaser as a result of any violations of the Guarantees or severe violations of other terms of the Sale and Purchase Agreement by any of the Guarantors, and the amount of loss, damage, cost or expense exceeds RMB50,000 on an individual basis or RMB1,000,000 on an aggregation basis, or the amount of loss, damage, cost or expense suffered by the Purchaser before Completion equal to or exceeds RMB 400,000 on an aggregation basis the Consideration may be adjusted downward by an amount equivalent to the aforesaid amount;

(10) in the event that any fees are demanded by any contractors or constructors not involved in the maintenance projects of the Target Expressway which had been incurred or not been fully settled on or before the Completion Date, and that the aggregate amount of such fees exceeds the amount as disclosed in the Accounts, the Consideration shall be adjusted downward by an amount equivalent to 60% of the amount in excess;

(11) in the event that any losses are incurred by the Target Company as a result of the judgement of the litigation relating to construction contract dispute as referred to in subparagraph (2)(iii) under the section headed "Payment" above, the Consideration shall be adjusted downward by an amount equivalent to 40% of the aforesaid losses.

Conditions

Completion of the Sale and Purchase Agreement is conditional upon the fulfilment of the Conditions summarised below to the satisfaction of the Purchaser or the waiver granted by the Purchaser in writing. Save for Conditions (3)(iv), (3)(vi) and (3)(vii) which are not capable of being waived by the Purchaser, all other Conditions have to be either fulfilled to the satisfaction of the Purchaser or waived by the Purchaser in writing.

(1) the Purchaser having been satisfied with the results of the financial and legal due diligence of the Target Company as well as the traffic engineering-related due diligence in respect of the Target Expressway;

(2) the Sale and Purchase Agreement having been signed and becoming effective;

(3) all necessary consents or approvals in connection with the Completion having been obtained and not subsequently being revoked or withdrawn by third parties (including but not limited to government authorities or other authorities with jurisdiction over the Proposed Disposal), and in the event that such consent(s) or approval(s) are subject to

conditions affecting either party to the Sale and Purchase Agreement, such conditions having been accepted by the affected party, and if such conditions must be fulfilled prior to Completion, such conditions having been fulfilled prior to Completion. The necessary consents or approvals include:

(i) approval(s) required by the Purchaser for Completion in accordance with internal procedures;

(ii) the approvals by the board of directors or the shareholders of the Vendor as well as the authorised authorities for Completion;

(iii) approval(s) by the board of directors of the Target Company for the Proposed Disposal;

(iv) the filing by the Department of Transportation of Hunan Province（湖南省交通運輸廳）in respect of the Proposed Disposal;

(v) the consent from the lending bank of the Target Company on the Proposed Disposal, and in the event that such consent is subject to any condition(s), such condition(s) having been accepted by both the Vendor and the Purchaser;

(vi) the approvals by the Board and the Shareholders on the Proposed Disposal in accordance with the requirements under the Listing Rules; and

(vii) the consent having been obtained by Mr. Chan from all relevant creditors, and other approval documents required based on the prevailing situations and in accordance with the law and regulations.

(4) the resignation letters from all directors, supervisors and senior management of the Target Company who have been previously appointed by the Vendor having been received by the Purchaser;

(5) the warranties provided by the Guarantors as stipulated under the Sale and Purchase Agreement having been true, accurate, free from significant omissions and not misleading from the date of the Sale and Purchase Agreement up to and including the Completion Date, and that the Guarantors having acknowledged that the Purchaser has entered into the Sale and Purchase Agreement on the basis of such warranties;

(6) the Target Company and the Vendor having fully complied with the clauses relating to, among to others, the operations of the Target Company and the reporting to the Purchaser on the operations of the Target Company prior to Completion as stipulated in the Sale and Purchase Agreement;

(7) there having no judgements, awards, or pending or potential lawsuits, arbitrations, court decisions, rulings, or laws, regulators, requirements and policies etc., the existence of which may (i) affect the execution of Completion; (ii) impose adverse impacts on the Sale Shares and the Target Company; or (iii) impose adverse impacts on the assets of the Target Company and the operation of the Target Expressway.

(8) as at the Completion Date, there having no events which may have a material adverse impact on the financial conditions, prospects, assets or obligations of the operations of the Target Company;

(9) the Vendor and the Purchaser having entered into the termination agreement to the sino-foreign joint venture agreement of the Target Company entered into by the parties on 14 December 2018 in relation to the previous disposal of 40% equity interest of the Target Company by the Vendor to the Purchaser; and

(10) the assessment of the Target Company having been completed by the Purchaser within ten Business Days before the Completion Date and the results of which having indicated that no material adverse impacts have occurred to the Target Company between the Reference Date and the Completion Date; and that the Vendor and the Target Company having cooperated in their good faith during the assessment by the Purchaser.

The Vendor shall use its best endeavour to fulfil the relevant Conditions applicable to it on or before 28 February 2023 (or such other date as may be agreed by the Purchaser and the Vendors in writing).

As at the Latest Practicable Date, Conditions (1), (3)(i), (3)(ii), (3)(iii) and (3)(vii) had been fulfilled.

Completion

Upon fulfilments or waivers (as the case may be) of the Conditions, save for Conditions (3)(iv), (3)(vi) and (3)(vii) which are not capable of being waived by the Purchaser, the Vendor shall issue a written notification to the Purchaser. Completion shall take place on the Completion Date, which shall be the fifth Business Day following the receipt of the aforesaid written notification by the Purchaser or other dates as may be agreed between the Vendor and the Purchaser in writing, upon which the Purchaser shall be entitled to all rights attached to the Sale Shares.

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

Termination

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

(1) If any of the Conditions has not been fulfilled or waived by the Purchaser (as the case may be and save for Conditions (3)(iv), (3)(vi) and (3)(vii) which are not capable of being waived by the Purchaser) on or before 30 June 2023 (or such other date as may be agreed by the Purchaser and the Vendors in writing), the Purchaser is not obliged to proceed with Completion and the Sale and Purchase Agreement will lapse with immediate effect except certain provisions set out in the Sale and Purchase Agreement;

(2) If, prior to the Completion Date, the Purchaser is aware of any breach of representations, warranties and undertakings of the Sale and Purchase Agreement or that the Vendor or the Target Company cannot provide any such representations and warranties and satisfy any such undertakings in practice, the Purchaser may terminate the Sale and Purchase Agreement by notifying the Vendor and the Target Company in writing and may seek damages from the Vendor and the Target Company for its losses and costs incurred in connection with the Proposed Disposal before the termination of the Sale and Purchase Agreement. The Purchaser shall not be liable to the Vendor and the Target Company for the termination of the Sale and Purchase Agreement under such circumstances; and

(3) If the Purchaser fails to settle the Consideration in accordance with the Sale and Purchase Agreement for more than 30 days since the due date of the Consideration, the Vendor may terminate the Sale and Purchase Agreement by notifying the Purchaser in writing and may unwind the transaction contemplated under the Sale and Purchase Agreement and seek damages in an amount that is equivalent to 20% of the Consideration.

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

INFORMATION OF THE PURCHASER

To the best of the Directors' knowledge, information and belief and after having made all reasonable enquiries, the Purchaser is an investment holding company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of NWS Holdings Limited. The Purchaser is principally engaged in the investment in infrastructure businesses of toll roads and power plant. As at the Latest Practicable Date, the Target Company was owned as to 40% by the Purchaser. In light of the Purchaser's shareholding in the Target Company, the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules. Save for the above, as at the Latest Practicable Date, the Purchaser had no relationship with the Company, its connected persons and its senior management.

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

INFORMATION OF THE TARGET COMPANY

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

As at the Latest Practicable Date, the Target Company was owned as to 60% by the Group and 40% by the Purchaser.

Set out below is the financial information of the Target Company as extracted from its unaudited management accounts prepared in accordance with Hong Kong Financial Reporting Standards for the financial years ended 31 December 2020 and 2021 and the eight months ended 31 August 2022, respectively.

	For the financial year ended 31 December		**For the eight months ended 31 August**
	2020	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	140,486	217,685	141,207
Net profit before taxation	11,749	74,619	43,173
Net profit after taxation	8,788	55,615	30,878

The net assets as extracted from the unaudited management accounts of the Target Company amounted to approximately HK$332,774,000 as at 31 August 2022.

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

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

FINANCIAL IMPACTS

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

Earnings

As at the Latest Practicable Date, it was expected that the Group would record a one-off net gain on the Proposed Disposal of approximately HK$346,222,000 (before release of the exchange reserve of HK$20,234,000), which was calculated with reference to, subject to rounding, the Consideration of RMB555,700,000 (equivalent to approximately HK$611,270,000), after taking into consideration of the net asset value of the Target Company as at 31 August 2022 in proportional to 60% equity interests therein of approximately HK$199,664,000, the Adjustments of approximately RMB41,350,000 (equivalent to approximately HK$45,485,000), the relevant transaction costs and expenses of approximately RMB2,455,000 (equivalent to approximately HK$2,700,000), estimated stamp duty of approximately RMB 257,000 (equivalent to approximately HK$283,000) and taxation of approximately RMB15,378,000 (equivalent to approximately HK$16,916,000).

According to the annual report of the Company for the year ended 31 December 2021, for the year ended 31 December 2021, the Group recorded profit for the year of approximately HK$161,958,000. Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular, assuming Completion had taken place on 1 January 2021, the unaudited pro forma consolidated profit for the year of the Remaining Group for the year ended 31 December 2021 would have been approximately HK$525,140,000.

Assets and liabilities

According to the unaudited interim financial report of the Company for the six months ended 30 June 2022, the total assets and total liabilities of the Group as at 30 June 2022 amounted to approximately HK$2,229,556,000 and approximately HK$1,321,833,000, respectively. Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular, assuming Completion had taken place on 30 June 2022, the unaudited pro forma total assets and total liabilities of the Remaining Group as at 30 June 2022 would have been approximately HK$1,256,091,000 and approximately HK$142,564,000, respectively.

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

EXPECTED USE OF PROCEEDS

Based on the Consideration, the net proceeds from the Proposed Disposal (after deducting the potential liabilities of the Group arising from the Adjustments, the related transaction costs and expenses, the estimated stamp duty and taxation) are expected to be approximately HK$545,886,000. Subject to the final amount of the Adjustments which may result in a potential downward adjustment to the Consideration, the Group intends to apply the net proceeds from the Proposed Disposal in the following order:

(i) approximately HK$50,000,000 (representing approximately 9.2% of the total net proceeds) for the payment of dividend to be proposed by the Board in the Board meeting to be held around Completion;

(ii) approximately HK$101,976,000 (representing approximately 18.7% of the total net proceeds), for the full repayment of the amount due to the controlling shareholder of the Company, further details of which are set out below in the section headed "Reasons for and benefits of the Proposed Disposal";

(iii) approximately HK$288,600,000 (representing approximately 52.9% of the total net proceeds) for the development and expansion of the liquor and spirits business of the Group including but not limited to acquisition of wine manufacturing business shall the appropriate opportunities arise. As at the Latest Practicable Date, the Group had not entered into any agreements for potential transactions in relation to the aforesaid business development and expansion; and

(iv) the balance of approximately HK$105,310,000 (representing approximately 19.2% of the total net proceeds) for general working capital purpose, of which approximately HK$76,227,000 shall be used for settling the administrative expenses, such as wages and salaries, and office rents, etc., approximately HK$26,427,000 shall be used for settling the selling and distribution expenses, and approximately HK$2,656,000 shall be used for settling the finance costs.

REASONS FOR AND BENEFITS OF THE PROPOSED DISPOSAL

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

According to the interim report of the Company for the six months ended 30 June 2022, the total toll revenue received from the Target Expressway and the traffic flow of the Target Expressway amounted to approximately HK$102,891,000 and 6.0 million vehicles, respectively, for the six months ended 30 June 2022, decreased by approximately 5.2% and approximately 6.3% from that for the previous corresponding period. The decrease was mainly due to the economic downturn brought by the outbreak of the COVID-19 pandemic in the PRC and an increase in the price of petroleum. The Consideration of approximately RMB555,700,000 (equivalent to approximately HK$611,270,000 and subject to Adjustments) payable to the Vendor represents a premium of approximately 206.1% over the proportionate net asset value of the Target Company of approximately HK$199,664,000 as at 31 August 2022. Further, as set out in the section headed "Financial impacts" above, it is expected that the Group will record a net gain on the Proposal Disposal of approximately HK$346,222,000. Accordingly, the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder provides the Company with an opportunity to unlock the Group's investment in the Target Company amid the recent uncertain economic environment and fluctuating COVID-19 pandemic condition in the PRC. Save and except for the Proposed Disposal, as at the Latest Practicable Date, the Company did not have any intention to, or has not entered into any negotiation, arrangement, undertaking or understanding in respect of the disposal of any assets and/or business.

On the other hand, it is intended that the net proceeds from the Proposed Disposal shall be used by the Group for repaying the outstanding amount due to the controlling shareholder of the Company of approximately HK$101,976,000 in full and for general working purposes. The aforesaid amount due to the controlling shareholder of the Company, which is interest-free, unsecured, without any specific due date, was arisen from the loan facility with an aggregate principal amount of approximately HK$101,976,000 provided by Mr. Chan to the Company from 2010 when the Target Expressway was still in construction stage. The Company ceased to make any further withdrawals after around 2018. Based on the communications of the Company with Mr. Chan, it is expected by Mr. Chan that the outstanding amount due to the controlling shareholder of the Company of approximately HK$101,976,000 would be repaid in full after Completion. Despite the fact that the loan facility from Mr. Chan does not have any specific due date, considering that such loan facility with favourable terms was provided by Mr. Chan as his personal support to the Company's development of the Target Expressway during its initial stage which heavily required capital support, the Company shall cease to have any equity interests in the Target Expressway upon Completion, and it is expected by Mr. Chan that the outstanding amount of the loan facility would be repaid in full after Completion, the Board considers that it is justifiably reasonable to utilise part of the net proceeds from the Proposed Disposal for repaying the amount due to the controlling shareholder of the Company in full. Besides, based on the Group's total liabilities of approximately HK$1,455,416,000 and net assets of approximately HK$878,280,000 as at 31 December 2021 as well as its total liabilities of approximately HK$1,321,833,000 and net assets of approximately HK$907,723,000 as at 30 June 2022, gearing ratio of the Group has been continuously remained at a relatively high level of approximately 165.7% and approximately 145.6% as at 31 December 2021 and 30 June 2022, respectively. Accordingly, by utilising the net proceeds to repay the amount due to controlling shareholder of the Company in full, the gearing position of the Group shall be improved. For illustration purpose, upon the full repayment of the amount due to the controlling shareholding of the Company of approximately HK$101,976,000 and assuming all other circumstances remaining unchanged, gearing ratio of the Group would have been decreased by more than 10 percentage points to approximately 154.1% as at 31 December 2021 and approximately 134.4% as at 30 June 2022, respectively. The Directors consider that the resulting reduction in leverage of the Group, together with the intended allocation of a significant portion of the net proceeds for general working capital purpose, shall provide the Group with enhanced internal resources and financing capacity for, among others, future development should suitable opportunities arise, which shall potentially enhance the rate of return of the Company and the Shareholders' value in the future and are in the interests of the Company and the Shareholders as a whole.

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

Further, it is intended that approximately HK$50,000,000 of the net proceeds from the Proposed Disposal shall be applied for dividend distribution so as to provide an opportunity for the Shareholders to share in the fruit of the Proposed Disposal. Assuming (i) the Proposed Disposal having been approved by the Shareholders; (ii) Completion having taken place; and (iii) there is no change in the number of the Shares of 412,608,000 during the period from the Latest Practicable Date to the record date for entitlement of the dividend, which shall be determined by the Board, it is expected that the dividend in an amount of approximately HK$0.121 per Share may be proposed by the Board, which is in the interest of the Shareholders.

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

LISTING RULES IMPLICATIONS

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

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

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

EGM

A notice convening the EGM to be held at Unit 1205, 12/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong at 11 a.m. on Tuesday, 14 February 2023 is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Such form of proxy is also published on the website of the Stock Exchange (www.hkexnews.hk). Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the EGM or any adjourned meeting (as the case may be) in person should you so desire.

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 Thursday, 9 February 2023 to Tuesday, 14 February 2023 (both days inclusive), during which no transfer of Shares will be registered. The record date for entitlement to attend and vote at the EGM is Tuesday, 14 February 2023. In order to qualify to attend and vote at the EGM, all transfers documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on Wednesday, 8 February 2023.

RECOMMENDATIONS

The Directors consider that the terms of the Sale and Purchase Agreement are fair and reasonable so far as the Company and the Shareholders are concerned; and the Sale and Purchase Agreement and the transaction contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

WARNING

Completion is conditional upon the satisfaction of the Conditions in full and therefore, may or may not take place. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

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

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group for the years ended 31 December 2019, 2020 and 2021 and the unaudited consolidated financial information of the Group for the six months ended 30 June 2022 have been published in the annual reports and the interim report of the Company respectively, which are available on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.huayu.com.hk). The hyperlinks to the aforesaid annual reports and the interim report are set out below:

(i) Annual report of the Company for the year ended 31 December 2019 published on 16 April 2020 (pages 45 to 124)
(https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0416/2020041600505.pdf)

(ii) Annual report of the Company for the year ended 31 December 2020 published on 9 April 2021 (pages 45 to 114)
(https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0409/2021040901019.pdf)

(iii) Annual report of the Company for the year ended 31 December 2021 published on 7 April 2022 (pages 46 to 130)
(https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0407/2022040701690.pdf)

(iv) Interim report of the Company for the six months ended 30 June 2022 published on 7 September 2022
(https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0907/2022090701087.pdf)

2. STATEMENT OF INDEBTEDNESS

At the close of business on 30 November 2022, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding secured bank loans guaranteed by the Company in favor of the bank of approximately HK$956 million, and unsecured and unguaranteed bank loans of approximately HK$54 million. As at the close of business on 30 November 2022, the Group had lease liabilities of approximately HK$2 million. As at the close of business on 30 November 2022, the Group had an unguaranteed and unsecured amount due to the controlling shareholder of the Company (i.e. Mr. Chan) of approximately HK$102 million.

Save as aforesaid and apart from intra-group liabilities and normal trade payable, at the close of business on 30 November 2022, 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 November 2022, the Group had no material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, having regard to the financial resources available to the Group, including internally generated funds, available banking facilities and the Consideration to be received, as contemplated under the Sale and Purchase Agreement, the Group will have sufficient working capital for its present requirements for the next twelve months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

According to the interim report of the Company for the six months ended 30 June 2022, the revenue of the Group for the six months ended 30 June 2022 amounted to approximately HK$380.8 million, which decreased by approximately 39.0% as compared to that for the six months ended 30 June 2021 and the net profit of the Group for the six months ended 30 June 2022 amounted to approximately HK$71.1 million, which decreased by approximately 48.8% as compared to that for the six months ended 30 June 2021. The decline in the Group's revenue and profit was mainly attributable to (i) the serious disruptions to the wine and toll road businesses due to the outbreak of the COVID-19 pandemic in the PRC during the six months ended 30 June 2022; and (ii) the increase in the price of petroleum decreased the motivation of the driving trips which had made an impact on the toll road business during the six months ended 30 June 2022.

Save for the above, as at the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in the financial or trading position of the Group since 31 December 2021 (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date.

5. FINANCIAL AND TRADING PROSPECTS

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

For the year ended 31 December 2021, with the then ease of restrictions relating to the COVID-19 pandemic and resumption of economic activities in the PRC, business performances of the Group had been gradually recovered as compared to that for the preceding year. For the year ended 31 December 2021, the Group recorded an increase of approximately 80.6% in revenue as compared to that recorded for the year ended 31 December 2020. Also, the Group recorded an increase of approximately 86.4% in net profit as compared to that recorded for the year ended 31 December 2020, which was in line with the aforesaid year-on-year increase in total revenue of the Group.

For the six months ended 30 June 2022, due to the occasional and regional outbreak of the COVID-19 pandemic in the PRC and the significant increase in the petroleum price, financial results of the Group were adversely affected. For the six months ended 30 June 2022, the Group recorded a decrease in revenue of approximately HK$380.8 million as compared to that recorded for the preceding corresponding period. Further, for the six months ended 30 June 2022, the Group recorded a decrease of approximately 48.8% in net profit as compared to that recorded for the preceding corresponding period. The decrease in net profit was in line with the aforesaid decrease in total revenue of the Group during the review period.

In respect of the operation of the expressways, during the year ended 31 December 2021, the Group acquired 60% equity interests of the Qing Ping Expressway. Due to the implementation of the toll fee exemption policy in the first half of 2020, which significantly limited the toll receivables during the same year, traffic volume of each of the Target Expressway and the Qing Ping Expressway during the year ended 31 December 2021 increased from that for the year ended 31 December 2020. Attributable to the above as well as the then ease of restrictions relating to the COVID-19 pandemic and the gradual resumption of the economic activities of the PRC, the business of the Target Expressway and the Qing Ping Expressway recovered during the year ended 31 December 2021. Despite the aggregate toll revenue of the Target Expressway and the Qing Ping Expressway declined period-over-period during the six months ended 30 June 2022 due to the abovementioned external economic factors, the Company believes that the fundamentals of the such expressways remain in good shape. While the Proposed Disposal provides the Company with an opportunity to unlock the investment in the Target Expressway through the disposal of the Target Company, the Company considers that Qing Ping Expressway, which is located in Shenzhen, being one of the major cities in the PRC with promising economic prospects, is the cornerstone of the Remaining Group and will deliver stable performance in the future once there is recovery and growth in the economic activities along Qing Ping Expressway.

In respect of the business of trading liquor and spirits, the previous lock-down of the PRC cities during the pandemic period discouraged the consumption of liquor and spirits in social gathering and business entertainment in the first half of 2020. With the reopening of economic activities in the year ended 31 December 2021, the sales of liquor and spirits recovered significantly during the same year. In addition, the increase in the unit selling price of one of the brands of wine of the Group due to high demand as well as the sole distributorship for another brand of wine granted to the Group have contributed to the satisfactory performance of the business of trading liquor and spirits during the year. Notwithstanding that, performance of the segment for the six months ended 30 June 2022 was adversely affected primarily due to the lock down policies amid the ongoing COVID-19 pandemic in the PRC, in light of the generally high vaccination rate in the PRC and the well-established distribution network of the Remaining Group, the Company remains confident in the business of trading liquor and spirits, and has been taking steps to boost the sales and marketing activities such as organising tasting events and promotion conference.

With the experience of the Directors in successfully completing various PRC toll-expressway projects and the connections and reputation established by them in the PRC, the Remaining Group will continue to tap and pursue opportunities which are consistent with its overall business strategies, and will aim to generate a satisfactory return on investment.

UNAUDITED FINANCIAL INFORMATION OF THE TARGET COMPANY

Set out below are the unaudited financial information of the Target Company which comprises the unaudited statements of financial position of the Target Company as at 31 December 2019, 2020 and 2021 and 31 August 2022, the unaudited statements of profit or loss and other comprehensive income, the unaudited statements of changes in equity and the unaudited cash flow statements of the Target Company for the years ended 31 December 2019, 2020 and 2021 and the eight months ended 31 August 2021 and 2022, and certain explanatory notes (collectively, the ''Unaudited Financial Information of the Target Company'').

The Unaudited Financial Information of the Target Company has been prepared and presented in accordance with the basis of preparation set out in note 2 to the Unaudited Financial Information of the Target Company on page II-2 to II-10 of this circular and Rule 14.68(2)(a)(i)(A) of the Listing Rules and has been prepared by the Directors solely for the purpose of inclusion in this circular in connection with the Proposed Disposal.

KPMG, the auditor of the Company, was engaged to review the Unaudited Financial Information of the Target Company set out on pages II-2 to II-10 of this circular 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 auditor to obtain assurance that they would become aware of all significant matters that might be identified in an audit. Accordingly, the auditor does not express an audit opinion.

Based on the review of the Unaudited Financial Information of the Target Company, nothing has come to the auditor's attention that causes them to believe the Unaudited Financial Information of the Target Company is not prepared, in all material respects, in accordance with the basis of preparation and presentation as set out in note 2 to the Unaudited Financial Information of the Target Company.

UNAUDITED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended 31 December 2019, 2020 and 2021 and the eight months ended 31 August 2021 and 2022

(Expressed in Hong Kong dollars)

	Year ended 31 December			Eight months ended 31 August	
	2019	**2020**	**2021**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	192,419	140,486	217,685	143,867	141,207
Cost of sales	(63,329)	(58,611)	(70,155)	(43,749)	(42,666)
Gross profit	129,090	81,875	147,530	100,118	98,541
Other revenue	626	602	1,437	1,330	1,167
Other net (loss)/income	(2,813)	615	2,896	864	(10,531)
Administrative expenses	(13,396)	(11,879)	(18,089)	(9,203)	(10,270)
Profit from operations	113,507	71,213	133,774	93,109	78,907
Finance costs	(61,747)	(59,464)	(59,155)	(40,013)	(35,734)
Profit before taxation	51,760	11,749	74,619	53,096	43,173
Income tax	(14,064)	(2,961)	(19,004)	(13,154)	(12,295)
Profit for the year/period	37,696	8,788	55,615	39,942	30,878
Other comprehensive income for the year/period					
Items that will not be reclassified to profit or loss:					
Exchange differences on translation to presentation currency	(5,098)	15,636	8,415	3,503	(23,706)
Total comprehensive income for the year/period	32,598	24,424	64,030	43,445	7,172

UNAUDITED STATEMENTS OF FINANCIAL POSITION

At 31 December 2019, 2020 and 2021 and 31 August 2022

(Expressed in Hong Kong dollars)

	At 31 December			At 31 August
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	15,871	13,978	24,136	19,342
Intangible assets – service concession arrangements	1,266,708	1,344,025	1,339,399	1,219,903
Deferred tax assets	141,477	147,461	140,275	129,744
	1,424,056	1,505,464	1,503,810	1,368,989
Current assets				
Trade and other receivables	35,690	7,985	7,448	8,318
Cash and cash equivalents	72,108	79,475	79,987	72,492
Amounts due from the holding company	1,077	1,147	1,180	1,099
	108,875	88,607	88,615	81,909
Current liabilities				
Accruals and other payables	102,076	100,856	92,005	66,146
Amounts due to related parties	366	604	739	–
Amounts due to the Company	1,730	1,730	1,730	1,730
Bank loan	89,304	106,938	97,848	91,128
Current taxation	–	–	713	4,640
	193,476	210,128	193,035	163,644
Net current liabilities	(84,601)	(121,521)	(104,420)	(81,735)
Total assets less current liabilities	1,339,455	1,383,943	1,399,390	1,287,254

	At 31 December			At 31 August
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Bank loan and other borrowing	934,532	935,315	1,073,788	954,480
Amounts due to the holding company	169,876	189,157	–	–
	1,104,408	1,124,472	1,073,788	954,480
NET ASSETS	235,047	259,471	325,602	332,774
Capital and reserves				
Paid in capital	685,443	685,443	685,443	685,443
Reserves	(450,396)	(425,972)	(359,841)	(352,669)
TOTAL EQUITY	235,047	259,471	325,602	332,774

UNAUDITED STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 December 2019, 2020 and 2021 and the eight months ended 31 August 2021 and 2022

(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 2019	685,443	8	38,477	(521,479)	202,449
Changes in equity for the year ended 31 December 2019:					
Profit for the year	–	–	–	37,696	37,696
Other comprehensive income – Exchange differences	–	–	(5,098)	–	(5,098)
Total comprehensive income for the year	–	–	(5,098)	37,696	32,598
Balance at 31 December 2019 and 1 January 2020	685,443	8	33,379	(483,783)	235,047
Changes in equity for the year ended 31 December 2020:					
Profit for the year	–	–	–	8,788	8,788
Other comprehensive income – Exchange differences	–	–	15,636	–	15,636
Total comprehensive income for the year	–	–	15,636	8,788	24,424
Balance at 31 December 2020 and 1 January 2021	685,443	8	49,015	(474,995)	259,471
Changes in equity for the year ended 31 December 2021:					
Profit for the year	–	–	–	55,615	55,615
Other comprehensive income – Exchange differences	–	–	8,415	–	8,415
Total comprehensive income for the year	–	–	8,415	55,615	64,030
Equity settled share-based transactions	–	2,101	–	–	2,101
Balance at 31 December 2021	685,443	2,109	57,430	(419,380)	325,602

	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 2022	685,443	2,109	57,430	(419,380)	325,602
Changes in equity for the eight months ended 31 August 2022:					
Profit for the period	–	–	–	30,878	30,878
Other comprehensive income					
– Exchange differences	–	–	(23,706)	–	(23,706)
Total comprehensive income for the period	–	–	(23,706)	30,878	7,172
Balance at 31 August 2022	685,443	2,109	33,724	(388,502)	332,774
Balance at 1 January 2021	685,443	8	49,015	(474,995)	259,471
Changes in equity for the eight months ended 31 August 2021:					
Profit for the period	–	–	–	39,942	39,942
Other comprehensive income					
– Exchange differences	–	–	3,503	–	3,503
Total comprehensive income for the period	–	–	3,503	39,942	43,445
Balance at 31 August 2021	685,443	8	52,518	(435,053)	302,916

UNAUDITED CASH FLOW STATEMENTS

For the years ended 31 December 2019, 2020 and 2021 and the eight months ended 31 August 2021 and 2022

(Expressed in Hong Kong dollars)

	Year ended 31 December			Eight months ended 31 August	
	2019	**2020**	**2021**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities					
Profit before taxation	51,760	11,749	74,619	53,096	43,173
Adjustments for:					
Depreciation	4,023	4,729	3,785	2,518	4,193
Amortisation	30,142	35,309	42,396	27,875	27,067
Finance costs	61,747	59,464	59,155	40,013	35,734
Interest income	(262)	(214)	(876)	(771)	(698)
Loss on disposal of property, plant and equipment	866	–	–	–	–
Loss on disposal of intangible assets	2,131	–	–	–	–
Foreign exchange loss/(gain)	39	105	(50)	32	(10)
Changes in working capital:					
(Increase)/decrease in prepayments and other receivables	(10,723)	9,994	761	6,991	(156)
(Decrease)/increase in accruals and other payables	(2,835)	(13,145)	(4,272)	(9,128)	7,724
(Decrease)/increase in amounts due to a related company	(3,487)	202	65	23	(595)
Cash generated from operations	133,401	108,193	175,583	120,649	116,432
PRC Corporate Income tax paid	–	–	(8,751)	(3,925)	(8,544)
Net cash generated from operating activities	133,401	108,193	166,832	116,724	107,888

	Year ended 31 December			Eight months ended 31 August	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Investing activities					
Payment for the purchase of property, plant and equipment	(8,898)	(1,046)	(6,998)	(6,083)	(5,587)
Payment for intangible assets	(39,540)	(12,282)	(6,894)	(6,866)	(21,786)
Proceeds from disposal of intangible assets	–	5,623	–	–	–
Interest received	262	214	876	771	698
Net cash used in investing activities	(48,176)	(7,491)	(13,016)	(12,178)	(26,675)
Financing activities					
Repayment of bank loans and other borrowing	(79,541)	(44,984)	(1,136,162)	(1,092,712)	(47,636)
Repayment of borrowing from the holding company	–	–	(191,976)	(191,180)	–
Decrease in amounts due to a related company	(194,283)	–	–	–	–
Borrowing costs paid	(49,588)	(52,932)	(64,223)	(43,598)	(35,734)
Borrowing from the holding company	165,620	–	–	–	–
Proceeds of loan and other borrowings	110,414	–	1,233,543	1,227,852	–
Net cash used in financing activities	(47,378)	(97,916)	(158,818)	(99,638)	(83,370)
Net increase/(decrease) in cash and cash equivalents	37,847	2,786	(5,002)	4,908	(2,157)
Cash and cash equivalents at the beginning of year/period	35,712	72,108	79,475	79,475	79,987
Effect of foreign exchange rate changes	(1,451)	4,581	5,514	591	(5,338)
Cash and cash equivalents at the end of year/period	72,108	79,475	79,987	84,974	72,492

NOTES TO THE FINANCIAL INFORMATION

For the years ended 31 December 2019, 2020 and 2021 and the eight months ended 31 August 2021 and 2022

(Expressed in Hong Kong dollars)

1 General

湖南道岳高速公路實業有限公司(''**Hunan Daoyue Expressway Industry Co., Ltd.**''[1], 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 the Cayman Islands with its shares listed on The Stock Exchange of Hong Kong Limited (the ''**Stock Exchange**''). The Target Company's immediate holding company is Good Sign Limited (''**Good Sign**''), a company incorporated in the Hong Kong. Good Sign holds 60% of the Target Company's equity interests and the remaining 40% equity interests are held by NWS (Guangdong) Investment Company Limited, a limited liability company incorporated in the PRC. The Company and its subsidiaries hereinafter are collectively referred to as ''the Group''.

On 1 December 2022, Good Sign, NWS (Guangdong) Investment Company Limited (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 60% equity interests in the Target Company to the Purchaser (''**the Proposed Disposal**''). The Purchaser is an indirect wholly-owned subsidiary of NWS Holdings Limited (''**NWS**'').

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

2 Basis of preparation and presentation of the unaudited financial information

The unaudited financial information of the Target Company for the years ended 31 December 2019, 2020 and 2021 and for the eight months ended 31 August 2021 and 2022 (the ''**Financial Information of the Target Company**'') 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 Proposed Disposal.

The Financial Information of the Target Company 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 each of the years ended 31 December 2019, 2020 and 2021 and the eight months ended 31 August 2021 and

[1] *The English translation of the name is for identification only.*

2022 ("**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 of the Target Company 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 of 31 August 2022, the Target Company had net current liabilities of HK$81,735,000 and accumulated losses of HK$388,502,000. The Directors of the Company are of the opinion that the Target Company will be able to continue its operation for at least the next twelve months from 31 August 2022, having regards to the Target Company expects to generate positive operating cash flows to cover its obligations for the next twelve months, and therefore it is appropriate for the Financial Information of the Target Company to be prepared on a going concern basis.

3 Accruals and other payables

Due to a dispute on the use of land by the Target Company in Yunxi District of Yueyang City by certain barriers of the toll booths and a service area of the Target Company, the relevant authorities of Yueyang City issued penalty notices against the Target Company in August 2020 and September 2020. Pursuant to the penalty notices, the Target Company shall (i) remove the structures on and vacate the land and (ii) be liable for an aggregate penalty of approximately RMB428,000. At of 31 August 2022, the Target Company fully settled the penalty but had not recovered nor returned the land to the relevant authorities considering the normal operation of the gas station within the service area, and the authorities have not enforced the demolition.

Subsequent to 31 August 2022, the Target Company has reached a preliminary agreement with the relevant authorities that the Target Company will supplement and complete relevant land use and title registration procedures. The land-transfer fees, valuation fees and other fees for obtaining of the title registration certificates of the land was expected to be approximately RMB33,361,000 (equivalent to HK$38,002,000, translated at the spot exchange rate of RMB1 to HK$1.1391 on 31 August 2022). Accordingly, a provision of RMB33,361,000 and a corresponding intangible asset of RMB33,361,000 were recognised when the Target Company occupied the land and the amortization of the intangible asset was recoginsed in profit or loss on a unit of usage basis over the estimated useful life, which is the period when it is available for use to the end of the concession period.

(A) THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

1 Introduction

The following is the unaudited pro forma financial information of Huayu Expressway Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**"), comprising the unaudited pro forma consolidated statement of financial position as at 30 June 2022 and the unaudited pro forma consolidated statement of profit or loss, unaudited pro forma consolidated statement of profit or loss and other comprehensive income, and the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2021 and related notes (collectively, the "**Unaudited Pro Forma Financial Information**"). The Unaudited Pro Forma Financial Information is prepared by the Directors of the Company in accordance with Paragraph 4.29 and Paragraph 14.68(2)(a)(ii) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), for the purpose of illustrating the effect of the Proposed Disposal 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 Remaining Group had the Proposed Disposal been completed as at the specified dates or any future date.

The unaudited pro forma financial information presented below is prepared to illustrate (i) the financial position of the Remaining Group as at 30 June 2022 as if the proposed disposal of 60% equity interests in 湖南道岳高速公路實業有限公司 ("**Hunan Daoyue Expressway Industry Co., Ltd.**"[1], the "**Target Company**") (the "**Proposed Disposal**") had been completed on 30 June 2022; (ii) the results and cash flows of the Remaining Group for the year ended 31 December 2021 as if the Proposed Disposal had been completed on 1 January 2021. The unaudited pro forma financial information is prepared based on the consolidated financial statements of the Group set out in the published annual report of the Group for the year ended 31 December 2021 and the condensed consolidated financial statements of the Group set out in the published interim report of the Group for the six months ended 30 June 2022, after giving effect to the pro forma adjustments described in the notes that are directly attributable to the Proposed Disposal and factually supportable.

[1] *The English translation of the name is for identification only.*

The unaudited pro forma financial information should be read in conjunction with the consolidated financial statements of the Group as set out in the published annual report of the Company for the year ended 31 December 2021 and the condensed consolidated financial statements of the Group set out in published interim report of the Company for the six months ended 30 June 2022 and other financial information included elsewhere in the circular.

2 Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group at 30 June 2022

	The Group as at 30 June 2022	Pro forma adjustments					The Remaining Group as at 30 June 2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	*Note 2(c)*	*Note 2(d)*	*Note 2(e)*	
Non-current assets							
Property, plant and equipment	30,598	(19,342)					11,256
Intangible assets – service concession arrangements	1,376,772	(1,219,903)	28,259				185,128
Interests in associates	117,148						117,148
Deferred tax assets	128,861	(129,744)	2,435				1,552
	1,653,379						315,084
Current assets							
Inventories	139,114						139,114
Other current assets	9,027						9,027
Trade and other receivables	128,282	(8,318)		1,730			121,694
Amounts due from related parties	21,063						21,063
Cash and cash equivalents	278,691	(72,492)			545,886	(101,976)	650,109
Amounts due from the holding company	–	(1,099)		1,099		–	–
	576,177						941,007
Current liabilities							
Accruals and other payables	44,079	(66,146)	38,002	1,099			17,034
Amounts due to related parties	5,532						5,532
Contract liabilities	30,502						30,502
Bank loans and other borrowing	152,009	(91,128)					60,881
Lease liabilities	1,787						1,787
Current taxation	5,140	(4,640)					500
Amounts due to the Company	–	(1,730)		1,730		–	–
	239,049						116,236

	The Group as at 30 June 2022	Pro forma adjustments					The Remaining Group as at 30 June 2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2(a)*	*Note 2(b)*	*Note 2(c)*	*Note 2(d)*	*Note 2(e)*	
Net current assets	337,128						824,771
Total assets less current liabilities	1,990,507						1,139,855
Non-current liabilities							
Bank loan and other borrowing	979,784	(954,480)					25,304
Amount due to the controlling shareholder of the Company	101,976					(101,976)	–
Lease liabilities	1,024						1,024
	1,082,784						26,328
NET ASSETS	907,723						1,113,527
CAPITAL AND RESERVES							
Share capital	4,126						4,126
Reserves	584,646		(7,308)		346,222		923,560
Total equity attributable to equity shareholders of the Company	588,772						927,686
Non-controlling interests	318,951				(133,110)		185,841
TOTAL EQUITY	907,723						1,113,527

3 Unaudited Pro Forma Consolidated Statement of Profit or Loss of the Remaining Group for the year ended 31 December 2021

	The Group for the year ended 31 December 2021	Pro forma adjustments					The Remaining Group for the year ended 31 December 2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 3(a)	*Note 3(b)*	*Note 3(c)*	*Note 2(b)*	*Note 3(d)*	*Note 3(e)&(f)*	
Revenue	1,047,888	(217,685)					830,203
Cost of sales	(647,927)	70,155		(1,088)			(578,860)
Gross profit	399,961						251,343
Other revenue	6,164	(1,437)			2,922		7,649
Other net income	5,752	(2,896)				439,511	442,367
Administrative expenses	(105,355)	18,089				(2,983)	(90,249)
Selling and distribution costs	(31,113)						(31,113)
Profit from operations	275,409						579,997
Finance costs	(59,459)	59,155			(2,922)		(3,226)
Share of profit of associates	17,090						17,090
Profit before taxation	233,040						593,861
Income tax	(71,082)	19,004		272		(16,916)	(68,722)
Profit for the year	161,958						525,139
Attributable to:							
Equity shareholders of the Company	104,237		(33,369)	(490)		419,612	489,990
Non-controlling interests	57,721		(22,246)	(326)			35,149
Profit for the year	161,958						525,139

4 Unaudited Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Remaining Group for the year ended 31 December 2021

	The Group for the year ended 31 December 2021	Pro forma adjustments					The Remaining Group for the year ended 31 December 2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 3(a)	*Note 3(b)*	*Note 3(c)*	*Note 2(b)*	*Note 3(d)*	*Note 3(e)&(f)*	
Profit for the year	161,958						525,139
Other comprehensive income for the year:							
Items that will not be reclassified to profit or loss:							
Exchange differences on translation of:							
– financial statements of subsidiaries outside Hong Kong	23,634	(8,415)					15,219
– release of exchange reserve upon the Transaction	–					(29,409)	(29,409)
Total comprehensive income for the year	185,592						510,949
Attributable to:							
Equity shareholders of the Company	123,678		(38,418)	(490)		390,203	474,973
Non-controlling interests	61,914		(25,612)	(326)			35,976
Total comprehensive income for the year	185,592						510,949

5 Unaudited Pro Forma Consolidated Cash Flow Statement of the Remaining Group for the year ended 31 December 2021

	The Group for the year ended 31 December 2021	Pro forma adjustments				The Remaining Group for the year ended 31 December 2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 3(a)	*Note 3(b)*	*Note 3(d)*	*Note 4*	*Note 2(e)*	
Operating activities						
Cash generated from operations	307,611	(175,583)		(2,983)		129,045
PRC corporate income tax paid	(56,393)	8,751				(47,642)
PRC withholding tax paid	(3,028)					(3,028)
Net cash generated from operating activities	248,190					78,375
Investing activities						
Payment for the purchase of fixed assets	(13,848)	6,998				(6,850)
Payment for intangible assets	(6,894)	6,894				–
Payment for investment in associates	(5,872)					(5,872)
Interest received	4,295	(876)	2,922			6,341
Payment for acquisition of a subsidiary under common control	(152,869)					(152,869)
Payment for property deposit	(16,883)					(16,883)
Proceeds of loan repaid by the Target Company	–		191,976			191,976
Proceeds from disposal of a subsidiary	–			469,394		469,394
Repayment from a related party	18,203					18,203
Net cash used in investing activities	(173,868)					503,440

	The Group for the year ended 31 December 2021	Pro forma adjustments				The Remaining Group for the year ended 31 December 2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 3(a)	*Note 3(b)*	*Note 3(d)*	*Note 4*	*Note 2(e)*	
Financing activities						
Capital element of lease rentals paid	(1,854)					(1,854)
Interest element of lease rentals paid	(138)					(138)
Proceeds from new bank loans	1,263,862	(1,233,543)				30,319
Repayment of bank loans and other borrowing	(1,197,184)	1,136,162				(61,022)
Capital injection from non-controlling investors	9,517					9,517
Borrowing costs paid	(64,410)	64,223	(2,922)			(3,109)
Repayment of the amount due to the controlling shareholders	–				(101,976)	(101,976)
Repayment of borrowing from the holding company	–	191,976	(191,976)			–
Net proceeds from disposal of partial interests in subsidiaries	10,853					10,853
Dividends paid to equity shareholders of the Company	(24,756)					(24,756)
Net cash used in financing activities	(4,110)					(142,166)
Net increase in cash and cash equivalents	70,212					439,649
Cash and cash equivalents at 1 January	246,545					246,545
Effect of foreign exchange rate changes	15,817	(5,514)				10,303
Cash and cash equivalents at 31 December	332,574					696,497

Notes to the Unaudited Pro Forma Financial Information of the Remaining Group

1. The amounts are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2022 as set out in the published interim report of the Company for the six months ended 30 June 2022.

2. The following pro forma adjustments have been made to the unaudited pro forma consolidated statement of financial position, assuming the Proposed Disposal had taken place on 30 June 2022:

   (a) The exclusion of assets and liabilities of the Target Company as if the Proposed Disposal had taken place on 30 June 2022 for the unaudited pro forma consolidated statement of financial position. For the purpose of the unaudited pro forma financial information, the balances are extracted from the unaudited financial information of the Target Company as at 31 August 2022 as set out in Appendix II to this circular.

   (b) As disclosed in note 3 to the financial information of the Target Company in Appendix II to the circular, the directors of the Company adjusted the impact of a subsequent event contained therein in preparing the Target Company's financial information, which is based on certain information that is not available at the time when the Company's interim financial report for the six months ended 30 June 2022 and annual financial report for the year ended 31 December 2021 were issued. As such, the Company's consolidated statement of financial position as at 30 June 2022, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 had not reflected the impact of such event. Accordingly, solely for the purpose of presenting the pro forma consolidated statement of financial position as at 30 June 2022, and the pro forma consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021, the directors of the Company consider it appropriate to make adjustments to reflect the above impact in the pro forma financial information.

   (c) The reinstatement of intra-group balances between the Group excluding the Target Company upon Completion of Proposed Disposal (the "**Remaining Group**") and the Target Company, which were eliminated when preparing the consolidated financial statements of the Group as at 30 June 2022.

(d) The adjustment to cash and cash equivalent represents the estimated net cash receipt from the Proposed Disposal, of which the detailed calculation is set out below.

This initial consideration (the ''**Consideration**'') of RMB555,700,000 (equivalent to approximately HK$611,270,000 for the purpose of this pro forma financial information, translated at the exchange rate of RMB1 to HK$1.1) is subject to an upwards or downwards adjustments (as the case may be) for the certain material incidents (the ''**Adjustments**''), details of which are set out in the section ''Letter from the Board'' of this circular. No representation is made that RMB denominated amounts have been, could have been or could be converted to HK$, or vice versa, at the rate applied or at any other rates or at all.

The adjustment to reserves represents the estimated net impact on profit of the Proposed Disposal as if it had taken place on 30 June 2022, which is also calculated as follows:

	HK$'000
Consideration for the Proposed Disposal *(Note 2(d))*	611,270
Less: Estimated Adjustments in regards to certain material incidents (i)	(45,485)
Estimated consideration for the Proposed Disposal ("**Estimated Consideration**")	565,785
Less: Estimated professional costs directly attributable to the Proposed Disposal (ii)	(2,700)
Estimated stamp duty in relation to the Proposed Disposal (iii)	(283)
Estimated pre-tax proceeds on the Proposed Disposal	562,802
Less: Estimated income tax in relation to the gain on the Proposed Disposal calculated at the applicable tax rate (iv)	(16,916)
Estimated net cash receipt from the Proposed Disposal	545,886
Less: 60% of net assets of the Target Company as at 31 August 2022 (v)	(199,664)
Estimated net impact on profit of the Proposed Disposal before release of exchange reserve attributable to the Target Company	346,222

i Estimated Adjustments in regards to certain material incidents are set as below, the occurrence of which shall result in the Adjustments to be made to the Consideration:

	HK$'000
Estimated fees for obtaining of the title registration certificate(s) of the land and properties of the Target Expressway	(36,697)
Estimated liabilities in connection with litigation relating to construction contract dispute	(9,900)
Others	1,112
Total amount of estimated Adjustments to be made to the Consideration	(45,485)

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

iii Estimated stamp duty in relation to the Proposed Disposal represents the People's Republic of China (the "**PRC**") stamp duty of HK$283,000, which is calculated based on a tax rate of 0.05% and Estimated Consideration of HK$565,785,000 for the Proposed Disposal in relation to transfer of 60% equity interests in the Target Company.

iv Estimated income tax in relation to the Proposed Disposal represents the PRC enterprise income tax of RMB15,378,000 (equivalent to HK$16,916,000, translated at the exchange rate of RMB1 to HK$1.1 for the purpose of the pro forma financial information) which is calculated based on a tax rate of 10% on the Estimated Consideration of RMB514,350,000 for the Proposed Disposal less the Group's investment cost in the Target Company of RMB360,570,000. The amount would be expected to be paid upon completion of the Proposed Disposal.

v Net assets of the Target Company as at 31 August 2022 was extracted from Appendix II to the circular. 60% of net assets of the Target Company is calculated as follows:

	HK$'000
Net assets of the Target Company as at 31 August 2022	332,774
Percentage of equity interest disposed of	60%
Net assets of the Target Company in relation to the Proposed Disposal	199,664

vi The adjustment to non-controlling interests represents the non-controlling interests in respect of the Target Company, the amount of which is calculated as follows:

	HK$'000
Net assets of the Target Company as at 31 August 2022	332,774
Percentage of non-controlling interests	40%
Non-controlling interests in the Target Company	133,110

(e) The Group intends to apply part of the net proceeds from the Proposed Disposal for the full repayment of the amount due to the controlling shareholders of the Company amounting to approximately HK$101,976,000.

3. The following pro forma adjustments have been made to 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 unaudited pro forma consolidated cash flow statement of the Group for the year ended 31 December 2021, assuming the Proposed Disposal had taken place on 1 January 2021:

(a) The amounts are extracted from the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income and the consolidated cash flow statement of the Group for the year ended 31 December 2021 as set out in the published annual report of the Company for the year ended 31 December 2021.

(b) The adjustments represent the exclusion of results and cash flows of the Target Company for the year ended 31 December 2021 as if the Proposed Disposal had been completed on 1 January 2021 for 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 unaudited pro forma consolidated cash flow statement. The amounts are extracted from the unaudited financial information of the Target Company for the year ended 31 December 2021 as set out in Appendix II to this circular.

(c) The adjustments represent the exclusion of the Target Company's profit and total comprehensive income attributable to equity shareholders of the Company and the non-controlling interests.

(d) The adjustments represent the reinstatement of intra-group transactions between the Remaining Group and the Target Company, which were eliminated at the Group level when preparing the consolidated financial statements of the Group for the year ended 31 December 2021.

(e) The adjustment to "other net income" represents the estimated gain on the Proposed Disposal as if it had taken place on 1 January 2021, which is as follows:

	HK$'000
Estimated Consideration for the Proposed Disposal *(Note 2(d))*	565,785
Less: 60% of net assets of the Target Company as at 1 January 2021(i)	(155,683)
Add: Release of exchange reserve upon the Transaction as of 1 January 2021(ii)	29,409
Estimated gain on the Proposed Disposal	439,511

For the purpose of pro forma consolidated statement of profit or loss and pro forma consolidated statement of profit or loss and other comprehensive income, the Proposed Disposal was assumed to have taken place on 1 January 2021 and accordingly the estimated gain on the Proposed Disposal was calculated with reference to the Target Company's net assets at that date. Had such estimated gain on the Proposed Disposal be calculated with reference to the Target Company's net assets as at 31 August 2022 or the date of the Completion, the amount may be materially different. Please note that the pro forma financial information is prepared based on the assumptions disclosed herein and is for illustrative purpose only. Therefore, it should be read with due care and in conjunction with other information included elsewhere in this circular, including the reconciliation of the Target Company's net assets from 1 January 2021 to 31 August 2022 as set out in note (3)(e)(iii).

(i) Net assets of the Target Company as at 1 January 2021 was extracted from Appendix II to the circular. 60% of net assets of the Target Company is calculated as follows:

	HK$'000
Net assets of the Target Company as at 1 January 2021	259,471
Percentage of equity interest disposed of	60%
Net assets of the Target Company in relation to the Proposed Disposal	155,683

(ii) Exchange reserve of the Target Company as at 1 January 2021 was extracted from Appendix II to the circular. 60% of exchange reserve of the Target Company is calculated as follows:

	HK$'000
Exchange reserve of the Target Company as at 1 January 2021	49,015
Percentage of equity interest disposed of	60%
Exchange reserve of the Target Company to be released upon the Transaction as of 1 January 2021	29,409

(iii) The reconciliation of the carrying amount of the net assets of the Target Company is shown below:

	HK$'000
Net assets of the Target Company as at 1 January 2021	259,471
Total comprehensive income arising from the Target Company for the year ended 31 December 2021	64,030
Equity settled share-based transactions	2,101
Net assets of the Target Company as at 31 December 2021	325,602
Total comprehensive income arising from the Target Company for the period ended 31 August 2022	7,172
Net assets of the Target Company as at 31 August 2022	332,774

(f) The adjustment to administrative expenses represents estimated professional costs and stamp duty and the adjustment to income tax represents estimated income tax in relation to the Proposed Disposal. For further details, please refer to Note 2(d)(ii), Note 2(d)(iii) and Note 2(d)(iv).

4. The adjustments represent:

(a) proceeds from disposal of a subsidiary as if the Proposed Disposal had taken place on 1 January 2021:

	HK$'000
Estimated Consideration for the Proposed Disposal	565,785
Less: Estimated income tax in relation to the gain on the Proposed Disposal calculated at the applicable tax rate *(Note 2(d)(iv))*	(16,916)
Estimated net proceeds from the Proposed Disposal	548,869
Less: Cash and cash equivalents held by the Target Company as at 1 January 2021	(79,475)
Net cash inflow from the Proposed Disposal	469,394

(b) cash generated from operations including estimated professional costs and stamp duty directly attributable to the Proposed Disposal as if it had taken place on 1 January 2021. For further details, please refer to Note 2(d)(ii) and Note 2(d)(iii).

5. The adjustments in respect of 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 unaudited pro forma consolidated cash flow statement above are not expected to have a continuing effect on the Group.

6. The estimated gain on the Proposed Disposal, net proceeds from the Proposed Disposal 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 the Proposed Disposal and net proceeds from the Proposed Disposal at the date of Completion will likely be different from those stated in the pro forma financial information.

7. No adjustment has been made to reflect any operating results or other transaction of the Group entered into subsequent to 30 June 2022 for the unaudited pro forma consolidated statement of financial position and 31 December 2021 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.

(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 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

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 2022 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 unaudited pro forma consolidated cash flow statement for the year ended 31 December 2021 and related notes as set out in Part A of Appendix III to the circular dated 20 January 2023 (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 60% equity interests in 湖南道岳高速公路實業有限公司 ("**Hunan Daoyue Expressway Industry Co., Ltd.**"[1], the "**Target Company**") (the "**Proposed Disposal**") on the Group's financial position as at 30 June 2022 and the Group's financial performance and cash flows for the year ended 31 December 2021 as if the Proposed Disposal had taken place at 30 June 2022 and 1 January 2021, respectively. As part of this process, information about the Group's financial position as at 30 June 2022 has been extracted by the Directors from the condensed consolidated financial statements of the Group for the six months ended 30 June 2022, on which an review report has been published. Information about the Group's financial performance and cash flows for the year ended 31 December 2021 has been extracted by the Directors from the consolidated financial statements of the Group for the year ended 31 December 2021, on which an audit report has been published.

1 *The English translation of the name is for identification only.*

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 2022 or 1 January 2021 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
20 January 2023

Set out below is the management discussion and analysis on the continuing operations of the Remaining Group for the years ended 31 December 2019, 2020 and 2021 as well as the six months ended 30 June 2022 prepared on the basis that the Target Company is not consolidated, and the Company has no ownership in the Target Company.

The financial data in respect of the Remaining Group, for the purpose of this circular, is derived from the consolidated financial statements of the Company for the reporting periods. In addition to the above, references are also made to note 1(B) to the consolidated financial statements of the Company set out in the annual report of the Company for the year ended 31 December 2021 and the circular of the Company dated 30 April 2021. On 7 April 2021, the Vendor entered into an equity transfer agreement with Shenzhen Huayu Investment & Development Group Co., Ltd., a company wholly-owned by Mr. Chan, in relation to the Vendor's acquisition (the "**Shenzhen Huayu Group Acquisition**") of 60% equity interests in Shenzhen Huayu Expressway Investment Co., Ltd. (collectively with its subsidiaries, the "**Shenzhen Huayu Group**") which is principally engaged in the construction, operation and management of the First Phase of Qing Ping Expressway (the "**Qing Ping Expressway**"). Completion of the aforesaid acquisition took place on 29 June 2021. The Shenzhen Huayu Group Acquisition was considered as a business combination under common control as the Remaining Group and the Shenzhen Huayu Group were both ultimately controlled by Mr. Chan, and was accounted for using merger accounting in accordance with Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. As a result, in preparing the financial data in respect of the Remaining Group set out below, the consolidated statements of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years or periods prior to completion of the Shenzhen Huayu Group Acquisition have been restated to include the results of the Shenzhen Huayu Group as if the Shenzhen Huayu Group Acquisition had been completed since the date the respective business first came under the common control of the Company. The consolidated statements of financial position as at the end of the periods/years prior to completion of the Shenzhen Huayu Group Acquisition have been restated to adjust the carrying amounts of the assets and liabilities of the Target Company which had been in existence as at such dates as if those entities or businesses were combined from the date when they first came under common control of the Company.

FOR THE YEAR ENDED 31 DECEMBER 2019

Revenue

For the year ended 31 December 2019, total revenue of the Remaining Group amounted to approximately HK$412.9 million, representing an increase of approximately 183.2% as compared to that recorded for the year ended 31 December 2018. The foresaid year-on-year increase in revenue was primarily attributable to the increase in revenue generated from the liquor and spirits trading business, which was commenced in the final quarter of 2018.

Cost of sales and gross profit

For the year ended 31 December 2019, gross profit of the Remaining Group was amounted to approximately HK$130.8 million, representing an increase of approximately 180.1% as compared with that recorded for the year ended 31 December 2018. The year-on-year increase in gross profit was mainly contributed by the growth of liquor and spirits trading business during the same year.

The cost of sales of the Remaining Group during the year ended 31 December 2019 attributable to the sales for the liquor and spirits trading business amounted to approximately HK$175.4 million, and its gross profit ratio was approximately 33.7%. In respect of the Qing Ping Expressway, the cost of sales of the Remaining Group from the operation of the Qing Ping Expressway was approximately HK$106.8 million and its gross profit ratio was approximately 28.1%.

Other revenue

For the year ended 31 December 2019, other revenue of the Remaining Group increased year-on-year by approximately 40.9% and amounted to approximately HK$3.1 million. The other revenue recorded for the year ended 31 December 2019 represented the billboard rental income and interest income from banks deposits.

Other net (loss)/income

For the year ended 31 December 2019, the Remaining Group recorded other net loss of approximately HK$3.0 million against the other net income of approximately HK$2.7 million recorded for the year ended 31 December 2018. The recognition of other net loss during the year ended 31 December 2019 was mainly attributable to the loss on disposal of non-current assets and the net foreign exchange loss recorded for the same period.

Administrative expenses

For the year ended 31 December 2019, the administrative expenses of the Remaining Group amounted to approximately HK$36.9 million, representing an increase of approximately 141.2% as compared to that recorded for the year ended 31 December 2018. The year-on-year increase in administrative expenses was mainly attributable to the initial development of the new liquor and spirits trading business of the Group, which was commenced only in the fourth quarter of the year ended 31 December 2018.

Selling and distribution expenses

For the year ended 31 December 2019, the Remaining Group recorded selling and distribution expenses of approximately HK$20.8 million, which mainly included the advertising fee and staff salary used for the liquor and spirits trading business.

Finance (cost)/income

For the year ended 31 December 2019, the Remaining Group recorded finance income of approximately HK$1.6 million against the finance costs of approximately HK$7.7 recorded for the year ended 31 December 2018. The aforesaid turnaround during the year ended 31 December 2019 was mainly attributable to decrease in finance cost as a result of the decrease in the outstanding bank loan and increase in interest income as a result of the increase in bank deposits.

Income tax expenses

For the year ended 31 December 2019, the income tax expense charged to the Remaining Group for the year amounted to approximately HK$21.3 million, representing a year-on-year increase of approximately 172.1% charged for the year ended 31 December 2018. The foresaid year-on-year increase was mainly attributable to the increase in the profit from the new liquor and spirits trading business.

Profit attributable to equity shareholders of the Company

For the year ended 31 December 2019, the profits attributable to equity shareholder of the Company of the Remaining Group amounted to approximately HK$41.4 million, representing an increase of approximately 17.6% as compared to that recorded for the year ended 31 December 2018. The year-on-year increase in the profits attributable to equity shareholder of the Company was primarily attributable to the increase in revenue attributable to the new liquor and spirits trading business of the Remaining Group during the year ended 31 December 2019, offset by the decrease in toll revenue attributable to the Qing Ping Expressway due to the change of composition of the vehicles and the drop in the average toll per vehicle.

Segment performance

Trading of liquor and spirits

The sales of liquor and spirits business commenced in the final quarter of 2018. For the year ended 31 December 2019, revenue of the Remaining Group generated from the sales of liquor and spirits business was approximately HK$264.6 million as compared to approximately HK$2.4 million recorded for the year ended 31 December 2018. Most of the revenue was generated from the sales of Huamaojiu under the sole distributorship agreement with Kweichow Moutai Group. For the year ended 31 December 2019, the Group achieved the sales of over 340 tonnes Huamaojiu and the average selling price was approximately HK$675,000 per tonne.

For the year ended 31 December 2019, the segment profit (adjusted earnings before interest, taxes, depreciation and amortisation (the "**EBITDA**")) for the sales of liquor and spirits business amounted to approximately HK$50.4 million, against the segment loss (adjusted loss before interest, taxes, depreciation and amortisation) of approximately HK$3.4 million from that recorded for the year ended 31 December 2018. The foresaid turnaround was mainly attributable to the year-on-year increase in revenue generated from the sales of liquor and spirits business, which was only commenced in the final quarter of 2018.

Qing Ping Expressway

For the year ended 31 December 2019, revenue of the Remaining Group from the Qing Ping Expressway was approximately HK$148.3 million, representing an increase of approximately 3.4% from that for the year ended 31 December 2018. Toll fee income from the Qing Ping Expressway for the year ended 31 December 2019 was approximately HK$137.2 million, representing a decrease of approximately 3.2% from that recorded for the year ended 31 December 2018. The year-on-year decrease in toll revenue was primarily due to the increased portion of small private car users among the traffic flow for the year ended 31 December 2019. The total traffic flow of the Qing Ping Expressway was approximately 29.8 million vehicles for the year ended 31 December 2019, increased by approximately 1.9% from that for the year ended 31 December 2018. The average toll per vehicle, on the other hand, was approximately HK$4.61, decreased by approximately 4.9%. Among the vehicles using the Qing Ping Expressway, approximately 93.3% of them were small private cars as compared to the proportion of approximately 92.8% for the year ended 31 December 2018.

In addition to the toll fee revenue, there was about HK$11.2 million of construction income recognised for the year ended 31 December 2019 about the costs associated with the implementation of standard ETC system.

For the year ended 31 December 2019, the segment profit (adjusted EBITDA) for the Qing Ping Expressway amounted to approximately HK$102.2 million, representing a decrease of approximately 5.8% from that recorded for the year ended 31 December 2018. The aforesaid year-on-year decrease was mainly due to the change of composition of the vehicles using the Qing Ping Expressway and the drop in the average toll per vehicle of the Qing Ping Expressway during the year ended 31 December 2019.

Intangible assets

As at 31 December 2019, intangible assets of the Remaining Group amounted to approximately HK$195.5 million, which represented the rights of the Remaining Group to operate the Qing Ping Expressway and receive toll fees therefrom.

Inventories

As at 31 December 2019, inventories of the Remaining Group amounted to approximately HK$63.9 million, representing a significant increase of approximately 3,232.6% from that recorded as at 31 December 2018. The inventories of the Remaining Group represented the stock on hands for the trading of liquor and spirits business, and the increase was in line with the development of the trading of liquor and spirits business, which was commenced only in the fourth quarter of 2018.

Prepayments and other receivables

As at 31 December 2019, prepayment and other receivables of the Remaining Group amounted to approximately HK$195.8 million, representing an increase of approximately 607.5% from that as at 31 December 2018. The aforesaid increase in prepayment and other receivables of the Remaining Group as at 31 December 2019 was mainly attributable to the increase in amount due from the Target Company.

Liquidity and financial resources

During the year ended 31 December 2019, the Remaining Group financed its operations and capital expenditures primarily by the internal resources of the Company, borrowings from the controlling shareholder of the Company and bank loan. As at 31 December 2019, total bank loan drawn by the Remaining Group and its other borrowings amounted to approximately HK$83.7 million (as at 31 December 2018: approximately HK$125.5 million), the amount due to the controlling shareholder of the Company Mr. Chan was approximately HK$102.0 million (as at 31 December 2018: approximately HK$102.0 million), and the total cash and cash equivalents, including bank deposits and cash on hands, amounted to approximately HK$190.4 million (as at 31 December 2018: approximately HK$49.7 million).

The Company has always been pursuing a prudent treasury management policy and actively manages its liquidity position with standby banking facilities to cope with daily operation and any demands for capital in future development. As at 31 December 2019, the ratio of total outstanding bank loan and other borrowings to total equity of the Remaining Group was approximately 18.4% (as at 31 December 2018: approximately 27.0%).

As at 31 December 2019, the bank loans and other borrowings of the Remaining Group were repayable as follows:

	As at 31 December 2019
	HK$'000
Within one year	39,071
After one year but within two years	44,652
	83,723

The Remaining Group's borrowings were mainly arranged on a floating rate basis. During the year ended 31 December 2019, 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 might cause financial impacts on the Remaining Group.

Employees and emoluments

As at 31 December 2019, the Remaining Group employed a total of 317 (as at 31 December 2018: 273) employees in the PRC and Hong Kong, which included the management staff, engineers, technicians and general staff. For the year ended 31 December 2019, the total expenses of the Remaining Group on the remuneration of employees were approximately HK$44.0 million (for the year ended 31 December 2018: approximately HK$26.4 million.

The Remaining Group's emolument policies are formed based on the performance of individual employees, which will be reviewed periodically. Apart from the provident fund scheme (according to the provision 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.

Foreign exchange risk

The Remaining Group mainly operated in the PRC with most of the transactions settled in Renminbi. As at 31 December 2019, cash and bank deposits of the Remaining Group were dominated in both Hong Kong dollars and Renminbi, and the bank loans of the Remaining Group were denominated in Renminbi.

As at 31 December 2019, the Remaining Group had not entered into any hedging arrangements to hedge against the exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Remaining Group.

Charges on assets

As at 31 December 2019, the bank loan of approximately HK$83.7 million from China Construction Bank Corporation was secured by the pledge of the toll collection right under the concession agreement in relation to the Qing Ping Expressway.

Contingent liabilities

As at 31 December 2019, the Company had issued a single guarantee to a bank in respect of a banking facility granted to the Target Company which would expire on 8 May 2027. The Directors did not consider it probable that a claim would be made against the Company under any of the guarantees. The maximum liability of the Company as at 31 December 2019 under the guarantees issued is the total bank loan by the Target Company of HK$915.4 million. Such guarantee will be released after the Disposal Completion.

Save for the above, as at 31 December 2019, the Company did not have any material contingent liabilities.

Significant investment

As at 31 December 2019, the Company did not have any significant investments.

Material acquisition and disposal and future plans for material investments

For the year ended 31 December 2019, there was no material acquisition and disposal of subsidiaries or associated companies by the Remaining Group.

For the year ended 31 December 2019, the Remaining Group did not have any concrete plans for any material investments.

FOR THE YEAR ENDED 31 DECEMBER 2020

Revenue

For the year ended 31 December 2020, total revenue of the Remaining Group amounted to approximately HK$439.6 million, representing an increase of approximately 6.5% as compared to that recorded for the year ended 31 December 2019. The aforesaid year-on-year increase in revenue was primarily attributable to the increase in revenue generated from the liquor and spirits trading business, offset by the decrease in revenue generated from the Qing Ping Expressway.

Cost of sales and gross profit

For the year ended 31 December 2020, gross profit of the Remaining Group amounted to approximately HK$121.3 million, representing a decrease of approximately 7.3% as compared with that recorded for the year ended 31 December 2019. The year-on-year decrease in gross profit was mainly due to the toll fee exemption policy during the COVID-19 pandemic period during the same year.

The cost of sales of the Remaining Group during the year ended 31 December 2020 attributable to the sales for the liquor and spirits trading business amounted to approximately HK$261.5 million, and its gross profit ratio was approximately 28.5%. In respect of the Qing Ping Expressway, the cost of sales of the Remaining Group from the operation of the Qing Ping Expressway was approximately HK$56.9 million and its gross profit ratio was approximately 23.3%.

Other revenue

For the year ended 31 December 2020, other revenue of the Remaining Group increased year-on-year by approximately 19.4% and amounted to approximately HK$3.7 million. The other revenue recorded for the year ended 31 December 2020 represented the billboard rental income and interest income from banks deposits.

Other net (loss)/income

For the year ended 31 December 2020, the Remaining Group recorded other net income of approximately HK$15.0 million against the other net loss of approximately HK$3.0 million recorded for the year ended 31 December 2019. The recognition of other net income during the year ended 31 December 2020 was mainly attributable to the compensation received in respect of the Qing Ping Expressway and the exchange gain recorded during the same period.

Administrative expenses

For the year ended 31 December 2020, the administrative expenses of the Remaining Group amounted to approximately HK$37.9 million, representing a slight increase of approximately 2.7% as compared to that recorded for the year ended 31 December 2019. The year-on-year increase in administrative expenses was mainly attributable to the increase in staff cost and the building management fee incurred for the year ended 31 December 2020.

Selling and distribution expenses

For the year ended 31 December 2020, the Remaining Group recorded selling and distribution expenses of approximately HK$10.7 million, representing a decrease of approximately 48.6% from that recorded for the year ended 31 December 2019. The selling and distribution expenses recorded for the year ended 31 December 2020 mainly included the advertising fee and staff salary used for the liquor and spirits trading business, and the year-on-year decrease was mainly due to the cancellation of certain advertising and promotion events since the outbreak of COVID-19 pandemic and the related social distance restriction requirements during the same year.

Finance income

For the year ended 31 December 2020, the Remaining Group recorded finance income of approximately HK$4.0 million, increased by 150.0% from that recorded for the year ended 31 December 2019. The year-on-year increase in finance income during the year ended 31 December 2020 was mainly attributable to the decrease in finance cost as a result of the decrease in the outstanding bank loan.

Income tax expenses

For the year ended 31 December 2020, the income tax expense charged to the Remaining Group for the year amounted to approximately HK$21.4 million, representing a slight increase of approximately 0.5% from that charged for the year ended 31 December 2019. The similar level of income tax recorded for the year ended 31 December 2020 as compared to that for the preceding year.

Profit attributable to equity shareholders of the Company

For the year ended 31 December 2020, the profits attributable to equity shareholder of the Company of the Remaining Group amounted to approximately HK$68.2 million, representing an increase of approximately 64.7% as compared to that recorded for the year ended 31 December 2019. The year-on-year increase in the profits attributable to equity shareholder of the Company was primarily attributable to the significant growth in the trading of liquor and spirits business of the Remaining Group following the then ease of restrictions and the resumption of economic activities in the PRC, offset by the decrease in toll revenue attributable to the Qing Ping Expressway due to the toll fee exemption policy implemented from February to May and the decrease in traffic flow in the Qing Ping Expressway during the year ended 31 December 2020.

Segment performance

Trading of liquor and spirits

The lock-down of the PRC cities during the COVID-19 pandemic period discouraged the consumption of liquor and spirits in social gathering and business entertainment, especially from February to April 2020. But with the reopening of economic activities from May 2020, the sales of liquor and spirits recovered significantly in the rest of year ended 31 December 2020. For the year ended 31 December 2020, revenue of the Remaining Group generated from the sales of liquor and spirits business was approximately HK$365.5 million, representing a significant increase of approximately 38.1% from that recorded for the year ended 31 December 2019. The Remaining Group had been working on the brand building and the development of sales and distribution network. With the excellent quality and brand position of Huamaojiu in the PRC market, the liquor and spirits trading business became one of the most significant segments of the Remaining Group.

For the year ended 31 December 2020, the segment profit (adjusted EBITDA) for the sales of liquor and spirits business amounted to approximately HK$76.7 million, representing an increase of approximately 52.2% from that recorded for the year ended 31 December 2019. The foresaid year-on-year increase was mainly attributable to the year-on-year increase in revenue generated from the sales of liquor and spirits business.

Qing Ping Expressway

For the year ended 31 December 2020, revenue of the Remaining Group from the Qing Ping Expressway comprised only toll fee income, which amounted to approximately HK$74.2 million, representing a decrease from that recorded for the year ended 31 December 2019. The year-on-year decrease in toll revenue was primarily due to the toll fee exemption policy implemented from February to May and the decrease in traffic flow in the Qing Ping Expressway during the year ended 31 December 2020 due to the COVID-19 pandemic and opening of Banyin Channel, a toll-free expressway running parallel to the Qing Ping Expressway, in April 2020. The total traffic flow of the Qing Ping Expressway gradually resumed in May 2020 following the ease of travel restrictions and reopening of the economy of the PRC, and amounted to approximately 20.9 million vehicles for the year ended 31 December 2020, decreased by approximately 29.9% from that for the year ended 31 December 2019

For the year ended 31 December 2020, the segment profit (adjusted EBITDA) for the Qing Ping Expressway amounted to approximately HK$36.8 million, representing a decrease of approximately 64.0% from that recorded for the year ended 31 December 2019. The aforesaid year-on-year decrease was mainly due to year-on-year decrease in revenue generated from the Qing Ping Expressway.

Intangible assets

As at 31 December 2020, intangible assets of the Remaining Group amounted to approximately HK$184.8 million, which represented the rights of the Remaining Group to operate the Qing Ping Expressway and receive toll fees therefrom.

Inventories

As at 31 December 2020, inventories of the Remaining Group amounted to approximately HK$94.5 million, representing an increase of approximately 47.9% from that recorded as at 31 December 2019. The inventories of the Remaining Group represented the stock on hands for the trading of liquor and spirits business, and the increase was mainly attributable to the increase in sales during the year.

Prepayments and other receivables

As at 31 December 2020, prepayment and other receivables of the Remaining Group amounted to approximately HK$219.5 million, representing an increase of approximately 12.1% from that as at 31 December 2019. The aforesaid increase in prepayment and other receivables of the Remaining Group as at 31 December 2020 was mainly attributable to increase in prepayments in relation to the trading of liquor and spirits business as a result of the increase in the size of the trading of liquor and spirits business.

Liquidity and financial resources

During the year ended 31 December 2020, the Remaining Group financed its operations and capital expenditures primarily by the internal resource of the Company, borrowings from the controlling shareholder of the Company Mr. Chan, and bank loan. As at 31 December 2020, total bank loan drawn by the Remaining Group and its other borrowings amounted to approximately HK$47.5 million (as at 31 December 2019: approximately HK$83.7 million), the amount due to the controlling shareholder of the Company was approximately HK$102.0 million (as at 31 December 2019: approximately HK$102.0 million) and the total cash and cash equivalents, including bank deposits and cash on hands, amounted to approximately HK$167.1 million (as at 31 December 2019: approximately HK$190.4 million).

The Company has always been pursuing a prudent treasury management policy and actively manages its liquidity position with standby banking facilities to cope with daily operation and any demands for capital in future development. As at 31 December 2020, the ratio of total outstanding bank loan and other borrowings to total equity of the Remaining Group was approximately 8.61% (as at 31 December 2019: approximately 18.4%).

As at 31 December 2020, the bank loans and other borrowings of the Remaining Group were repayable as follows:

	As at 31 December 2020
	HK$'000
Within one year	47,528
	47,528

The Remaining Group's borrowings were mainly arranged on a floating rate basis. During the year ended 31 December 2020, 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 might cause financial impacts on the Remaining Group.

Employees and emoluments

As at 31 December 2020, the Remaining Group employed a total of 294 (as at 31 December 2019: 317) employees in the PRC and Hong Kong, which included the management staff, engineers, technicians and general staff. For the year ended 31 December 2020, the total expenses of the Remaining Group on the remuneration of employees were approximately HK$35.4 million (for the year ended 31 December 2019: approximately HK$44.0 million.

The Remaining Group's emolument policies are formed based on the performance of individual employees, which will be reviewed periodically. Apart from the provident fund scheme (according to the provision 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.

Foreign exchange risk

The Remaining Group mainly operated in the PRC with most of the transactions settled in Renminbi. As at 31 December 2020, cash and bank deposits of the Remaining Group were dominated in both Hong Kong dollars and Renminbi, and the bank loans and other borrowings of the Remaining Group were denominated in Renminbi.

As at 31 December 2020, the Remaining Group had not entered into any hedging arrangements to hedge against the exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Remaining Group.

Charges on assets

As at 31 December 2020, the bank loan of approximately HK$47.5 million from China Construction Bank Corporation was secured by the pledge of the toll collection right under the concession agreement in relation to the Qing Ping Expressway.

Contingent liabilities

As at 31 December 2020, the Company had issued a single guarantee to a bank in respect of a banking facility granted to the Target Company which expire on 8 May 2027. The Directors did not consider it probable that a claim would be made against the Company under any of the guarantees. The maximum liability of the Company as at 31 December 2020 under the guarantees issued is the total bank loan by the Target Company of HK$926.8 million. Such guarantee will be released after the Disposal Completion.

Save for the above, as at 31 December 2020, the Company did not have any material contingent liabilities.

Significant investment

As at 31 December 2020, the Company did not have any significant investments.

Material acquisition and disposal and future plans for material investments

For the year ended 31 December 2020, there was no material acquisition and disposal of subsidiaries or associated companies by the Remaining Group.

For the year ended 31 December 2020, the Remaining Group did not have any concrete plans for any material investments.

FOR THE YEAR ENDED 31 DECEMBER 2021

Revenue

For the year ended 31 December 2021, total revenue of the Remaining Group amounted to approximately HK$830.2 million, representing an increase of approximately 88.9% as compared to that recorded for the year ended 31 December 2020. The foresaid year-on-year increase in revenue was primarily attributable to the increases in revenue generated from both the liquor and spirits trading business and the Qing Ping Expressway.

Cost of sales and gross profit

For the year ended 31 December 2021, gross profit of the Remaining Group amounted to approximately HK$251.3 million, representing an increase of approximately 107.2% as compared with that recorded for the year ended 31 December 2020. The year-on-year increase in gross profit was mainly due to the increases in revenue generated from both the liquor and spirits trading business and the Qing Ping Expressway after the COVID-19 pandemic cased off since in mid-2020.

The cost of sales of the Remaining Group during the year ended 31 December 2021 attributable to the sales for the liquor and spirits trading business amounted to approximately HK$504.7 million, and its gross profit ratio was approximately 30.2%. In respect of the Qing Ping Expressway, the cost of sales of the Remaining Group from the operation of the Qing Ping Expressway was approximately HK$74.1 million and its gross profit ratio was approximately 30.8%.

Other revenue

For the year ended 31 December 2021, other revenue of the Remaining Group increased year-on-year by approximately 106.7% and amounted to approximately HK$7.6 million. The other revenue recorded for the year ended 31 December 2021 represented the billboard rental income and interest come from banks deposits.

Other net income

For the year ended 31 December 2021, the Remaining Group recorded other net income of approximately HK$2.9 million, representing a decrease of approximately 81.0% from that recorded for the year ended 31 December 2020. The recognition of other net income during the year ended 31 December 2021 was mainly attributable to the compensation received in respect of the Qing Ping Expressway and the exchange gain recorded during the same period.

Administrative expenses

For the year ended 31 December 2021, the administrative expenses of the Remaining Group amounted to approximately HK$87.3 million, representing an increase of approximately 130.3% from that recorded for the year ended 31 December 2020. The year-on-year increase in administrative expenses was mainly attributable to the increase in staff cost about the expansion of liquor and spirits trading business and the share-based payment expenses about the share options granted by the Company during the year ended 31 December 2021.

Selling and distribution expenses

For the year ended 31 December 2021, the Remaining Group recorded selling and distribution expenses of approximately HK$31.1 million, representing an increase of approximately 190.7% from that recorded for the year ended 31 December 2019. The selling and distribution expenses recorded for the year ended 31 December 2021 mainly included the advertising fee and staff salary used for the liquor and spirits trading business, and the year-on-year increase was mainly due to significant increase in amount spent by the Remaining Group on advertising campaigns and promotion events since the re-opening of economic activities and ease of social distance restriction requirements after the COVID-19 pandemic period in mid-2020.

Finance (cost)/income

For the year ended 31 December 2021, the Remaining Group recorded finance costs of approximately HK$3.2 million against the finance income of approximately HK$4.0 million recorded for the year ended 31 December 2020. The recognition of finance costs during the year ended 31 December 2021 as compared to the finance income recorded for the previous year was mainly attributable to decrease in the interest income from the shareholder loan to the Target Company, which was fully repaid in May 2021.

Income tax expenses

For the year ended 31 December 2021, the income tax expense charged to the Remaining Group for the year amounted to approximately HK$51.8 million, representing an increase of approximately 142.1% from that charged for the year ended 31 December 2020. The foresaid year-on-year increase was mainly attributable to the increase in profit from the trading of liquor and spirits business and the Qing Ping Expressway.

Profit attributable to equity shareholders of the Company

For the year ended 31 December 2021, the profits attributable to equity shareholder of the Company of the Remaining Group amounted to approximately HK$47.8 million, representing a decrease of approximately 29.9% as compared to that recorded for the year ended 31 December 2020. The year-on-year decrease in the profits attributable to equity shareholder of the Company was primarily attributable to recognition of share-based payment expenses of approximately HK$42.5 million arising from the share options granted by the Company during the year ended 31 December 2021.

Segment performance

Trading of liquor and spirits

The lock-down of the PRC cities during the COVID-19 pandemic period discouraged the consumption of liquor and spirits in social gathering and business entertainment in the first half of the year ended 31 December 2020. With the reopening of economic activities, the sales of liquor and spirits recovered significantly during the year ended 31 December 2021 and reached approximately HK$723.0 million, representing a significant increase of approximately 97.8% from that recorded for the year ended 31 December 2020. The aforesaid year-on-year increase in revenue was primarily attributable to the increase in the unit selling price of Huamaojiu due to the high demand and the sole distributorship for another band of wine, Xijiushaofang, granted to the Remaining Group during the year ended 31 December 2021.

For the year ended 31 December 2021, the segment profit (adjusted EBITDA) for the sales of liquor and spirits business amounted to approximately HK$154.8 million, representing an increase of approximately 93.3% from that recorded for the year ended 31 December 2019. The foresaid year-on-year increase was mainly attributable to the year-on-year increase in revenue generated from the sales of liquor and spirits business.

Qing Ping Expressway

For the year ended 31 December 2021, revenue of the Remaining Group from the Qing Ping Expressway comprised only toll fee income, which amounted to approximately HK$107.2 million, representing an increase from that recorded for the year ended 31 December 2020. The year-on-year increase in toll revenue was primarily due to the toll fee exemption policy implemented in the first half of the year ended 31 December 2020, which significantly limited toll receivables during the same year. The total traffic flow of the Qing Ping Expressway was approximately 27.0 million vehicles for the year ended 31 December 2021, increased by approximately 29.3% from that for the year ended 31 December 2020. With the resumption of economic activities in the PRC after the COVID-19 pandemic period, the business of the Qing Ping Expressway improved gradually.

For the year ended 31 December 2021, the segment profit (adjusted EBITDA) for the Qing Ping Expressway amounted to approximately HK$55.0 million, representing an increase of approximately 49.5% from that recorded for the year ended 31 December 2020. The aforesaid year-on-year increase was mainly due to year-on-year increase in revenue generated from the Qing Ping Expressway.

Intangible assets

As at 31 December 2021, intangible assets of the Remaining Group amounted to approximately HK$162.5 million, which represented the rights of the Remaining Group to operate the Qing Ping Expressway and receive toll fees therefrom.

Inventories

As at 31 December 2021, inventories of the Remaining Group amounted to approximately HK$100.0 million, representing an increase of approximately 5.8% from that recorded as at 31 December 2020. The inventories of the Remaining Group represented the stock on hands for the trading of liquor and spirits business.

Prepayments and other receivables

As at 31 December 2021, prepayment and other receivables of the Remaining Group amounted to approximately HK$169.2 million, representing a decrease of approximately 22.9% from that as at 31 December 2020. The aforesaid decrease in prepayment and other receivables of the Remaining Group as at 31 December 2021 was mainly attributable to the decrease in amount due from the Target Company, offset by increase in prepayments and other receivables in relation to the trading of liquor and spirits business, which were mainly the deposits paid to the suppliers to secure the source of inventory for trading purpose.

Liquidity and financial resources

During the year ended 31 December 2021, the Remaining Group financed its operations and capital expenditures primarily by the internal resources of the Company, borrowings from the controlling shareholder of the Company Mr. Chan and bank loan. As at 31 December 2021, total bank loan drawn by the Remaining Group and its other borrowings amounted to approximately HK$36.7 million (as at 31 December 2020: approximately HK$47.5 million), the amount due to the controlling shareholder of the Company was approximately HK$102.0 million (as at 31 December 2020: approximately HK$102.0 million), and the total cash and cash equivalents, including bank deposits and cash on hands, amounted to approximately HK$252.6 million (as at 31 December 2020: approximately HK$167.1 million).

The Company has always been pursuing a prudent treasury management policy and actively manages its liquidity position with standby banking facilities to cope with daily operation and any demands for capital in future development. As at 31 December 2021, the ratio of total outstanding bank loan and other borrowings to total equity of the Remaining Group was approximately 6.7% (as at 31 December 2020: approximately 8.61%).

As at 31 December 2021, the bank loans and other borrowings of the Remaining Group were repayable as follows:

	As at 31 December 2021
	HK$'000
Within one year	36,693
	36,693

The Remaining Group's borrowings were mainly arranged on a floating rate basis. During the year ended 31 December 2021, 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 Remaining Group.

Employees and emoluments

As at 31 December 2021, the Remaining Group employed a total of 291 (as at 31 December 2020: 294) employees in the PRC and Hong Kong, which included the management staff, engineers, technicians and general staff. For the year ended 31 December 2021, the total expenses of the Remaining Group on the remuneration of employees were approximately HK$90.4 million (for the year ended 31 December 2020: approximately HK$35.4 million).

The Remaining Group's emolument policies are formed based on the performance of individual employees, which will be reviewed periodically. Apart from the provident fund scheme (according to the provision 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.

Foreign exchange risk

The Remaining Group mainly operates in the PRC with most of the transactions settled in Renminbi. As at 31 December 2021, cash and bank deposits of the Remaining Group were dominated in both Hong Kong dollars and Renminbi, and the bank loans and other borrowings of the Remaining Group were denominated in Renminbi.

As at 31 December 2021, the Remaining Group had not entered into any hedging arrangements to hedge against the exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Remaining Group.

Charges on assets

As at 31 December 2021, there was no charge on the assets of the Remaining Group.

Contingent liabilities

As at 31 December 2021, the Company had issued a single guarantee to a bank in respect of a banking facility granted to the Target Company which would expire on 8 May 2032. The Directors did not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company as at 31 December 2021 under the guarantees issued is the total bank loan by the Target Company of HK$1,171.6 million. Such guarantee will be released after the Disposal Completion.

Save for the above, as at 31 December 2021, the Company did not have any material contingent liabilities.

Significant investment

As at 31 December 2021, the Company did not have any significant investments.

Material acquisition and disposal and future plans for material investments

For the year ended 31 December 2021, save for disclosed below, there was no material acquisition and disposal of subsidiaries or associated companies by the Remaining Group:

(i) the Shenzhen Huayu Group Acquisition, details of which are set out in the announcement of the Company dated 7 April 2021; and

(ii) on 6 July 2021, 深圳華昱酒業發展有限公司 (Shenzhen Huayu Wine Development Co., Ltd.*), an indirect wholly-owned subsidiary of the Company and as vendor, entered into a conditional equity transfer agreement (as supplemented by a supplemental agreement dated 22 July 2021) with Guizhou Renhuai Xiangyechang Trading Co., Ltd., as purchaser, in relation to the disposal of 10% of equity interests in 華昱健康酒業(深圳)有限公司 (Huayu Healthy Wine (Shenzhen) Co., Ltd.*) (the "**Huayu Healthy Wine Disposal**"), details of which are set out in the announcements of the Company dated 6 July 2021 and 22 July 2021.

For the year ended 31 December 2021, the Remaining Group did not have any concrete plans for any material investments.

FOR THE SIX MONTHS ENDED 30 JUNE 2022

Revenue

For the six months ended 30 June 2022, total revenue of the Remaining Group amounted to approximately HK$277.9 million, representing a decrease of approximately 46.1% as compared to that recorded for the six months ended 30 June 2021. The foresaid period-over-period decrease in revenue was primarily attributable to the economic downturn brought by the recurrence of the COVID-19 pandemic in the PRC and an increase in the price of petroleum.

Cost of sales and gross profit

For the six months ended 30 June 2022, gross profit of the Remaining Group amounted to approximately HK$85.6 million, representing a decrease of approximately 47.2% as compared with that recorded for the corresponding period of the previous year. The period-over-period decrease was in line with the drop in the total revenue of the Remaining Group during the six months ended 30 June 2022.

The gross profit of the Remaining Group during the six months ended 30 June 2022 attributable to the sales for the liquor and spirits trading business amounted to approximately HK$77.9 million, and its gross profit ratio was approximately 32.6%. In respect of the Qing Ping Expressway, the gross profit of the Remaining Group from the operation of the Qing Ping Expressway was approximately HK$7.7 million and its gross profit ratio was approximately 19.6%.

Other revenue

For the six months ended 30 June 2022, other revenue of the Remaining Group decreased period-over-period by approximately 53.8% and amounted to approximately HK$2.4 million. The other revenue recorded for the six months ended 30 June 2022 represented the billboard rental income and interest come from banks deposits.

Other net income

For the six months ended 30 June 2022, the Remaining Group recorded other net loss of approximately HK$2.2 million, against the other net income of approximately HK$1.9 million recorded for the corresponding period of the previous year. The recognition of other net loss during the six months ended 30 June 2022 was mainly attributable to the exchange loss recorded during the same period.

Administrative expenses

For the six months ended 30 June 2022, the administrative expenses of the Remaining Group amounted to approximately HK$21.7 million, representing a slight decrease of approximately 3.4% from that recorded for the corresponding period of the previous year. The period-over-period decrease in administrative expenses was mainly attributable to the additional professional services fee incurred for the six months ended 30 June 2021 due to the acquisition of Qing Ping Expressway during the same period.

Selling and distribution expenses

For the six months ended 30 June 2022, the Remaining Group recorded selling and distribution expenses of approximately HK$12.2 million, representing an increase of approximately 47.0% from that recorded for the preceding corresponding period. The selling and distribution expenses recorded for the six months ended 30 June 2022 mainly included the advertising fee and staff salary used for the liquor and spirits trading business.

Finance cost

For the six months ended 30 June 2022, the Remaining Group recorded finance costs of approximately HK$1.4 million, representing an increase of approximately 17% in costs from that of approximately HK$1.2 million recorded for the corresponding period of the previous year. The increase of finance costs during the six months ended 30 June 2022 was mainly attributable to the increase in the outstanding bank loan.

Income tax expenses

For the six months ended 30 June 2022, the income tax expense charged to the Remaining Group for the year amounted to approximately HK$14.4 million, representing a decrease of approximately 62.7% from that charged for the preceding corresponding period. The foresaid period-over-period decrease was mainly attributable to the decrease in profit of the Remaining Group.

Profit attributable to equity shareholders of the Company

For the six months ended 30 June 2022, the profits attributable to equity shareholder of the Company of the Remaining Group amounted to approximately HK$14.7 million, representing a decrease of approximately 86.5% as compared to that recorded for the corresponding period of the previous year. The period-over-period decrease in the profits attributable to equity shareholder of the Company was in line with the period-over-period decrease in the total revenue of the Remaining Group.

Segment performance

Trading of liquor and spirits

The COVID-19 pandemic adversely affected the business of liquor and spirits during the six months ended 30 June 2022. With the lock down policy and restrictions in the social activities, the consumption of alcoholic beverages dropped significantly during the period. For the six months ended 30 June 2022, the Remaining Group recorded a revenue of trading of liquor and spirits of approximately HK$238.9 million, decreased by approximately 48.5% from that for the corresponding period of the previous year. During the six months ended 30 June 2022, active marketing campaigns and promotions were organized to strengthen the marketing network and the efficiency distribution channel. With the well-established distribution network and the relatively high vaccination rate in the PRC, the Remaining Group remained confident in the performance of this segment in the post COVID-19 pandemic period.

For the six months ended 30 June 2022, the segment profit (adjusted EBITDA) for the sales of liquor and spirits business amounted to approximately HK$62.4 million, representing a decrease of approximately 48.7% from that recorded for the preceding corresponding period. The foresaid period-over-period decrease was mainly attributable to the period-over-period decrease in revenue generated from the sales of liquor and spirits business.

Qing Ping Expressway

The COVID-19 pandemic and the lock down policy in Shenzhen during the six months ended 30 June 2022 seriously affected the operation of the Qing Ping Expressway. In addition to the recent increase in the price of petroleum, the motivation for the driving trips dropped significantly. For the six months ended 30 June 2022, the total toll revenue of Qing Ping Expressway was approximately HK$39.1 million, decreased by approximately 25.0% from that for the corresponding period of the previous year. The average traffic flow was approximately 1.7 million vehicles per month, decreased by approximately 22.7% from that for the corresponding period of the previous year. The average toll for the six months ended 30 June 2022 was approximately HK$3.9 per vehicle. Despite that the toll revenue of the Qing Ping Expressway dropped due to the external economic factors during the six months ended 30 June 2022, the Remaining Group considered that the fundamentals of the expressway remain in good shape and fast recovery would be expected in the future.

For the six months ended 30 June 2022, the segment profit (adjusted EBITDA) for the Qing Ping Expressway amounted to approximately HK$14.1 million, representing a decrease of approximately 57.3% from that recorded for the preceding corresponding period. The aforesaid period-over-period decrease was mainly due to period-over-period decrease in revenue generated from the Qing Ping Expressway.

Intangible assets

As at 30 June 2022, intangible assets of the Remaining Group amounted to approximately HK$145.6 million, which represented the rights of the Remaining Group to operate the Qing Ping Expressway and receive toll fees therefrom.

Inventories

As at 30 June 2022, inventories of the Remaining Group amounted to approximately HK$139.1 million, representing an increase of approximately 39.1% from that recorded as at 31 December 2021. The inventories of the Remaining Group represented the stock on hands for the trading of liquor and spirits business, and the increase was mainly attributable to the decrease in sales for the six months ended 30 June 2022 as a result of COVID-19 pandemic.

Prepayments and other receivables

As at 30 June 2022, prepayment and other receivables of the Remaining Group amounted to approximately HK$123.2 million, representing a decrease of approximately 27.2% from that as at 31 December 2021. The aforesaid decrease in prepayment and other receivables of the Remaining Group as at 30 June 2022 was mainly attributable to the decrease in prepayments in relation to the trading of liquor and spirits business.

Liquidity and financial resources

During the six months ended 30 June 2022, the Remaining Group financed its operations and capital expenditures primarily by the internal resources of the Company, borrowings from the controlling shareholder of the Company Mr. Chan and bank loan. As at 30 June 2022, total bank loan drawn by the Remaining Group and its other borrowings amounted to approximately HK$58.5 million (as at 31 December 2021: approximately HK$36.7 million), the amount due to the controlling shareholder of the Company was approximately HK$102.0 million (as at 31 December 2021: approximately HK$102.0 million), and the total cash and cash equivalents, including bank deposits and cash on hands, amounted to approximately HK$220.6 million (as at 31 December 2021: approximately HK$252.6 million).

The Company has always been pursuing a prudent treasury management policy and actively manages its liquidity position with standby banking facilities to cope with daily operation and any demands for capital in future development. As at 30 June 2022, the ratio of total outstanding bank loan and other borrowings to total equity of the Remaining Group was approximately 10.4% (as at 31 December 2021: approximately 6.7%).

As at 30 June 2022, the bank loans and other borrowings of the Remaining Group were repayable as follows:

	As at 30 June 2022 *HK$'000*
Within one year	58,465
	58,465

The Remaining Group's borrowings were mainly arranged on a floating rate basis. During the six months ended 30 June 2022, 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 Remaining Group.

Employees and emoluments

As at 30 June 2022, the Remaining Group employed a total of 257 (as at 31 December 2021: 291) employees in the PRC and Hong Kong, which included the management staff, engineers, technicians and general staff. For the six months ended 30 June 2022, the total expenses of the Remaining Group on the remuneration of employees were approximately HK$24.3 million (for the year ended 31 December 2021: approximately HK$90.4 million).

The Remaining Group's emolument policies are formed based on the performance of individual employees, which will be reviewed periodically. Apart from the provident fund scheme (according to the provision 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.

Foreign exchange risk

The Remaining Group mainly operates in the PRC with most of the transactions settled in Renminbi. As at 30 June 2022, cash and bank deposits of the Remaining Group were dominated in both Hong Kong dollars and Renminbi, and the bank loans and other borrowings of the Remaining Group were denominated in Renminbi.

As at 30 June 2022, the Remaining Group had not entered into any hedging arrangements to hedge against the exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Remaining Group.

Charges on assets

As at 30 June 2022, there was no charge on the assets of the Remaining Group.

Contingent liabilities

During the six months ended 30 June 2022, the Group altogether acquired 30% equity interests in Guizhou Renhuai Huayu Wine Co., Ltd. ("**Guizhou Renhuai**") at a total consideration of RMB25,000. Guizhou Renhuai will be engaged in manufacturing liquor and spirits. The registered capital of Guizhou Renhuai is RMB500,000,000 and none of it has been paid up at the date of acquisition. The Group is required to pay up the registered capital to Guizhou Renhuai in accordance with the percentage of its equity interests in Guizhou Renhuai by 1 January 2050. Up to 30 June 2022, the Group has injected RMB61,600,000 to Guizhou Renhuai. Leveraging on the existing sales and distribution network in the business of liquor and spirits trading of the Group, as well as the experiences of other shareholders of the Target Company which are primarily wine and spirit producers and/or distributors with extensive national distribution network, it is expected that the wine produced by the Target Company could be distributed conveniently and cost-effectively.

Save for the above, as at 30 June 2022, the Company had issued a single guarantee to a bank in respect of a banking facility granted to the Target Company which would expire on 8 May 2032. The Directors did not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company as at 30 June 2022 under the guarantees issued is the total bank loan by the Target Company of HK$1,073.3 million. Such guarantee will be released after the Disposal Completion.

Save for the above, as at 30 June 2022, the Company did not have any material contingent liabilities.

Significant investment

As at 30 June 2022, the Company did not have any significant investments.

Material acquisition and disposal and future plans for material investments

For the six months period ended 30 June 2022, save for disclosed below, there was no material acquisition and disposal of subsidiaries or associated companies by the Remaining Group:

(i) on 10 May 2022, 華昱健康酒業(深圳)有限公司 (Huayu Healthy Wine (Shenzhen) Co., Ltd.*), an indirect non-wholly owned subsidiary of the Company and as purchaser, entered into an equity transfer agreement with Yang Pingshang, as vendor, in relation to the acquisition of 25% equity interests in 貴州仁懷華昱酒業有限公司 (Guizhou Renhuai Huayu Wine Co., Ltd.*) by 華昱健康酒業(深圳)有限公司 (Huayu Healthy Wine (Shenzhen) Co., Ltd.*) (the "**Guizhou Renhuai Acquisition**"), details of which are set out in the announcement of the Company dated 10 May 2022.

For the six months ended 30 June 2022, save for the intention to dispose of the 60% equity interests in the Target Company, the Remaining Group did not have any concrete plans for any material investments.

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 Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

The Company

Name of Director	Nature of interest	Number of Shares	Number of Share options	Total	Approximate percentage of shareholding as at the Latest Practicable Date
Mr. Chan *(Note 1)*	Interest in controlled corporation	300,000,000 (L)	–	300,000,000	72.71%
Mr. Fu Jie Pin *(Note 2)*	Beneficial owner	–	4,000,000 (L)	4,000,000	0.97%

Notes:

1. *As at the Latest Practicable Date, Mr. Chan, an executive Director and chairman of the Board, was deemed to be interested in 300,000,000 Shares held by Velocity International Limited by virtue of being wholly-owned by him. As at the Latest Practicable Date, Mr. Chan was the director of Velocity International Limited. On 12 January 2018, Velocity International Limited pledged 300,000,000 Shares to TCG Capital Investment Limited (which was wholly-owned by Mr. Chan Weng Lin as at the Latest Practicable Date), as security for another term loan facility provided to Velocity International Limited.*

2. *As at the Latest Practicable Date, Mr. Fu Jie Pin, an executive Director and chief executive officer of the Company, was entitled to share options to subscribe for 4,000,000 Shares granted by the Company on 28 December 2021.*

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 Issuers 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 was a director or employee of a company which had 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, 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	Approximate percentage of shareholding as at the Latest Practicable Date
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: As at the Latest Practicable Date, the entire issued share capital of Velocity International Limited was owned by Mr. Chan, an executive Director and chairman of the Board. On 12 January 2018, Velocity International Limited 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, 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

As at the Latest Practicable Date, save for Mr. Chan's interests in the Sale and Purchase Agreement, details of which are disclosed in this circular, none of the Directors was materially interested in any contract or arrangement, subsisting at the Latest Practicable Date, which was significant in relation to the business of the Group.

(ii) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2021 (being 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 close associates had any business which competes or is likely to compete, either directly or indirectly, with the businesses 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 member of the Group not expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. MATERIAL CONTRACTS

Save for disclosed below, no material contract (not being contracts entered into in the ordinary course of businesses of the Group) had been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date:

(i) the conditional equity transfer agreement dated 7 April 2021 entered into among, among others, 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 wholly owned by Mr. Chan as Vendor and the Vendor as purchaser, in relation to the Shenzhen Huayu Group Acquisition at a consideration of approximately RMB127.2 million, details of which are set out in the announcement of the Company dated 7 April 2021;

(ii) the conditional equity transfer agreement dated 6 July 2021 (as supplemented by a supplemental agreement dated 22 July 2021) entered into between 深圳華昱酒業發展有限公司 (Shenzhen Huayu Wine Development Co., Ltd.*), an indirect wholly-owned subsidiary of the Company, as vendor, and Guizhou Renhuai Xiangyechang Trading Co., Ltd. as purchaser, in relation to the Huayu Healthy Wine Disposal at a consideration of approximately RMB19.7 million, details of which are set out in the announcements of the Company dated 6 July 2021 and 22 July 2021;

(iii) the equity transfer agreement dated 10 May 2022 entered into between 華昱健康酒業(深圳)有限公司 (Huayu Healthy Wine (Shenzhen) Co., Ltd.*), an indirect non-wholly owned subsidiary of the Company as purchaser, and Yang Pingshang as vendor, in relation to the Guizhou Renhuai Acquisition at a consideration of RMB20,000 and the capital contribution of RMB125.0 million, details of which are set out in the announcement of the Company dated 10 May 2022; and

(iv) the Sale and Purchase Agreement.

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. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

Name	**Qualification**
KPMG	Certified Public Accountants

As at the Latest Practicable Date, the above expert did not have 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 or disposed of by or leased to or which were proposed to be acquired or disposed of by or leased to any members of the Group since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its report and references to its name in the form and context in which they appear.

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Company (www.huayu.com.hk) and the Stock Exchange (www.hkexnews.hk) from the date of this circular up to and including the date of the EGM:

(i) the Sale and Purchase Agreement;

(ii) the report on the unaudited pro forma financial information of the Remaining Group issued by KPMG, the text of which is set out in Appendix III to this circular;

(iii) the written consent referred to in the section headed "8. QUALIFICATION AND CONSENT OF EXPERT" in this appendix;

(iv) the amended and restated memorandum and articles of association of the Company;

(v) the annual report of the Company for each of the years ended 31 December 2019, 2020 and 2021;

(vi) the interim report of the Company for the six months ended 30 June 2022;

(vii) a copy of the material contracts as referred to in the section headed "6. MATERIAL CONTRACTS" in this appendix;

(viii) the unaudited financial statements of the Target Company for each of the years ended 31 December 2019, 2020, 2021 and for the eight months ended 31 August 2022, the text of which is set out in Appendix II to this circular;

(ix) the Announcement; and

(x) 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, 89 Queensway, Hong Kong.

(ii) The Company's Hong Kong branch share registrar and transfer office is Tricor Investor Services Limited which is situated at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(iii) The company secretary of the Company is Mr. Sin Ka Man. Mr. Sin is an associate member of The Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a certified practising accountant of the CPA Australia.

(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 Tuesday, 14 February 2023 at 11 a.m. for the following purposes:

AS SPECIAL BUSINESS
ORDINARY RESOLUTION

"**THAT**:

(a) to approve, confirm and ratify the Sale and Purchase Agreement (as defined in the circular of the Company dated 20 January 2023 (the "**Circular**")) and the transactions contemplated thereunder and the implementation thereof; and

(b) to authorise any one director (the "**Director**") and/or the company secretary of the Company to perform all such acts, deed and things, and to sign, execute and deliver all documents as he/she/they consider necessary or expedient to effect, implement, determine, revise, supplement or complete any matters in connection with the Sale and Purchase Agreement (as defined in the Circular) and the transactions contemplated thereunder.

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

Hong Kong, 20 January 2023

As at the date of this notice, the executive Directors are Mr. Chan Yeung Nam, Mr. Fu Jie Pin and Ms. Liu Bao Hua and the independent non-executive Directors are Mr. Sun Xiao Nian, Mr. Chu Kin Wang, Peleus and Mr. Hu Lie Ge.

Notes:

1. The register of members of the Company will be closed from Thursday, 9 February 2023 to Tuesday, 14 February 2023 (both days inclusive) during which no transfer of the share(s) (the "**Share(s)**") in the share capital of the Company will be registered. Members whose names appear on the register of members of the Company at the close of business on Tuesday, 14 February 2023 will be entitled to attend and vote at the EGM.

2. Any shareholder entitled to attend and vote at the EGM 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/she was 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof.

5. For prevention and control of the spread of the coronavirus disease (the "**COVID-19**") pandemic at the EGM, the Company will implement the following precautionary measures, including but not limited to:

   - compulsory body temperature checks
   - compulsory wearing of surgical face masks
   - no refreshments or drinks will be served.

   Any person who does not comply with the precautionary measures may be denied entry into the EGM venue.

6. In light of the continuing risks posed by COVID-19, the Company reminds the shareholders to appoint the chairman of the EGM as their proxy to vote according to their indicated voting instructions as an alternative to attending the EGM in person.

7. Subject to the development of COVID-19, the Company may implement further changes to the arrangement of the EGM and precautionary measures and may issue further announcement on such measures as appropriate.

8. If typhoon signal no. 8 or above, or a "black" rainstorm warning is hoisted or remains hoisted at 9 a.m. on the date of the EGM, the meeting will be postponed. The Company will post an announcement on The Stock Exchange of Hong Kong Limited website at www.hkexnews.hk and the Company's website at www.huayu.com.hk to notify shareholders of the Company of the date, time and place of the rescheduled meeting.