
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.

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HUAYU EXPRESSWAY GROUP LIMITED

華昱高速集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1823)

**(I) DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
28% EQUITY INTERESTS IN THE TARGET COMPANY;
AND
(II) NOTICE OF EGM**

Financial adviser to the Company



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



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 11:00 a.m. on Tuesday, 21 November 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.

1 November 2023

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DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Interests by the Purchaser from the Vendor as contemplated under the Equity Transfer Agreement (as supplemented by the Supplemental Agreement)
“Announcement”	the announcement of the Company dated 29 June 2023 in relation to the Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Huayu Expressway Group Limited, a company incorporated under the laws of 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 Acquisition
“Completion Date”	the date on which Completion takes place
“Condition(s) Precedent”	the conditions precedent to the Completion as set out in the Equity Transfer Agreement (as supplemented by the Supplemental Agreement)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Sale Interests pursuant to the Equity Transfer Agreement (as supplemented by the Supplemental Agreement)
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and approve the Acquisition
“Equity Transfer Agreement”	the equity transfer agreement dated 29 June 2023 entered into among the Vendor, the Purchaser, Mr. Chan and the Target Company in relation to the Acquisition

DEFINITIONS

“Group”	the Company and its subsidiaries
“Guizhou Zunpeng”	貴州尊朋酒業有限公司 (Guizhou Zunpeng Winery Co., Ltd.*), a company established in the PRC with limited liability, and owned as to approximately 55.06% by the JV Partner and as to approximately 44.94% by the Target Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors formed to advise the Independent Shareholders in respect of the Acquisition
“Independent Financial Adviser”	Quam Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholders who are not required to abstain from voting on such resolutions at the EGM due to any material interest in the Acquisition
“JV Partner”	貴州茅台酒廠(集團)循環經濟產業投資開發有限公司(Guizhou Moutai Brewery (Group) Circular Economy Industrial Investment Development Co., Ltd.*), which was interested in approximately 55.06% in Guizhou Zunpeng as at the Latest Practicable Date
“Land Parcels”	four pieces of land parcel with an aggregate area of 436,640.3 square metres of Guizhou Zunpeng
“Latest Practicable Date”	27 October 2023, being the latest practicable date prior to printing of this circular for ascertaining certain information contained in this circular

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2023 (or such later date as may be agreed by the parties to the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) in writing)
“Mr. Chan”	Mr. Chan Yeung Nam, the chairman of the Board, an executive Director and a controlling Shareholder
“percentage ratio(s)”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau Special Administrative Region and Taiwan for the purpose of this circular
“Purchaser”	深圳華昱酒業發展有限公司 (Shenzhen Huayu Wine Development Co., Ltd.*), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interests”	28% of the equity interests in the Target Company
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Shenzhen Meishanghui”	深圳市梅商匯實業有限公司 (Shenzhen Meishanghui Co., Ltd.*), a company established in the PRC with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 27 September 2023 entered into among the Purchaser, the Vendor, Mr. Chan and the Target Company to amend and supplement certain terms of the Equity Transfer Agreement

DEFINITIONS

“Supplemental Announcement”	the supplemental announcement to the Announcement of the Company dated 27 September 2023 in relation to the entering into of the Supplemental Agreement
“Target Company”	華嘉酒業(深圳)有限公司 (Huajia Winery (Shenzhen) Co., Ltd.*), a company established in the PRC with limited liability which is owned as to 65% by the Vendor and 35% by Shenzhen Meishanghui as at the Latest Practicable Date
“Target Group”	the Target Company together with Guizhou Zunpeng and its subsidiary
“Vendor”	深圳華昱投資開發(集團)有限公司 (Shenzhen Huayu Investment & Development Group Co., Ltd*), a wholly foreign-owned enterprise established in the PRC which is wholly-owned by Mr. Chan
“%”	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\$1.09. 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.

The English names of entities marked with “” in this circular are not the official names and are translated for identification purpose only.*

LETTER FROM THE BOARD

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

Registered Office:

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Independent Non-executive Directors:

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

Principal Place of Business

in Hong Kong:

Unit 1205
12/F, Tower 1
Lippo Centre
89 Queensway
Hong Kong

1 November 2023

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
28% EQUITY INTERESTS IN THE TARGET COMPANY**

INTRODUCTION

Reference is made to the Announcement and the Supplemental Announcement in relation to the Acquisition. Pursuant to the Equity Transfer Agreement (as supplemented by the Supplemental Agreement), the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Interests at the initial Consideration of RMB140,000,000 (equivalent to HK\$152,600,000) (subject to adjustment).

The purpose of this circular is to provide you with, among others, (i) further details of the Acquisition; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Acquisition; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition; and (iv) a notice convening the EGM.

LETTER FROM THE BOARD

THE EQUITY TRANSFER AGREEMENT (AS SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENT)

Date

29 June 2023 and 27 September 2023 (after trading hours)

Parties

- (i) the Purchaser;
- (ii) the Vendor;
- (iii) Mr. Chan; and
- (iv) the Target Company

Assets to be acquired

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

Consideration and payment terms

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

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

LETTER FROM THE BOARD

Conditions Precedent

Pursuant to the Equity Transfer Agreement (as supplemented by the Supplemental Agreement), Completion shall be conditional upon the fulfilment of the following Conditions Precedent on or before the Long Stop Date:

- (i) the approvals of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) from the following parties having been obtained:
 - (a) the Vendor's board of directors and shareholders;
 - (b) the Purchaser's executive director and controlling shareholder;
 - (c) the Board and the Independent Shareholders at the EGM; and
 - (d) the board of directors and shareholders of the Target Company;
- (ii) Shenzhen Meishanghai, another shareholder of the Target Company, agreeing in writing to give up its pre-emptive right to purchase the Sale Interests;
- (iii) the Purchaser having been satisfied with the results of due diligence review on the Target Company, Guizhou Zunpeng and its underlying assets;
- (iv) the representation, warranties, guarantees and undertakings stipulated in the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) made by the Vendor remain true, accurate, complete and not misleading up to and including the Completion Date;
- (v) the Vendor not having committed any material breach of the terms and conditions of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement); and
- (vi) the Vendor having opened a receiving account and notified the Purchaser in writing.

Save for Condition Precedent (i), the Purchaser may waive in writing any of the Conditions Precedent. As at the Latest Practicable Date, the Purchaser has no intention to waive Conditions Precedent (iii), (iv) and (v). If any of the Conditions Precedent is not satisfied (or waived, if applicable) on or before the Long Stop Date, the Purchaser may at its absolute discretion terminate the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) in writing and thereafter, the Purchaser shall not have any obligations or liabilities towards the Vendor or the Target Company. As at the Latest Practicable Date, the Conditions Precedent (i)(a) and (i)(b) had been fulfilled.

LETTER FROM THE BOARD

Completion

Within 10 business days after the Completion Date, the Target Company shall submit the industrial and commercial registration for business change to the Administration for Market Regulation of the PRC to reflect completion of transfer of the Sale Interests and the change of directors, supervisors and senior management of the Target Company and Guizhou Zunpeng (if any).

Following Completion, the Target Company will be (i) owned as to 28% by the Purchaser, 37% by the Vendor and 35% by Shenzhen Meishanghui, respectively; and (ii) an associated company of the Company and its financial results will not be consolidated into the accounts of the Group. The Target Company will be accounted for by the Group using the equity method.

Conditions precedent to payment of the second instalment of Consideration

Pursuant to the Equity Transfer Agreement (as supplemented by the Supplemental Agreement), payment of the second instalment of Consideration is subject to the following conditions precedent having been fulfilled (or waived by the Purchaser):

- (i) the Purchaser having paid the first instalment of the Consideration upon fulfilment (or waiver) of the Conditions Precedent;
- (ii) the Vendor and the Purchaser having agreed on the amount of the adjusted Consideration and Penalty Amount (as defined in the below section headed “Adjustment to the Consideration”) (if any) in writing;
- (iii) the Vendor not having committed any material breach under the Equity Transfer Agreement (as supplemented by the Supplemental Agreement);
- (iv) Guizhou Zunpeng having completed rectifications on the followings:
 - (1) to apply for the certificate of land use right in respect of the piece of land parcel with a land area of 161,785.1 square metres and registering such ownership under the name of Guizhou Zunpeng;
 - (2) to obtain all necessary construction licenses and complete the filing procedures of completion acceptance inspection in respect of its development projects in accordance with the relevant laws and regulations, and completing the ownership registration of all relevant properties and registering the same under the name of Guizhou Zunpeng;
 - (3) to obtain the relevant construction licenses and permits in accordance with the applicable laws and regulations in respect of various land parcels of Guizhou Zunpeng; and

LETTER FROM THE BOARD

- (4) to obtain the authorisation and permission to use the relevant intellectual property rights and trade names prior to the production and sales of liquor products under the brand name “Zunpeng”;
- (v) Guizhou Zunpeng was not determined by the relevant authority to be involved in any idle Land Parcel(s), nor received any punishment or charges arising therefrom, nor such idle Land Parcel(s) is required to be resumed, nor received any punishment regarding rectification, dismantling or confiscation of property or illegal income or penalty imposed by the relevant authority.

If the conditions precedent to payment of the second instalment of Consideration is not satisfied or waived within five years following the Completion Date (or such later date as may be agreed by the parties), the Purchaser may at its absolute discretion choose to terminate the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) in writing and thereafter, the Purchaser shall not have any obligations or liabilities towards the Vendor or the Target Company. In such event, the Purchaser shall be entitled to the full refund of the first instalment of Consideration from the Vendor, and to unwind the Acquisition.

Adjustment to the Consideration

(i) Adjustment due to declaration of profits or dividends

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

$$\text{Adjusted first instalment of Consideration} = \text{RMB130,000,000} - \text{distribution amount} \times 28\%$$

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

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

$$\text{Adjusted second instalment of Consideration} = \text{Initial Consideration} - \text{first instalment of Consideration} + (\text{Provision Amount} - \text{Penalty Amount})$$

LETTER FROM THE BOARD

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

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

The Consideration will be funded by the internal resources of the Group. As the Target Company was established by the Vendor and Shenzhen Meishanghui and was not acquired from a third party, there is no original acquisition cost for the Sale Interests. Based on the information provided by the Vendor, the cost of Vendor in establishing the Target Company, being the fully paid registered capital, amounted to RMB260 million as at the Latest Practicable Date.

INFORMATION ON THE PARTIES

The Purchaser

The Purchaser is a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company. It is principally engaged in the distribution of liquor and spirits business in the PRC.

The Vendor

The Vendor is a company established in the PRC with limited liability, and is principally engaged in the construction and operation of expressways and construction of municipal highways and wine trading business through the Target Company in the PRC.

LETTER FROM THE BOARD

INFORMATION OF THE TARGET GROUP AND GUIZHOU ZUNPENG

The Target Company is owned as to 65% by the Vendor and as to 35% by Shenzhen Meishanghui. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, Shenzhen Meishanghui is owned as to 21.67% by 深圳市寶昌利外商投資服務有限公司 (Shenzhen Baochangli Foreign Investment Service Company Limited*) which is in turn ultimately owned by 李颺, an independent third party, 20% by 深圳市君爵投資有限公司 (Shenzhen Junjue Investment Company Limited*), 20% by 深圳市華颺企業管理有限公司 (Shenzhen Huabiao Enterprise Management Company Limited*), 10% by 深圳市祺興投資發展有限公司 (Shenzhen Qixing Investment Development Company Limited*), 9% by 深圳君麟實業有限公司 (Shenzhen Junlin Industrial Company Limited*), 1% by 深圳市富迪投資有限公司 (Shenzhen Fudi Investment Company Limited*), 10% by Yu Fengguang (余鋒光), 5% by Wu Zhifeng (吳志鋒) and 3.33% by Liang Mengxi (梁孟希), respectively. The ultimate beneficial owners of Shenzhen Meishanghui are parties independent of the Company and its connected persons.

The Target Company was established on 30 April 2019 under the laws of the PRC. The Target Company is principally engaged in trading of liquor and spirits and investment in Guizhou Zunpeng, and has commenced the business of liquor and spirits trading since 2021 where the Target Company primarily procured the base wine (基酒) produced by Guizhou Zunpeng and sold to third party liquor factories for processing into finished liquors for sale to the end-customers. Starting from mid-2022, Guizhou Zunpeng has been selling base wine to members of the Kweichow Moutai Group mostly. The Target Company has not recognised revenue from the business of liquor and spirits trading since then.

On 14 October 2019, the Vendor, the Target Company and the JV Partner entered into a joint venture agreement to establish Guizhou Zunpeng under the laws of the PRC, pursuant to which Guizhou Zunpeng was owned as to approximately 44.94% by the Target Company and approximately 55.06% by the JV Partner, respectively. The JV Partner is a fellow subsidiary of 貴州茅台酒股份有限公司 (Kweichow Moutai Co., Ltd.), a company listed on the Shanghai Stock Exchange with stock code 600519, both of which are ultimately owned by 中國貴州茅台酒廠(集團)有限責任公司 (China Guizhou Moutai Wine Factory Co., Ltd*). The Target Company's investment in Guizhou Zunpeng had been accounted for using the equity method. The financial performance of the Target Company was mainly attributed to the share of results of Guizhou Zunpeng.

Guizhou Zunpeng is principally engaged in the manufacture and sales of base wine (基酒), which is a common raw material for production of Chinese liquor, and has commenced the initial stage of production and sales of base wine since 2020. 貴州尊朋酒業銷售有限公司 (Guizhou Zunpeng Winery Sales Co., Ltd*) was established on 28 December 2022 under the laws of the PRC, which is a wholly-owned subsidiary of Guizhou Zunpeng. It is principally engaged in the sales of baijiu. The key customer of Guizhou Zunpeng includes 貴州茅台酒廠(集團)保健酒業有限公司 (Kweichow Moutai Winery (Group) Health Wine Co., Ltd*), member of a leading Chinese liquor and spirits producer in the PRC. While the Board has noticed Guizhou Zunpeng's reliance on a major customer, considering that (i) substitute customers can be secured in the open

LETTER FROM THE BOARD

market as base wine is the raw material for finished liquors which are fast-moving consumer goods that can be sold quickly in the liquor and spirits market, which is proven by the sales of the base wine products to other third parties by the Target Company in 2022; (ii) Guizhou Zunpeng's sales to the major customer is not exclusive such that it has the flexibility to sell its products to other customers; (iii) the major customer belongs to the member of the parent group of Guizhou Zunpeng where the likelihood of any adverse change in the relationship with the major customer is low; and (iv) it is expected that Guizhou Zunpeng would be capable to maintain its revenue in the future in view of the year-on-year growth for the years ended 31 December 2021 and 2022 and the overall positive prospect of the liquor and spirits industry in the PRC, the Board is of the view that any customer concentration risk is not material.

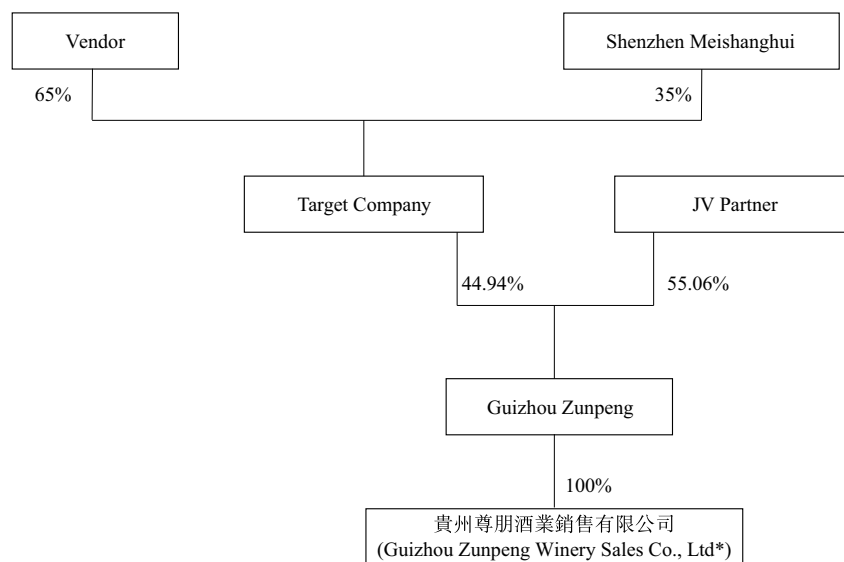
As at the Latest Practicable Date, the major assets of Guizhou Zunpeng included (i) the Land Parcels located at 播州區鴨溪鎮金刀村 (Jindao Village, Yaxi Town, Bozhou District*) with an aggregate area of 436,640.3 square metres designated for industrial use; and (ii) a distiller grains production facility with a gross floor area of 132,160.39 square metres erected on the Land Parcels. As at the Latest Practicable Date, land use right certificates for (i) the Land Parcels in the aggregate area of 274,855.2 square metres had been obtained, of which (a) the relevant construction permit with respect to land parcel in the aggregate area of 81,038 square metres had been obtained and started construction and (b) land parcel with an aggregate area of 69,223 square metres (the “**Undeveloped Land**”) was pending Guizhou Zunpeng to start construction thereof which is planned to be developed into production facilities, such land parcel may be subject to potential penalties imposed by the relevant authority due to it having been considered as idle for a longer time than permitted as advised by the PRC legal adviser of the Company; and (ii) the Land Parcel of 161,785.1 square metres (the “**Unused Land**”) was yet to be obtained. In view of the future potential expansion, a development plan with respect to construction of additional production facilities on the Undeveloped Land has been formulated and is pending approval by the parent company of the JV Partner, which is expected to be obtained by end of 2023. According to the JV Partner, it will normally take around two to three years for preparation of pre-construction work prior to commencement of construction. As the Unused Land was initially acquired by the JV Partner from the local authority, the obtaining of the land use rights certificate of the Unused Land by Guizhou Zunpeng is currently pending the outstanding transfer procedure to be completed between the JV Partner and the local authority, which is not under the control of the Company. Notwithstanding that the land use rights certificate of the Unused Land is yet to be obtained, taking into consideration that (i) the Unused Land only represents around 6.2% of the total assets of Guizhou Zunpeng as at 31 May 2023; (ii) the Unused Land is planned for potential expansion of production facilities and storage in the future which will not affect the current operation of Guizhou Zunpeng; (iii) Guizhou Zunpeng has been profit making and the Target Company recognised respective share of profit from Guizhou Zunpeng for the two years ended 31 December 2021 and 2022 and the five months ended 31 May 2023; and (iv) payment of the second instalment of Consideration is subject to, among others, Guizhou Zunpeng having obtained the land use rights certificate for the Unused Land, failing of which the Purchaser may at its absolute discretion choose to terminate and unwind the Equity Transfer Agreement (as supplemented by the Supplemental Agreement), the

LETTER FROM THE BOARD

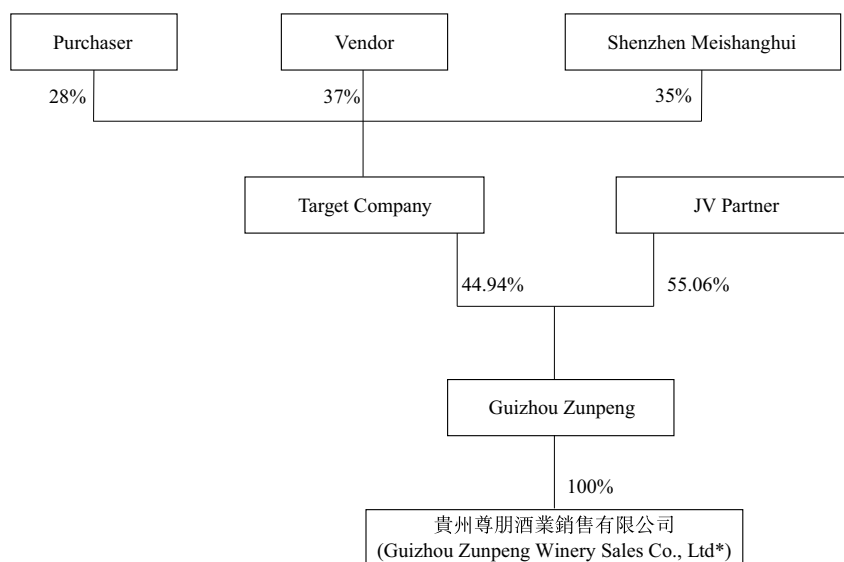
Board is of the view that any impact on the operation of Guizhou Zunpeng arising from the Unused Land is not material and the entering into of the Acquisition is in the interests of the Company and the Shareholders as a whole.

The charts below set out the change in shareholding structure of the Target Company.

(i) Immediately before Completion



(ii) After Completion



LETTER FROM THE BOARD

Set out below are the financial information of the Target Company extracted from the unaudited financial statements for the two financial years ended 31 December 2022 and the five months ended 31 May 2023, respectively.

	For the year ended		For the
	31 December		five months
	2021	2022	ended
	<i>RMB'000</i>	<i>RMB'000</i>	31 May
	(unaudited)	(unaudited)	2023
			<i>RMB'000</i>
			(unaudited)
Revenue	9,118	3,258	–
Share of profit of Guizhou Zunpeng	18,170	61,564	48,463
Profit before taxation	17,116	60,861	48,080
Profit after taxation	17,116	60,861	48,080

As at 31 May 2023, the net asset value extracted from the unaudited financial statements of the Target Company amounted to approximately RMB499.85 million (equivalent to approximately HK\$544.84 million). As at 31 May 2023, the amount of investment in associate in relation to Guizhou Zunpeng as recognised by the Target Company amounted to approximately RMB502.55 million (equivalent to approximately HK\$547.78 million).

LETTER FROM THE BOARD

Set out below are the financial information of Guizhou Zunpeng as extracted from its unaudited management accounts.

	For the year ended/ As at 31 December		For the year ended/ As at 31 May
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)
Revenue	364,547	639,662	351,700
Profit after tax	40,432	136,991	107,840
Total assets	1,020,436	1,221,942	1,265,385
Net assets	873,442	1,010,433	1,118,274

Set out below is a summary of contribution of Guizhou Zunpeng to the Target Company based on the unaudited financial statements of the Target Company.

	As at 31 December		As at 31 May
	2021	2022	2023
	Total assets	99.71%	99.80%
Net assets	99.77%	99.87%	99.99%

	For the year ended 31 December		For the five months ended 31 May	
	2021	2022	2023	
	Revenue ^{Note}	N/A	N/A	N/A
	Profit after tax	106.16%	101.15%	100.80%

Note:

Not applicable as Guizhou Zunpeng is not a subsidiary of the Target Company such that it had not contributed to the Target Company's revenue.

LETTER FROM THE BOARD

Discussion of financial performance of the Target Company

The revenue of the Target Company represents income from sales of base wine. At the initial stage, the Target Company primarily procured the base wine (基酒) produced by Guizhou Zunpeng and sold to third party liquor factories for processing into finished liquors for sale to the end-customers. Since mid of 2022, the base wine of Guizhou Zunpeng are mostly sold to Kweichow Moutai Winery (Group) Health Wine Co., Ltd*, member of the Kweichow Moutai Group. The revenue for the years ended 31 December 2021, 2022 and the five months ended 31 May 2023 were approximately RMB9.12 million, RMB3.26 million and nil, respectively.

The share of profit of the associate of the Target Company are mainly the share of profit from Guizhou Zunpeng. For the years ended 31 December 2021 and 2022 and the five months ended 31 May 2023, share of profit of the associate amounted to approximately RMB18.17 million, RMB61.56 million and RMB48.46 million, respectively. Such changes were mainly attributed to the improvement in financial performance of Guizhou Zunpeng as resulted from the increasing sales of base wine which is in line with the increase in its processing capacity.

REASONS FOR AND BENEFITS OF THE ACQUISITION

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

Notwithstanding the revenue and profit of the Group's liquor and spirits trading business declined inevitably in recent years primarily impacted by the COVID-19 pandemic, in view of the increasing market consumption along with post-pandemic economic recovery in the PRC, the demand and consumption of liquor and spirits resumed rapidly. The Group's liquor and spirits trading business, which has been a significant revenue driver of the Group, has recovered and improved notably during the first half of 2023 as business has returned to normal upon the easing of pandemic restrictions from December 2022. The Board believes that the most difficult period was over with the resumption of business activities and recovery of economy, and the overall prospect of the liquor and spirits market in the PRC remains generally optimistic. By acquiring the Sale Interests as a first step of investment in the Target Company, it is expected that the Acquisition would enable the Company to benefit from the potential upside of the Target Company and Guizhou Zunpeng in the long term through returns from equity investment. Subject to performance of the Target Company, the Company may consider to acquire further equity interest of the Target Company in the future in compliance with the relevant Listing Rules requirements. As at the Latest Practicable Date, the Company had no concrete plan to acquire further equity interest of the Target Company. While the Group has been in collaboration with the Kweichow Moutai Group as its sole distributor of Huamaojiu for years, the Acquisition represents the Group's initial step of investment into the manufacturing side of the liquor and spirits supply chain through the share of results from Guizhou Zunpeng. Given the Sale Shares

LETTER FROM THE BOARD

represent only minority stake in the Target Company, there is currently no plan for any change of board of directors of the Target Company and Guizhou Zunpeng following the Completion. The Acquisition represents a strategic investment of the Group along the liquor and spirits supply chain in furtherance of the Group's liquor and spirits trading business, which is in line with the business expansion strategy of the Group. On the other hand, as advised by the PRC legal adviser of the Company, the Provision Amount was determined based on (i) applicable clauses under the 《閒置土地處置辦法》 (the "Treatment measures for idle land"), where maximum penalty for idle land would amount to 20% of the total land premium; and (ii) the terms regarding the potential penalty for any delay in construction commencement or completion under the relevant land transfer contract. Given that the second instalment of Consideration exceeds the Provision Amount which was determined based on the potential maximum penalty arising from the Land Parcels in accordance with the relevant rules and regulations, the Board is of the view that the Provision Amount has been sufficiently made and reflected on the net asset value of the Target Company as at 31 May 2023.

Having considered the above, the Directors (including the independent non-executive Directors) are of the view that the Acquisition and the terms of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) have been made on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

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

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

The Independent Board Committee, comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the Acquisition. Quam Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE BOARD

ABSTENTION FROM VOTING ON BOARD RESOLUTION AND ABSTENTION FROM VOTING AT THE EGM

Mr. Chan, being an executive Director and the ultimate beneficial owner of the Vendor, is considered to have a material interest in the Acquisition and has abstained from voting on the relevant Board resolutions approving the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder. Save as disclosed, none of the Directors has a material interest in the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder and are required to abstain from voting on the relevant Board resolutions.

The Company will convene the EGM to consider and, if thought fit, to approve the Acquisition. The voting at the EGM will be conducted by way of a poll. Shareholders with a material interest in the Acquisition will be required to abstain from voting at the EGM. As Mr. Chan is interested in the Acquisition, he and his associates will abstain from voting on the relevant resolution(s) to be proposed at the EGM. Save for the aforesaid, to the best of the knowledge, information and belief of the Board, none of the Shareholders has a material interest in the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated 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 11:00 a.m. on Tuesday, 21 November 2023 is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use by the Independent 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, 16 November 2023 to Tuesday, 21 November 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, 21 November 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

LETTER FROM THE BOARD

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, 15 November 2023.

RECOMMENDATIONS

The Directors consider that the terms of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) are fair and reasonable; and the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transaction contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

Your attention is drawn to the advice of the Independent Board Committee set out in its letter on pages 21 to 22 of this circular and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder, and the principal factors and reasons considered by them in arriving at such advice set out on pages 23 to 42 in this circular.

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

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

WARNING

Completion is conditional upon the satisfaction of the Conditions Precedent 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

HUAYU EXPRESSWAY GROUP LIMITED

華昱高速集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1823)

1 November 2023

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 28% EQUITY INTERESTS IN THE TARGET COMPANY

INTRODUCTION

We refer to the circular of the Company dated 1 November 2023 (the “**Circular**”), of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein shall have the same meanings as defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to consider whether the terms of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) are fair and reasonable, whether they are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser. Quam Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 20 of the Circular, and the letter from the Independent Financial Adviser which contains its advice to us in respect of whether the terms of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) are fair and reasonable, whether they are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, and the Independent Shareholders on how to vote.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the principal reasons and factors considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice to you and us on pages 23 to 42 of the Circular, we are of the opinion that the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) are on normal commercial terms, and although the transactions contemplated thereunder are not in the ordinary and usual course of business of the Group, the terms and conditions therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve, among other things, the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

Yours faithfully,

Mr. Lam Hon Kuen

Mr. Chu Kin Wang, Peleus

Mr. Hu Lie Ge

Independent Board Committee

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Quam Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition pursuant to the Equity Transfer Agreement (as supplemented by the Supplemental Agreement), which has been prepared for the purpose of incorporation in this circular.



1 November 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 28% EQUITY INTERESTS IN THE TARGET COMPANY

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder, details of which are set out in the letter from the board (the “**Letter from the Board**”) contained in the circular of the Company dated 1 November 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the announcement and supplemental announcement of the Company dated 29 June and 27 September 2023 respectively, the Purchaser and Vendor entered into the Equity Transfer Agreement (as supplemented by the Supplemental Agreement), pursuant to which the Purchaser has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, the Sale Interest being 28% equity interests in the Target Company, at a consideration of RMB140,000,000 (equivalent to HK\$152,600,000).

As at the Latest Practicable Date, Mr. Chan, an executive Director and a controlling Shareholder, is interested in approximately 72.71% of the issued share capital of the Company through Velocity International Limited. The Vendor is wholly-owned by Mr. Chan. Therefore, the Vendor is an associate of Mr. Chan and a connected person of the Company. Accordingly, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lam Hon Kuen, Mr. Chu Kin Wang, Peleus and Mr. Hu Lie Ge, has been established to advise the Independent Shareholders as to whether (i) the entering into of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the proposed resolution at the EGM to approve the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder, taking into account our recommendation.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser, our role is to give independent opinions to the Independent Board Committee and the Independent Shareholders as to whether (i) the entering into of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the proposed resolution at the EGM to approve the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

Except for being appointed as independent financial adviser to the Company in respect of this Acquisition, we have not acted as an independent financial adviser and have not provided any other services to the Company during the past two years. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company or any other parties that could reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Acquisition, and accordingly, are eligible to give independent advice and recommendations on the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder. Apart from normal professional fees payable to us in connection with this appointment as the independent financial adviser, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties that could reasonably be regarded as relevant to our independence.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have considered, among other things:

- (i) the Equity Transfer Agreement (as supplemented by the Supplemental Agreement);
- (ii) the Circular;
- (iii) the annual report of the Company for the financial year ended 31 December 2022 (the “**Annual Report 2022**”) and the interim report of the Company for the six months ended 30 June 2023 (the “**Interim Report 2023**”);
- (iv) the unaudited financial information of the Target Company for the two financial years ended 31 December 2022 and the five months ended 31 May 2023; and
- (v) the relevant market data and information available from public sources and the website of the Stock Exchange.

We have also relied on all relevant information and representations supplied, and the opinions expressed, by the Directors and the management of the Company (collectively, the “**Management**”). We have assumed that all such information and representations contained or referred to in the Circular are true and accurate in all material respects as the date thereof. Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have also confirmed that, having made all reasonable enquiries and to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular, the omission of which make any statement in the Circular misleading. We have found no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management, and they have confirmed that no material information have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading.

We consider that we have been provided with, and have reviewed, sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, nor have we conducted an independent investigation into the business affairs, operations, financial position or future prospects of each of the Company, and any of their respective subsidiaries and associates and parties acting in concert with them.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, we have taken into account the following principal factors and reasons.

1. Information of the Group

1.1. Background information of the Group

The Group is principally engaged in trading of liquor and spirits and the construction, operation and management of First Phase of Qing Ping Expressway in the PRC. For the liquor and spirits trading segment, the Group is in collaboration with the Kweichow Moutai Group and is the sole distributor of the Huamaojiu (which is a famous brand liquor produced by Kweichow Moutai Group).

The Purchaser is a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company. It is principally engaged in the distribution of liquor and spirits business in the PRC.

1.2. Financial information of the Group

Set out below is a summary of the financial information of the Group for the two financial years ended 31 December 2021 (“FY2021”) and 31 December 2022 (“FY2022”) respectively as extracted from the Annual Report 2022, and the six months ended 30 June 2022 (“HY2022”) and 30 June 2023 (“HY2023”) respectively as extracted from the Interim Report 2023:

	FY2021	FY2022	HY2022	HY2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
	<i>(Notes 1</i>			
	<i>and 2)</i>	<i>(Note 2)</i>	<i>(Note 2)</i>	<i>(Note 2)</i>
Revenue	868,968	586,730	316,311	346,477
– Sales of liquor and spirits	599,568	341,080	198,390	239,015
– Toll income	269,400	245,650	117,921	107,462
Profit for the year/period	134,304	86,914	59,018	370,043

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 December 2021	As at 31 December 2022	As at 30 June 2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)
	<i>(Note 1)</i>		
Total assets	1,908,017	1,955,952	1,077,455
– Cash and cash equivalents	271,911	205,659	424,512
Total liabilities	1,189,941	1,152,922	135,456
Net assets	718,076	803,030	941,999

Note 1: As the Group had changed its presentation currency from HKD to RMB for its financial statements for FY2022, the comparative figures for FY2021 have been restated in RMB.

Note 2: Revenue for FY2021, FY2022, HY2022 and HY2023 has included the revenue from discontinued operations represented by the toll income from Sui-Yue Expressway (Hunan Section), which had been disposed of by the Group in April 2023.

Comparison between FY2021 and FY2022

The revenue of the Group decreased from approximately RMB869.0 million for FY2021 to approximately RMB586.7 million for FY2022, representing a decrease of approximately 32.5%. According to the Annual Report 2022, the decrease of revenue of the Group was mainly attributable to the decrease in the revenue generated from the sales of liquor and spirits as a result of the lock-down of the PRC cities during the pandemic period which has discouraged the consumption of liquor and spirits in social gathering and business entertainment during FY2022.

The Group recorded a net profit of approximately RMB134.3 million and RMB86.9 million for FY2021 and FY2022 respectively. The decrease was mainly due to the significant plunge in the revenue from the sales of liquor and spirits business as aforementioned.

The net assets of the Group increased from approximately RMB718.1 million as at 31 December 2021 to approximately RMB803.0 million as at 31 December 2022, which was mainly due to the increase in interests in associates as a result of the acquisition of equity interests in a PRC company principally engaged in the manufacturing of liquor and spirits in 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparison between HY2022 and HY2023

The revenue of the Group increased from approximately RMB316.3 million for HY2022 to approximately RMB346.5 million for HY2023, representing an increase of approximately 9.5%. According to the Interim Report 2023, the increase of revenue of the Group was mainly attributable to the increased sales of liquor and spirits by approximately 20.5% from approximately RMB198.4 million for HY2022 to approximately RMB239.0 for HY2023. Steady growth was recorded after the pandemic period as the market continued to digest the inventory cumulated in the distribution channel.

The Group recorded a net profit of approximately RMB59.0 million and RMB370.0 million for HY2022 and HY2023 respectively. The increase was mainly due to the one-off profit of approximately RMB320.3 million from the disposal of the Sui-Yue Expressway operation in April 2023.

The net assets of the Group increased from approximately RMB803.0 million as at 31 December 2022 to approximately RMB942.0 million as at 30 June 2023, which was mainly due to the net profit recognised for HY2023.

1.3. Outlook of the Group

According to the Annual Report 2022, following the disposal of the Sui-Yue Expressway operation which has been completed in April 2023, trading of liquor and spirits would become one of the most significant business segments of the Group. The Management is confident about the performance of its liquor and spirits trading business in the post-COVID-19 pandemic period provided that the business improved significantly in the first half of 2023. With the established marketing network and efficient distribution channels, the Group will continue its effort in the brand building for the Group's Huamaojiu and Xijiushaofang. More sales and marketing activities will be arranged in the future, such as the wine tasting events and promotion conference.

The business of liquor and spirits trading of the Group has been growing rapidly in recent years, which is attributable to the success in the brand building and the development of sales and distribution network of Huamaojiu, and the grant of the sole distributorship of Xijiushaofang. The Group is of the view that the increasing market consumption along with post-pandemic economic recovery in the PRC, the demand and consumption of liquor and spirits resumed rapidly, hence the overall prospect of the liquor and spirits market in the PRC remains generally optimistic.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Information of the Target Company and Guizhou Zunpeng

The Target Company was established on 30 April 2019 under the laws of the PRC. The Target Company is principally engaged in trading of liquor and spirits and investment in Guizhou Zunpeng, and has commenced the business of liquor and spirits trading since 2021, where the Target Company primarily procured the base wine (基酒) produced by Guizhou Zunpeng and sold to third-party liquor factories for processing into finished liquors for sale to the end customers. Starting from mid-2022, Guizhou Zunpeng has been selling base wine mostly to Kweichow Moutai Winery (Group) Health Wine Co., Ltd, a member of the Kweichow Moutai Group. The Target Company has not recognised revenue from the business of liquor and spirits trading since then.

On 14 October 2019, the Vendor, the Target Company and the JV Partner entered into a joint venture agreement to establish Guizhou Zunpeng under the laws of the PRC, pursuant to which Guizhou Zunpeng was owned as to approximately 44.94% by the Target Company and approximately 55.06% by the JV Partner, respectively. The JV Partner is a fellow subsidiary of 貴州茅台酒股份有限公司 (Kweichow Moutai Co., Ltd.), a company listed on the Shanghai Stock Exchange with stock code 600519, both of which are ultimately owned by 中國貴州茅台酒廠(集團)有限責任公司, a well-known and leading Chinese liquor and spirit producer in the PRC. Guizhou Zunpeng is principally engaged in the manufacture and sales of base wine (基酒), which is a common raw material for production of Chinese liquor, and has commenced the initial stage of production and sales of base wine since 2020.

2.1. Financial information of the Target Company

Set out below is a summary of the financial information of the Target Company extracted from the unaudited financial statements for the two financial years ended 31 December 2022 and the five months ended 31 May 2023:

	For the year ended		For the
	31 December		five months
	2021	2022	ended
	RMB'000	RMB'000	31 May
			2023
			RMB'000
Revenue	9,118	3,258	–
Share of profit of the associate	18,170	61,564	48,463
Profit after taxation	17,116	60,861	48,080

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 December 2021 RMB'000	As at 31 December 2022 RMB'000	As at 31 May 2023 RMB'000
Total assets	395,309	456,879	504,848
– Interests in the associate	392,525	454,089	502,552
Total liabilities	4,396	5,105	4,994
Net assets	390,913	451,774	499,854

The Target Company's investment in Guizhou Zunpeng had been accounted for using the equity method. We noted that the financial performance of the Target Company was mainly attributed to the share of results of Guizhou Zunpeng and the Target Company's net assets largely comprised its interests in Guizhou Zunpeng. According to the Management, the revenue of the Target Company during the years ended 31 December 2021 and 2022 was primarily derived from the Target Company's procurement of the base wine produced by Guizhou Zunpeng and sold to third-party liquor factories for processing into finished liquors for sale to the end customers. Starting from mid-2022, Guizhou Zunpeng has been selling base wine to a member of the Kweichow Moutai Group mostly. The Target Company has not recognised revenue from the business of liquor and spirits trading since then.

The Target Company's profit after taxation and net assets, which were mainly contributed by the share of profit of Guizhou Zunpeng and its interests in Guizhou Zunpeng respectively, recorded continuous growth during the above periods.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2.2. Land parcels of Guizhou Zunpeng

According to the management of the Company, as at the Latest Practicable Date, the major assets of Guizhou Zunpeng included (i) the Land Parcels located at 播州區鴨溪鎮金刀村 (Jindao Village, Yaxi Town, Bozhou District*) with an aggregate area of 436,640.3 square metres designated for industrial use; and (ii) a distiller grains production facility with a gross floor area of 132,160.39 square metres erected on the Land Parcels. For the Land Parcels, as at the Latest Practicable Date, the land use right certificates for (i) the Land Parcels in the aggregate area of 274,855.2 square metres had been obtained, of which (a) the relevant construction permit with respect to land parcel in the aggregate area of 81,038 square metres had been obtained and started construction and (b) land parcel with an aggregate area of 69,223 square metres was pending Guizhou Zunpeng to obtain the necessary construction permits to start construction thereof; and (ii) the Land Parcel of 161,785.1 square metres was yet to be obtained. The following table sets forth the details of the Land Parcels:

Land	Entitled area of Guizhou Zunpeng (sq.m.)	Notes
1	124,594.2	a) Land use right certificate has been obtained; and b) Production facilities have been constructed thereon
2	81,038.0	a) Land use right certificate has been obtained; and b) Construction permit has been obtained and construction of liquor storage facilities in progress
3	69,223.0	a) Land use right certificates have been obtained; b) Planned to be developed into production facilities; and c) Pending Guizhou Zunpeng to obtain the necessary construction permits to start construction thereof
4	161,785.1	a) Land use right certificate has not been obtained b) Planned for potential expansion of production facilities and storage

In particular for Land 3 above, we understand from the Management, who had taken into account the legal opinion from the Company's PRC legal advisers, that the Land Parcel may be subject to potential penalties imposed by the PRC government due to the land parcel having been considered as idle for a longer time than permitted.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Letter from the Board, as Land 4 was initially acquired by the JV Partner from the local authority, the obtaining of the land use rights certificate by Guizhou Zunpeng is currently pending the outstanding transfer procedure to be completed between the JV Partner and the local authority, which is not under the control of the Company. Notwithstanding that the land use rights certificate is yet to be obtained, taking into consideration that (i) Land 4 only represents around 6.2% of the total assets of Guizhou Zunpeng as at 31 May 2023; (ii) Land 4 is planned for potential expansion of production facilities and storage in the future which will not affect the current operation of Guizhou Zunpeng; (iii) Guizhou Zunpeng has been profit making and the Target Company recognised respective share of profit from Guizhou Zunpeng for the two years ended 31 December 2021 and 2022 and the five months ended 31 May 2023; and (iv) payment of the second instalment of Consideration is subject to, among others, Guizhou Zunpeng having obtained the land use rights certificate for the Land 4, failing of which the Purchaser may at its absolute discretion choose to terminate and unwind the Equity Transfer Agreement (as supplemented by the Supplemental Agreement), the Board is of the view, and we concur, that any impact on the operation of Guizhou Zunpeng arising from Land 4 is not material.

According to the Letter from the Board, in consideration of the potential penalty and all related reasonable expenses in relation to the Land Parcels, provision had been made and reflected in the net asset value of the Target Company as at 31 May 2023, where the corresponding amount attributable to the Sale Interests amounted to approximately RMB3.63 million (the “**Provision Amount**”). In addition, the Company’s interests over the potential penalties arising from breach of laws and regulations in relation to the Land Parcels after the Acquisition are safeguarded by the payment terms under the Equity Transfer Agreement (as supplemented by the Supplemental Agreement). Please refer to section 4 headed “Principal terms of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement)” below for details.

3. Reasons for and benefits of the proposed Acquisition

As discussed under section 1 above, the trading of liquor and spirits business has become the largest revenue segment of the Group, which accounted for 58.1% of the revenue of the Group for FY2022. Following the disposal of the Sui-Yue Expressway operation, it is expected that trading of liquor and spirits would continue to be one of the most significant business segments of the Group. Notwithstanding that the revenue and profit of the Group’s liquor and spirits trading business declined inevitably in recent years primarily impacted by the COVID-19 pandemic, in view of the increasing market consumption along with post-pandemic economic recovery in the PRC, the demand and consumption of liquor and spirits resumed rapidly. The Group’s liquor and spirits trading business, which has been a significant revenue driver of the Group, has recovered and improved notably during the first half of 2023 as business has returned to normal upon the easing of pandemic restrictions from December 2022. The Management believes that the most difficult period was over with the resumption of business activities and recovery of economy, and the overall prospect of the liquor and spirits market in the PRC remains generally optimistic.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on our independent research on the recent market conditions of the liquor industry in the PRC, we noted that the PRC government has recently announced a number of implementations to drive the growth of the alcoholic drinks industry, including but not limited to 《貴州省2022年下半年經濟工作有關專項行動方案》 and 《關於印發推動四川白酒產業高質量發展的若干措施的通知》. The China Alcoholic Drinks Association, which is a voluntary industry-based national non-profit social organization managed by Ministry of Civil Affairs and State-owned Assets Supervision and Administration Commission of the State Council of the PRC, has considered that these policies are beneficial and provide an impetus to the alcoholic drinks industry to drive the development of the industry and it was of the view that the prospect of the industry remains optimistic.

In view of the prospect of the liquor and spirits market in the PRC, we noted that the Group has been placing increasing emphasis on the expansion of the liquor and spirits business in recent years by completing various investments and transactions, including winemaking and wine production. For example, according to the announcement of the Company dated 10 May 2022, the Group had made an investment of RMB125.0 million in a winemaking company with the aim to raise its competitiveness by way of expanding its business of liquor and spirits to the upstream of the industry. In June 2023, the Group has further invested RMB105.0 million in this winemaking company to obtain controlling interest. In addition, as mentioned above, the Group has disposed of the Sui-Yue Expressway operation in April 2023. Based on the circular in respect of such disposal transaction of the Company dated 20 January 2023, a portion of the net proceeds from such disposal of approximately RMB288.6 million was expected to be used in the development and expansion for the Group's liquor and spirits business including but not limited to acquisition of liquor manufacturing business. In addition, the Group has also invested about RMB86.6 million in the development of base wine production facility in Guizhou, through an associate of the Group for the year ended 31 December 2022, with the aim to increase its presence in the liquor and spirits industry in the PRC, and it expected additional injection will be made to this project in 2023 according to Annual Report 2022. Based on the above, we consider that the Acquisition aligns with the business strategy of the Group.

Considering that (i) there has been a strong growth in financial performance of Guizhou Zunpeng in recent years; (ii) Kweichow Moutai Group, which is a leading Chinese liquor and spirit producer in the PRC with a long history, is a major customer of Guizhou Zunpeng; and (iii) the prospect liquor industry in the PRC is promising, by acquiring the Sale Interests as a first step of investment in the Target Company, it is expected that the Acquisition would enable the Company to benefit from the potential upside of the Target Company and Guizhou Zunpeng in the long term through returns from equity investment. While the base wine of Guizhou Zunpeng is currently sold to the Kweichow Moutai Group mostly, according to the Letter from the Board, Guizhou Zunpeng's sales to the major customer is not exclusive such that it has the flexibility to sell its products to other customers; and substitute customers can be secured in the open market as base wine is the raw material for finished liquors which are fast-moving consumer goods that can be sold quickly in the liquor and spirit market, as proven by the sales of the base wine products to other third parties by the Target Company in 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subject to performance of the Target Company, the Company may consider to acquire further equity interest of the Target Company in the future in compliance with the relevant Listing Rules requirements. As at the Latest Practicable Date, the Company had no concrete plan to acquire further equity interest of the Target Company. While the Group has been in collaboration with the Kweichow Moutai Group as its sole distributor of Huamaojiu for years, the Acquisition would enable the Group to expand into the manufacturing side of the liquor and spirits supply chain through the share of results from Guizhou Zunpeng. As a relatively new player in the liquor manufacturing market, the Group's acquisition of a minority stake in the Target Company would reduce the investment risk and financial burden, while it can gain exposure in the market and enjoy investment return from the potential upside of the Target Company and Guizhou Zunpeng. The Acquisition represents a strategic investment of the Group along the liquor and spirits supply chain in furtherance of the Group's liquor and spirits trading business, which is in line with the business expansion strategy of the Group.

Based on the above, in particular, taking into account, (i) the trading of liquor and spirits business has become the largest revenue segment of the Group and the Group has been placing increasing emphasis on the expansion of the liquor and spirits business by completing various investments and transactions in recent years; (ii) the Group has adopted the business strategy to expand its liquor and spirits business by way of tapping into the manufacturing side, as illustrated by recent initial investments in winemaking company and base wine production facilities in 2022 and the allocation of proceeds from the recent disposal transaction in 2023 for such purpose; and (iii) the Acquisition represents an initial investment in the Target Company for the Group to gain exposure in the liquor manufacturing market while enjoying investment return from the potential upside of the Target Company and Guizhou Zunpeng taking into account, among others, the positive prospect of the liquor and spirits industry in the PRC, we concur with the view of the Directors, although that the Acquisition is not in the Group's ordinary and usual course of business, it is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Principal terms of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement)

- Date : 29 June 2023
- Parties : (i) the Purchaser;
(ii) the Vendor; and
(iii) Mr. Chan
- Assets to be acquired : 28% equity interests in the Target Company
- Consideration and payment : The initial consideration is RMB140,000,000 (equivalent to approximately HK\$152,600,000)
- (i) as to the first instalment of Consideration of RMB130,000,000 (equivalent to approximately HK\$141,700,000), being approximately 92.86% of the initial Consideration, or as adjusted in accordance with the section headed “4.2. Payment terms” below, shall be paid within 30 business days upon fulfilment (or waiver) of the Conditions Precedent; and
- (ii) as to the second instalment of Consideration of RMB10,000,000 (equivalent to approximately HK\$10,900,000), being approximately 7.14% of the initial Consideration, or as adjusted in accordance with the below section headed “4.2. Payment terms”, shall be paid within five years from the Completion Date and within 30 business days upon fulfilment (or waiver) of the conditions precedent as set out in the section headed “Conditions precedent to payment of the second instalment of Consideration” below.
- Conditions precedent to payment of the second instalment of Consideration : (i) The Purchaser having paid the first instalment of the Consideration upon fulfilment (or waiver) of the Conditions Precedent;
- (ii) The Vendor and the Purchaser having agreed on the amount of the adjusted Consideration and Penalty Amount (as defined in below) (if any) in writing;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) The Vendor not having committed any material breach under the Equity Transfer Agreement (as supplemented by the Supplemental Agreement);
- (iv) Guizhou Zunpeng having completed rectifications on the followings:
 - (1) to apply for the certificate of land use right in respect of the piece of land parcel with a land area of 161,785.1 square metres and registering such ownership under the name of Guizhou Zunpeng;
 - (2) to obtain all necessary construction licenses and complete the filing procedures of completion acceptance inspection in respect of its development projects in accordance with the relevant laws and regulations, and completing the ownership registration of all relevant properties and registering the same under the name of Guizhou Zunpeng;
 - (3) to obtain the relevant construction licenses and permits in accordance with the applicable laws and regulations in respect of various land parcels of Guizhou Zunpeng; and
 - (4) to obtain the authorisation and permission to use the relevant intellectual property rights and trade names prior to the production and sales of liquor products under the brand name “Zunpeng”;

and

- (v) Guizhou Zunpeng was not determined by the relevant authority to be involved in any idle Land Parcel(s), nor received any punishment or charges arising therefrom, nor such idle Land Parcel(s) is required to be resumed, nor received any punishment regarding rectification, dismantling or confiscation of property or illegal income or penalty imposed by the relevant authority.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4.1. Consideration

According to the Letter from the Board, the Consideration was determined after arm's length negotiation between the Company and the Vendor with reference to, among other things, the unaudited net asset value of the Target Company of approximately RMB499.9 million (equivalent to approximately HK\$544.8 million) as at 31 May 2023, which have taken into account the Provision Amount. The net asset value attributable to the Sale Interests amounted to approximately RMB140.0 million (equivalent to approximately HK\$152.6 million) as at 31 May 2023.

To assess the fairness and reasonableness of the Consideration, we have identified listed companies engaging in similar business of the Target Company (the “**Comparable Companies**”) and analysed their respective price-to-book (“**P/B**”) and price-to-earnings (“**P/E**”) ratios, which are commonly adopted bases in conducting market comparable analysis.

In selecting the Comparable Companies, our selection criteria focused on companies that (i) are listed on the Main Board of the Stock Exchange or stock exchanges in the PRC; (ii) are principally engaged in Chinese liquor production and sales in the PRC; and (iii) recorded net profit in the most recent financial year of not more than RMB2.0 billion, taking into account the business nature and scale of the Target Company.

Independent Shareholders should be noted that despite of the aforesaid selection criteria, the business and scale of operations of the Target Company are not exactly the same as those of the Comparable Companies, and we have not conducted any in-depth investigation into the business and scale of operations of the Comparable Companies.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Comparable Companies below have been selected based on the above selection criteria.

Company name (stock code)	Market capitalisation <i>RMB'million</i> <i>(Note 1)</i>	Net profit <i>RMB'million</i> <i>(Note 2)</i>	P/B ratio <i>times</i> <i>(Note 3)</i>	P/E ratio <i>times</i> <i>(Note 3)</i>
Anhui Yingjia Distillery Co., Ltd. (603198 CH)	58,152	1,705	8.1	34.1
Shede Spirits Co., Ltd. (600702 CH)	38,044	1,685	5.3	22.6
Anhui Kouzi Distillery Co., Ltd. (603589 CH)	29,430	1,550	3.1	19.0
Sichuan Swellfun Co., Ltd. (600779 CH)	28,545	1,216	8.6	23.5
Jiugui Liquor Co., Ltd. (000799 CH)	24,691	1,049	5.9	23.5
ZJLD Group Inc (6979 HK)	33,736	1,030	2.8	32.8
Hebei Hengshui Laobaigan Liquor Co., Ltd. (600559 CH)	20,939	708	4.8	29.6
Jinhui Liquor Co., Ltd (603919 CH)	13,524	280	4.1	48.3
Xinjiang Yilite Industry Co., Ltd. (600197 CH)	10,379	165	2.6	62.7
Qinghai Huzhu TianYouDe Highland Barley Spirit Co., Ltd. (002646 CH)	6,829	75	2.4	90.7
Shanghai Guijiu Co., Ltd. (600696 CH)	7,251	37	8.6	194.7
Gansu Huangtai Wine-marketing Industry Co., Ltd. (000995 CH)	2,734	7	19.5	371.6
		Maximum	19.5	371.6
		Minimum	2.4	19.0
		Average	6.3	79.4
		Median	5.1	33.4
Target Company (Note 4)			1.0	8.2

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Source: Bloomberg, financial reports of the Comparable Companies

Notes:

1. Market capitalization of the Comparable Companies as at the Latest Practicable Date.
2. Latest published net profit amount of the Comparable Companies for the full financial year.
3. P/B and P/E ratios of the Comparable Companies are based on their market capitalization as at the Latest Practicable Date and their net asset value as at latest financial period published or net profit for the latest financial year published.
4. Implied P/E ratio of the Target Company is calculated based on the Consideration and the net profit of the Target Company attributable to the Sale Interests for the year ended 31 December 2022. Implied P/B ratio of the Target Company is calculated based on the Consideration and the net asset value of the Target Company attributable to the Sale Interests as at 31 May 2023.

As shown in the table above, the implied P/B ratio of the Target Company based on the Consideration of approximately 1.0 time is lower than those of the Comparable Companies which ranged from approximately 2.4 times to 19.5 times; while the implied P/E ratio of the Target Company based on the Consideration of approximately 8.2 times is lower than those of the Comparable Companies which ranged from approximately 19.0 times to 371.6 times as well. Despite of the wide range of ratios of the Comparable Companies, considering that the implied P/B and P/E ratios of the Target Company is substantially lower than all of the Comparable Companies, which were an exhaustive list of companies based on our selection criteria and therefore representative, we are of the view that such market comparable analysis is meaningful and can support our view that the Consideration is fair and reasonable as far as the Company and the Independent Shareholders are concerned.

4.2. Payment terms

The Consideration shall be payable in two instalments, which are subject to the adjustments as detailed below:

(i) First instalment

The first instalment of Consideration of RMB130.0 million, which is subject to adjustment in relation to declaration of profits or dividends as follows, shall be paid within 30 business days upon fulfilment (or waiver) of the Conditions Precedent.

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

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

(ii) Second instalment

The second instalment of RMB10.0 million, which is subject to adjustment in relation to the penalty arising from the Land Parcels as detailed below, shall be paid within five years from the Completion Date and within 30 business days upon fulfilment (or waiver) of the conditions precedent as set out in the section headed “Conditions precedent to payment of the second instalment of Consideration” in the principal terms above.

As discussed under section 2.2 above, as at the Latest Practicable Date, certain Land Parcels are pending Guizhou Zunpeng to obtain the certificate of land use right and/or the necessary construction licenses, while certain Land Parcels are also subject to potential penalties or charges imposed by government authorities. We noted that the conditions precedent to the payment of the second instalment of Consideration have included the relevant conditions for Guizhou Zunpeng to rectify the above, including:

- (a) Guizhou Zunpeng to apply for the certificate of land use right in respect of the piece of land parcel with a land area of 161,785.1 square metres and registering such ownership under the name of Guizhou Zunpeng;
- (b) Guizhou Zunpeng to obtain all necessary construction licenses and complete the filing procedures of completion acceptance inspection in respect of its development projects in accordance with the relevant laws and regulations, and completing the ownership registration of all relevant properties and registering the same under the name of Guizhou Zunpeng;
- (c) Guizhou Zunpeng to obtain the relevant construction licenses and permits in accordance with the applicable laws and regulations in respect of various land parcels of Guizhou Zunpeng; and
- (d) Guizhou Zunpeng was not determined by the relevant authority to be involved in any idle Land Parcel(s), nor received any punishment or charges arising therefrom, nor such idle Land Parcel(s) is required to be resumed, nor received any punishment regarding rectification, dismantling or confiscation of property or illegal income or penalty imposed by the relevant authority.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

If the conditions precedent to payment of the second instalment of Consideration is not satisfied or waived within five years following the Completion Date (or such later date as may be agreed by the parties), the Purchaser may at its absolute discretion choose to terminate the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) in writing and thereafter, the Purchaser shall not have any obligations or liabilities towards the Vendor or the Target Company. In such event, the Purchaser shall be entitled to the full refund of the first instalment of Consideration from the Vendor, and to unwind the Acquisition. As at the Latest Practicable Date, we understand from the Management that Guizhou Zunpeng is in the process of rectifying the abovementioned issues in relation to the Land Parcels.

Moreover, the Purchaser and the Vendor agreed that subject to the actual penalty amount incurred within five years from the Completion Date attributable to the Sale Interests arising from the Land Parcels (the “**Penalty Amount**”), adjustment shall be made to the second instalment of Consideration as below:

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

In the event that the actual Penalty Amount incurred within five years from the Completion Date is less than the Provision Amount, the second instalment of the Consideration shall be adjusted upward by such difference. In the event that the actual Penalty Amount incurred within five years from the Completion Date exceeds the Provision Amount, the Purchaser shall have the right to deduct such excess amount from the second instalment of Consideration to be paid. In the event that the Penalty Amount exceeds the second instalment of Consideration and the Provision Amount, no further Consideration shall be paid by the Purchaser, and the Vendor shall compensate the Purchaser such excess amount within 15 business days upon receipt of written notice from the Purchaser. Therefore, given that the Vendor shall compensate the Purchaser the excess amount and there is no upper limit of such compensation amount, the Company’s interests over the potential penalty in relation to the Land Parcels are safeguarded.

Based on the above, in particular that the potential issues in relation to the Land Parcels are covered by the conditions precedent and the Consideration adjustment clauses, we are of the view that the payment terms pursuant to the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Considering the above analysis on the Consideration and payment terms, we are of the view that the terms of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) are on normal commercial terms and are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Potential financial effects as a result of the Acquisition

Given the Consideration will be settled in cash, it is expected that the cash position of the Group will decrease as a result of the Acquisition. The Consideration of RMB140.0 million represents approximately 33.0% of the Group's cash and cash equivalents balance as at 30 June 2023 of approximately RMB424.5 million.

Upon Completion, the Target Company will become an associated company of the Company and its financial results will not be consolidated into the accounts of the Group. The Target Company will be accounted for by the Group using equity method and the Group's share of results of the Target Company will contribute to the profit or loss of the Group.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that (i) the entering into of the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) is in the interests of the Company and the Shareholders as a whole, although the transactions contemplated thereunder are not in the ordinary and usual course of business of the Group; and (ii) the terms of Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to approving the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Leo Chan
Head of Corporate Finance

Mr. Leo Chan is the Head of Corporate Finance of Quam Capital Limited and is licensed under the SFO as a Responsible Officer to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Chan has approximately 27 years of experience in corporate finance.

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%

Notes:

- 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 it being wholly-owned by him. As at the Latest Practicable Date, Mr. Chan was the director of Velocity International Limited. On 29 May 2023, Velocity International Limited pledged 300,000,000 Shares to Integrated Capital (Asia) Limited (which was wholly-owned by Mr. Yam Tak Cheung as at the Latest Practicable Date), as security for a term loan facility provided to Velocity International Limited.

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 (<i>Note</i>)	Beneficial owner	300,000,000 (L)	72.71%
Integrated Capital (Asia) Limited	Person having security interest in shares	300,000,000 (L)	72.71%
Yam Tak Cheung	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 29 May 2023, Velocity International Limited pledged 300,000,000 Shares to Integrated Capital (Asia) Limited (which is wholly-owned by Mr. Yam Tak Cheung) 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 Equity Transfer Agreement (as supplemented by the Supplemental 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 2022 (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 ADVERSE CHANGE

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 2022 (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.

7. QUALIFICATIONS AND CONSENTS OF EXPERTS

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

Name	Qualification
Quam Capital Limited	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

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 2022 (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.

8. DOCUMENTS ON DISPLAY

A copy of the Equity Transfer Agreement and the Supplemental Agreement will be available for inspection 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.

9. 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.

NOTICE OF EGM

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, 21 November 2023 at 11:00 a.m. for the following purposes:

AS SPECIAL BUSINESS ORDINARY RESOLUTION

“THAT:

- (a) to approve, confirm and ratify the Equity Transfer Agreement (as supplemented by the Supplemental Agreement) (as defined in the circular of the Company dated 1 November 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 Equity Transfer Agreement (as supplemented by the Supplemental 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, 1 November 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. Chu Kin Wang, Peleus, Mr. Hu Lie Ge and Mr. Lam Hon Kuen.

NOTICE OF EGM

Notes:

1. The register of members of the Company will be closed from Thursday, 16 November 2023 to Tuesday, 21 November 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 Wednesday, 15 November 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. 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.