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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)**

#### **VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF SUMGREAT INVESTMENTS LIMITED**

**Financial Adviser to the Company**



**SAMSUNG SECURITIES**

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



**高銀融資有限公司**  
GOLDIN FINANCIAL LIMITED

#### **THE ACQUISITION**

The Board is pleased to announce that, on 12 April 2011, after trading hours, the Company entered into the Share Purchase Agreement with the Seller to acquire the Sale Share, being the entire issued capital of the Target Company. The Consideration for the Acquisition is HK\$1,000,000,000 and shall be satisfied entirely by the allotment and issue of 780,000,000 Consideration Shares at an issue price of HK\$1.28 per Consideration Share. The Consideration Shares represent approximately 65.40% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The Target Company is the holding company of a group of ten companies which are principally engaged in the business of investment, building, operating and management of large infrastructure projects in the PRC.

The Target Group currently has two infrastructure projects, namely the Shuiguan Expressway and the Shuiguan Expressway Extension Line which are both already in operation and revenue generating. It is also receiving fees for provision of project management services in respect of the Shahe Road Project and the Hengping Road Project, which are currently under construction. As such, it is expected that the Acquisition will enable the Company to derive immediate substantial earnings and cash flow contribution from it. In addition, it is expected that two further infrastructure projects which are currently under construction by the Target Group, namely the Shenzhen Qingping Expressway and Shenzhen Eastern Expressway, will be in operation by 2013 and will contribute additional cash flow to the Group.

The Directors, excluding the independent non-executive Directors who reserve their opinions pending receipt of advice from Goldin Financial, are of the view that the terms of the Share Purchase Agreement are on normal commercial terms and are fair and reasonable and that the Acquisition is in the interests of the Company and the Shareholders as a whole.

### **LISTING RULES IMPLICATIONS**

As all of the applicable percentage ratios under Chapter 14 of the Listing Rules exceeded 100%, the Acquisition constitutes a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules.

In addition, Mr. Chan is an executive Director of the Company and the chairman of the Board. As at the date hereof, Mr. Chan is interested in the entire issued share capital of VIL which holds approximately 72.71% of the issued share capital of the Company as at the date of this announcement. Accordingly, Mr. Chan is a connected person of the Company under the Listing Rules and the Acquisition also constitutes a connected transaction of the Company under Rule 14A.13(b) of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders requirements under Chapter 14 of the Listing Rules. Mr. Chan and his associates, including VIL, is required to abstain from voting on the resolution(s) approving the Acquisition at the EGM. Voting at the EGM will be conducted by poll.

### **INDEPENDENT BOARD COMMITTEE**

The Company has established an independent board committee (“**Independent Board Committee**”) comprising all of the independent non-executive Directors to advise the Independent Shareholders as to whether the terms of the Share Purchase Agreement are fair and reasonable and whether the Acquisition is in the interests of the Company and the Shareholders as a whole. Goldin Financial has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

### **EGM AND CIRCULAR**

The EGM will be convened as soon as practicable at which an ordinary resolution will be proposed for the Independent Shareholders to consider, and, if thought fit, to approve the Acquisition.

A circular containing, among other things, further details of the Acquisition and the notice of the EGM will be despatched to the Shareholders as soon as practicable and expected to be within 15 business days from the date of publication of this announcement.

The Board is pleased to announce that the Company has entered into the Share Purchase Agreement with the Seller to acquire the Sale Share in the Target Company on 12 April 2011. The principal terms of the Share Purchase Agreement are summarised as follows:

## **PRINCIPAL TERMS OF THE SHARE PURCHASE AGREEMENT**

Date: 12 April 2011, after trading hours

### **Parties:**

Purchaser: The Company

Seller: Mr. Chan Yeung Nam

The Target Company is wholly-owned by Mr. Chan, an executive Director of the Company and the chairman of the Board. As at the date hereof, Mr. Chan, through VIL, also holds approximately 72.71% interest in the Company.

### **Assets to be acquired:**

Pursuant to the Share Purchase Agreement, the Company agreed to purchase and the Seller agreed to sell the Sale Share, representing the entire issued share capital of the Target Company.

### **Consideration:**

The Consideration payable by the Company to the Seller pursuant to the Share Purchase Agreement is HK\$1,000,000,000, which shall be satisfied by the allotment and issue of 780,000,000 new Shares at an issue price of HK\$1.28 per Consideration Share, credited as fully paid, to the Seller on the Completion Date.

The Consideration was determined based on arm's length negotiation between the parties thereto taking into account, among other things, the investment costs of the existing projects in operation and under construction held by members of the Target Group and their business potentials. The original purchase/investment cost of the 100% interest in the Target Company paid by Mr. Chan was RMB660,000,000 which represents the aggregate registered and paid up capital of all the PRC subsidiaries within the Target Group.

### ***Consideration Shares***

The issue price of HK\$1.28 per Share represents (i) a discount of approximately 7% to the closing price of HK\$1.38 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 8% to the average closing price of HK\$1.384 per Share as quoted on the Stock Exchange for last five consecutive trading days up to and including the Last Trading Day; and (iii) a discount of approximately 8% to the average closing price of HK\$1.39 per Share as quoted on the Stock Exchange for last ten consecutive trading days up to and including the Last Trading Day.

The Consideration Shares represent approximately 189.04% of the existing issued share capital of the Company as at the date of this announcement and approximately 65.40% of the issued share capital of the Company as enlarged by the issuance of the Consideration Shares.

The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares then in issue on the date of such allotment and issue.

The Consideration Shares will be issued pursuant to a specific mandate to be obtained from the Independent Shareholders at the EGM.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

**Conditions precedent:**

Completion of the Share Purchase Agreement is conditional upon:

- (a) the Company having completed its due diligence review of the operations, legal and financial affairs of the Target Group and having confirmed that it is satisfied with such review in all material respects;
- (b) the obtaining of all consents required for the entering into or the implementation or Completion of the Share Purchase Agreement by the Company, the Seller and/or any companies within the Target Group or for the performance of their respective obligations under the Share Purchase Agreement, including, without limitation, the consents (if appropriate or required) of the Independent Shareholders, the Seller and/or the Target Group (if applicable), the Stock Exchange and all filings with any relevant governmental or regulatory authorities and other relevant third parties in Hong Kong, or elsewhere which are required or appropriate for the entering into and the implementation of the Share Purchase Agreement having been made;
- (c) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Company) from a firm of PRC legal advisers appointed by the Company in relation to the Share Purchase Agreement and the transactions contemplated thereunder, including but not limited to the due incorporation and property interests of each of the company within the Target Group established in the PRC and such other matters as may be reasonably required by the Company;
- (d) the approval of Independent Shareholders having been obtained at a duly convened shareholders' meeting of the Company approving the Share Purchase Agreement and the transactions contemplated thereunder, including the sale and purchase of the Sale Share and the issue and allotment of the Consideration Shares;
- (e) the approval of Shareholders having been obtained at a duly convened shareholders' meeting of the Company approving the grant of a specific mandate to issue the new Shares to be issued under the Placing;
- (f) the approval of the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange being obtained;
- (g) the Company having successfully raised not less than HK\$1,000,000,000 from the Placing; and
- (h) the Company continuing to meet the minimum public float requirement under the Listing Rules immediately after Completion and upon issue of Consideration Shares.

Completion shall take place on the third Business Day (or such other dates as the parties may agree) following the satisfaction (or waiver) of all of the conditions precedent set out above. The Company shall use reasonable endeavours to procure the fulfilment of conditions (a), (b), (d), (e), (f) and (g), and the Seller shall use best endeavours to procure the fulfilment of conditions of (b) and (c), as soon as practicable. The Company may, at its absolute discretion, waive conditions (a). The Seller is not entitled to waive any condition. If any of the conditions is not satisfied (or, where appropriate, waived) on or before the Long Stop Date, the Share Purchase Agreement shall lapse, whereupon all rights and obligations of the parties shall cease to have effect except in respect of any accrued rights and obligations of the parties.

### **INFORMATION ON THE PLACING**

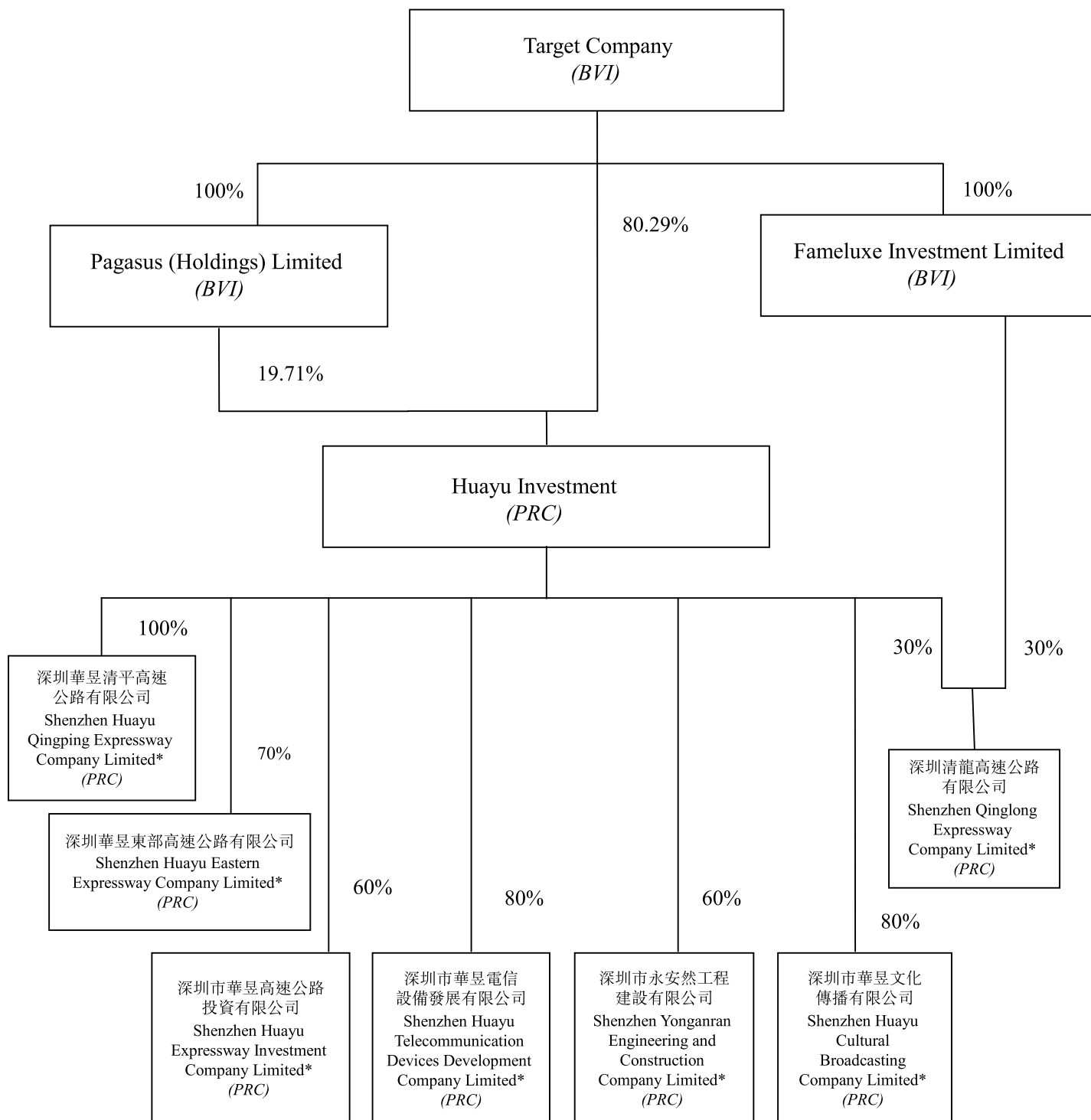
As at the date of this Announcement, the Company has not yet entered into any legally binding agreement in connection with the Placing. However, as it is the Company's intention to arrange for the completion of the Acquisition and completion of the Placing to take place simultaneously, and coupled with the fact that the Company intends to utilise the proceeds from the Placing to finance and support the construction of Shenzhen Qingping Expressway and the Shenzhen Eastern Expressway, it is not expected that there will be a scenario under which after completion of the Placing, the Acquisition will not proceed to closing.

It is the Company's plan to seek the grant of a specific mandate from the Shareholders to allot and issue the Shares to be issued under the Placing.

### **INFORMATION ON THE TARGET COMPANY**

The Target Company is a limited company incorporated in the BVI on 7 July 2006. As at the date of this announcement, the Target Company has an authorized share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each, and one share was issued and allotted and is fully paid or credited as fully paid.

The Target Company is the holding company of a group of ten companies which are principally engaged in the business of investment, building, operating and management of large-scale infrastructure projects in the PRC. The following diagram illustrates the shareholding structure of the Target Group:



The table below sets out details of the projects undertaken by the Target Company's key operating subsidiaries:

Name	Description of its existing project/ principal business	Interest held by the Target Group	Date of acquisition/ incorporation
Huayu Investment	<p>Huayu Investment is an investment holding company which also engages in the provision of project management services. It is currently involved in two major projects:</p> <p>(1) Huayu Investment is engaged by Shenzhen Longgang District Land Reserve Development Centre (深圳市龍崗區土地儲備開發中心) to manage the construction of a road linking Bujisha Wan to Baohe Road in the Longgang district in Shenzhen (“<b>Shahe Road Project</b>”).</p> <p>(2) Huayu Investment is also engaged by Shenzhen Longgang District Expressway Bureau (深圳市龍崗區公路局) to manage the construction of a section of Hengping Road of approximately 27 km (“<b>Hengping Road Project</b>”).</p> <p>Huayu Investment also owns 10% interest of the Sui-Yue Expressway (Hunan Section), which is the only project currently owned by the Group.</p>	Approximately 80.29% held by the Target Company and approximately 19.71% held by Pagasus (Holdings) Limited	Incorporated by Mr. Chan and his family members on 22 July 1993
深圳華昱東部高速公路有限公司 (Shenzhen Huayu Eastern Expressway Company Limited)*	Building and operation of an expressway linking Liantang Port (蓮塘口岸) to the intersection of Shenhui and Shenzhen expressway (深惠與深汕高速公路交匯處) in Shenzhen (“ <b>Shenzhen Eastern Expressway</b> ”).	70% held by Huayu Investment	15 June 2009
深圳清龍高速公路有限公司 (Shenzhen Qinglong Expressway Company Limited)*	Building and operation of an expressway (“ <b>Shuiguan Expressway</b> ”) linking Xinbulong Road (新布龍路) in Buji Town (布吉鎮) to Zhongxin Cheng (中心城) in Longgang District (龍崗區)	30% held by Huayu Investment and 30% held by Fameluxe Investments Limited	15 January 2001
深圳市華昱高速公路投資有限公司 (Shenzhen Huayu Expressway Investment Company Limited)*	Building and operation of an extension line (“ <b>Shuiguan Expressway Extension Line</b> ”) linking the Bulong Interchange (布龍立交) on the Shuiguan Expressway to the Shenzhen Qingshuihe Checkpoint (深圳清水河檢查站)	60% held by Huayu Investment	18 January 2002

Name	Description of its existing project/ principal business	Interest held by the Target Group	Date of acquisition/ incorporation
深圳華昱清平高速公路有限公司 (Shenzhen Huayu Qingping Expressway Company Limited)*	Building and operation of an expressway linking the end of the Shuiguan Expressway Extension Line at Bulong/Longjing Interchange (布龍/龍井立交) in Shenzhen to Dongguan Gaoerfu Road (東莞高爾夫大路) in Dongguan (“Shenzhen Qingping Expressway”)	100% held by Huayu Investment	21 January 2009
深圳市華昱電信設備發展有限公司 (Shenzhen Huayu Telecommunication Devices Development Company Limited)*	Trading of telecommunication devices and provision of telecommunication engineering services	80% held by Huayu Investment	4 November 1994
深圳市永安然工程建設有限公司 (Shenzhen Yonganran Engineering and Construction Company Limited)*	No active business activities at present	60% held by Huayu Investment	24 December 2003
深圳市華昱文化傳播有限公司 (Shenzhen Huayu Cultural Broadcasting Company Limited)*	No active business activities at present	80% held by Huayu Investment	17 November 1994

For the two financial years ended 31 December 2010, the unaudited net profits of the Target Group before and after tax extract from the management accounts of the members of the Target Group are as follows:

	<b>For the year ended 31 December</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Combined profit before tax	<b>337,700</b>	236,754
Combined profit after tax	<b>241,760</b>	169,455
Combined profit after tax attributable to the equity shareholders of the Target Group	<b><u>119,485</u></b>	<b><u>68,901</u></b>

As at 31 December 2010, the unaudited combined net asset value of the Target Group is HK\$676,090,000. The combined financial information is prepared using the merger basis of accounting in accordance with Accounting Guideline 5, Merger Accounting for Common Control Combinations issued by Hong Kong Institute of Certified Public Accountants.



## REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is a project company principally engaged in the business of investment, building, operating and management of infrastructure projects in the PRC. As at the date of this announcement, the Company's only project is the Sui-Yue Expressway (Hunan section) which is currently under construction and is planned to be completed by the end of 2011. Until the Sui-Yue Expressway commences operation, the Company will not be generating profit and will continue to be required to make substantial capital investment.

The Target Group currently has two infrastructure projects, namely the Shuiguan Expressway and Shuiguan Expressway Extension Line, which are both already in operation and revenue generating. It is also receiving fees for provision of project management services in respect of the Shahe Road Project and the Hengping Road Project. As such, it is expected that the Acquisition will enable the Company to derive immediate substantial earnings and cash flow contribution from it. In addition, it is expected that two further infrastructure projects which are currently under construction by the Target Group, namely the Shenzhen Qingping Expressway and Shenzhen Eastern Expressway, will be in operation by 2013 and will contribute additional cash flow to the Group.

Further, the Directors are of the view that the Acquisition is in line with the business strategy of the Company to pursue other infrastructure projects in China either by way of acquisition or capitalize on new opportunities. The Directors are optimistic about the development potential of the Target Group and believe that the Acquisition will enhance the Company's competitiveness, further strengthen the Company's reputation within the industry and improve its overall financial performance.

Having considered the abovementioned reasons and benefits of the Acquisition together with the current financial position of the Company, the Directors, excluding the independent non-executive Directors who reserve their opinions pending receipt of advice from Goldin Financial, are of the view that the terms of the Share Purchase Agreement are normal commercial terms and are fair and reasonable and that the Acquisition is in the interests of the Company and the Shareholders as a whole.

## EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after Completion, assuming there is no other change in the issued share capital and shareholding structure of the Company from the date of this announcement:

Name of Shareholder	As at the date of this announcement		Immediately upon Completion	
	<i>No. of Shares</i>	<i>Approximate % of issued share capital of the Company</i>	<i>No. of Shares</i>	<i>Approximate % of issued share capital of the Company</i>
Mr. Chan and his associates ( <i>Note 1</i> )	300,000,000	72.71	1,080,000,000	54.75
Placees ( <i>Note 2</i> )	0	0	780,000,000	39.54
Other public Shareholders	112,608,000	27.29	112,608,000	5.71
<b>Total:</b>	<b>412,608,000</b>	<b>100.00</b>	<b>1,972,608,000</b>	<b>100.00</b>

*Notes:*

- (1) The 300,000,000 existing Shares are held by VIL, which is wholly-owned by Mr. Chan, an executive Director and the chairman of the Company.*
- (2) One of the conditions precedent under the Share Purchase Agreement is that the Company having successfully raised not less than HK\$1,000,000,000 from the Placing. As no legally binding agreement in relation to the Placing has been signed as at the date of this announcement, the number of Shares to be placed and the placing price of the Shares under the Placing cannot be confirmed at this stage. Solely for illustrative purposes, it is assumed that 780,000,000 Shares will be issued to the placees pursuant to the Placing. Such indicative number may be different from the actual number of Shares to be issued under the Placing. Accordingly, the respective shareholding of Mr. Chan and his associates, the Placees and other public Shareholders in the table set out above may also be subject to change.*
- (3) The Company will ensure that (i) no Shares will be placed to an associate of Mr. Chan under the Placing; and (ii) none of the placees together with parties acting in concert with him/her/it will acquire more than 30% of the voting rights of the Company as a result of the Placing. In addition, it is not currently expected that there will be any new substantial shareholders of the Company as a result of the Placing. In any event, the Company will ensure that not less than 25% of the Shares will be held by the public upon completion of the Acquisition and the Placing.*

## **LISTING RULES IMPLICATIONS**

As all of the applicable percentage ratios under Chapter 14 of the Listing Rules exceeded 100%, the Acquisition constitutes a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules.

In addition, Mr. Chan is an executive Director of the Company and the chairman of the Board. As at the date hereof, Mr. Chan is interested in the entire issued share capital of VIL which holds approximately 72.71% of the issued share capital of the Company as at the date of this announcement. Accordingly, Mr. Chan is a connected person of the Company under the Listing Rules and the Acquisition also constitutes a connected transaction of the Company under Rule 14A.13(b) of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders requirements under Chapter 14 of the Listing Rules. Mr. Chan and his associates, including VIL, is required to abstain from voting on the resolution(s) approving the Acquisition at the EGM. Voting at the EGM will be conducted by poll.

## **INDEPENDENT BOARD COMMITTEE**

The Company has established an independent board committee comprising all of the independent non-executive Directors to advise the Independent Shareholders as to whether the terms of the Share Purchase Agreement are fair and reasonable and whether the Acquisition is in the interests of the Company and the Shareholders as a whole. Goldin Financial has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

## **EGM AND CIRCULAR**

The EGM will be convened as soon as practicable at which an ordinary resolution will be proposed for the Independent Shareholders to consider, and, if thought fit, to approve the Acquisition.

A circular containing, among other things, further details of the Acquisition and the notice of the EGM will be despatched to the Shareholders as soon as practicable and expected to be within 15 business days from the date of publication of this announcement.

## DEFINITIONS

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

“Acquisition”	the acquisition of 100% equity interest in the Target Company by the Company pursuant to the Share Purchase Agreement
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or Sunday) on which banks are generally open in Hong Kong for normal business
“BVI”	British Virgin Islands
“Company”	Huayu Expressway Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Share Purchase Agreement
“Completion Date”	the date of Completion
“Consideration”	the consideration payable in respect of the Acquisition pursuant to the Share Purchase Agreement
“Consideration Shares”	780,000,000 new Shares to be issued and allotted by the Company to the Seller on the Completion Date
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held for the purposes of approving the Acquisition
“Goldin Financial”	Goldin Financial Limited, a corporation licensed to carry out business in type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 571 of the Law of Hong Kong)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huayu Investment”	深圳華昱投資開發(集團)有限公司 (Shenzhen Huayu Investment & Development Group Company Limited)*

“Independent Shareholders”	the Shareholders of the Company except for Mr. Chan Yeung Nam and his associates
“Independent Third Parties”	third parties that are independent of the Company and connected persons (as defined under the Listing Rules) of the Company
“km”	kilometer
“Last Trading Day”	12 April 2011, being the last trading day prior to the signing of the Share Purchase Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 September 2011 (or such later date as the Seller and the Company may agree)
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Placing”	a proposed placing of the ordinary shares of HK\$0.01 each in the capital of the Company
“Sale Share”	one (1) ordinary share of US\$1.00 representing the entire issued share capital of the Target Company and legally and beneficially owned by Mr. Chan
“Seller” or “Mr. Chan”	Mr. Chan Yeung Nam
“Share Purchase Agreement”	the share purchase agreement entered into on 12 April 2011 between the Seller and the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Sui-Yue Expressway”	Suizhou-Yueyang Expressway (隨州至岳陽高速公路), the 361 km expressway running from Suizhou in Hubei Province to Yueyang in Hunan Province, which is currently under construction and development
“Target Company”	Sumgreat Investments Limited, a limited company incorporated in the BVI
“Target Group”	the Target Company and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America

“VIL” Velocity International Limited, a limited liability company incorporated on 3 April 2003 in the BVI, the controlling Shareholder and is wholly owned by Mr. Chan

“%” per cent.

\* *denotes English translation of the name of a Chinese company or entity or vice versa and is provided for identification purposes only.*

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

Hong Kong, 12 April 2011

*As at the date of this announcement, the executive Directors are Mr. Chan Yeung Nam, Mr. Mai Qing Quan, Mr. Chen Kai Shu, Mr. Fu Jie Pin, Mr. Chen Min Yong, Mr. Zhang Bo Qing, Mr. Yue Feng and Ms. Mao Hui and the independent non-executive Directors are Mr. Sun Xiao Nian, Mr. Chu Kin Wang, Peleus and Mr. Hu Lie Ge.*