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 you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1823)

(1) MAJOR ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 60% EQUITY INTERESTS IN THE TARGET COMPANY AND (2) DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE LOAN TO VENDOR

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

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

Capitalised terms used in this cover page have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 6 to 23 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 24 to 25 of this circular. A letter from the IFA containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 49 of this circular.

A notice convening the EGM to be held at Unit 1205, 12/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong on Friday, 11 June 2021 at 11:30 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the appointed time for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

Measures being taken for prevention and control of the spread of the coronavirus pandemic at the EGM, including but not limited to:

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

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue. The Company requires attendees to wear surgical face masks and reminds Shareholders that they may appoint the Chairman of the meeting as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

30 April 2021

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

"Acquisition"	the proposed acquisition of the Sale Interests by the Purchaser from the Vendor
"Announcement"	the announcement of the Company dated 7 April 2021 wherein the Company announced, among other things, that the Equity Transfer Agreement was entered into and the Loan Agreement would be entered into
"associate(s)"	has the meaning given to it under the Listing Rules
"Bank"	the Shenzhen Branch of 廣東華興銀行股份有限公司 (Guangdong Huaxing Bank Co., Ltd.*)
"Board"	board of the Directors
"business day"	a day other than a Saturday, a Sunday and the statutory holidays of the PRC
"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"	the completion of the registration, reporting and filing procedures under the Administration for Market Regulation and the applicable foreign investment regulations of the PRC for the transfer of Sale Interests
"Completion Date"	date of the Completion
"Conditions Precedent"	conditions precedent to the Completion, details of which are set out in the paragraph headed "Conditions Precedent" this circular
"connected person(s)"	has the meaning given to it under the Listing Rules
"connected transaction(s)"	has the meaning given to it under the Listing Rules

"Concession Agreement"	concession agreement dated December 2001 entered into between the Vendor and the People's Government of Shenzhen, Longgang District, in relation to the rights and obligations regarding the construction, operation, management and maintenance of the Target Expressway and its associated toll facilities in the PRC with a term from 24 December 2001 to 8 February 2027, Vendor's rights and obligation under which had been transferred to the Target Company in July 2002
"Consideration"	purchase consideration of the Acquisition
"controlling shareholder(s)"	has the meaning given to it under the Listing Rules
"Director(s)"	director(s) of the Company
"Dividend"	the dividend of RMB24.6 million to be declared and distributed to its shareholders, namely the Vendor and Shenzhen Expressway, before the Completion, according to the proportions of their shareholdings in the Target Company
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition after Completion
"Equity Pledge"	the pledge over the Sale Interests granted by the Vendor to the Bank
"Equity Transfer Agreement"	the conditional equity transfer agreement dated 7 April 2021 entered into among the Vendor, the Purchaser, the Target Company and Mr. Chan in relation to the Acquisition
"ETC system"	the electronic toll collection system whereby toll fee is collected through an electronic device attached to vehicles
"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
"IFA"	Lego Corporate Finance Limited, the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder
"Independent Board Committee"	an independent committee of the Board, comprising all the three independent non-executive Directors, established to advise the Independent Shareholders in respect of the Acquisition and the Loan to Vendor (as defined in the Letter from the Board)
"Independent Shareholders"	Shareholders other than Mr. Chan and his associates
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial Shareholder (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates
"Latest Practicable Date"	28 April 2021, being the latest practicable date prior to printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Chan"	Mr. Chan Yeung Nam, the chairman of the Board, an executive Director and a controlling Shareholder
"percentage ratio(s)"	has the meaning given to it under the Listing Rules
"PRC"	the People's Republic of China and, for the purpose of this circular, excluding Hong Kong, Macao Special Administrative Region of the People's Republic of China and Taiwan
"Purchaser"	好兆有限公司 (Good Sign Limited), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company

"RMB"	Renminbi, the lawful currency of the PRC
"Sale Interests"	60% of the equity interests in the Target Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen Expressway"	深圳高速公路股份有限公司 (Shenzhen Expressway Co., Ltd.), a joint stock limited company established in the PRC with limited liability, the H shares of which are listed on the Stock Exchange (stock code: 548) and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 600548), an Independent Third Party
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	has the meaning given to it under the Listing Rules
"Target Company"	深圳市華昱高速公路投資有限公司 (Shenzhen Huayu Expressway Investment Co., Ltd.*), a company established in the PRC which is owned as to 60% by the Vendor and 40% by Shenzhen Expressway as at the date of the Equity Transfer Agreement
"Target Expressway"	清平高速公路一期工程 (First Phase of Qingping Expressway*) (S209) located in Shenzhen City, Guangdong province of the PRC, which is owned and operated by the Target Company
"Valuation"	the appraisal of the value of the Sale Interests as at 19 March 2021 primarily using the discounted cash flow method by the Valuer. The purpose of the valuation is to assist the Board to evaluate the Acquisition
"Valuation Report"	the report on the Valuation prepared by the Valuer dated 7 April 2021

"Valuer"	Ernst & Young Transactions Limited, ultimately owned by Ernst & Young (EY), which provides assurance, consulting, strategy and transactions, and tax services, engaged by the Company for the purpose of appraisal of the value of Sale Interests
"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.

Notes:

* *For ease of reference, the names of the PRC established companies or entities (if any) and the PRC laws and regulations (if any) have generally been included in this circular in both Chinese and English languages and the English names are for identification purposes only. In the event of inconsistency, the Chinese language shall prevail.*

^ *Where the context so permits or requires, words importing the singular number include the plural and vice versa and words importing the masculine gender include the feminine and neuter genders and vice versa.*

For the purpose of illustration, the exchange rate between Renminbi and Hong Kong dollars provided in this circular is RMB1 = HK$1.189 (unless otherwise stated). The provision of such exchange rates does not mean that Hong Kong dollars could be converted into Renminbi based on such exchange rate.

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1823)

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

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

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

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

30 April 2021

To the Shareholders

Dear Sir or Madam,

(1) MAJOR ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 60% EQUITY INTERESTS IN THE TARGET COMPANY AND (2) DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE LOAN TO VENDOR

INTRODUCTION

Reference is made to the Announcement.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition and the Equity Transfer Agreement; (ii) the Loan Agreement, (iii) the financial information of the Group; (iv) the unaudited pro forma financial information of the Enlarged Group; (v) the recommendation of the Independent Board Committee; (vi) the advice of the IFA; (vii) the notice of the EGM; and (viii) other information as required under the Listing Rules.

THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are set out below:

Date

7 April 2021

Parties

(a) the Purchaser;

(b) the Vendor;

(c) the Target Company; and

(d) Mr. Chan (as a guarantor offering the Refund Guarantee (as defined below)).

Subject matter

The Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Interests subject to the terms and conditions of the Equity Transfer Agreement.

Consideration

The Company commissioned the Valuer to assess the fair market value of the Sale Interests as at 19 March 2021 for the purpose of assisting the Board in its evaluation of the Acquisition.

The Consideration shall be RMB127.2 million (approximately HK$151.2 million) and was determined based on arm's length negotiations between the Vendor and the Purchaser with reference to the range of fair market value of the Sale Interests between RMB125.8 million (approximately HK$149.6 million) and RMB128.6 million (approximately HK$152.9 million) as at 19 March 2021 as appraised by the Valuer using the discounted cash flow approach as a primary methodology.

Further details of the Valuation are set out in the section headed "Principal assumptions of the Valuation" below and in the Valuation Report in Appendix V to this circular.

In view of the above, the Directors (excluding the independent non-executive Directors whose opinions are given in the letter from the Independent Board Committee) consider the Consideration to be fair and reasonable.

Payment terms

The Purchaser shall pay the Consideration to the Vendor by way of bank transfer within 30 business days after the fulfilment or waiver (if applicable) the following payment conditions:

(a) the Completion having taken place;

(b) the Vendor not having committed any material breach to the terms and conditions and the representation, warranties, guarantees and undertakings made by it under the Equity Transfer Agreement; and

(c) the Vendor having set up a bank account for the Consideration and advised the Purchaser the same.

If any of the conditions set out above have not been satisfied on or before 30 September 2021, or such later date as the parties may agree in writing, then the Purchaser has the right to terminate the Equity Transfer Agreement whereupon the Target Company and the Vendor shall have no right or claim against the Purchaser.

Conditions Precedent

The Completion shall be conditional upon the fulfilment or waiver (if applicable) of the following Conditions Precedent:

(a) the approvals to the Equity Transfer Agreement and the transactions contemplated thereunder from:

   (i) the Vendor's board of directors and shareholders having been obtained;

   (ii) the Purchaser's board of directors and shareholders having been obtained;

   (iii) the Board and the Independent Shareholders at the EGM to be convened having been obtained;

   (iv) the shareholders of the Target Company having been obtained;

(b) Shenzhen Expressway, another shareholder of the Target Company, agreeing in writing to give up its pre-emptive right to purchase the Sale Interests;

(c) the PRC legal opinion on various matters relating to the Target Company as an acquisition target having been issued by the PRC legal adviser of the Purchaser with the contents of which being acceptable to the parties to the Equity Transfer Agreement;

(d) the Purchaser having been satisfied with the results of due diligence review on the Target Company;

(e) having entered into the agreements between the Vendor and the Bank to release the Equity Pledge within 60 business days from the date of the Equity Transfer Agreement and the relevant registration and filing procedures under the applicable PRC regulations for such release having been completed;

(f) the representation, warranties, guarantees and undertakings stipulated in the Equity Transfer Agreement made by the Vendor remain true, accurate, complete and not misleading;

(g) the Vendor not having committed any material breach of the terms and conditions and the representation, warranties, guarantees and undertakings made by it under the Equity Transfer Agreement;

(h) the Vendor and the Target Company having entered into the Lease Agreement (as defined below) in form and substance satisfactory to the parties to the Equity Transfer Agreement;

(i) the Vendor and the Target Company having entered into the Loan Agreement (as defined below) in respect of the Loan to Vendor (as defined below) in form and substance satisfactory to the parties to the Equity Transfer Agreement;

(j) the approvals to the Loan Agreement and the transactions contemplated thereunder from the Independent Shareholders at the EGM to be convened having been obtained; and

(k) the approvals to the declaration and payment of the Dividend from the shareholders of the Target Company having been obtained.

The Purchaser may waive in writing any of the Conditions Precedent save and except the Conditions Precedent set out in paragraphs (a)(iii), (a)(iv) and (j) above.

As at the Latest Practicable Date, the Purchaser has no intention to waive any of the Conditions Precedent.

Completion

Within 30 business days after the fulfilment or waiver (if applicable) of all the Conditions Precedent, the Purchaser and the Vendor shall assist the Target Company to carry out the Completion whereupon the Sale Interests will be transferred from the Vendor to the Purchaser and the Purchaser shall have all the shareholders' rights attached to the Sale Interests. The Completion is expected to take place on or about 15 June 2021.

After the Completion, the Target Company will be indirectly owned as to 60% by the Company and become a non-wholly owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group.

As at the Latest Practicable Date, none of the Conditions Precedent has been fulfilled save and except for the Condition Precedent set out in paragraph (a)(ii) above.

Refund of the Consideration

If:

(a) there is any fact or event developed, happened or occurred before the Completion which would (i) make the Target Company unable to continue to enjoy its rights contemplated under the Concession Agreement before its expiry; or (ii) cause material adverse impact to the Target Company by the exercise of its rights contemplated under the Concession Agreement; or

(b) the Vendor causes any material adverse impact to the Target Company before the Completion and such impact cannot be resolved or settled,

then the Purchaser has the right to request the Vendor to refund the Consideration to the Purchaser even after the Completion. There is no expiry date for the Purchaser to exercise its right to request for refund of the Consideration.

Pursuant to the Equity Transfer Agreement, Mr. Chan has agreed to guarantee the refund of the Consideration if the Vendor is obliged to refund the Consideration (the "**Refund Guarantee**").

VALUATION

Principal Assumptions of the Valuation

According to the Valuation Report, the fair market value of the Sale Interests as at 19 March 2021 as appraised by the Valuer, using the discounted cash flow approach as a primary methodology is in a range of between approximately RMB125.8 million (approximately HK$149.6 million) and RMB128.6 million (approximately HK$152.9 million). The Valuation has taken into account the Dividend. The Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules.

The Valuer is independent and competent in light of Rule 5.08 of the Listing Rules. Specifically, the Board notes that as at the Latest Practicable Date, none of the relevant team members of the Valuer had any direct or indirect shareholdings in any member of the Group.

The Valuation was prepared based on numerous assumptions, including the following principles and assumptions used by management of the Group for the preparation of the financial forecast of the Target Company:

(a) General principles:

- the ownership claims of the Target Company to its assets are assumed to be valid. Management of the Group has also assumed that:

  (i) title is good and transferable;

  (ii) there exists no liens or encumbrances;

  (iii) there is full compliance with all applicable government regulations and laws (including, without limitation, zoning regulations); and

  (iv) all required licenses, certificates of occupancy, consents, or legislative or administrative authority from any government, private entity or organisation have been or can be obtained or renewed for any use to which the Valuer services relate,

- certain historical financial data used for the preparation of the financial forecast were derived from unaudited financial statements. Management of the Group has assumed the accuracy or completeness of the data provided; and

- management of the Group has assumed the solvency of the Target Company under any foreign, state/provincial or federal laws relating to bankruptcy, insolvency or similar interest. The financial forecast of the Target Company has been prepared assuming its business is a going concern.

(b) Specific assumptions:

- on 6 May 2020, the Chinese government adjusted the toll rates of the Target Expressway and new toll rates were used for the financial forecast;

- competition from the neighbouring expressways would affect the traffic flows of the Target Expressway and had been reflected in the financial forecast. In this regard, except for the known competition from Banyin Channel, which became operational on 28 April 2020, and Eastern Transit Expressway, which is planned to be operational in early 2024, management of the Group is not aware of any other major neighbouring expressways which could materially affect the traffic flows of the Target Expressway in the forecast period;

- there would be no changes to the structure of cost of services assumed in the financial forecast. However, certain cost items were expected to be subject to an inflation adjustment of 2.6% per annum;

- no new financing activities had been assumed in the forecast period. The existing bank loans were assumed to be repaid in accordance to the agreed terms and interests would be charged based on the mechanisms stipulated in the banking facility documents;

- no capital expenditure had been assumed in the forecast period, except for the outstanding costs related to the implementation of the ETC system of approximately RMB5.5 million; and

- the earnings of the Target Company had been assumed to be taxed at the statutory income tax rate of 25%.

Details of the Valuation, including the assumptions used, are included in the Valuation Report in Appendix V to this circular.

Review by Reporting Accountants and IFA

Lego Corporate Finance Limited, the IFA, has discussed with the management of the Company and the Valuer the bases and assumptions upon which the forecast was based and the methodologies adopted in the Valuation, and has reviewed the report issued by KPMG dated 7 April 2021 containing its opinion on whether the discounted future cash flows, so far as the calculations are concerned, have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

On the basis of the foregoing and opinion of KPMG, Lego Corporate Finance Limited is of the view that the forecast upon which the Valuation has been made, for which the Directors are solely responsible, has been made after due and careful enquiry.

KPMG, the Company's reporting accountants, has reviewed the discounted future cash flows and is of the opinion that so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions made by the Directors as set out in the Valuation. Please refer to Appendix VII to this circular or Appendix II to the Announcement for the report issued by KPMG according to Rule 14.62 of the Listing Rules.

Review by the Board

The Board has reviewed the historical financial information of the Target Company and the available information in relation to the financial prospect of the Target Expressway, which form the bases and assumptions upon which the forecast was based. On the basis of the foregoing, the Board is of the view that the bases and assumptions upon which the forecast was based are fair and reasonable.

Having reviewed the generally adopted valuation methodologies for infrastructure projects, particularly, projects with finite lives and steady cash flows, the Board is of the view that the discounted cash flow method within the income approach adopted in the Valuation is fair and reasonable. Please refer to Appendix VI to this circular for the letter from the Board issued according to Rule 14.62 of the Listing Rules.

LOAN TO VENDOR

The Target Company granted a loan (the "**Loan to Vendor**") to the Vendor in or around 2019. As at the date of the Equity Transfer Agreement, approximately RMB29.7 million (approximately HK$35.3 million) of the Loan to Vendor is due and outstanding by the Vendor to the Target Company. The Vendor would settle part of the Loan to Vendor with the Dividend to which it will be entitled, namely approximately RMB14.8 million. The outstanding amount of the Loan to Vendor after such settlement is expected to be approximately RMB14.9 million (approximately HK$17.7 million).

The Vendor and the Target Company will enter into a loan agreement (the "**Loan Agreement**") to formalise the then outstanding Loan to Vendor on or before the Completion.

The principal terms and conditions of the Loan Agreement are as follows:

Parties

(a) the Vendor (as borrower); and

(b) the Target Company (as lender)

Principal amount

The outstanding amount of the Loan to Vendor as at the date of the Loan Agreement, which shall not in any event be more than RMB29.7 million (approximately HK$35.3 million)

Repayment date

3 months from the date of the Loan Agreement

Interest rate

12% per annum

Early Repayment

The Vendor may early repay the Loan to Vendor in full after giving one business day's prior written notice to the Target Company.

Security

Nil

Since the Vendor will cease to have any interest in the Target Company, the Vendor intends to repay the Loan to Vendor after the Acquisition. Pursuant to the Equity Transfer Agreement, the parties have agreed that the Vendor shall early repay the then outstanding Loan to Vendor in full to the Target Company within 5 business days after the payment of the Consideration.

LEASE

The Target Company has been using certain office properties of the Vendor at nil consideration for its business operation since 2012. To avoid any possible interruption to the business operation of the Target Company after Completion, the Vendor and the Target Company have agreed to enter into a written lease agreement (the "**Lease Agreement**") to formalise such lease arrangement for a term of 3 years (the "**Lease**") on or before the Completion.

SIGNIFICANT FINANCIAL EFFECTS OF THE ACQUISITION

Significant financial effects of the Acquisition on the Enlarged Group

The following table sets forth the significant financial effects of the Acquisition on the Enlarged Group identified in the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV to this circular ("**Pro Forma Financial Information**"), assuming that completion of the Acquisition had taken place on 31 December 2020, as compared to the financial position of the Group as at 31 December 2020:

	As at 31 December 2020	**Pro forma adjustment**	**Upon completion of the Acquisition (pro forma Enlarged Group)**	**Change**
	HK'000	*HK'000*	*HK'000*	*%*
Net assets	623,068	3,356	626,424	0.5
Total assets	1,864,336	107,754	1,972,090	5.8
Total liabilities	1,241,268	104,398	1,345,666	8.4

Assets and liabilities

Based on the Pro Forma Financial Information, the unaudited pro forma consolidated total assets of the Enlarged Group as at 31 December 2020 would increase by approximately 5.8% to approximately HK$1,972.1 million and the unaudited pro forma consolidated total liabilities of the Enlarged Group as at 31 December 2020 would increase by approximately 8.4% to approximately HK$1,345.7 million after the Acquisition, assuming that completion of the Acquisition had taken place on 31 December 2020.

The net assets, the total assets and the total liabilities of the Enlarged Group which are referred to in this subsection were extracted from the Pro Forma Financial Information, which was based on, among other things, a Consideration of approximately RMB127.2 million (approximately HK$151.2 million) and the assumption that the completion of the Acquisition had occurred on 31 December 2020.

The unaudited Pro Forma Financial Information as at 31 December 2020 has taken into account the Consideration denominated in Hong Kong dollar at the assumed exchange rate of RMB1 to HK$1.1890. Since the actual exchange rate as at the Completion Date can be higher or lower than the assumed exchange rate, the Consideration denominated in Hong Kong dollar as at the Completion Date, could be different from that used for the purposes of the unaudited Pro Forma Financial Information. As the actual amounts of the assets and liabilities of the Target Company will be different from the amounts used in the Pro Forma Financial Information, the abovementioned figures as at the date of completion of the Acquisition may also be different from the corresponding amounts presented in the Pro Forma Financial Information.

Earnings

Assuming the occurrence of the completion of the Acquisition, the Target Company will become the subsidiaries of the Company. Based on the statements of profit or loss and other comprehensive income of the Target Company as set out in Appendix III to this circular, it is expected that the earnings of the Enlarged Group will increase as a result of the Acquisition. Nonetheless, after considering the factors set out in the section headed "Reasons for and benefits of the Acquisition" of the Letter from the Board, and that the toll revenue generated from the Target Expressways is expected to increase in the coming years, the Directors expect that the Acquisition could produce a positive impact on the earnings of the Group in the near future.

INFORMATION OF THE PARTIES

The Company and the Purchaser

The Company is an investment holding company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the construction, operation and management of an expressway and the trading of liquor and spirits in the PRC.

The Purchaser is an investment holding company incorporated in Hong Kong and a wholly-owned subsidiary of the Company.

The Vendor

The Vendor is a company established in the PRC and is wholly-owned by Mr. Chan. It is principally engaged in the construction and operation of expressways and construction of municipal highways in the PRC.

INFORMATION OF THE TARGET COMPANY

Business of the Target Company

The Target Company is a company established by the Vendor and Shenzhen Expressway, an Independent Third Party in the PRC on 18 January 2002. As at the date of the Equity Transfer Agreement, the Target Company had a total paid up capital of RMB150 million, of which RMB90 million was contributed by the Vendor. It possesses an exclusive right to, among others, operate the Target Expressway until 8 February 2027 under the Concession Agreement and approvals from the competent authorities.

According to the Concession Agreement, subject to the application of extension by the Target Company, the property rights and concession right of the Target Expressway should be handed over to the People's Government of Shenzhen, Longgang District upon its expiry, unless one of the following circumstance occurs: (i) parts or all of the Target Expressway are requisitioned by the People's Government of Shenzhen, Longgang District under the emergency state such that the Target Company is unable to operate and manage parts or all of the Target Expressway; (ii) as a result of a force majeure event, the Target Company is unable to operate, and needs no less than six months to launch a large-scale construction and maintenance for the damaged parts; or (iii) a part of the concession right is withdrawn by the People's Government of Shenzhen, Longgang District in advance of its expiry.

The Company confirms that the Target Company will hand over the property rights and concession right of the Target Expressway accordingly upon expiry in 2027.

Information about the Target Expressway

The Target Expressway is a six-lane expressway (three lanes in each direction) with a tollable distance of 5.28km. The Target Expressway connects Shenzhen Qingshuihe Checkpoint and Bulong Interchange on Shuiguan Expressway. Shuiguan Expressway is a major expressway linking the central business district of Shenzhen with Longgang District and Pingshan New Zone. Toll fees are collected at toll stations (typically using electronic payment system) and by the electronic toll collection system (through an electronic device attached to the vehicle).

Financial information of the Target Company

The historical financial information of the Target Company prepared in accordance with Hong Kong Financial Reporting Standards for the two financial years ended 31 December 2018 and 2019 and ten months ended 31 October 2020 are set out below.

	For the financial year ended 31 December		For the ten months ended 31 October
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	143,452	148,349	56,220
Profit before taxation	33,663	31,249	3,893
Profit after taxation	25,233	23,419	2,920

The total assets value and net assets value of the Target Company as at 31 October 2020 were approximately HK$290 million and HK$186 million, respectively.

REASONS FOR AND BENEFITS OF THE ACQUISITION AND THE LOAN TO VENDOR

The Target Company is an infrastructure project company and principally engages in the construction, operation and management of the Target Expressway, which has already been in operation and revenue generating since 2002. It is expected that the Acquisition will enable the Company to derive immediate earnings and cash flow contribution from it.

In addition, operation and management of an expressway is one of the core businesses of the Group. The Directors are of the view that the Acquisition is in line with the business strategy of the Company to expand its core business either by way of acquisition or capitalise on new opportunities. The Acquisition will expand the Group's portfolio of experience in managing and operating expressways, which will give the Group a competitive edge when bidding for construction, operation and management rights of other expressways in the PRC in the future. Therefore, the Acquisition will further increase the market shares and scale of the Group's core business, producing great synergistic effect in terms of business growth and the Group's future developments. This is an important part of the Company's overall strategy for the future.

The Ministry of Transport of the PRC issued a notice in February 2020 that the State Council of the PRC had permitted a nationwide toll-free policy for all vehicles using tolled highways (the "**Policy**") due to COVID-19 outbreak. Pursuant to the Policy, the Target Company has to waive the toll fees of vehicles using the Target Expressway. Subsequently, the Ministry of Transport of the PRC issued a notice that the State Council of the PRC had permitted resumption of collection of toll fees on tolled highways (the "**Resumption Notice**") from 00:00 on 6 May 2020. As a result, the Target Company did not record revenue for most of time during the period from 17 February 2020 to 5 May 2020 yet continued to incur management and operating costs.

Moreover, (i) Banyin Channel, a toll-free expressway connecting Banxuegang Interchange and Nigang Shangbu Interchange, which runs parallel to the Target Expressway and is situated approximately 2 km to the west of the Target Expressway, became operational in April 2020; and (ii) the first phrase of Eastern Transit Expressway, a toll-free expressway connecting Liantang Checkpoint at Hong Kong border and Jinqian Ao Interchange, which is an alternative to the Target Expressway, became operational in May 2020.

All these adversely affected the traffic flow and the performance of the Target Expressway which resulted in the decrease in revenue and net profit of the Target Company during the ten months ended 31 October 2020 in comparison to the same period in 2019.

Although the Target Company recorded a decrease in revenue and net profit for the ten months ended 31 October 2020, the Directors (excluding the independent non-executive Directors whose opinions are given in the letter from the Independent Board Committee) (a) remain confident on its prospects because the Target Expressway is located in Shenzhen, one of major cities in the PRC, and the Target Company has resumed to receive toll fees to generate revenue income pursuant to the Resumption Notice; and (b) consider the development potential of the Target Company to be promising and believe that the Acquisition can enhance the Group's competitiveness, further strengthen the Group's reputation within the industry and improve its the earning base of the Group.

The Target Company shall serve as an investment vehicle for the Group's investment in the Target Expressway which will elevate the Group's core competence and, accordingly, contribute to the Group's overall development potential in the expressway and transportation industry in the PRC.

In relation to the Loan to Vendor, the entering into of the Loan Acquisition was only necessitated by and part and parcel to the Acquisition. The Vendor shall early repay the then outstanding Loan to Vendor under the Loan Agreement within 5 business days after payment of the Consideration. In addition, before the Completion, the Loan to Vendor was an interest-free loan. After the Completion, the loan to Vendor shall carry an interest rate of 12 % per annum under the Loan Agreement.

Having considered the above reasons and benefits of the Acquisition and the Loan to Vendor together with the current financial position of the Group, the Directors (excluding the independent non-executive Directors whose opinions are given in the letter from the Independent Board Committee) are of the view that the Acquisition and the Loan to Vendor and on normal commercial terms or better and the terms of the Acquisition and the Loan to Vendor and are fair and reasonable and that the Acquisition and the Loan to Vendor and in the interests of the Company and the Shareholders as a whole.

THE LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Mr. Chan, an executive Director and a controlling Shareholder, owned the entire issued share capital of Velocity International Limited which was interested in approximately 72.71% of the issued share capital of the Company. The Vendor is wholly-owned by Mr. Chan. Therefore, the Vendor is an associate of Mr. Chan and a connected person of the Company.

The Acquisition

The Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Acquisition exceeds 25% but all of the percentage ratios are less than 100%, the Acquisition also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the Acquisition is subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

The Loan to Vendor

The Loan to Vendor will constitute a financial assistance received by the Vendor from the Target Company upon the Completion and accordingly, a connected transaction for the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the financial assistance contemplated under the Loan to Vendor exceeds 5% (but is less than 25%) and the value of such financial assistance plus any monetary advantage are more than HK$10,000,000, such financial assistance is therefore subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules and also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

The Lease

Upon the Completion, the Lease will constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. As the Lease Agreement is entered into on normal commercial terms or better and is at nil consideration, such connected transaction falls within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules and is fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

The Refund Guarantee

The Refund Guarantee will, when it is materialised, constitute a financial assistance received by the Purchaser from the Mr. Chan and accordingly, a connected transaction for the Company under Chapter 14A of the Listing Rules. As the Refund Guarantee will be conducted on normal commercial terms or better and is not secured by the assets of the Group, the Refund Guarantee will be fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.90 of the Listing Rules.

Mr. Chan, being an executive Director, has abstained from voting on the relevant resolutions proposed in the meeting of the Board. Mr. Chan and his associates (including Velocity International Limited), and any Shareholder with a material interest in the Acquisition and the Loan to Vendor are required to abstain from voting on the relevant ordinary resolution(s) approving the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder proposed to be passed at the EGM.

EGM

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

A form of proxy for use by the Independent Shareholders at the EGM is accompanied with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54 Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the appointed time for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

GENERAL

Completion is subject to the satisfaction and/or waiver of the Conditions Precedent 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.

RECOMMENDATION

The Board considers that the terms of the Equity Transfer Agreement and the Loan Agreement are fair and reasonable; and the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve, among other things, the Equity Transfer Agreement, the Loan 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 24 to 25 of this circular and the letter of advice from IFA to the Independent Board Committee and the Independent Shareholders in connection with the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder, and the principal factors and reasons considered by them in arriving at such advice set out on pages 26 to 49 in this circular.

The Independent Board Committee, having taken into account the advice of IFA, considers that the terms of the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder are fair and reasonable; the Equity Transfer Agreement, the Loan 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 resolutions to be proposed at the EGM to approve, among other things, the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the EGM, the register of members and transfer books of the Company will be closed from 8 June 2021 to 11 June 2021 (both days inclusive), during which period no transfer of Shares will be registered. The record date for entitlement to attend and vote at the EGM is 7 June 2021. In order to qualify to attend and vote at the EGM, all transfers of Shares, accompanied by relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 7 June 2021.

ADDITIONAL INFORMATION

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

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

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

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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1823)

30 April 2021

To the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 60% EQUITY INTERESTS IN THE TARGET COMPANY AND (2) DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE LOAN TO VENDOR

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder, details of which are set out in the Letter from the Board in the circular dated 30 April 2021 to the Shareholders (the "**Circular**"). Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

For the purposes of the Listing Rules, we have been appointed as the Independent Board Committee to consider the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition and Loan to Vendor. We are required to recommend whether or not the Independent Shareholders should vote for the resolution(s) to be proposed at the EGM to approve the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder.

The IFA, namely Lego Corporate Finance Limited, has been appointed with the Independent Board Committee's approval to advise the Independent Board Committee and the Independent Shareholders in relation to the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder. We wish to draw your attention to the IFA Letter which contains its advice to us in relation to the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder. We also draw your attention to the Letter from the Board.

Having taken into account the advice of the IFA, we are of the view that the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder are on normal commercial terms or better, and although the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company, the terms and conditions therein are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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

Yours faithfully,

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

Independent Board Committee

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

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

30 April 2021

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

Dear Sirs and Madams,

(1) MAJOR ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 60% EQUITY INTERESTS IN THE TARGET COMPANY AND (2) DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE LOAN TO VENDOR

INTRODUCTION

We refer to our appointment as the IFA to the Independent Board Committee and the Independent Shareholders in relation to the Equity Transfer Agreement, the Loan 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 30 April 2021 (the "**Circular**"), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

Reference is made to the announcement of the Company dated 7 April 2021, according to which on 7 April 2021 (after the trading hours) the Purchaser (being a wholly-owned subsidiary of the Company) entered into the Equity Transfer Agreement with the Vendor (a company wholly-owned by Mr. Chan), the Target Company and Mr. Chan, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Interests (representing 60% of and the entire equity interest held by the Vendor in the Target Company) at a Consideration of RMB127.2 million (approximately HK$151.2 million). Upon Completion, the Target Company will be indirectly owned as to 60% by the Company and become a non-wholly owned subsidiary of the Company, and its financial results will be consolidated into the financial statements of the Group.

As at the Latest Practicable Date, Mr. Chan, an executive Director and a controlling Shareholder, owned the entire issued share capital of Velocity International Limited which was interested in approximately 72.71% of the issued share capital of the Company. 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 constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Acquisition exceeds 25% but all of the percentage ratios are less than 100%, the Acquisition also constitutes a major transaction for the Company and is therefore subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Loan to Vendor will constitute a financial assistance received by the Vendor from the Target Company upon the Completion and accordingly, a connected transaction for the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the financial assistance contemplated under the Loan to Vendor exceeds 5% (but is less than 25%) and the value of such financial assistance plus any monetary advantage are more than HK$10,000,000, such financial assistance is therefore subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules and also constitutes a discloseable transaction for the Company under Chapter 14A of the Listing Rules.

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, pass, with or without modification, the ordinary resolution to approve, among other things, the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder by way of poll. Mr. Chan, being an executive Director, has abstained from voting on the relevant board resolutions of the Company. Mr. Chan and his associates (including Velocity International Limited), and any Shareholders with a material interest in the Acquisition and the Loan to Vendor are required to abstain from voting on the relevant ordinary resolution approving the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder. According to the Letter from the Board, to the best of the knowledge and belief of the Directors having made all reasonable enquiries, save and except for Mr. Chan and his associates (including Velocity International Limited), no other Shareholder has a material interest in the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Sun Xiao Nian, Mr. Chu Kin Wang, Peleus and Mr. Hu Lie Ge, has been established to advise the Independent Shareholders as regards the terms of the Equity Transfer Agreement, Loan Agreement and the transactions contemplated thereunder.

We, Lego Corporate Finance Limited, have been appointed by the Company as the IFA in accordance with the requirements of the Listing Rules to advise the Independent Board Committee and the Independent Shareholders as regards the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder, and to make recommendations as to, among others, whether the terms of the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder are fair, reasonable, on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole, and as to voting in respect of the relevant resolution(s) at the EGM. Our appointment has been approved by the Independent Board Committee.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests in the Company or any other parties that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, we had not been engaged by the Company for the provision of other services that would affect our independence. Apart from the normal professional fees paid or payable to us in connection with the appointment as the IFA, no arrangements exist whereby we have received or will receive any fees or benefits from the Group. Accordingly, we are independent under Rule 13.84 of the Listing Rules to act as the IFA and to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

BASIS OF OUR ADVICE

In formulating our opinions and recommendations, we have reviewed, among others, the Equity Transfer Agreement, the Loan Agreement, the announcement of the Company dated 7 April 2021, the annual report of the Company for the financial year ended 31 December 2019 (the "**2019 Annual Report**"), the annual report of the Company for the financial year ended 31 December 2020 (the "**2020 Annual Report**") and audited financial statements of the Target Company for the financial years ended 31 December 2017, 2018 and 2019 and ten months ended 31 October 2020 (the "**Audited Accounts of the Target Company**"). We have also reviewed certain information provided by the management of the Company (the "**Management**") relating to the operations, financial conditions and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; (ii) conducted verbal discussions with the Management regarding the terms of the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder, the businesses and future outlook of the Group; and (iii) discussed the valuation methodologies, bases and assumptions adopted for the Valuation Report conducted by the Valuer. We have taken reasonable steps to ensure that such information and statements, and any representation made to us, which we have relied upon in formulating our opinions, were true, accurate and complete in all material respects as of the Latest Practicable Date and the Shareholders shall be notified of any material changes, as soon as possible.

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1 Financial information of the Group

The Group is principally engaged in the construction, operation and management of Sui-Yue Expressway (Hunan Section) (the "**Expressway**") and the trading of liquor and spirits in the PRC.

Set out below in Table 1 is certain financial information of the Group for the two financial years ended 31 December 2019 as extracted from the 2019 Annual Report, and for the financial year ended 31 December 2020 as extracted from the 2020 Annual Report.

Table 1: Financial information of the Group

	For the year ended 31 December		
	2020	**2019**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	505,962	456,986	204,456
– Toll income	140,486	192,419	202,059
– Sales of liquor and spirits	365,476	264,567	2,397
Profit for the year attributable to equity shareholders of the Company	70,299	50,420	76,580

	As at 31 December		
	2020	**2019**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	1,498,810	1,398,283	1,471,361
Current assets	365,526	365,049	477,384
Current liabilities	(203,030)	(207,330)	(414,330)
Net current assets	162,496	157,719	63,054
Net assets	623,068	517,707	492,696

For the year ended 31 December 2019

For the year ended 31 December 2019, total revenue of the Group was approximately HK$456.99 million, representing an increase of approximately 123.51% as compared to that of approximately HK$204.46 million for the year ended 31 December 2018. Based on the 2019 Annual Report, such increase in revenue was mainly due to (i) the sales of Huamaojiu under the sole distributorship agreement with China Kweichow Moutai Winery Group Company Limited; and (ii) the continuous improvement in the highway network system within the districts surrounding the Expressway and hence the significant increase in traffic volume to the Expressway.

For the year ended 31 December 2019, the Group recognised profit for the year attributable to equity shareholders of the Company of approximately HK$50.42 million, representing a decrease of approximately 34.16% as compared to that of approximately HK$76.58 million for the year ended 31 December 2018. Based on the 2019 Annual Report, such decrease was mainly caused by (i) the recognition of other net loss for the year ended 31 December 2019 resulted from, among others, the net foreign exchange loss and the loss on disposal of non-current assets, as opposed to other net income recognised for the year ended 31 December 2018; (ii) the recognition of deferred tax charges of approximately HK$14.2 million for the year ended 31 December 2019 against the recognition of deferred tax benefits of approximately HK$39.6 million for the previous year, which was mainly resulted from the temporary differences in connection with the impairment provision and construction profit of intangible asset of the Group; and partially offset by (iii) the above-mentioned year-on-year increase in revenue.

As at 31 December 2019, the Group recorded net current assets and net assets of approximately HK$157.72 million and approximately HK$517.71 million, respectively.

For the year ended 31 December 2020

For the year ended 31 December 2020, total revenue of the Group was approximately HK$505.96 million, representing a substantial increase of approximately 10.72% as compared to that of approximately HK$456.99 million for the year ended 31 December 2019. Based on the 2020 Annual Report, such increase in revenue was mainly driven by the combined effects of (i) the year-over-year increase in revenue from sales of liquor and spirits which was mainly attributable to a significant recovery of sales of liquor and spirits with the reopening of economic activities in the PRC since May 2020; and (ii) the year-over-year decrease in toll fee revenue from the Expressway which was mainly attributable to the implementation of the nationwide toll-free Policy in relation to COVID-19 pandemic during February to May 2020, under which the Company had waived toll fees of vehicles using the Expressway during such period, and the change of the toll system for trucks from "toll by weight" to "toll by class" during the year ended 31 December 2020, which has significantly reduced the toll fee per truck.

For the year ended 31 December 2020, the Group recognised profit for the year attributable to equity shareholders of the Company of approximately HK$70.30 million, representing an increase of approximately 39.43% as compared to that of approximately HK$50.42 million for the year ended 31 December 2019. Based on the 2020 Annual Report, such decrease was mainly due to the net effects of (i) the above-mentioned year-on-year increase in revenue; (ii) the recognition of other net income for the year ended 31 December 2020 primarily resulted from the net foreign exchange gain, as opposed to other net loss recognised for the year ended 31 December 2019; and (iii) the significant year-over-year decrease of 48.6% in the selling and distribution costs for the year ended 31 December 2020 due to the cancellation of the advertising and promotion events during the year resulted from the outbreak of the COVID-19 pandemic and the related social distance restriction requirement.

As at 31 December 2020, the Group recorded net current assets and net assets of approximately HK$162.50 million and approximately HK$623.07 million, respectively.

2 Background information on the Vendor and the Purchaser

According to the Letter from the Board, the Vendor is a company established in the PRC and is wholly-owned by Mr. Chan. It is principally engaged in the construction and operation of expressways and construction of municipal highways in the PRC.

The Purchaser is an investment holding company incorporated in Hong Kong and a wholly-owned subsidiary of the Company.

3 Reasons for and benefits of entering into of the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder

In assessing the reasons for and benefits of entering into of the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder, we have primarily considered the recent development of the expressway business of the Group, the background of the Target Company and the future prospect of the Target Expressway.

3.1 Development of the Group's toll expressway business

Through the construction, operation and management of the Expressway, the Group has been principally engaged in toll expressway business in the PRC. The Expressway is strategically located in Hunan Province, which exhibited a gross domestic product growth higher than the country average for 2020 according to the data from the National Bureau of Statistics of the PRC (*http://www.stats.gov.cn/*). The toll expressway business has been generating considerable revenue to the Group and accounted for more than 25% of the total revenue of the Group for the year ended 31 December 2020. Notwithstanding that the entire toll fee was exempted from 17 February to 5 May 2020 due to the outbreak of the COVID-19 pandemic which has adversely affected the Group's revenue, with the ease of restrictions and reopening of the economy in the PRC, the Group managed to recover traffic flow and toll revenue of the Expressway to the level before the COVID-19 pandemic. As emphasised in the 2020 Annual Report, with the confidence in the performance of the toll expressway business in the post COVID-19 pandemic period and the experience of the Directors in successfully completing other PRC toll expressway projects, going forward, the Group might pursue other infrastructure projects in the PRC by, among others, acquiring infrastructure projects which are already in operation from other developers or the government whenever suitable opportunity arises, which is in consistent with the Group's overall business strategies.

3.2 Background information of the Target Company

The Target Company is an infrastructure project company incorporated in the PRC on 18 January 2002 and owned as to 60% by the Vendor and as to 40% by Shenzhen Expressway, an independent third party to the Company, its connected persons and their respective associates as at the date of the Equity Transfer Agreement. The Target Company has a total paid up capital of RMB150 million, of which RMB90 million was contributed by the Vendor. With an exclusive right to, among others, operate the Target Expressway until 8 February 2027 under the Concession Agreement and approvals from the competent authorities, the Target Company is principally engaged in the construction, operation and management of the Target Expressway, which has already been in operation and revenue generating since 2002.

With reference to the Letter from the Board, according to the Concession Agreement, the property rights and concession right of the Target Expressway should be handed over to the government after its expiry, unless one of the circumstances where the Target Company can apply for an extension of the concession period occurs, details of which are set out in the sub-section headed "INFORMATION OF THE TARGET GROUP" of the Letter from the Board. As confirmed by the Company, the Target Company will hand over the property rights and concession right of the Target Expressway accordingly upon expiry in 2027, unless any extendable circumstance occurs.

According to the Letter from the Board, the Target Expressway is a six-lane expressway (three lanes in each direction) with a tollable distance of 5.28 km. The Target Expressway connects Shenzhen Qingshuihe Checkpoint and Bulong Interchange on Shuiguan Expressway. Shuiguan Expressway is a major expressway linking the central business district of Shenzhen with Longgang District and Pingshan New Zone. Toll fees are collected at toll stations (typically using electronic payment system) and by the electronic toll collection system (through an electronic device attached to the vehicle).

Set out below is certain audited financial information of the Target Company for the financial years ended 31 December 2018 and 2019 and for the ten months ended 31 October 2020, respectively.

	For the ten months ended 31 October 2020	**For the financial year ended 31 December 2019**	**31 December 2018**	**31 December 2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	56,220	148,349	143,452	137,078
Profit before taxation	3,893	31,249	33,663	31,749
Profit after taxation	2,920	23,419	25,233	23,798

During the three years ended 31 December 2019, the performance of the Target Group has been achieving steady year-on-year growth in revenue with relatively stable returns. In February 2020, the Ministry of Transport of the PRC (*http://www.mot.gov.cn/)* issued a notice that the State Council of the PRC had permitted the nationwide toll-free Policy for all vehicles using tolled highways with effect from 0:00 a.m. on 17 February 2020 due to the COVID-19 pandemic. In accordance with the Policy, the Target Company had to waive the toll fees of vehicles using the Target Expressway. As a result, the Target Company did not record revenue for most of time during the period from 17 February 2020 to 5 May 2020 yet continued to incur management and operating cost. Whilst the collection of toll fees on tolled highway resumed and the economy of Guangdong Province showed signs of recovery subsequently, the opening of neighbouring expressways being Banyin Channel in April 2020 and the first phase of Eastern Transit Expressway in May 2020 also affected negatively the traffic volume of the Target Expressway. These have resulted in the decrease in revenue and net profit of the Target Company during the ten months ended 31 October 2020 in comparison to the same period in 2019.

As at 31 October 2020, the total asset value and the net asset value of the Target Company amounted to approximately HK$290 million and approximately HK$186 million, respectively.

3.3 Future prospect of the Target Expressway

In assessing the future prospect of the Target Expressway, we have primarily conducted research from the public domain on the general economic environment and toll expressway development of Shenzhen.

With reference to the statistics published by the Shenzhen Municipal People's Government (*http://www.sz.gov.cn/*), annual gross domestic product ("**GDP**") of Shenzhen has been constantly increasing during 2015 and 2020 with a compound annual growth rate of approximately 9.59%, and reached approximately RMB2,767.0 billion in 2020. According to 《2021年1-2月深圳經濟運行情況》 ("The Economic Performance of Shenzhen for the Period from January to February 2021*") published by the Shenzhen Bureau of Statistics (*http://tjj.sz.gov.cn/*) in March 2021, results of the municipal's prevention and control policies relating to the COVID-19 pandemic as well as the economic and social developments continued to show during the first two months of 2021, with certain major economic indicators such as industrial added value, investment in fixed assets, total retail sales of social consumer goods and foreign trade imports and exports having achieved a growth. Further, based on 《新40年・新40企－深圳未來發展的新力量》("New 40 Years · New 40 Enterprises – New Power for the Future Development of Shenzhen*") issued in September 2020 by China Development Institute (http://en.cdi.org.cn/), an independent think tank based in Shenzhen which was approved by the State Council of the PRC, GDP of Shenzhen is anticipated to grow annually at the average of 6.5% throughout 2021 to 2025, demonstrating a generally positive trend of the economic development of Shenzhen

On the other hand, it is expected that the number of vehicles in the PRC would generally increase in the near future, supported by the recent increase in sales and productions of vehicles and the projected increase sales in the future. According to the statistics issued by China Association of Automobile Manufacturers (*http://www.caam.org.cn/tjsj*) on 14 December 2020, vehicle sales and production in the PRC had increased for eight consecutive months and reached approximately 2.77 million and approximately 2.85 million in November 2020, representing increases of approximately 12.6% and 9.6%, respectively, as compared to November 2019. With reference to "The future of automotive sales in China" published in 2021 by Accenture, a global leading provider of consulting and processing services, it is expected that the annual sales of vehicles will reach 30 million by 2025 with an extraordinary growth in the electric vehicle market in the PRC. It is expected that the anticipated growth in the population of vehicles in the PRC shall drive the overall growth in traffic load and usage of toll expressways in the future.

In addition, in around September 2019, The Central Committee of the Chinese Communist Party (*https://cpcchina.chinadaily.com.cn/*) and the State Council of the PRC (*http://www.gov.cn/*) issued《交通強國建設綱要》(“The Program of Building National Strength in Transportation*”) with the aims to holistically advance the building of the national strength in transportation, a major national strategic decision, and form a modern and comprehensive transportation system across the PRC by 2035. Based on the program, the above national targets shall be achieved by, among others, improving the city cluster expressway network, strengthening the connections between expressways and urban roads, as well as optimising the allocation and expanding fine supply of resources to the planning and construction of infrastructure including expressways. With reference to《中共廣東省委關於制定廣東省國民經濟和社會發展第十四個五年規劃和二〇三五年遠景目標的建議》(“The Proposal of the Guangdong Provincial Committee of the Communist Party of the PRC on the Formulation of the 14th Five-Year Plan for the National Economic and Social Development of Guangdong Province and the Long-Term Goals for 2035*”) published in December 2020 by the People’s Government of Guangdong Province (*http://www.gd.gov.cn/*), during the 14th five-year period, the Guangdong province shall target to accelerate the construction of major transportation facilities such as expressways and actively participate in the constructions underlying the “Belt and Road” initiative by promoting interconnection of infrastructure with countries and regions along the route.

Despite the competition from the neighbouring expressways, taking into account (i) the generally positive economic development of Shenzhen; and (ii) the generally positive prospect of toll expressway development of Shenzhen as supported by the positive trends of sales and production of vehicles in the PRC as well as the favourable governmental initiatives and policies, it is expected that the future prospect of the Target Expressway will be generally optimistic.

In conclusion, considering that (i) it is the Group’s business strategy to pursue other suitable infrastructure projects in order to maximise the returns; and (ii) the prospect of the Target Expressway is expected to be generally positive in the future, we are of the view that the entering into of the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder, being a condition precedent to the Completion, are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

4 Principal terms of the Equity Transfer Agreement and the transactions contemplated thereunder

On 7 April 2021 (after trading hours) the Purchaser (a wholly-owned subsidiary of the Company) entered into the Equity Transfer Agreement with the Vendor (a company wholly-owned by Mr. Chan), the Target Company and Mr. Chan, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Interests (representing 60% of and the entire equity interest held by the Vendor in the Target Company) at a Consideration of RMB127.2 million (approximately HK$151.2 million).

Within 30 business days after the fulfilment or waiver (if applicable) of all the Conditions Precedent, the Purchaser and the Vendor shall assist the Target Company to carry out the Completion whereupon the Sale Interests will be transferred from the Vendor to the Purchaser and the Purchaser shall have all the shareholders' rights attached to the Sale Interests.

Further details of the principal terms of the Equity Transfer Agreement are set out in sub-section headed "THE EQUITY TRANSFER AGREEMENT" of the Letter from the Board.

According to the Letter from the Board, the Consideration for the transaction contemplated under the Equity Transfer Agreement shall be RMB127.2 million (approximately HK$151.2 million) and was determined on the arm's length negotiations between the Vendor and the Purchaser with reference to the range of fair market value of the Sale Interests between RMB125.8 million (approximately HK$149.6 million) and RMB128.6 million (approximately HK$152.9 million) as at 19 March 2021 (the "**Valuation Date**") as appraised by the Valuer using the discounted cash flow approach as a primary methodology.

We understand that the Company commissioned the Valuer to assess the fair market value of the Sale Interests as at 19 March 2021 for the purpose of assisting the Board in its evaluation of the Acquisition. We also understand that the Valuation was carried out based on the Management's financial forecast of the Target Company from the Management for the period from 1 November 2020 to 8 February 2027 (the "**Management Forecast**"). Details of the Valuation Report is set out in Appendix V to the Circular.

In assessing the fairness and reasonableness of the Consideration, we have conducted discussions with the Valuer and the Management in relation to the Valuation, details of our analysis of which are set out below.

4.1 Expertise and experience of the Valuer

For our due diligence purpose and in order to assess the expertise and experience of the Valuer, we have (i) reviewed the terms of engagement (including the scope of work) between the Valuer and the Company in respect of the Valuation; and (ii) conducted an interview with the Valuer regarding its expertise and experience. Based on our research and/or confirmation from the Valuer, the holding company of the Valuer has over 700 offices across the globe and provides assurance, consulting, strategy and transactions, and tax services to more than 200,000 clients in 150 countries; and in Greater China, the Valuer has over 300 dedicated professionals and possesses necessary experience in appraising various kinds of assets including equity interests of private companies which operate or own expressway(s) and/or infrastructures projects in the PRC, as well as performing valuation exercises using various valuation approaches including the discounted cash flow method. During the course of our review of the Valuation and discussions with the Valuer, we were not aware of any material facts that would cause us to cast doubts on the experience and expertise of the Valuer.

4.2 Valuation methodology

In order to determine the appraised value of the Sale Interests, the Valuer has initially considered three generally adopted valuation approaches, namely the income approach, the market approach and the asset-based approach, and adopted the discounted cash flow method within the income approach for the purpose of the Valuation.

As discussed with the Valuer, under the income approach, which focuses on the income-producing capability of the asset, the value of the asset can be measured by the present worth of the net economic benefit to be received over the life of the asset. Among all valuation approaches considered, the Valuer is of the view that the discounted cash flow method is the most appropriate for the purpose of the Valuation given (i) the discounted cash flow approach is one of the most commonly used methodologies for valuing infrastructure projects, particularly, projects with finite lives, such as that of the Target Expressway which has a remaining concession period of approximately 6 years until 8 February 2027; (ii) the nature of investment in the Target Expressway, being capital intensive and requires large amounts of upfront capital, high gearing and long lead times, can be captured by the discounted cash flow method; and (iii) with a long history, steady traffic volumes and revenue, and as supported by the Management Forecast, further analyses of which are set out in the sub-section below headed "4.4 Management Forecast" of this letter, cash flows of the Target Expressway can be predicted with a reasonable degree of certainty. We have, in this regard, conducted independent research and noted that discounted cash flow method has been commonly adopted for the valuations of private companies which operate or own expressways in the PRC involved in acquisitions of other companies listed on the Stock Exchange. Based on the aforesaid and having considered the experience of the Valuer as previously analysed, we concur with the Valuer's view that the adoption of discounted cash flow method within income approach for the Valuation by the Valuer is fair and reasonable.

4.3 Valuation bases and assumptions

In adopting the discounted cash flow method, the Valuer has relied upon the estimated future cash flows attributable to the Target Expressway and the underlying assumptions under the Management Forecast, analyses of which are set out in the sub-section headed "4.4 Management Forecast" below of this letter, and calculating the net present value of these cash flows by utilising a discount rate accounted for the time value of money and investment risk factors.

Based on our discussions with the Valuer, the discount rate is the cost of equity determined through the Capital Asset Pricing Model (the "**CAPM**") after taking into account of the risk-free rate, market risk premium, equity beta and specific risk premium, which is widely accepted for the purpose of estimating the required rate of return on equity. In respect of the risk-free rate, we were given to understand that the Valuer has adopted the yield-to-maturity of five-year PRC government bonds as at the Valuation Date of 3.17% quoted by S&P Capital IQ after considering the remaining concession period of the Target Expressway of approximately six years. We noted that five-year term is adopted as it is comparable to the life of the concession period of the Target Expressway. We have, also conducted research independently from the public domain on the background of S&P Capital IQ, and noted that it is a global financial data provider and a research division of S&P Global, one of the largest providers of ratings, data and the S&P Dow Jones Indices. On the other hand, a market risk premium of 7.5% was adopted which, based on our independent cross-check with reference to the commonly used equity risk premium database (*http://pages.stern.nyu.edu/~adamodar/*) last published by Prof. Aswath Damodaran of New York University in January 2021, was justifiable. In determining the specific risk premium, the Valuer has primarily taken into account of the size premium of 5% which was determined with reference to the Duff & Phelps 2020 Valuation Handbook**.** Based on our independent research, we noted that Duff & Phelps, LLC. is a well-recognised international consultancy firm and its publications have often been made reference with by valuation practitioners. In addition, we have reviewed and discussed with the Valuer the list of comparable companies used to determine the equity beta. We learnt that the Valuer has selected a complete list of companies which were (i) listed on the Stock Exchange for at least three years as at the Valuation Date in order for equity beta observations; and (ii) principally engaged in construction, operation, management, maintenance and investment in toll road projects in the PRC as at the Valuation Date, and sourced the respective equity betas from S&P Capital IQ. For our assessment purpose, we have independently performed search from public domains to identify companies which were (i) listed on the Stock Exchange for at least three years as at the Valuation Date; and (ii) principally engaged in construction, operation, management, maintenance and investment in toll roads projects in the PRC with such relevant segments having accounted for not less than 50% of their respective total revenues for the then latest financial year, and obtained the same list of comparable companies as the Valuer which is exhaustive. Accordingly, we consider that the comparable companies selected are fair and reasonable. With reference to the betas of the comparable companies, the Valuer has adopted the beta in the range of 0.65 to 0.75 for estimating the discount rate. Based on the above estimations, a discount rate in a range of 14.0% and 15.0% has been adopted for the arrival of the fair market values of the Sale Interests as at the Valuation Date.

In assessing the fairness and reasonableness of the fair market value of the Sale Interests, save for mentioned above, we have also discussed with the Valuer in further details on its analysis to cross check the fair market value of the Sale Interests by adopting the market approach, which, among others, compared the price-to-earnings ("**P/E**") ratio of the Target Company implied by the discounted cash flow method with the P/E ratios of the comparable companies under the market approach. We noted that the comparable companies selected are identical to those used for determining the equity beta of the discount rate applied for appraising the Sale Interests. As per discussion with the Valuer, when interpreting the cross-check results, several factors have been taken into consideration including (i) the remaining concession periods of tolls roads of the comparable companies; (ii) the P/E ratios of the comparable companies for 2020 are reflective of the effects brought by COVID-19 and the toll-free Policy; (iii) operating scales of the comparable companies which are relevant to the size premium concept under CAPM; and (iv) the control premium of the Target Company. Based on the aforesaid factors, we concur with the views of the Valuer that the forecasted P/E ratios of the comparable companies for the year ending 31 December 2021, being the first full year post COVID-19, which were sourced from S&P Capital IQ, to be more relevant for comparison. Having considered that the forecasted P/E ratio of the Target Company lies within the range of the forecasted P/E ratios of the comparable companies for the year ending 31 December 2021, we further concur with the views of the Valuer the result obtained from the discounted cash flow method is broadly consistent with the outcome of the market approach.

During our course of review, we were not aware of any material facts which might lead us to doubt fairness and reasonableness of the principal bases or assumptions adopted in the Valuation.

4.4 Management Forecast

We have reviewed and discussed with the Management in relation to the bases and assumptions adopted for the Management Forecast, including but not limited to those related to the estimated traffic volumes, toll rates as well as operation and maintenance costs of the Target Expressway. In respect of the preparation of the Management Forecast, we noted that the Management has, among other things, (i) collected (a) GDP data of Guangdong Province and Shenzhen; (b) historical traffic data of the Target Expressway; and (c) historical toll revenue and other operational data of the Target Expressway; and (ii) reviewed the relevant national or local government policies, including 《國務院辦公廳關於印發深化收費公路制度改革取消高速公路省界收費站實施方案的通知》("Notice of the General Office of the State Council on Issuing the Implementation Plan for Deepening the Reform of the Toll Road System and Canceling the Provincial Toll Stations on Expressways*") and other documents relating to previous toll road reform in the PRC.

When performing the Management Forecast in relation to traffic volumes of the Target Expressway, Management has, among others, (i) used the number of standard vehicle units for 2019 as a base for 2020 and converted the amounts to reflect the toll regime and toll rates effective from 6 May 2020; (ii) applied a reduction factor of 13.5% to reflect the ongoing competition from the neighbouring expressways when estimating the traffic volumes for 2021 where Banyin Channel became operational in April 2020 and the first phrase of Eastern Transit Expressway became operational in May 2020; and applied the same reduction factor for 2024 where the second phrase of Eastern Transit Expressway will become operational in early 2024; and (iii) considered the forecast GDP growth rates of Shenzhen and Guangdong Province. Based on our discussion with the Management and independent research conducted, we further noted that (i) the reduction factor applied for estimating the traffic volume for 2021 and 2024 was determined with reference to the reduction of number of standard vehicle units of the Target Expressway for the period from 1 June 2020 to 31 October 2020 by approximately 12% to 15% in comparison to that of the same period in 2019, as a result of the opening of Banyin Channel in April 2020 and the first phase of Eastern Transit Expressway in May 2020, and the reduction factor of 13.5% represents the mid-point of range of the above figures; (ii) same reduction factor was applied to forecast the traffic volume of the Target Expressway for 2024 as the potential adverse impact to be brought by the opening of the second phase of Eastern Transit Expressway in early 2024; and (iii) a constant traffic growth rate of 5% per annum was applied for the Target Expressway throughout the forecast period of the Management Forecast on a prudent basis having considered the potential positive associations between the growth in traffic volume and the growth in GDP perceived by the Management, the latter of which had been, according to our independent research conducted from the public domain and/or the information provided by the Management, consistently maintained at a level higher than 5% since 2017 and was anticipated to be higher than 5% throughout the forecast period in respect of Shenzhen and Guangdong Province.

When performing the Management Forecast in relation to estimated toll rates of the Target Expressway, the Management has (i) adopted the actual average toll revenue per standard vehicle unit for the period from 1 June 2020 to 31 October 2020 as the base to forecast the toll rates having taken into account of, among others, the estimated penetration rate of electronic toll collection (''**ETC**'') throughout the forecast period; (ii) adopted a discount of 5% on toll rates applicable for traffic using the ETC system throughout the forecast period; and (iii) assumed an annual increment of 2% to the ETC penetration rate over the forecast period. Based on our discussions with the Management and independent research conducted, we further noted that (i) the discount of 5% over the ETC usage was consistent with the industry practice and the minimum requirement as set out in the notice 《關於大力推動高速公路ETC發展應用工作的通知》(''Notice on Promoting the Development and Application of Expressway ETC*'') (the ''**ETC Notice**'') published by Ministry of Transport of the People's Republic of China on 24 May 2019; and (ii) the annual increment of 2% to the ETC penetration rate was in line with the historical growth in ETC penetration rate of the Target Expressway throughout 2017 and 2018 as provided by the Management. Based on our discussions with the Management, we learnt that the historical growth in the ETC penetration rate throughout 2018 and 2019, which was higher than 2%, was considered to have been impacted by an one-off boost attributable to the issue of the ETC Notice, in which a discount on the toll rates of not less than 5% for ETC system usage was required to be strictly implemented, and accordingly should not have been taken into consideration when estimating the annual increment in the ETC penetration rate.

When performing the Management Forecast in relation to cost of service of the Target Expressway, the Management has, among others, (i) assumed that the toll collectors' salaries, maintenance costs and other miscellaneous items shall be subject to an annual inflation rate of 2.6%; and (ii) assumed that there would be no material changes to the structure of cost of services throughout the forecast period. Based on our discussion with the Management and independent research conducted, we further noted that the inflation rate of 2.6% adopted for the Management Forecast was in line with the estimation in a study report ''Forecast inflation rate for 2024'' issued by Economist Intelligence Unit (*https://www.eiu.com/n/*), a renowned research and analysis group providing forecasting and advisory services worldwide.

In addition to the above, we have also discussed with the Management regarding other components of the Management Forecast, including other revenue, administrative expenses, finance costs and bank loan repayment, depreciation and amortization expenses, capital expenditure, income tax, movements in working capital as well as other adjustments relating to cash, amounts due from and due to related parties and the Dividend, and reviewed the relevant documents, including but not limited to (i) the concession agreement of the Target Expressway, and (ii) all loan agreement(s) of the Target Company, etc. and nothing has come to our attention that will cause us to doubt the reasonableness of the Management Forecast including the bases and assumptions applied therein. In view of the above we consider that the bases and assumptions adopted in the Management Forecast are fair and reasonable.

Based on our review of the above and our interview with the Valuer and the Management, we have not identified any major issues that may cause us have doubts on the reasonableness and fairness of the bases, assumptions and methodologies adopted in the Valuation. In this regard, we are of the opinion that the fair market value of the Sale Interests as appraised by the Valuer as at 19 March 2021 is fair and reasonable.

According to the Valuation Report, the fair market value of the Sale Interests was between approximately RMB125.8 million (approximately HK149.6 million) and RMB128.6 million (approximately HK$152.9 million) as at 19 March 2021.

Accordingly, taking into account that the Consideration of RMB127.2 million (approximately HK$151.2 million) represents the mid-point value of the range of fair market values of the Sale Interests as appraised by the Valuer as at 19 March 2021, we consider that the Consideration is fair and reasonable.

5 Principal terms of the Loan Agreement and the transactions contemplated thereunder

The Target Company granted the Loan to Vendor in or around 2019. As at the date of the Equity Transfer Agreement, approximately RMB29.7 million (approximately HK$35.3 million) of the Loan to Vendor was due and outstanding by the Vendor to the Target Company. The Vendor would settle part of the Loan to the Vendor with the Dividend to which it will be entitled, namely approximately RMB14.8 million. The outstanding amount of the Loan to Vendor after such settlement is expected to be approximately RMB14.9 million (approximately HK$17.7 million).

The Vendor, as borrower, and the Target Company, as lender, will enter into the Loan Agreement to formalise the then outstanding Loan to Vendor on or before the Completion, pursuant to which the then outstanding Loan to Vendor shall be repaid within 3 months from the date of the Loan Agreement and entitled to an interest rate of 12% per annum. Further details of Loan Agreement are set out in the sub-section headed "LOAN TO VENDOR" of the Letter from the Board.

Since the Vendor will cease to have any interest in the Target Company upon Completion, the Vendor intends to repay the Loan to Vendor after the Acquisition. Pursuant to the Equity Transfer Agreement, the parties have agreed that the Vendor shall early repay the then Loan to Vendor in full to the Target Company within five business days after the payment of the Consideration by the Purchaser.

In assessing the fairness and reasonableness of the principal terms of the Loan Agreement, we have made reference to the grant of loans as announced by the companies listed on the Stock Exchange (or through its subsidiaries) as lenders to connected person(s) during the three months immediately preceding and including the Latest Practicable Date. On a best-effort basis, we have identified an exhaustive list of 13 comparable loans (the "**Comparable Loan(s)**") which have met the above criteria as at the Latest Practicable Date.

Shareholders should note that (i) the businesses, operations and prospects of the Company are not the same as the underlying listed companies providing the Comparable Loans; and (ii) the credit risk of the Vendor might not be the same as that of the underlying borrowers of the Comparable Loans. Notwithstanding the above, we consider that our assessment serves a general reference to the recent market practice in respect of provision of loans to connected persons under the current market condition and sentiment. The relevant details of the Comparable Loans are set out in Table 2 below:

Table 2: A summary of the Comparable Loans

Date of announcement	**Name of the underlying listed companies**	**Stock code**	**Principal amount of loans** *(RMB million)*	**Interest rate per annum** *(%)*	**Term to maturity** *(number of months)*
20/4/2021	Echo International Holdings Group Limited	8218	4.2 *(Note 1)*	7.00	8.5
16/4/2021	Cogobuy Group	400	90	6.00	6.0
13/4/2021	Minshang Creative Technology Holdings Limited	1632	5.0	8.00	5.0
26/3/2021	Lee's Pharmaceutical Holdings Limited	950	13.1 *(Note 1)*	4.00	12.0
9/3/2021	Shanghai Jin Jiang Capital Company Limited	2006	87.5	3.92	12.0
25/2/2021	Shi Shi Services Limited	8181	29.4 *(Note 2)*	10.00	24.0
23/2/2021	Summit Ascent Holdings Limited	102	786.0 *(Note 1)*	6.00	3.0
19/2/2021	Wuling Motors Holdings Limited	305	2.5	3.00	12.0
10/2/2021	China Chengtong Development Group Limited	217	10.0	6.00	18.0
9/2/2021	Super Strong Holdings Limited	8262	7.6 *(Note 2)*	5.00	4.0
5/2/2021	China Communications Construction Company Limited/Greentown China Holdings Limited	1800/3900	2,699.8	8.00	N/A *(Note 3)*
1/2/2021	Lee's Pharmaceutical Holdings Limited	950	44.3 *(Note 1)*	4.00	12.0
29/1/2021	Sany Heavy Equipment International Holdings Company Limited	631	300.0	4.15	6.0
		Minimum:		**2.5**	**3.0**
		Maximum:		**10.00**	**24.0**
		Average:		**5.70**	**10.2**
	Loan to Vendor		**RMB29.7**	**12.00**	**3.0**

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

Notes

1. For the purpose of illustration, the amount denominated in US$, have been converted into RMB, the official currency of the PRC, at an exchange rate of US$1.00=RMB6.55.

2. For the purpose of illustration, the amount denominated in HK$, have been converted into RMB at an exchange rate of RMB1.00=HK$1.189.

3. The maturity to terms of the subject Comparable Loan was not explicitly disclosed in the relevant announcement of the underlying listed issuer dated 5 February 2021, and therefore has been excluded in the analysis of the maturity to terms of the Comparable Loans.

5.1 Interest rate

As shown in Table 2 above, the interest rates of the Comparable Loans range from 2.50% to 10.00%, with an average of approximately 5.70%. The interest rate of the Loan to Vendor of 12.00% per annum is higher than the range of interest rate of the Comparable Loans.

5.2 Term to maturity

As shown in Table 2 above, the terms to maturity of the Comparable Loans range from 3.0 months to 24.0 months, with an average of approximately 10.2 months. The term to maturity of the Loan to Vendor of three months from the date of the Loan Agreement is therefore within the range of that of the Comparable Loans.

In light of the foregoing, we are of the view that the principal terms of the Loan to Vendor are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6 Financial effects of the Equity Transfer Agreement and the transactions contemplated thereunder

Upon Completion, the Target Company will become indirectly owned as to 60% by the Company and become a non-wholly owned subsidiary of the Company, and its financial results will be consolidated into the financial statements of the Group.

When assessing the financial impacts of the Equity Transfer Agreement and the transactions contemplated thereunder, we have primarily taken into account the following aspects:

6.1 Earnings

According to the 2020 Annual Report, profit for the year attributable to equity shareholders of the Company for the year ended 31 December 2020 was approximately HK$70.3 million. Upon Completion, considering the potential income to be generated from the Target Expressway with reference to its generally optimistic prospect as analysed in the sub-section headed "3. Reasons for and benefits of entering into of the Equity Transfer Agreement, the Loan Agreement and the transactions contemplated thereunder" above of this letter, it is expected that the Equity Transfer Agreement and the transactions contemplated thereunder would have a positive impact on the earnings of the Group.

6.2 Assets and liabilities

According to the 2020 Annual Report, total assets and total liabilities of the Group as at 31 December 2020 were approximately HK$1,864.3 million and approximately HK$1,241.3 million, respectively, leading to net assets of approximately HK$623.1 million. Based on the unaudited pro forma financial information on the Enlarged Group as set out in Appendix IV to the Circular, total assets of the Enlarged Group as at 31 December 2020 would increase by approximately 5.8% to approximately HK$1,972.1 million and the total liabilities of the Enlarged Group as at 31 December 2020 would increase by approximately 8.4% to approximately HK$1,345.7 million after the Acquisition, resulting in an increase of approximately 0.5% in the net assets to approximately HK$626.4 million, assuming Completion had taken place on 31 December 2020.

RECOMMENDATIONS

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

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Billy Tang
Managing Director

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

FINANCIAL SUMMARY OF THE GROUP

The published audited consolidated financial statements of the Group for the three years ended 31 December 2018, 2019 and 2020 are disclosed in the annual reports of the Company for the three years ended 31 December 2018, 2019 and 2020, respectively. The above annual reports can be accessed on the website of the Company (http://www.huayu.com.hk), and the website of the Stock Exchange as set out below:

Annual report for the year ended 31 December 2020:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0409/2021040901019.pdf

Annual report for the year ended 31 December 2019:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0416/2020041600505.pdf

Annual report for the year ended 31 December 2018:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0403/ltn201904031733.pdf

INDEBTEDNESS

At the close of business on 31 March 2021, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding secured bank loans guaranteed by the Company in favour of the bank of approximately HK$966.4 million. As at the close of business on 31 March 2021, the Enlarged Group had unguaranteed and unsecured other borrowing of approximately HK$115.0 million. As at the close of business on 31 March 2021, the Enlarged Group had unguaranteed and unsecured lease liabilities of approximately HK$1.7 million. As at the close of business on 31 March 2021, the Enlarged Group had unguaranteed and unsecured amount due to a related party of approximately HK$0.9 million. As at the close of business on 31 March 2021, the Enlarged Group had unguaranteed and unsecured loan from Mr. Chan, a controlling shareholder of the Company, of approximately HK$102.0 million. The loan from Mr. Chan of approximately HK$102.0 million will not be requested for repayment until after 30 June 2022, unless the Enlarged Group has obtained funding from other sources and is in a position to meet all repayment obligations at that time.

Save as aforesaid and apart from intra-group liabilities and normal trade payable, at the close of business on 31 March 2021, the Enlarged Group did not have any outstanding loan capital, debt securities, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases commitments or guarantees.

At the close of business on 31 March 2021, the Enlarged Group had no material contingent liabilities.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2021

The Group

For the year ended 31 December 2020, the Group recorded a total revenue of about HK$506.0 million, increased by about 10.7% from the year ended 31 December 2019. Despite of the COVID-19 pandemic, the Group recorded a profit of approximately HK$80.9 million for the year ended 31 December 2020, increased by about 16.6% from the year ended 31 December 2019.

With the outbreak of COVID-19 in the PRC, the Group faced a historical challenge in its businesses in 2020. Under the implementation of the nationwide toll fees exemption policy from the period between 17 February and 5 May 2020, the entire toll fee was exempted for the Sui-Yue Expressway (Hunan Section) (the ''Expressway'') and it adversely affected the Group's revenue. For the liquor and spirits trading business, the control and prevention measures slowed down its sales since the outbreak of COVID-19. From early May 2020, with the ease of restrictions and reopening of the economy in the PRC, the difficult period was over and the business was back to normal. The traffic flow and the toll revenue of the Expressway resumed to the level before the pandemic period. The business of trading liquor and spirits recovered significantly, too.

The Expressway is one of the expressways with high economic potential in the PRC. It is strategically located in Hunan Province, which is one of the high economic growth provinces in the PRC. According to the data from National Bureau of Statistics of the PRC, the GDP growth of Hunan Province for 2020 was about 3.8%, which was higher than the country average of about 2.3%. Since the adjacent expressway network system was completed in the past few years, the economic growth of the regions around the Expressway will be the most significant factor for the growth of traffic flow. With the outperformed economic growth in the region, the Expressway is expected to have a steady growth in the future years.

About the trading of liquor and spirits, the Group has been working on the brand building and the development of sales and distribution network. With the excellent quality and brand position of Huamaojiu in the PRC market, it becomes one of the most significant segments in the Group.

In accordance with the Group's business strategy, the Group entered into the Equity Transfer Agreement to acquire the Target Expressway which is located in Shenzhen. Please refer to the subsection headed ''Reasons of and benefits of the acquisition'' of the Letter from the Board for the benefits of the acquisition of the Target Expressway through the Acquisition that are expected to be brought to the Group.

The Enlarge Group

Upon Completion, the Target Company will become a subsidiary of the Company, and their financial results will be consolidated in the financial statements of the Group.

Looking forward to the financial year ending 31 December 2021, after the Completion, the Enlarged Group will continue with the existing principal businesses of the Group in construction, operation and management of expressways and the trading of liquor and spirits in the PRC. The Acquisition can increase the toll mileage of the Group and broaden its presence in the toll road industry in PRC.

In the financial aspect, the Acquisition will enhance the income and asset base of the Group, create new business opportunities for the Group and will broaden its revenue base.

MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that the Enlarged Group has sufficient working capital for its present requirements for at least the next 12 months from the date of the circular, after taking into account (i) the effect of the Acquisition, (ii) the Enlarged Group's available financial resources including internally generated cash flows, cash on hand, and other external facilities from banks, and (iii) advance from Mr. Chan of approximately HK$102 million as at 31 December 2020 that will not be called for until after 30 June 2022, unless the Group is able to obtain funding from other sources and is in a position to meet all repayment obligations at that time.

FINANCIAL ANALYSIS

For the year ended 31 December 2017

Revenue

The revenue of the Target Company for the year ended 31 December 2017 was about HK$137.1 million, of which, about HK$132.6 million was the toll fee income from the Target Expressway. The traffic flow of the Target Expressway was about 27.5 million vehicles for the year ended 31 December 2017. Average toll per vehicle was about HK$4.83. Among the vehicles using the Target Expressway, about 91.6% of them were small private cars.

Besides of the toll fee revenue from the Target Expressway, there was about HK$4.5 million of expressway management income from other expressway.

Cost of service and gross profit

The cost of service and gross profit for the year ended 31 December 2017 were about HK$92.0 million and HK$45.0 million respectively. The cost of service of the Target Company mainly represented the amortisation of the intangible asset – service concession arrangement pursuant to the Concession Agreement, which was about HK$65.2 million, and the staff salary paid to the toll collection workers which was about HK$16.4 million. Gross profit ratio for the year ended 31 December 2017 was about 32.9%.

Other revenue and other net income

The other revenue and other net income for the year ended 31 December 2017 were about HK$1.7 million and HK$0.5 million respectively. The other revenue mainly represented the billboard rental income and interest income received during the year. The other net income was mainly the compensation received about the Target Expressway.

Administrative expenses

The administrative expenses were about HK$6.1 million for the year ended 31 December 2017. It mainly represented the staff salaries of supporting departments and the building management fee incurred for the year.

Finance cost

The Target Company incurred about HK$9.3 million finance costs for the year ended 31 December 2017. It represented the interest cost for the bank loan for the year.

Profit for the year

Profit for the year of the Target Company for the year ended 31 December 2017 was about HK$23.8 million. Profit to revenue ratio was about 17.4% for the year.

For the year ended 31 December 2018

Revenue

The revenue of the Target Company for the year ended 31 December 2018 was about HK$143.5 million, increased by about 4.6% from that of the year ended 31 December 2017. Toll fee income from the Target Expressway was about HK$141.8 million, increased about 6.9% from that of the year ended 31 December 2017. The total traffic flow of the Target Expressway was about 29.2 million vehicles for the year ended 31 December 2018, increased by about 6.4% from that of the previous year. Average toll per vehicle was about HK$4.85, which is nearly the same as the previous year. Among the vehicles using the Target Expressway, about 92.8% of them were small private cars.

Besides of the toll fee revenue from the Target Expressway, there was about HK$1.7 million of expressway management income from other expressway.

Cost of service and gross profit

The cost of service and gross profit for the year ended 31 December 2018 were about HK$97.7 million and HK$45.7 million respectively, increased by 6.2% and 1.6% respectively from that of the previous year. The cost of service of the Target Company mainly represented the amortisation of the intangible asset – service concession arrangement pursuant to the Concession Agreement, which was about HK$67.5 million, and the staff salary paid to the toll collection workers, which was about HK$18.3 million. Gross profit ratio for the year ended 31 December 2018 was about 31.9%, which was similar to that of the year ended 31 December 2017.

Other revenue and other net income

The other revenue and other net income for the year ended 31 December 2018 were about HK$2.2 million and HK$0.3 million respectively. The other revenue mainly represented the billboard rental income and interest income received during the year. The other net income was mainly the compensation received about the Target Expressway.

Administrative expenses

The administrative expenses were about HK$6.9 million for the year ended 31 December 2018, increased by 13% from that of the year ended 31 December 2017. It mainly represented the staff salaries of supporting departments and the building management fee incurred for the year. The increase for the administrative expenses was mainly due to the increment in the staff salary during the year.

Finance cost

The Target Company incurred about HK$7.7 million finance costs for the year ended 31 December 2018, decreased by about 17.6% from that of the year ended 31 December 2017. It represented the interest cost for the bank loan for the year. The decrease of finance cost was mainly due to the loan repayment made during the year.

Profit for the year

Profit for the year of the Target Company for the year ended 31 December 2018 was about HK$25.2 million, increased by 6.0% from that of the year ended 31 December 2017. The increase in the profit for the year was mainly because of increment in the traffic flow of the Target Expressway during the year. Profit to revenue ratio was about 17.6% for the year, which was similar to that of the previous year.

For the year ended 31 December 2019

Revenue

The revenue of the Target Company for the year ended 31 December 2019 was about HK$148.5 million, increased by about 3.4% from that of the year ended 31 December 2018. Toll fee income from the Target Expressway was about HK$137.2 million, decreased by about 3.2% from that of the year ended 31 December 2018. Toll fee revenue decrease was mainly due to the increased portion of small private car users among the traffic flow for the year. The total traffic flow of the Target Expressway was about 29.8 million vehicles for the year ended 31 December 2019, increased by about 1.9% from that of the previous year. But the average toll per vehicle was about HK$4.61, decreased by about 4.9%. Among the vehicles using the Target Expressway, about 93.3% of them were small private cars while it was about 92.8% for the year ended 31 December 2018.

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

Cost of service and gross profit

The cost of service and gross profit for the year ended 31 December 2019 were about HK$106.8 million and HK$41.6 million respectively increased by 9.3% and decreased by 9.1% respectively from that of the previous year. The cost of service of the Target Company mainly represented the amortisation of the intangible asset – service concession arrangement pursuant to the Concession Agreement, which was about HK$65.6 million, and the staff salary paid to the toll collection workers which was about HK$18.2 million. Gross profit ratio for the year ended 31 December 2019 was about 28.0%, which is 3.9% lower than that for the year ended 31 December 2018. The decrease in gross profit ratio was mainly due to the decrease in the average toll per vehicle of the Target Expressway for the year and the inclusion of about HK$11.2 million construction income which has a nominal profit.

Other revenue and other net income

The other revenue and other net income for the year ended 31 December 2019 were about HK$1.6 million and HK$0.6 million respectively. The other revenue mainly represents the billboard rental income and interest income received during the year. The other net income was mainly the compensation received about the Target Expressway.

Administrative expenses

The administrative expenses were about HK$6.9 million for the year ended 31 December 2019, increased by 0.3% from that of the year ended 31 December 2018. It mainly represented the staff salaries of supporting departments and the building management fee incurred for the year.

Finance cost

The Target Company incurred about HK$5.6 million finance costs for the year ended 31 December 2019, decreased by about 27.0% from that of the year ended 31 December 2018. It represented the interest cost for the bank loan for the year. The decrease of finance cost was mainly due to the loan repayment made during the year.

Profit for the year

Profit for the year of the Target Company for the year ended 31 December 2019 was about HK$23.4 million, decreased by 7.2% from that of the year ended 31 December 2018. The decrease in the profit for the year was mainly because of change of composition of the vehicles using the Target Expressway and the drop in the average toll per vehicle of the Target Expressway during the year. Profit to revenue ratio was about 15.8% for the year, which was 1.8% lower than that of the previous year.

For the 10 months ended 31 October 2020

Revenue

The revenue of the Target Company for the 10 months ended 31 October 2020 was about HK$56.2 million, decreased by about 50.5% from that of the 10 months ended 31 October 2019. During the period, the revenue of the Target Company comprised only its toll fee income. Such decrease in toll fee income was mainly due to the toll fee exemption policy implemented from February to May of the year and the decreased in traffic flow in the Target Expressway during the period due to the COVID-19 pandemic and opening of new expressways in the vicinity. The total traffic flow of the Target Expressway was about 19.4 million vehicles for the 10 months ended 31 December 2020, decreased by about 14.9% from that of the corresponding 10 months in the previous year. The average toll per vehicle was about HK$2.9, substantially decreased from that of the year ended 31 December 2019. Among the vehicles using the Target Expressway, about 91.5% of them were small private cars.

The COVID-19 pandemic took place since early 2020 seriously limited the economic activities which adversely affected the traffic flow and the performance of the operation of the Target Expressway. The toll fee exemption policy implemented from 17 February to 5 May 2020 on the other hand impacted the toll fee revenue of the Target Expressway. Moreover, in April 2020, Banyin Channel, a toll-free expressway running parallel to the Target Expressway, became operational. It further substantially affected the traffic flow and the toll revenue of the Target Expressway. In May 2020, following the ease of travel restrictions and the reopening of economy in the PRC, the traffic flow of the Target Expressway gradually resumed. In addition, starting from 6 May 2020, the Target Expressway resumed the collection of the toll fees. In the months from July to Oct 2020, the average monthly traffic flow was about 2.0 million vehicles, which was about 19.5% lower than the average monthly traffic flow of the year ended 31 December 2019.

Cost of service and gross profit

The cost of service and gross profit for the 10 months ended 31 October 2020 were about HK$45.6 million and HK$10.7 million, respectively decreased by 40.8% and 71.0% respectively from that of the corresponding period in 2019. The cost of service of the Target Company mainly represents the amortisation of the intangible asset – service concession arrangement pursuant to the Concession Agreement, which was about HK$21.1 million, and the staff salary paid to the toll collection workers which was about HK$12.6 million. The amount of amortisation of the intangible asset decreased substantially from about HK$65.6 million for the year ended 31 December 2019 because of the periodical review of the accounting estimates. In December 2020, the Target Company appointed an independent professional traffic consultant to reassess the future traffic volume of the Target Expressway. The Target Company thereafter adjusted the amortisation unit for the intangible asset according to the revised total projected traffic volume since 1 January 2020 on a prospective basis.

Gross profit ratio for the 10 months ended 31 October 2020 was about 19.0%, which was 9.0% lower than that for the year ended 31 December 2019. The decrease in gross profit ratio was mainly due to the toll fee exemption policy implemented during the year.

Other revenue and other net income

The other revenue and other net income for the 10 months ended 31 October 2020 were about HK$1.4 million and HK$0.4 million respectively. The other revenue mainly represented the billboard rental income and interest income received during the period. The other net income was mainly the compensation received about the Target Expressway.

Administrative expenses

The administrative expenses were about HK$5.3 million for the 10 months ended 31 October 2020, increased by 9.3% from that of the corresponding period of 2019. It mainly represented the staff salaries of supporting departments and the building management fee incurred for the year.

Finance cost

The Target Company incurred about HK$3.2 million finance costs for the 10 months ended 31 October 2020, decreased by about 31.0% from that of the corresponding period of 2019. It represented the interest cost for the bank loan for the year. The decrease of finance cost was mainly due to the drop in average bank loan balance from previous year.

Profit for the period

Profit for the period of the Target Company for the 10 months ended 31 October 2020 was about HK$2.9 million, substantially decreased by 86.6% from that of the corresponding period of 2019. The decrease in the profit for the year was mainly because of the toll fee exemption policy implemented during the period. Profit to revenue ratio was about 5.2% for the period, which was 13.9% lower than that of the corresponding period in 2019.

Liquidity and Financial Resources

During the 3 years ended 31 December 2019 and the 10 months ended 31 October 2020, the Target Company financed its operations and capital expenditure by its internal resources and long term bank loan. As at 31 December 2017, 2018, 2019 and 31 October 2020, total bank loan drawn by the Target Company were denominated in RMB and amounted to about RMB145.0 million, RMB110.0 million, RMB75.0 million and RMB75.0 million (about HK$173.5 million, HK$125.5 million, HK$83.7 million and HK$86.5 million) respectively and total cash and cash equivalents, including bank deposits and cash on hand were denominated in RMB and amounted to about RMB15.9 million, RMB36.9 million, RMB24.8 million and RMB48.8 million (about HK$19.0 million, HK$42.1 million, HK$27.7 million and HK$56.3 million) respectively.

The Target Company has always pursued a prudent treasury management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital future development. As at 31 December 2017, 2018, 2019 and 31 October 2020, total banking facilities of the Target Company amounted to about HK$173.5 million, HK$125.5 million, HK$83.7 million and HK$86.5 million respectively from China Construction Bank Corporation and the ratio of total outstanding bank loan to total equity was about 0.94, 0.70, 0.47 and 0.47 respectively.

As at 31 December 2017, 2018, 2019 and 31 October 2020, the bank loan was repayable as follows:

	As at 31 December			**As at 31 October**
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year or on demand	41,871	39,946	39,071	40,359
After 1 year but within 2 years	41,871	39,946	44,652	46,124
After 2 years but within 5 years	89,722	45,562	–	–
	173,464	125,544	83,723	86,483

The Target Company's borrowing was mainly arranged on a floating rate basis. During the 3 years ended 31 December 2019 and 10 months ended 31 October 2020, the Target Company did not enter into any hedging against exposure in interest rate risk. Any substantial fluctuation of interest rate may cause financial impacts on the Target Company. The management of the Target Company monitored the interest rate exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

Intangible Assets – Service Concession Arrangement

The service concession arrangement pursuant to the Concession Agreement represents the right of the Target Company to operate the Target Expressway and receive toll fees therefrom. According to the accounting policy adopted by the Target Company, the amount of the intangible asset is subject to the periodic impairment review. Internal and external sources of information are reviewed at the end of each financial period to identify indications that the intangible assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased. No impairment was recognised for the 3 years ended 31 December 2019 and 10 months ended 31 October 2020.

Foreign Currency Risk

The Target Company mainly carried out transactions in RMB, therefore any appreciation or depreciation of HKD against RMB will affect the Target Company's financial position and be reflected in the exchange reserve and other comprehensive income. As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Company did not enter into any hedging arrangement to hedge against exposure in foreign currency risk.

Pledge of Assets

As at 31 December 2017, 2018, 2019 and 31 October 2020, the bank loan of about HK$173.5 million, HK$125.5 million, HK$83.7 million and HK$86.5 million respectively from China Construction Bank Corporation was secured by the pledge of the toll collection right under the Concession Agreement in relation to the Target Expressway.

Capital Commitments

As at 31 December 2017, 2018, 2019 and 31 October 2020, there was no material capital commitment outstanding for the Target Company.

Employees and Emoluments

As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Company had a total of 249, 250, 269 and 248 employees respectively in the PRC which included management staff, engineers, technicians and toll collectors. For the years ended 31 December 2017, 2018, 2019 and 10 months ended 31 October 2020, the total expenses on the remuneration of employees of the Target Company were about HK$20.4 million, HK$22.8 million, HK$22.9 million and HK$16.3 million respectively.

The Target Company's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the contribution retirement benefit scheme and the medical insurance, discretionary bonuses are also awarded to employees according to the assessment of their performance.

The following is the text of a report set out on pages III-1 to III-45, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF SHENZHEN HUAYU EXPRESSWAY INVESTMENT COMPANY LIMITED TO THE DIRECTORS OF HUAYU EXPRESSWAY GROUP LIMITED

Introduction

We report on the historical financial information of Shenzhen Huayu Expressway Investment Company Limited[1] (the "Target Company") set out on pages III-4 to III-45, which comprises the statements of financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 31 October 2020 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the cash flow statements for each of the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2020 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages III-4 to III-45 forms an integral part of this report, which has been prepared for inclusion in the circular of Huayu Expressway Group Limited (the "Company") dated 30 April 2021 (the "Circular") in connection with the acquisition of the 60% interests of the Target Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information.

The Underlying Financial Statements of the Target Company as defined on page III-4, on which the Historical Financial Information is based, were prepared by the directors of the Target Company. The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

1 *Chinese official name of the Target Company is "深圳市華昱高速公路投資有限公司". The English name of the Target Company is translation and for identification purposes only.*

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2017, 2018 and 2019 and 31 October 2020 and of the Target Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the ten months ended 31 October 2019 and other explanatory information (the “Stub Period Corresponding Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page III-4 have been made.

KPMG
Certified Public Accountants

8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong
30 April 2021

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP Shenzhen Branch in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in Hong Kong dollars)

		Year ended 31 December			Ten months ended 31 October	
		2017	**2018**	**2019**	**2019**	**2020**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	*4*	137,078	143,452	148,349	113,690	56,220
Cost of service		(92,031)	(97,703)	(106,772)	(76,971)	(45,556)
Gross profit		45,047	45,749	41,577	36,719	10,664
Other revenue	*5*	1,690	2,216	1,557	1,402	1,367
Other net income	*5*	457	300	664	399	400
Administrative expenses		(6,126)	(6,927)	(6,946)	(4,891)	(5,344)
Profit from operations		41,068	41,338	36,852	33,629	7,087
Finance costs	*6(a)*	(9,319)	(7,675)	(5,603)	(4,628)	(3,194)
Profit before taxation	*6*	31,749	33,663	31,249	29,001	3,893
Income tax	*7(a)*	(7,951)	(8,430)	(7,830)	(7,250)	(973)
Profit for the year/period		23,798	25,233	23,419	21,751	2,920
Other comprehensive income for the year/period						
Item that may be reclassified subsequently to profit or loss:						
Exchange differences on translation to presentation currency		12,796	(8,573)	(3,952)	(5,017)	5,883
Total comprehensive income for the year/period		36,594	16,660	19,467	16,734	8,803

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

		As at 31 December			As at 31 October
		2017	2018	2019	2020
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*8*	571	394	618	513
Intangible asset-service concession arrangement	*9*	334,258	254,510	195,487	180,527
		334,829	254,904	196,105	181,040
Current assets					
Trade and other receivables	*10*	1,387	2,605	3,956	1,317
Cash at bank and on hand	*11*	19,000	42,094	27,660	56,276
Amounts due from related parties	*16(c)*	14,064	15,107	49,886	51,531
		34,451	59,806	81,502	109,124
Current liabilities					
Trade and other payables	*12*	9,708	9,183	15,364	15,851
Amounts due to related parties	*16(c)*	1,485	1,410	1,557	2,064
Bank loan	*13*	41,871	39,946	39,071	40,359
		53,064	50,539	55,992	58,274
Net current (liabilities)/assets		(18,613)	9,267	25,510	50,850
Total assets less current liabilities		316,216	264,171	221,615	231,890
Non-current liability					
Bank loan	*13*	131,593	85,598	44,652	46,124
Net assets		184,623	178,573	176,963	185,766
Capital and reserves					
Pain-in capital	*14(a)*	159,120	159,120	159,120	159,120
Reserves		25,503	19,453	17,843	26,646
		184,623	178,573	176,963	185,766

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF CHANGES IN EQUITY

(Expressed in Hong Kong dollars)

	Note	Paid-in capital HK$'000 (Note 14(a))	Statutory reserve HK$'000 (Note 14(b)(iii))	Exchange reserve HK$'000 (Note 14(b)(i))	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2017		159,120	2,539	7,620	23,802	193,081
Changes in equity for 2017:						
Profit for the year		–	–	–	23,798	23,798
Other comprehensive income						
– Exchange differences		–	–	12,796	–	12,796
Profit and total comprehensive income for the year		–	–	12,796	23,798	36,594
Appropriation to statutory reserve		–	2,380	–	(2,380)	–
Dividend distribution	*14(b)(ii)*	–	–	–	(45,052)	(45,052)
Balance at 31 December 2017 and 1 January 2018		159,120	4,919	20,416	168	184,623
Changes in equity for 2018:						
Profit for the year		–	–	–	25,233	25,233
Other comprehensive income						
– Exchange differences		–	–	(8,573)	–	(8,573)
Profit and total comprehensive income for the year		–	–	(8,573)	25,233	16,660
Appropriation to statutory reserve		–	2,523	–	(2,523)	–
Dividend distribution	*14(b)(ii)*	–	–	–	(22,710)	(22,710)
Balance at 31 December 2018 and 1 January 2019		159,120	7,442	11,843	168	178,573

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

(Expressed in Hong Kong dollars)

	Note	Paid-in capital HK$'000 (Note 14(a))	Statutory reserve HK$'000 (Note 14(b)(iii))	Exchange reserve HK$'000 (Note 14(b)(i))	Retained earnings HK$'000	Total HK$'000
Balance at 31 December 2018 and 1 January 2019		159,120	7,442	11,843	168	178,573
Changes in equity for 2019:						
Profit for the year		–	–	–	23,419	23,419
Other comprehensive income – Exchange differences		–	–	(3,952)	–	(3,952)
Profit and total comprehensive income for the year		–	–	(3,952)	23,419	19,467
Appropriation to statutory reserve		–	2,342	–	(2,342)	–
Dividend distribution	14(b)(ii)	–	–	–	(21,077)	(21,077)
Balance at 31 December 2019 and 1 January 2020		159,120	9,784	7,891	168	176,963
Changes in equity for ten months ended 31 October 2020:						
Profit for the period		–	–	–	2,920	2,920
Other comprehensive income – Exchange differences		–	–	5,883	–	5,883
Profit and total comprehensive income for the period		–	–	5,883	2,920	8,803
Appropriation to statutory reserve		–	292	–	(292)	–
Balance at 31 October 2020		159,120	10,076	13,774	2,796	185,766
1 January 2019		159,120	7,442	11,843	168	178,573
Changes in equity for ten months ended 31 October 2019: (Unaudited)						
Profit for the period		–	–	–	21,751	21,751
Other comprehensive income – Exchange differences		–	–	(5,017)	–	(5,017)
Profit and total comprehensive income for the period (Unaudited)		–	–	(5,017)	21,751	16,734
Appropriation to statutory reserve		–	2,175	–	(2,175)	–
Balance at 31 October 2019 (Unaudited)		159,120	9,617	6,826	19,744	195,307

The accompanying notes form part of the Historical Financial Information.

CASH FLOW STATEMENTS

(Expressed in Hong Kong dollars)

		Year ended 31 December			Ten months ended 31 October	
		2017	**2018**	**2019**	**2019**	**2020**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Operating activities						
Cash generated from operations	*11(b)*	103,909	108,634	107,489	83,933	31,030
PRC Profits Tax paid		(7,806)	(8,575)	(8,802)	(8,389)	(946)
Net cash generated from operating activities		96,103	100,059	98,687	75,544	30,084
Investing activities						
Payment for the purchase of property, plant and equipment		(42)	(51)	(443)	(436)	(66)
Payment for intangible asset		(1,706)	(860)	(11,181)	(1,831)	–
Proceeds from sale of property, plant and equipment		–	8	19	18	–
Advance to related parties		(1,193)	(3,283)	(40,069)	(56,310)	–
Net cash used in investing activities		(2,941)	(4,186)	(51,674)	(58,559)	(66)
Financing activities						
Dividend paid to equity holders of the Target Company		(45,052)	(22,710)	(16,746)	–	–
Interest paid		(9,319)	(7,675)	(5,603)	(4,173)	(2,881)
Repayment of bank loan		(40,464)	(41,353)	(39,771)	–	–
Net cash used in financing activities		(94,835)	(71,738)	(62,120)	(4,173)	(2,881)
Net (decrease)/increase in cash and cash equivalents		(1,673)	24,135	(15,107)	12,812	27,137
Cash and cash equivalents at the beginning of year/period		19,090	19,000	42,094	42,094	27,660
Effect of foreign exchange rate changes		1,583	(1,041)	673	73	1,479
Cash and cash equivalents at the end of year/period	*11(a)*	19,000	42,094	27,660	54,979	56,276

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Basis of preparation and presentation of Historical Financial Information

Shenzhen Huayu Expressway Investment Company Limited (the ''Target Company'') was incorporated in the People's Republic of China (''PRC'') as a limited liability company on 18 January 2002 under the Company Law of the PRC. Its immediate holding company is Shenzhen Huayu Investment & Development (Group) Co., Ltd (''Shenzhen Huayu Investment & Development''), a limited liability company incorporated in the PRC and ultimately controlled by Mr Chan Yeung Nam, the chairman of the Company. Shenzhen Huayu Investment & Development holds 60% of the Target Company's equity interest and the remaining 40% equity interest is held by Shenzhen Expressway Company Limited (''Shenzhen Expressway''), a joint stock limited company incorporated in the PRC. All the English names of above companies are translations and for identification purposes only.

The Target Company is principally engaged in construction, operation and management of the First Phase of Qing Expressway (S209) (''清平一期''/the ''Expressway'') within Shenzhen city.

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (''HKFRSs'') which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the ''HKICPA''). Further details of the significant accounting policies adopted are set out in note 2.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Target Company has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning 1 January 2020. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning 1 January 2020 are set out in note 17.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ''Stock Exchange'').

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

As at the date of this report, no statutory audited financial statements have been prepared for the Target Company.

2 Significant accounting policies

(a) Basis of measurement

The Historical Financial Information is presented in Hong Kong dollars ("HK$") while the functional currency of the Target Company is Chinese Yuan ("CNY").

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

(b) Use of estimates and judgements

The preparation of the Historical Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in note 3.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(e)(ii)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Other machinery and equipment	5 years
– Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(d) Intangible asset – service concession arrangement

The Target Company has entered into contractual service arrangement with local government authority for its participation in the construction, operation and management of the Expressway in the PRC. The Target Company carries out the construction of the Expressway for the granting authority and receives in exchange for the right to operate the Expressway concerned and the entitlement to toll fees collected from users of the concession infrastructure.

The Target Company recognises an intangible asset arising from the service concession arrangement when it has a right to charge for usage of the concession infrastructure. The concession grantor has not provided any contractual guarantee in respect of the amounts of construction costs incurred to be recoverable. Intangible asset received as consideration for providing construction work and project management services in a service concession arrangement are measured at fair value upon initial recognition. Subsequent to initial recognition the intangible asset is measured at cost less accumulated amortisation and impairment losses (see note 2(e)(ii)).

Land collection costs incurred in conjunction with the service concession arrangement are recognised as intangible asset acquired under the service concession arrangement.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation is calculated to write off the cost of the intangible asset arising from a service concession arrangement on a unit of usage basis over the estimated useful life, which is the period when it is available for use to the end of the concession period ("the operating period"). The operating period of the Expressway is 23 July 2005 to 8 February 2027 and the amortisation unit of usage for 2017 to 2019 is RMB 0.64 Yuan, which is calculated on the remaining cost of the intangible asset and the estimated traffic flow over the remaining operating period. As stated in note 3(a), the Target Company appointed an independent professional traffic consultant to reassess the traffic flow over the remaining operating period of the Expressway and the amortisation unit of usage has been adjusted from RMB 1.68 Yuan to RMB 0.64 Yuan since 1 January 2020.

Both the period and method of amortisation are reviewed annually.

(e) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Target Company recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (i.e. trade and other receivables, amounts due from related parties and cash at bank and on hand).

Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Company in accordance with the contract and the cash flows that the Target Company expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Company is exposed to credit risk.

In measuring ECLs, the Target Company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Target Company recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target Company compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Company considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Target Company in full, without recourse by the Target Company to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target Company.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Target Company recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Company assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment, including right-of-use assets; and

– intangible asset – service concession arrangement;

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(f) Trade and other receivables

A receivable is recognised when the Target Company has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(e)(i)).

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(h) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(i) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Target Company's accounting policy for borrowing costs (see note 2(o)).

(j) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Target Company can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(k) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

(l) Provisions and contingent liabilities

Provisions are recognised when the Target Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) Revenue and other income

Income is classified by the Target Company as revenue when it arises from the provision of services or the use by others of the Target Company's assets under leases in the ordinary course of the Target Company's business.

Revenue is recognised when control over a service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Target Company is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Target Company's revenue and other income recognition policies are as follows:

(i) Toll revenue

The Target Company's toll revenue is measured based on the consideration the Target Company expects to be entitled from the contract with the customer and excludes those amounts collected on behalf of third parties. The Target Company recognises toll revenue when the vehicles go through the Expressway and pass the toll stations, which means it transfers control over services to customers. Due to the implementation of unified toll collection policy on the Expressway, the settlement period of the toll revenue from toll road operation is normally within a month.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income

Interest income is recognised as it accrues under the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

(n) Translation of financial statements to the presentation currency

The results and financial positions of the Target Company's operation are translated into Hong Kong dollars at the exchange rates as follows:

– Assets and liabilities for each statement of financial position presented (ie including comparatives) are translated at the closing rate at the date of that statement of financial position;

– Income and expenses for each statement of profit or loss and other comprehensive income (including comparatives) are translated at exchange rates approximately at the dates of the transactions;

– All resulting exchange differences are recognised in other comprehensive income.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(p) Dividend distribution

Dividend distribution to the Target Company's equityholders is recognised as a liability in the Target Company's historical financial information in the period in which the dividends are approved by the Target Company's shareholders when appropriate.

(q) Related parties

(a) A person, or a close member of that person's family, is related to the Target Company if that person:

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or the Target Company's parent.

(b) An entity is related to the Target Company if any of the following conditions applies:

(i) The entity and the Target Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to the Target Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(r) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Target Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Target Company operates in a single business segment, the construction, operation and management of an expressway in the PRC. Accordingly, no segmental analysis is presented.

3 Accounting judgement and estimates

(a) Amortisation of intangible asset – service concession arrangement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the Historical Financial Information. The principal accounting policies are set forth in note 2. The Target Company believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Historical Financial Information.

The Target Company applied HK (IFRIC) Interpretation 12 and recognised intangible asset – service concession arrangement and provides amortisation thereon.

Amortisation of intangible asset – service concession arrangement is provided on unit of usage over the concession period. Material adjustments may need to be made to the carrying amounts of intangible asset – service concession arrangement should there be a material difference between total projected traffic volume and the actual results.

The directors perform a periodic assessment of the total projected traffic volume and prospectively adjust the amortisation unit according to revised projected traffic volume.

In December 2020, the Target Company appointed an independent professional traffic consultant to reassess the future traffic volume of the Expressway. The Target Company has adjusted the amortisation unit for the related concession intangible assets according to the revised total projected traffic volume since 1 January 2020 on a prospective basis. Due to such change in accounting estimate, the amortisation charges to current and future cost of sales has changed as below:

	Ten months ended 31 October 2020	**Year ending 31 December 2020**	**Year ending 31 December 2021**	**2022 and the years after 2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(Decrease)/increase of amortisation	(28,295)	(34,611)	(36,528)	71,139

(b) Impairment

If circumstances indicate that the carrying amount of property, plant and equipment and intangible asset may not be recoverable, these assets may be considered "impaired" and an impairment loss may be recognised in profit or loss. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, the expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of future toll revenue and the amount of operating costs. The Target Company uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of toll revenue, the amount of operating costs and discount rate.

4 Revenue

The principal activities of the Target Company are construction, operation and management of the Expressway in the PRC.

Disaggregation of revenue from contracts with customers by each significant category is as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019 (unaudited)	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15					
Disaggregated by major services					
– Toll income	132,586	141,716	137,168	111,859	56,220
– Expressway management income and others	4,492	1,736	11,181	1,831	–
	137,078	143,452	148,349	113,690	56,220

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019 (unaudited)	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Disaggregated by time of revenue recognition					
– Point in time	132,586	141,716	137,168	111,859	56,220
– Over time	4,492	1,736	11,181	1,831	–
	137,078	143,452	148,349	113,690	56,220

The Target Company's customer base is diversified and no customer with whom transactions have exceeded 10% of the Target Company's revenue.

Since the Target Company's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is the PRC. Therefore, no analysis by geographical regions is presented.

5 Other revenue and net income

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Other revenue					
Billboard rental income	1,254	1,684	1,175	1,165	1,173
Interest income	436	532	382	237	194
	1,690	2,216	1,557	1,402	1,367
Other net income					
Loss on disposal of non-current asset	–	(8)	(4)	(4)	–
Others	457	308	668	403	400
	457	300	664	399	400

6 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs:

	Year ended 31 December			Ten months ended 31 October	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Interest expense	9,319	7,675	5,603	4,628	3,194

There is no borrowing costs capitalised for the years ended 31 December 2017, 2018 and 2019 and ten months ended 31 October 2019 and 2020.

(b) Staff costs:

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Salaries, wages and other benefits	18,288	20,423	20,288	14,921	14,875
Contributions to defined contribution retirement plan	2,154	2,340	2,658	2,057	1,381
	20,442	22,763	22,946	16,978	16,256

Pursuant to the relevant labour rules and regulations in the PRC, the Target Company participates in a defined contribution retirement benefit scheme (the "Scheme") organised by the local authority whereby the Target Company is required to make contributions to the Scheme at a fixed rate announced annually by the municipal government. The municipal government is responsible for the entire pension obligations payable to the retired employees.

Pursuant to Notice of Ministry of Human Resources and Social Security, the Ministry of Finance and the State Taxation Administration on Temporarily Exempting or Lowering Social Insurance Payments of Enterprises (《人力資源社會保障部、財政部和國家稅務總局關於階段性減免企業社會保險費的通知》), the government has decided to temporarily exempt or lower enterprises' pension, unemployment and work-related injury compensation insurance payments to mitigate the impact of COVID-19 on enterprises. As a result, during the year ended 31 October 2020, the Target company is exempted from certain social insurance payments due to the outbreak of COVID-19.

The Target Company has no other material obligation for the payment of pension benefits associated with the schemes beyond the annual contributions described above.

(c) Other items:

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Auditors' remuneration	35	35	45	45	45
Depreciation	211	200	187	140	190
Amortisation	62,455	67,508	65,586	53,440	21,065

7 Income tax in the statement of profit or loss and other comprehensive income

(a) Taxation in the statement of profit or loss and other comprehensive income represents:

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Current tax – PRC corporate income tax					
Provision for the year/period	7,951	8,430	7,830	7,250	973

(b) Reconciliation between income tax and accounting profit at applicable tax rates:

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Profit before taxation	31,749	33,663	31,249	29,001	3,893
Notional tax on profit before taxation, calculated at PRC corporate income tax rate of 25%	7,937	8,415	7,812	7,250	973
Tax effect of non-deductible expenses and non-taxable income and tax concession	14	15	18	–	–
Income tax	7,951	8,430	7,830	7,250	973

8 Property, plant and equipment

	Motor vehicles *HK$'000*	Other machinery and equipment *HK$'000*	Total *HK$'000*
Cost:			
At 1 January 2017	1,641	654	2,295
Additions	–	42	42
Exchange adjustments	114	48	162
At 31 December 2017	1,755	744	2,499
Additions	–	51	51
Disposals	(160)	–	(160)
Exchange adjustments	(75)	(36)	(111)
At 31 December 2018	1,520	759	2,279
Additions	434	9	443
Disposals	(371)	–	(371)
Exchange adjustments	(34)	(17)	(51)
At 31 December 2019	1,549	751	2,300
Additions	–	66	66
Exchange adjustments	52	26	78
At 31 October 2020	1,601	843	2,444
Accumulated depreciation:			
At 1 January 2017	993	605	1,598
Charge for the year	196	15	211
Exchange adjustments	76	43	119
At 31 December 2017	1,265	663	1,928

	Motor vehicles	Other machinery and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*
Charge for the year	177	23	200
Written back on disposals	(153)	–	(153)
Exchange adjustments	(59)	(31)	(90)
At 31 December 2018	1,230	655	1,885
Charge for the year	157	30	187
Written back on disposals	(351)	–	(351)
Exchange adjustments	(24)	(15)	(39)
At 31 December 2019	1,012	670	1,682
Charge for the period	160	30	190
Exchange adjustments	36	23	59
At 31 October 2020	1,208	723	1,931
Net book value:			
At 31 December 2017	490	81	571
At 31 December 2018	290	104	394
At 31 December 2019	537	81	618
At 31 October 2020	393	120	513

9 Intangible asset – service concession arrangement

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
At 1 January	714,974	766,881	732,454	727,394
Addition	1,706	860	11,181	–
Exchange adjustments	50,201	(35,287)	(16,241)	23,986
At the end of year/period	766,881	732,454	727,394	751,380
Accumulated amortisation:				
At 1 January	343,879	432,623	477,944	531,907
Charge for the year/period	62,455	67,508	65,586	21,065
Exchange adjustments	26,289	(22,187)	(11,623)	17,881
At the end of year/period	432,623	477,944	531,907	570,853
Net book value:				
At the end of year/period	334,258	254,510	195,487	180,527

The service concession arrangement represents the Target Company's rights to operate the Expressway and receive toll fees therefrom.

In accordance with the accounting policy set out in note 2(d), the amortisation of intangible asset – service concession arrangement is recognised in profit or loss on a unit of usage basis over the estimated useful life, which is the period when it is available for use to the end of the concession period.

10 Trade and other receivables

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*
Trade receivables	890	2,189	3,189	789
Prepayments	348	257	370	300
Other receivables	149	159	397	228
	1,387	2,605	3,956	1,317

As at 31 December 2017, 2018 and 2019 and 31 October 2020, trade receivables are due within one month based on the invoice dates.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, trade and other receivables are expected to be recovered within 90 days.

11 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	As at 31 December			As at 31 October
	2017	2018	2019	2020
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*
Cash at bank and on hand	19,000	42,094	27,660	56,276

(b) Reconciliation of profit before taxation to cash generated from operating activities:

		Year ended 31 December			Ten months ended 31 October	
		2017	**2018**	**2019**	**2019**	**2020**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit before income tax		31,749	33,663	31,249	29,001	3,893
Adjustments for:						
Depreciation	*6(c)*	211	200	187	140	190
Amortisation	*6(c)*	62,455	67,508	65,586	53,440	21,065
Finance costs	*6(a)*	9,319	7,675	5,603	4,628	3,194
Interest income	*5*	(436)	(532)	(382)	(237)	(194)
Changes in working capital:						
(Increase)/decrease in amounts due from related parties		(222)	1,533	–	–	–
Increase/(decrease) in amounts due to related parties		1,015	(7)	181	711	448
Decrease/(increase) in trade and other receivables		356	(1,327)	(1,432)	(83)	2,725
(Decrease)/increase in trade and other payables		(538)	(79)	6,497	(3,667)	(291)
Cash generated from operations		103,909	108,634	107,489	83,933	31,030

12 Trade and other payables

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	2,203	2,213	9,491	9,998
Tax payables	2,416	2,078	1,361	1,264
Salaries payable	4,285	4,113	3,946	2,353
Other payables	804	779	566	2,236
	9,708	9,183	15,364	15,851

All of the trade and other payables are expected to be settled or recognised as income within one year.

As at 31 December 2017, 2018 and 2019 and 31 October 2020, the ageing analysis of trade payables, based on the invoice dates, is as follows:

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 month	1,128	1,340	8,418	730
1 to 3 months	162	153	85	3,798
Over 3 months but within 6 months	913	720	988	1,420
Over 6 months but within 12 months	–	–	–	4,050
	2,203	2,213	9,491	9,998

13 Bank loan

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current liability				
Current portion of long-term secured bank loan	41,871	39,946	39,071	40,359
Non-current liability				
Long-term secured bank loan	131,593	85,598	44,652	46,124
	173,464	125,544	83,723	86,483

At 31 December 2017, 2018 and 2019 and 31 October 2020, the bank loan was repayable as follows:

	As at 31 December			As at 31 October
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year or on demand	41,871	39,946	39,071	40,359
After 1 year but within 2 years	41,871	39,946	44,652	46,124
After 2 years but within 5 years	89,722	45,652	–	–
	173,464	125,544	83,723	86,483

At 31 December 2017, 2018 and 2019 and 31 October 2020, there is no unutilised banking facility amount.

The Target Company's rights to operate the Expressway and receive toll fees therefrom, have been pledged to secure the long-term bank loan.

The bank loan of the Target Company is subject to certain financial covenants. The Target Company regularly monitors its compliance with these covenants, and adherence to the timetable of the scheduled repayments of the term loan and does not consider it probable that the bank will exercise its discretion to demand repayment so long as the Target Company continues to meet these requirements. Further details of the Target Company's management of liquidity risk are set out in note 15(b). As at 31 December 2017, 2018 and 2019 and 31 October 2020, none of the covenants relating to drawn down facility had been breached.

14 Capital, reserves and dividends

(a) Paid-in capital

	As at 31 December 2017, 2018 and 2019 and 31 October 2020	
	Amount in original currency	**Amount in HKD equivalent**
	CNY'000	*HK$'000*
Paid-in capital	150,000	159,120

Capital contributions in Renminbi have been translated into Hong Kong dollar at the exchange rates prevailing at the date of each contribution received as quoted by the People's Bank of China.

(b) Nature and purpose of reserves

(i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the Historical Financial Information from the functional currency into the presentation currency. The reserve is dealt with in accordance with the accounting policies set out in note 2(n).

(ii) Dividend distribution

During the years ended 31 December 2017, 2018 and 2019, the Target Company declared dividend of RMB38,968,000, RMB19,221,000 and RMB18,548,000 respectively (equivalent to HK$45,052,000, HK$22,710,000 and HK$21,077,000 respectively) to its shareholders.

No dividend was declared by the Target Company during the ten months ended 31 October 2019 and 2020.

(iii) Statutory reserve

As stipulated by regulations in the PRC, the Target Company is required to appropriate 10% of its after-tax-profit (after offsetting prior year losses) as determined in accordance with the China Accounting Standard and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of profits to shareholders.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the Target Company, provided that the balance after such issue is not less than 25% of its registered capital.

(c) Capital management

The Target Company's primary objectives when managing capital are to safeguard the Target Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders in the long run, by pricing services commensurately with the level of risk and by securing access to financing at a reasonable cost.

The Target Company actively and regularly reviews and manages its capital structure to maintain a balance between shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

15 Financial risk management

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Target Company's business. The Target Company's exposure to these risks and financial risk management policies and practices used by the Target Company to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Target Company. The Target Company's credit risk is primarily attributable to prepayments and other receivables, amounts due from related parties and cash at bank and on hand. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Target Company measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Target Company's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Target Company's different customer bases.

As a result of the business nature of the Target Company, the Target Company has no significant concentration of credit risk arising from its customers.

(b) Liquidity risk

The Target Company's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the Relevant Periods of the Target Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the Relevant Periods) and the earliest date the Target Company can be required to pay.

For the term loan subject to repayment on demand clauses which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the contractual repayment schedule regardless of the impact to the timing of the cash outflows if the lender was to invoke its unconditional rights to call the loan with immediate effect.

	At 31 December 2017 Contractual undiscounted cash outflow							
	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 9 months	More than 9 months but less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
Trade and other payables	7,505	–	2,203	–	–	–	9,708	9,708
Amounts due to related parties	1,485	–	–	–	–	–	1,485	1,485
Bank loan	1,928	1,955	1,955	43,804	47,770	95,933	193,345	173,464
	10,918	1,955	4,158	43,804	47,770	95,933	204,538	184,657

	At 31 December 2018 Contractual undiscounted cash outflow							
	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 9 months	More than 9 months but less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
Trade and other payables	6,970	–	2,213	–	–	–	9,183	9,183
Amounts due to related parties	1,410	–	–	–	–	–	1,410	1,410
Bank loan	1,399	1,415	1,415	41,345	43,798	47,725	137,097	125,544
	9,779	1,415	3,628	41,345	43,798	47,725	147,690	136,137

	At 31 December 2019							
	Contractual undiscounted cash outflow							
	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 9 months	More than 9 months but less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
Trade and other payables	5,873	–	9,491	–	–	–	15,364	15,364
Amounts due to related parties	1,557	–	–	–	–	–	1,557	1,557
Bank loan	948	944	944	40,004	46,679	–	89,519	83,723
	8,378	944	10,435	40,004	46,679	–	106,440	100,644

	At 31 October 2020							
	Contractual undiscounted cash outflow							
	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than 9 months	More than 9 months but less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
Trade and other payables	9,903	5,948	–	–	–	–	15,851	15,851
Amounts due to related parties	2,064	–	–	–	–	–	2,064	2,064
Bank loan	41,323	523	520	520	46,656	–	89,542	86,483
	53,330	6,471	520	520	46,656	–	107,497	104,438

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Company's interest rate risk arises primarily from cash at bank and bank borrowings issued at variable rates that expose the Target Company to cash flow interest rate risk. The Target Company's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements.

The Target Company does not account for any fixed rate financial liabilities at fair value through profit or loss. The Group's interest rate profile as monitored by management is set out in below:

(i) Interest rate profile

The following table details the interest rate profile of the Target Company's borrowings at the end of the reporting periods.

	As at 31 December						As at 31 October	
	2017		2018		2019		2020	
	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount
	%	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*
Variable rate instruments:								
Cash at bank	2.29%	19,000	1.74%	42,094	1.09%	27,660	0.46%	56,276
Long-term secured bank loan	4.41%	(173,464)	4.41%	(125,544)	4.41%	(83,723)	4.41%	(86,483)
Total net borrowings		(154,464)		(83,450)		(56,063)		(30,207)

(ii) Sensitivity analysis

At 31 December 2017, 2018 and 2019 and 31 October 2020, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have decreased/(increased) the Target Company's profit for the Relevant Periods by approximately HK$290,000, HK$156,000, HK$105,000 and HK$44,000 in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Target Company's profit for the Relevant Periods that would arise assuming that the change in interest rates had occurred at the end of the Relevant Periods. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Target Company at the end of the Relevant Periods, the impact on the Target Company's profit for the Relevant Periods is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(d) Currency risk

Target Company mainly carried out transactions in RMB, therefore any appreciation or depreciation of HKD against RMB will affect the Target Company's financial position and be reflected in the exchange reserve and other comprehensive income.

16 Material related party transactions

(a) During the Relevant Periods, the directors are of the view that the following are related parties of the Target Company:

Name of party	Relationship
Shenzhen Huayu Investment & Development (Group) Co., Ltd.	Controlling shareholder of the Target Company
Shenzhen Expressway Company Limited	Shareholder with significant influence on the Target Company
Shenzhen Huayu Qingping Expressway Co., Ltd.	Under the control of the controlling shareholder of the Target Company
Shenzhen Huayu Highway Maintenance Engineering Co., Ltd.	Under the control of the controlling shareholder of the Target Company
Shenzhen High-speed Advertising Co., Ltd.	Under the control of the controlling shareholder of the Target Company
Shenzhen Yufa Property Management Co., Ltd.	Under the control of the controlling shareholder of the Target Company
Shenzhen Huayu Telecom Equipment Development Co., Ltd.	Under the control of the controlling shareholder of the Target Company
Shenzhen Qinglong Expressway Co., Ltd.	Under the control of the controlling shareholder of the Target Company

(b) Particulars of significant transactions between the Target Company and the above related parties during the Relevant Periods are as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Rendering of services to related companies					
– Shenzhen Huayu Qingping Expressway Co., Ltd.	2,786	876	–	–	–
– Shenzhen High-speed Advertising Co., Ltd.	–	–	460	456	875
	2,786	876	460	456	875
Receiving services from related companies					
– Shenzhen Huayu Highway Maintenance Engineering Co., Ltd.	1,680	1,900	1,883	1,808	915
– Shenzhen Huayu Telecom Equipment Development Co., Ltd.	1,340	1,394	1,398	1,085	953
– Shenzhen Yufa Property Management Co., Ltd.	832	992	954	788	715
	3,852	4,286	4,235	3,681	2,583
Advance to related companies					
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	716	1,969	24,041	33,786	–
– Shenzhen Expressway Company Limited	477	1,314	16,028	22,524	–
	1,193	3,283	40,069	56,310	–

(c) Balances with related parties

As at the end of the Relevant Periods, the Target Company had the following balances with related parties:

		As at 31 December			As at 31 October
		2017	2018	2019	2020
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from related parties					
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	*(i)*	7,506	9,064	29,932	30,919
– Shenzhen Expressway Company Limited.	*(i)*	5,004	6,043	19,954	20,612
– Shenzhen Huayu Qingping Expressway Co., Ltd.		1,554	–	–	–
		14,064	15,107	49,886	51,531
Amounts due to related parties					
– Shenzhen Huayu Highway Maintenance Engineering Co., Ltd.		964	1,003	1,040	94
– Shenzhen Huayu Telecom Equipment Development Co., Ltd.		449	327	417	730
– Shenzhen Yufa Property Management Co., Ltd		72	80	78	161
– Shenzhen Qinglong Expressway Co., Ltd.		–	–	–	1,056
– Shenzhen High-speed Advertising Co., Ltd.		–	–	22	23
		1,485	1,410	1,557	2,064

Note:

(i) The amounts due from Shenzhen Huayu Investment & Development (Group) Co., Ltd. and Shenzhen Expressway Company Limited as at the end of each of the Relevant Periods represented the interest-free advances granted by the Target Company. Those advances are unsecured and has no fixed terms of repayment.

(d) ***Key management personnel remuneration***

Remuneration for key management personnel of the Target Company, including amounts paid to the Target Company's directors and certain of the highest paid employees, is as follows:

	Year ended 31 December			Ten months ended 31 October	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Short-term employee benefits	1,567	1,934	1,791	1,527	2,074

Total remuneration is included in "staff costs" (see note 6(b)).

17 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2020

Up to the date of issue of the Historical Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period beginning on 1 January 2020 and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Target Company.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2	1 January 2021
Annual Improvements to HKFRSs 2018-2020	1 January 2022
Amendments to HKFRS 3, Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16, Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendment to HKAS 1, Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17, Insurance contracts	1 January 2023
Amendment to HKFRS 4, Extension of the temporary exemption from applying HKFRS 9	To be determined

	Effective for accounting periods beginning on or after
Amendments to HKFRS 10 and HKAS 28, Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Target Company is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial information of the Target Company.

18 Subsequent events

As disclosed in the Company's announcement dated 7 April 2021, the Target Company plans to declare and distribute a dividend of RMB24.6 million to its shareholders according to the proportions of their respective shareholdings in the Target Company, prior to the completion of the acquisition of the Target Company by the Company. The dividend distribution is subject to the approval of the Target Company's shareholders.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 October 2020.

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

1 Introduction

The unaudited pro forma financial information presented below is prepared to illustrate the assets and liabilities of the Enlarged Group as at 31 December 2020 as if the proposed acquisition of 60% equity interests in Shenzhen Huayu Expressway Investment Co., Ltd. (the "Target Company") (the "Acquisition") had been completed on 31 December 2020. The unaudited pro forma financial information is prepared based on the historical financial information set out in the audited consolidated financial statements of the Group for the year ended 31 December 2020, after giving effect to the pro forma adjustments described in the notes that are directly attributable to the Acquisition and factually supportable.

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

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 December 2020 and the other financial information included elsewhere in this Circular.

2 Unaudited Pro Forma Consolidated Statement of Assets and Laibilities of the Enlarged Group

	The Group as at 31 December 2020	The Target Company as at 31 October 2020	Other pro forma adjustments			The Enlarged Group as at 31 December 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note(a)	*Note(b)*	*Note(c)*	*Note(d)*	*Note(e)*	
Non-current assets						
Property, plant and equipment	18,517	513	–	–	–	19,030
Intangible asset – service concession arrangement	1,312,774	180,527	–	–	–	1,493,301
Interests in an associate	22,129	–	–	–	–	22,129
Deferred tax assets	145,390	–	–	–	–	145,390
	1,498,810	181,040				1,679,850
Current assets						
Inventories	94,495	–	–	–	–	94,495
Prepayments and other receivables	34,983	1,317	–	–	–	36,300
Amounts due from related parties	4,814	51,531	–	–	(27,665)	28,680
Cash and cash equivalents	230,775	56,276	(151,241)	(3,504)	–	132,306
Other current assets	459	–	–	–	–	459
	365,526	109,124				292,240
Current liabilities						
Accruals and other payables	79,794	15,851	–	–	–	95,645
Contract liabilities	6,591	–	–	–	–	6,591
Amounts due to related parties	8,422	2,064	–	–	–	10,486
Bank loan and other borrowing	106,938	40,359	–	–	–	147,297
Lease liabilities	1,285	–	–	–	–	1,285
	203,030	58,274				261,304
Net current assets	162,496	50,850				30,936
Total assets less current liabilities	1,661,306	231,890				1,710,786
Non-current liabilities						
Bank loan	935,315	46,124	–	–	–	981,439
Amount due to the controlling shareholder of the Company	101,976	–	–	–	–	101,976
Lease liabilities	947	–	–	–	–	947
Deferred tax liabilities	–	–	–	–	–	–
	1,038,238	46,124				1,084,362
NET ASSETS	623,068	185,766				626,424

Notes to the Unaudited Pro Forma Financial Information of the Group

(a) The amounts are extracted from the audited consolidated financial statements of of the Group as set out in the published annual report of the Group for the year ended 31 December 2020.

(b) The amounts are extracted from the Accountants' Report on the Target Company as set out on Appendix III to the Circular.

(c) The adjustment represents the initial cash consideration of RMB127,200,000 (equivalent to approximately HK$151,241,000 for the purpose of this pro forma financial information, translated at the exchange rate of RMB1 to HK$1.1890) paid in connection with the Acquisition.

(d) The adjustment represents estimated professional fee and other transaction costs of approximately HK$3,504,000 payable by the Group in connection with the Acquisition.

(e) As conditions precedent to the Acquisition, the Target Company will declare and distribute dividends of RMB 24.6 million (equivalent to approximately HK$27.67 million) to its equity holders in proportion to their respective shareholdings in the Target Company, all of which will be settled by offsetting with the amount due from related parties.

(f) The Company and the Target Company are under the common control of Mr. Chan (the ''Controlling Shareholder'') before and after the Acquisition and the control is not transitory. There has been a continuation of risks and benefits to the Controlling Shareholder that exists prior to the Acquisition. Consequently, the Acquisition is considered to be a business combination involving entities under common control. The directors of the Company elects to account for the Acquisition in the Company's annual financial statement for the year ending 31 December 2021 using the merger accounting principle in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the Hong Kong Institue of Certified Public Accountants. As a result, the assets and liabities of the Target Company will be recorded using the existing book values in the Target Company's financial statements and will not be revaluated to their respective fair values. Furthermore, no goodwill will arise from the Acquisition.

(g) The actual carrying amounts of the Target Company's assets and liabilities are subject to change on the date of completion of the Acquisition. Accordingly, the actual assets and liabilities of the Enlarged Group are likely to be different from those illustrated in the unaudited pro forma financial information of the Enlarged Group above.

(h) No adjustment has been made to reflect any trading results or other transactions of the Group and the Target Company entered into subsequent to 31 December 2020 and 31 October 2020 respectively.

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

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

KPMG

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

To the Directors of Huayu Expressway Group Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Huayu Expressway Group Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2020 and related notes as set out in Appendix IV to the circular dated 30 April 2021 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 60% equity interests in Shenzhen Huayu Expressway Investment Co., Ltd. (the "Target Company") (the "Acquisition") on the Group's assets and liabilities as at 31 December 2020 as if the Acquisition had taken place at 31 December 2020. As part of this process, information about the Group's assets and liabilities as at 31 December 2020 has been extracted by the Directors from the consolidated financial statements of the Company for the year ended 31 December 2020, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

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

Our Independence and Quality Control

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

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

Reporting Accountants' Responsibilities

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

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

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

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 December 2020 would have been as presented.

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

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

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

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

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

Opinion

In our opinion:

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

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

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

KPMG
Certified Public Accountants
Hong Kong
30 April 2021

The following is the text of a report received from Ernst & Young Transactions Limited, for the purpose of incorporation in this circular.

Ernst & Young Transactions Limited
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

7 April 2021

The Board of Directors
Huayu Expressway Group Limited
Room 919, 9/F
China Merchant Tower, Shun Tak Centre
Sheung Wan, Hong Kong

Dear Sirs/Madams

Valuation of 60% of the equity interest in Shenzhen Huayu Expressway Investment Company Limited as at 19 March 2021

1 INTRODUCTION

Huayu Expressway Group Limited[1] ("Huayu") has proposed to acquire 60% of the equity interest in Shenzhen Huayu Expressway Investment Company Limited ("Huayu Expressway Investment") from Shenzhen Huayu Investment & Development Group Company Limited ("Huayu Development") at a consideration of approximately RMB127.2 million (the "Proposed Transaction").

Huayu Expressway Investment has an exclusive right to construct, operate, manage and maintain the first phase of Qingping Expressway[2] (the "Expressway") and its associated toll facilities until 8 February 2027. The Expressway links Shenzhen Qingshuihe Checkpoint and Bulong Interchange on Shuiguan Expressway in Guangdong Province, China.

2 PURPOSE OF THIS REPORT

As a result, the Board of Directors of Huayu (the "Board") has instructed that Ernst & Young Transactions Limited ("EY") assess the fair market value of 60% of the equity interest in Huayu Expressway Investment as at 19 March 2021 (the "Valuation Date") to assist management of Huayu ("Management") in its evaluation of the Proposed Transaction (the "Purpose").

1 The entity entered into the equity transfer agreement is a wholly-owned subsidiary of Huayu Expressway Group Limited.

2 Also known as Shuiguan Expressway Extension Line.

This report has been prepared on the specific instructions of the Board solely for the Purpose and should not be used or relied upon for any other purposes. We accept no responsibility or liability to any person other than to Huayu, or to such party to whom we have agreed in writing to accept a duty of care in respect of this report, and accordingly if such other persons choose to rely upon any of the contents of this report, they do so at their own risk.

Whilst each part of this report addresses different aspects of our work, the entire report should be read for a full understanding.

Huayu Development is wholly-owned by the Chairman of Huayu's Board of Directors, who is also an executive director and a controlling shareholder of Huayu. Accordingly, Huayu Development is a party connected to Huayu under the Main Board Listing Rules of the Stock Exchange of Hong Kong (the "Listing Rules"). The Proposed Transaction is also considered as a major transaction under Chapter 14 of the Listing Rules.

In accordance to the Listing Rules 14A.70(9) and 14.71, if a connected party transaction or major transaction involves an acquisition or disposal of a company engaging in infrastructure projects, a business valuation report is required to be incorporated in a circular to the shareholders of the company. As the Expressway is an operating infrastructure project, Listing Decision LD74-3 (October 2009) provides relief to the application of Listing Rules 14A.70(9) and 14.71. Accordingly, this report has not been prepared under Listing Rules 14A.70(9) or 14.71.

Whilst this report has been prepared solely for the Purpose, the Board intends to disclose all or parts of this report to Huayu's shareholders. In this regard, Listing Rule 14.61 classifies any valuation of assets or businesses acquired by an issuer based on discounted cash flows or projections of profits, earnings or cash flows as a profit forecast. As a result, this valuation is regarded as a profit forecast for the purpose of Listing Rule 14.61.

3 LIMITATIONS

This valuation should not be construed as investment advice and should not be used as a basis to set a transaction price. Any decision in relation to Huayu may entail consideration of factors of which EY may not be aware. The evaluation of these factors does not form part of the scope of our work of this report. Readers should therefore consider the appropriateness of the report considering their own objectives and financial situation. We assume no responsibility for any potential buyer or Huayu to negotiate a purchase or sale at our assessed values.

Our work in connection with this report is of a different nature to that of an audit or a review of information, as those terms are understood in relevant auditing standards. All the information we have received is the responsibility of Management. We have not sought to establish the reliability of the information supplied to us and we provide no assurance on such information. The contents of this report have been reviewed by Management, who has confirmed to us their factual accuracy.

This report has not addressed issues other than those related to the Purpose. We and any other EY Firm (including our or its partners, employees, agents, subcontractors and their employees) accepts no responsibility and shall have no liability in contract, tort or otherwise to any party, other than Huayu in relation to the contents of this report or the information.

Our valuation is primarily based on Management's financial forecast of Huayu Expressway Investment for the period from 1 November 2020 to 8 February 2027 (the "Management Forecast"), which is based on judgemental estimates and assumptions made by Management about circumstances and events that have yet to take place. We have not provided any opinion or any type of assurance about specific assumptions or components of the Management Forecast, or on the Management Forecast as a whole. There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We take no responsibility for the achievement of the Management Forecast.

In accordance with Listing Rule 14.62(2), KPMG (Huayu's reporting accountants) has been engaged by Huayu to review and confirm the accounting policies and calculations in relation to the valuation, including the Management Forecast. Additionally, under Listing Rule 14.62(3), Lego Corporate Finance Limited ("Lego"), the independent financial advisor appointed to advise the Independent Board Committee[3] and the independent shareholders of Huayu[4] in relation to the Proposed Transaction, has been engaged by Huayu to confirm if they are satisfied that the valuation, including the Management Forecast, has been made after due and careful enquiry. Both KPMG and Lego's reports have been included in the announcement of Huayu dated 7 April 2021 in connection with the Proposed Transaction (the "Announcement") and the circular to be sent to the shareholders of Huayu in relation to the Proposed Transaction on or before 30 April 2021.

This report does not consider events or circumstances arising after the Valuation Date and we have no responsibility to update this report for such events or circumstances. This report has been prepared based on the economic, market and other conditions prevailing as at the Valuation Date. In early 2020, the emergence of the COVID-19 coronavirus pandemic has led to significant volatility in financial markets globally. As a result, there are significant uncertainties regarding the potential impact on the domestic and global economy in the short and long term. Potential impacts, including a global, regional or other economic recession, are uncertain and difficult to assess. The resulting financial and economic market uncertainty could have a significant impact on the valuation. Additionally, market and economic conditions can change significantly over relatively short periods of time as a result of the COVID-19 situation. Any references made to the impact of COVID-19 in this report are not to be interpreted as a complete commentary or as

3 Comprising all the three independent non-executive Directors, established to advise the independent shareholders of Huayu in respect of the Proposed Transaction. The independent shareholders of Huayu are shareholders of Huayu other than the Chairman of Huayu and his associates.

4 Shareholders of Huayu other than the Chairman of Huayu and his associates.

an accurate assessment of the full potential impact of the pandemic. Recognising these factors, we consider that the conclusion we have arrived at may be more susceptible to change than would normally be the case.

The figures presented in this report have been rounded. Therefore, some of the totals may not add up, since the underlying calculations have been performed using un-rounded figures.

4 BASIS OF THE VALUATION

For the purpose of this report, fair market value is defined as the value at which an asset would be transferred at arm's length between a willing buyer and a willing seller, both having reasonable knowledge of the relevant facts and neither being compelled to buy or sell. The fair market value does not reflect any premium which may be paid by a particular purchaser who is acting for strategic or other reasons.

5 SUMMARY OF VALUATION

For the purpose of this report, we have concluded the fair market value of 60% of the equity interest in Huayu Expressway Investment is in the range of RMB125.8 million to RMB128.6 million as at the Valuation Date.

Yours faithfully

Robert Kwok
Partner

6 PROFILE OF HUAYU EXPRESSWAY INVESTMENT

On 24 December 2001, Huayu Development entered into a concession agreement with the Longgang District People's Government, Shenzhen, People's Republic of China ("PRC") in relation to the Expressway (the "Concession Agreement").

Under the terms of the Concession Agreement, Huayu Development has the right to construct and operate the Expressway for 25 years[5]. At the end of the concession, the operating right of the Expressway will be transferred to the Longgang District People's Government at nil consideration.

For implementation of the Concession Agreement, Huayu Development transferred the rights and obligations in respect of the Concession Agreement to Huayu Expressway Investment, being the project company. Huayu Expressway Investment has two shareholders, being Huayu Development (which owns 60% of the equity interest) and Shenzhen Expressway Company Limited[6] (which owns the remaining 40%) ("Shenzhen Expressway").

The Expressway commenced operation on 9 February 2002. According to the terms of the Concession Agreement and approval from the People's Government of Guangdong Province, Huayu Development would return the Expressway to the Longgang District People's Government on 9 February 2027[7].

The Expressway is a six-lane expressway (three lanes in each direction) with an initial tollable distance of 6.3 km[8]. The Expressway connects Shenzhen Qingshuihe Checkpoint (at the south end of the Expressway) and Bulong Interchange on Shuiguan Expressway (at the north end). Shuiguan Expressway is a major expressway linking the central business district of Shenzhen with Longgang District and Pingshan New Zone. Toll fees are manually collected at toll stations (typically using electronic payment systems) and by the electronic toll collection ("ETC") system (through an electronic device attached to the vehicle).

5 From its date of operation.

6 Shenzhen Expressway primarily invests in toll road projects in China and is listed on the Stock Exchange of Hong Kong and the Shanghai Stock Exchange.

7 Final date of the concession period is 8 February 2027.

8 Revised from 6.3 km to 5.8 km by the People's Government of Guangdong Province as from 1 January 2020.

Based on the terms of the Concession Agreement, any transfer of rights and obligations in relation to the Expressway needs to be approved by the Longgang District People's Government[9].

In addition, based on the terms of the shareholders agreement of Huayu Expressway Investment, if either shareholder intends to dispose of all or part of the shares in Huayu Expressway Investment, it must first offer the other shareholder the right to acquire those shares. Otherwise, the outgoing shareholder must obtain the consent of the other shareholder for the transfer of shares to a third party.

For the purpose of this Report, we have not considered whether or not the conditions precedent to the Proposal Transaction have been or will be met. Our assessment of the fair value of 60% of the equity interest in Huayu Expressway Investment is based on the assumption that the said interests are free from all encumbrances.

6.1 Toll regime

6.1.1 Change of tolling regime on 1 January 2020

In May 2019, the Chinese government announced a policy to reform the toll road industry in China. Prior to implementation of the new policy, expressways across the country had different tolling regimes and ETC systems. With implementation of the new policy on 1 January 2020, all non-standard ETC systems were replaced by a nationally uniform ETC system.

As part of the reform, the toll rates of the Expressway were revised due to a change of the tollable distance from 6.3 km to 5.8 km on 1 January 2020. The classification of vehicle types was also revised. The following tables summarise the toll regimes of the Expressway prior to 1 January 2020 and for the period from 1 January 2020 to 5 May 2020[10].

9 Except for transferring the rights and obligations to a project company. In this regard, the transfer of the rights and obligations of the Concession Agreement to Huayu Development was permitted under the terms of the Concession Agreement.

10 The toll rates were further revised on 6 May 2020.

Toll Collection Schedule prior to 1 January 2020

Class	Typical vehicle type	Toll rate (inclusive of taxes and VAT) (RMB/ vehicle)	Toll rate (exclusive of taxes and VAT) (RMB/ vehicle)
1	Passenger cars/vans and motorcycles (2 axles with 2 to 4 wheels)	3.78	3.65
2	Light vans/light and small goods vehicles (2 axles with 4 wheels)	5.67	5.48
3	Small, medium and large passenger vehicles/medium goods vehicles (2 axles with 6 wheels)	7.56	7.31
4	Extra-large passenger vehicles/large goods vehicles/20 ft container trucks (3 axles with 6 to 10 wheels)	11.34	10.96
5	Double deck passenger vehicles/heavy goods vehicles/heavy trucks and trailers/40 ft container trucks (more than 3 axles with more than 10 wheels)	13.23	12.79

Source: Management

Toll Collection Schedule from 1 January 2020 to 5 May 2020

Class	**Classification standard**	**Toll rate (inclusive of taxes and VAT) (RMB/ vehicle)**	**Toll rate (exclusive of taxes and VAT) (RMB/ vehicle)**
Passenger vehicle			
1	Less than or equal to 9 seats	3.48	3.36
2	10 – 19 seats	5.22	5.04
3	20 – 39 seats	6.96	6.73
4	More than or equal to 40 seats	10.44	10.09
Truck			
1	2 axles (less than 6 m in length and maximum authorised total weight of less than 4,500kg)	3.48	3.36
2	2 axles (more than 6 m in length and maximum authorised total weight of more than 4,500kg)	7.31	7.06
3	3 axles	11.00	10.63
4	4 axles	13.05	12.61
5	5 axles	13.43	12.98
6	6 axles	14.23	13.75

Source: Management

Management has advised that the majority of the vehicles using the Expressway are Class 1 passenger vehicles, which accounted for over 90% of the traffic volumes for the three years ended 31 December 2019.

Based on the Toll Free Policy During Major National Festivities, during national holidays of China, which covers a total of 20 days each year, passenger vehicles with seven seats or below can travel toll-free on toll roads, including the Expressway. In addition, certain types of vehicle are not tollable, which include law enforcement vehicles, emergency services vehicles and commercial vehicles carrying livestock and fresh produce.

6.1.2 Change of toll rates on 6 May 2020 (the current toll rates)

On 6 May 2020, the Chinese government further adjusted the toll rates of the Expressway by rounding down the gross toll rates (inclusive of taxes and VAT) for each category to the nearest Chinese yuan. For example, the toll rate of Class 1 passenger vehicles was rounded to RMB3.00 (inclusive of taxes and VAT) from RMB3.48 (inclusive of taxes and VAT).

The following table summaries the toll rates from 6 May 2020, being the applicable toll rates as at the Valuation Date.

Toll Collection Schedule from 6 May 2020

Class	Classification standard	Toll rate (inclusive of taxes and VAT) (RMB/vehicle)	Toll rate (exclusive of taxes and VAT) (RMB/vehicle)
Passenger vehicle			
1	Less than or equal to 9 seats	3.00	2.90
2	10 – 19 seats	5.00	4.83
3	20 – 39 seats	6.00	5.80
4	More than or equal to 40 seats	10.00	9.66
Truck			
1	2 axles (less than 6 m in length and maximum authorised total weight of less than 4,500kg)	3.00	2.90
2	2 axles (more than 6 m in length and maximum authorised total weight of more than 4,500kg)	7.00	6.76
3	3 axles	11.00	10.63
4	4 axles	13.00	12.56
5	5 axles	13.00	12.56
6	6 axles	14.00	13.53

Source: Management

6.2 ETC system

Huayu Expressway Investment is expected to incur a total of RMB12.8 million[11] for implementation of the standard ETC system.

11 As at 31 October 2020, approximately RMB11.0 million of the total amount was incurred, with RMB7.3 million paid. Management expects the remaining unspent amount of RMB1.8 million and the amount spent but unpaid of RMB3.7 million would be spent and paid during the year ending 31 December 2021.

From July 2019 a discount of 5% on toll rates has been offered to vehicles using the ETC system. The discount is designed to encourage the adoption of ETC. Management has advised that approximately 45% of the number of standard vehicle units on the Expressway used the ETC in 2018. ETC usage increased to approximately 60% for the year ended 31 December 2019.

6.3 Standard vehicle units

For management reporting purposes, the industry typically measures the performance and capacity of a toll road by converting the traffic volumes into a standard measurement unit. In China, the measurement unit is typically referred as standard vehicle unit. With respect to the Expressway, each Class 1 vehicle (Class 1 passenger vehicle from 1 January 2020) is considered a single standard vehicle unit.

For example, under the toll regime prior to 1 January 2020, Class 2 vehicles are equivalent to 1.5 standard vehicle units, which is calculated using the toll rate for Class 1 vehicles of RMB3.65 (exclusive of taxes and VAT) and the toll rate for Class 2 of RMB5.48 (exclusive of taxes and VAT).

The following tables depict the standard vehicle unit for each vehicle class prior to 1 January 2020, for the period from 1 January 2020 to 5 May 2020 and from 6 May 2020 (the current toll rates).

Toll Collection Schedule before 1 January 2020

Class	Toll rate (exclusive of taxes and VAT) (RMB/ vehicle)	Standard vehicle unit
1	3.65	1.00
2	5.48	1.50
3	7.31	2.00
4	10.96	3.00
5	12.79	3.50

Source: Management

Toll Collection Schedules from 1 January 2020 to 5 May 2020 and from 6 May 2020

	1 January 2020 to 5 May 2020		From 6 May 2020	
Class	Toll rate (exclusive of taxes and VAT) (RMB/ vehicle)	Standard vehicle unit	Toll rate (exclusive of taxes and VAT) (RMB/ vehicle)	Standard vehicle unit
Passenger vehicle				
1	3.36	1.00	2.90	1.00
2	5.04	1.50	4.83	1.67
3	6.73	2.00	5.80	2.00
4	10.09	3.00	9.66	3.33
Truck				
1	3.36	1.00	2.90	1.00
2	7.06	2.10	6.76	2.33
3	10.63	3.16	10.63	3.67
4	12.61	3.75	12.56	4.33
5	12.98	3.86	12.56	4.33
6	13.75	4.09	13.53	4.67

Source: Management

Vehicles with size over the standard Class 5 vehicles under the regime prior to 1 January 2020, and Class 6 trucks from 1 January 2020, are charged at rates beyond the standard toll rates. However, these oversized vehicles are counted as Class 5 vehicles under the old regime and Class 6 trucks from 1 January 2020 for management reporting purposes.

6.4 COVID-19

As a result of COVID-19, the State Council of the PRC implemented a temporary toll-free policy for toll roads across the country for the periods from 24 January 2020 to 8 February 2020 and from 17 February 2020 to 5 May 2020. During these periods, toll fees were waived for all vehicles using the Expressway.

Management has advised that the Expressway's traffic volumes shrank during the five months ended 31 May 2020 due to the fall of social and economic activities brought by COVID-19. In this regard, we note that the gross domestic product ("GDP") of Guangdong Province experienced a decline of approximately 5.0% in the first quarter of 2020, but the economy showed signs of recovery from the second quarter of 2020.

The following table summarises the quarterly GDP of Guangdong for 2019 and 2020.

The quarterly GDP of Guangdong Province for the year ended 31 December 2020

(In RMB trillion) GDP of Guangdong Province	Q1	Q2	Q3	Q4
2020	2.25	2.67	2.92	3.24
2019	2.37	2.64	2.74	3.02
Growth (%)	(5.0%)	1.4%	6.4%	7.1%

Source: National Bureau of Statistics of China

We understand that participants in the Chinese toll road industry are in talks with the Chinese Government in relation to compensation for the loss of revenue as a result of the toll-free policy. In this regard, the Department of Transportation of Guangdong Province announced some preliminary principles on 14 December 2020, including:

- The affected toll road operators can apply for compensations one year before the end of the concession.

- For concession right granted by local governments, such as the one related to the Expressway, compensations can be applied through local transportation departments. The application would be reviewed by local transportation departments before submitting to provincial governments for final approval.

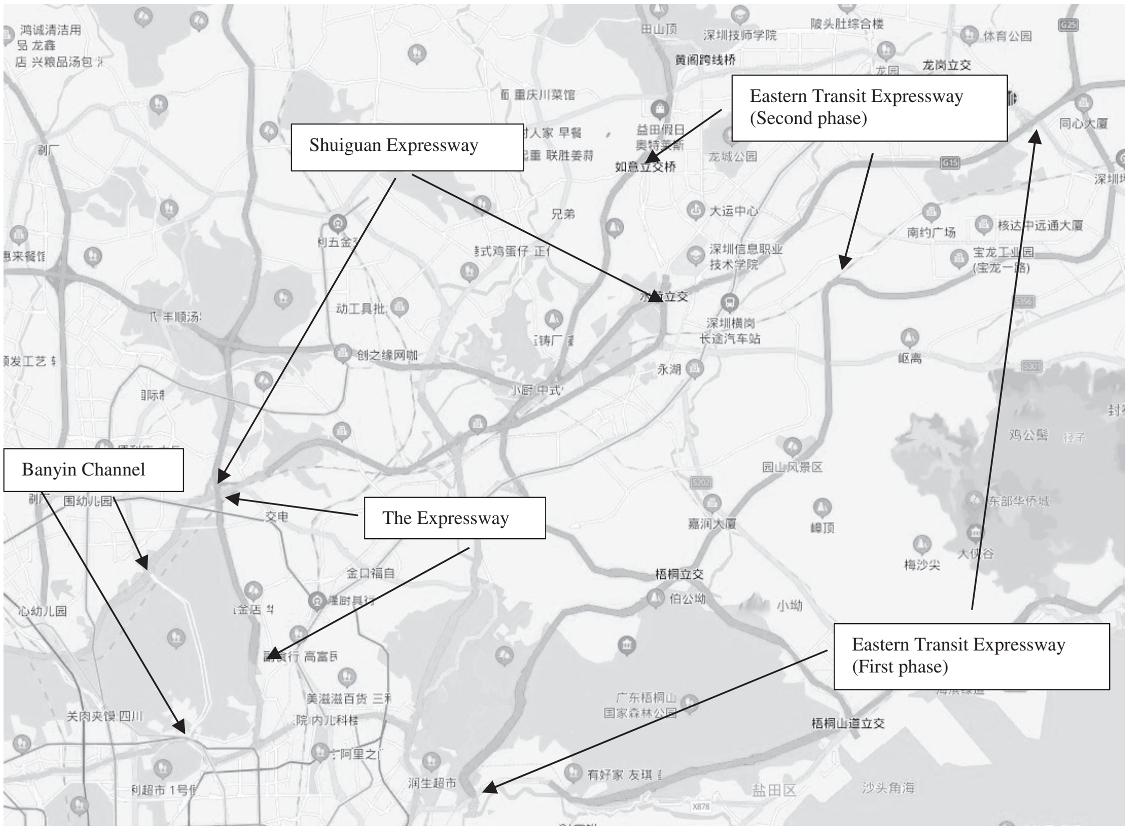
6.5 Known potential competition – neighbouring expressways

Banyin Channel became operational on 28 April 2020. Banyin Channel is a toll-free expressway connecting Banxuegang Interchange and Nigang Shangbu Interchange. Banyin Channel runs parallel to the Expressway and is situated approximately 2 km to the west of the Expressway. However, unlike the Expressway, Banyin Channel does not directly connect to Shuiguan Expressway.

In May 2020, the first phase of Eastern Transit Expressway became operational, in which it is a toll-free expressway connecting Liantang Checkpoint at the Hong Kong border (operational in August 2020) and Jinqian Ao Interchange (passing through Louhu, Longgang and Píngshan districts). The first phase of Eastern Transit Expressway allows vehicles to travel between Hong Kong and Shenzhen East bypassing the central business district of Shenzhen. The first phase of Eastern Transit Expressway is an alternative to Shuiguan Expressway for traffic to Shenzhen East.

The construction of the second phase of Eastern Transit Expressway commenced in November 2020. The second phase of Eastern Transit Expressway will be a toll-free expressway and extends the Eastern Transit Expressway to Longgang district at Long Cheng Street. At the completion of the second phase of Eastern Transit Expressway, which is planned at early 2024, the travel time from Liantang Checkpoint at the Hong Kong border to Longgang district would be reduced to 30 minutes.

Map of the neighbouring expressways



Source: *Internet*

7 HISTORICAL FINANCIAL INFORMATION OF HUAYU EXPRESSWAY INVESTMENT

The historical unaudited financial information of Huayu Expressway Investment presented has been prepared by Management in accordance with applicable Hong Kong Financial Reporting Standards ("HKFRS"). Based on our scope of work, we have not reviewed or audited the historical financial information used for the purpose of this report. Accordingly, we have not expressed an opinion on the historical financial information of Huayu Expressway Investment presented in this report, or used for the purpose of the valuation.

7.1 Statements of profit or loss

The following table summarises Huayu Expressway Investment's unaudited statements of profit or loss for the 3 years and 10 months ended 31 October 2020.

Statement of profit or loss of Huayu Expressway Investment

In RMB'000	**Year ended 31 Dec 2017** Unaudited	**Year ended 31 Dec 2018** Unaudited	**Year ended 31 Dec 2019** Unaudited	**10 mths ended 31 Oct 2019** Unaudited	**10 mths ended 31 Oct 2020** Unaudited
Revenue	118,569	121,415	130,554	100,951	49,546
Cost of service	(79,605)	(82,694)	(93,965)	(68,346)	(40,148)
Gross profit	38,965	38,721	36,590	32,605	9,398
Other revenue	1,462	1,876	1,370	1,245	1,205
Other net income	395	254	584	354	352
Administrative expenses	(5,299)	(5,863)	(6,113)	(4,343)	(4,709)
Profit/(loss) from operations	35,523	34,988	32,431	29,861	6,246
Finance costs	(8,061)	(6,496)	(4,931)	(4,109)	(2,815)
Income tax	(6,877)	(7,135)	(6,891)	(6,438)	(857)
Profit/(loss) for the year/period	20,585	21,357	20,609	19,314	2,574

Source: Management

7.1.1 Toll revenue and traffic volumes

With respect to the revenues of the Expressway over period from 1 January 2017 to 31 October 2020, Management has advised that:

- Growth in the Expressway's traffic volumes of recent years (2017 to 2019) lagged behind the economic activities of the region as usage of the Expressway during peak traffic periods was approaching capacity, with the total traffic volume for 2019 represented its peak. Management has advised that future growth potential of the Expressway beyond the 2019's level could be through non-peak hours traffic. The following table summarises the historical growth rates of the Expressway's traffic volume (calculated based on standard vehicle units) and the GDP growth rates of Shenzhen and Guangdong Province.

Standard vehicle unit and Guangdong Province GDP

Year	2014	2015	2016	2017	2018	2019
Standard vehicle unit (000)	22,515	24,259	29,167	30,763	32,227	32,788
Shenzhen GDP (RMB trillion)	1.6	1.8	1.9	2.2	2.4	2.7
Guangdong Province GDP (RMB trillion)	6.8	7.3	8.1	8.9	10.0	10.8
Growth rate (%)						
Standard vehicle unit	n/a	7.7%	20.2%*	5.5%	4.8%	1.7%
Shenzhen GDP	n/a	9.4%	11.4%	15.4%	7.7%	11.2%
Guangdong Province GDP	n/a	7.4%	11.0%	9.7%	12.7%	7.7%

Source: Management, National Bureau of Statistics of China

**: Management has advised that the traffic volumes for 2016 were affected by induced traffic associated with new roads and expanded capacity.*

- The actual results for the five months ended 31 May 2020 were affected by the temporary toll-free policy (Section 6.4).

- Whilst the economy of Guangdong Province started to recover from June 2020 (Section 6.4), the opening of Banyin Channel and the first phase of Eastern Transit Expressway (Section 6.5) caused the Expressway's traffic volumes for the period from 1 June 2020 to 31 October 2020 to lag behind those for the same period in 2019. The following table indicates that the number of standard vehicle units for the period from 1 June 2020 to 31 October 2020 was approximately 12% to 15% (mid-point in the order of

13.5%) less than the same period in 2019 (result for October was excluded from the observation as the traffic volumes of the Expressway were affected by the toll free national holiday).

Standard vehicle units for the periods from 1 June to 31 October 2019 and 2020

Standard vehicle units (000)	2019	2020	Difference
June	3,083	2,680	–13.1%
July	3,230	2,849	–11.8%
August	3,206	2,717	–15.3%
September	3,105	2,731	–12.0%
October	2,541	2,511	–1.2%

Source: Management

Using the standard vehicle units, the following table calculates the average toll revenue per standard vehicle unit ("ATRPSVU"). We have separately accounted for the ATRPSVU for the period from 1 January 2020 to 31 May 2020 as the toll revenue during that period was affected by the temporary toll-free policy (Section 6.4).

Historical toll revenue of Huayu Expressway Investment

In RMB'000	**Year ended 31 Dec 2017** Unaudited	**Year ended 31 Dec 2018** Unaudited	**Year ended 31 Dec 2019** Unaudited	**1 Jan 2020 to 31 May 2020** Unaudited	**1 Jun 2020 to 31 Oct 2020** Unaudited
Revenue	118,569	121,415	130,554	9,570	39,976
Less: Expressway management income[1]	(2,410)	(741)	–	–	–
Less: Expressway construction income[2]	(1,476)	(728)	(9,840)	–	–
Net toll revenue	114,684	119,946	120,714	9,570	39,976
Standard vehicle units (000)	30,762	32,227	32,788	10,300	13,488
Average toll revenue per standard vehicle unit (RMB)	3.73	3.72	3.68	0.93	2.96

Source: Management

Note 1: Huayu Expressway Investment received income for provision of management services to Qingping Expressway Phase 2, a neighbouring toll road situated north of the Expressway. However, provision of management services to Qingping Expressway Phase 2 ceased in 2018.

Note 2: Huayu Expressway Investment recognised the construction cost of the Expressway as revenue and cost of service in accordance with HK(IFRIC) Interpretation 12. The increase in the construction income in 2019 was due to the costs associated with implementation of the standard ETC system. The counter entries are treated as cost of service.

Whilst ATRPSVU should be equivalent to the toll rate for Class 1 vehicles, Management has advised that the following factors impacted the calculated ATRPSVU:

- Oversized vehicles are charged at rates higher than the standard rates (Section 6.1.1) but are counted as Class 5 vehicles under the old regime and Class 6 trucks from 1 January 2020. These vehicles contribute to higher ATRPSVU.

- Toll free vehicles during national holidays and toll-free vehicles under government policy are included in the number of standard vehicle units (Section 6.1.1).

- A discount of 5% on toll rates has been offered from July 2019 for vehicles using the ETC system (Section 6.2), which resulted in a decrease in ATRPSVU in 2019 and beyond. Management has indicated that the anticipated uptake in usage of ETC would further reduce ATRPSVU.

- The reduction in ATRPSVU for the period from 1 June 2020 to 31 October 2020 was primarily caused by the change of the toll regime from 1 January 2020 in which the tollable distance of the Expressway reduced from 6.3 km to 5.8 km (Section 6.1.1) and the adjustment of toll rates on 6 May 2020 (Section 6.1.2).

7.1.2 Cost of service

The following table summarises the historical cost of service of Huayu Expressway Investment.

Historical cost of service of Huayu Expressway Investment

In RMB'000	**Year ended 31 Dec 2017** Unaudited	**Year ended 31 Dec 2018** Unaudited	**Year ended 31 Dec 2019** Unaudited	**10 mths ended 31 Oct 2019** Unaudited	**10 mths ended 31 Oct 2020** Unaudited
Salary expenses	14,204	15,471	16,042	12,247	11,105
Maintenance costs	5,894	5,995	6,867	4,383	8,520
Payment processing fees	756	681	818	587	315
Depreciation and amortisation	54,022	57,138	57,719	47,451	18,565
Expressway construction costs[1]	1,476	728	9,840	1,626	–
Others	3,252	2,681	2,679	2,052	1,644
	79,605	82,694	93,965	68,346	40,148

Source: *Management*

Note 1: Huayu Expressway Investment recognised the construction cost of the Expressway as revenue and cost of service in accordance with HK(IFRIC) Interpretation 12. The increase in the construction income in 2019 was due to the costs associated with implementation of the standard ETC system. The counter entries are treated as revenue.

- Salary expenses are mainly wages for toll collectors. For the 10 months ended 31 October 2020, salary expenses for toll collectors decreased as the number of manhours reduced due to reduction of traffic volumes and the toll-free policy.

- Maintenance costs include costs for safety checks, cleaning, greenings and minor repairs. The level of maintenance costs is related to the traffic volumes. Management has advised that a one-off cost associated with safety works of RMB3.4 million was incurred for the 10 months ended 31 October 2020.

- Payment processing fees are related to processing electronic payments at the toll stations (manual toll collection) and the ETC system. For manual toll collection using electronic payment methods, the processing fee is 0.5% on the toll rate. However, processing fee of 0.65% on the toll rate is charged for payments through the ETC system.

- Under HKFRS, the service concession arrangement of the Expressway was initially recognised as an asset and amortised over the life of the concession period on a unit of usage basis. The majority of the depreciation and amortisation expenses are related to amortisation of the service concession arrangement.

7.1.3 Other revenue and other net income

Other revenue is mainly rental income related to billboard advertising and cellular radio sites.

Other net income is mainly toll fees processing income. Due to the location of the toll stations, the Expressway collects toll fees on behalf of neighbouring toll roads and receives a portion of those toll fees as processing income.

7.1.4 Administrative expenses

Administrative expenses include management and administrative staff salaries and benefits, office utilities, and building management fees. The following table summarises the historical administrative expenses of Huayu Expressway Investment.

Historical administrative expenses of Huayu Expressway Investment

In RMB'000	Year ended 31 Dec 2017 Unaudited	Year ended 31 Dec 2018 Unaudited	Year ended 31 Dec 2019 Unaudited	10 mths ended 31 Oct 2019 Unaudited	10 mths ended 31 Oct 2020 Unaudited
Salary expenses	3,477	3,795	4,151	2,829	3,222
Building management fees	904	875	854	706	701
Vehicle rental expenses	449	472	434	352	334
Office utilities	68	164	205	112	138
Entertainment expenses	116	118	157	121	73
Consultation fees	30	185	40	40	40
Others	255	254	272	182	201
	5,299	5,863	6,113	4,343	4,709

Source: Management

7.1.5 Finance costs

Finance costs are mainly related to the bank loans.

7.2 Statements of financial position

The following table summarises Huayu Expressway Investment's unaudited statements of financial position as at 31 December 2018, 31 December 2019 and 31 October 2020.

Statement of financial position of Huayu Expressway Investment

In RMB'000	**As at 31 Dec 2018** Unaudited	**As at 31 Dec 2019** Unaudited	**As at 31 Oct 2020** Unaudited
Non-current assets			
Property, plant and equipment	345	553	445
Intangible asset-service concession arrangement	223,000	175,121	156,556
	223,345	175,674	157,001
Current assets			
Trade and other receivables	2,283	3,544	1,142
Cash at bank and on hand	36,882	24,778	48,803
Amounts due from related parties	13,237	44,688	44,688
	52,402	73,010	94,633
Current liabilities			
Trade and other payables	(8,046)	(13,763)	(13,746)
Amount due to related parties	(1,235)	(1,395)	(1,790)
Bank loan	(35,000)	(35,000)	(35,000)
	(44,281)	(50,158)	(50,536)
Net current assets	8,121	22,852	44,098
Total assets less current liabilities	231,466	198,526	201,099
Non-current liabilities			
Bank loan	(75,000)	(40,000)	(40,000)
Net assets	156,466	158,526	161,099

Source: Management

With respect to the financial position of Huayu Expressway Investment, we note that:

- Intangible asset service concession arrangement represents the initial fair value of the concession rights associated with the Expressway, less accumulated amortisation calculated based on unit of usage over the estimated life of the concession right.

- Amounts due from related parties are receivables from the shareholders of Huayu Expressway Investment, in which the outstanding balances as at 31 October 2020 are in proportion to their respective percentage ownership.

Shareholders	**Amount due from related parties** *(RMB'000)*	*Percentage*
Huayu Development	26,813	60.0%
Shenzhen Expressway	17,875	40.0%
	44,688	100.0%

Source: Management

- As at 31 October 2020, trade and other payables include payables associated with the construction costs of the standard ETC system of RMB3.7 million, which Management has advised the amount is expected to be settled in 2021.

- Bank loan is related to the construction costs of the Expressway. We understand that interest is paid quarterly and is calculated based on the lending rate published by the People's Republic Bank of China with an adjustment factor of 0.9. Interest accrued for the period from 21 September 2020 to 20 October 2020 of RMB0.3 million has been treated as trade and other payables as at 31 October 2020[12]. The current portion of the bank loan of RMB35 million is expected to be repaid on 25 December 2020. Additionally, the long-term portion of the bank loan of RMB40 million is expected to be repaid on 25 December 2021.

Management has advised that the amount due from Huayu Development increased from approximately RMB26.8 million as at 31 October 2020 to approximately RMB29.7 million as at 7 April 2021. If the Proposed Transaction is approved, Huayu Expressway Investment would declare a dividend of RMB24.6 million to its existing shareholders, being Huayu Development and Shenzhen Expressway. Accordingly, the amount of dividend

12 The interest accrued for the period from 21 October 2020 to 31 October 2020 has not been accounted for.

attributable to Huayu Development would be in the order of RMB14.8 million (being 60% of the total dividend of RMB24.6 million), which would be used to offset against the amount due from Huayu Development. After deducting the dividend payable, Huayu Development would owe Huayu Expressway Investment approximately RMB14.9 million.

8 VALUATION METHODOLOGY

8.1 Generally used methodologies

In general, there are three approaches that may be considered in the valuation of a company: Income Approach, Market Approach and Asset-based Approach.

8.1.1 Income Approach

The income approach focuses on the income-producing capability of an asset. The most commonly applied methodology within the income approach is the discounted cash flow ("DCF") method. The underlying premise of this approach is that the value of an asset can be measured by the present worth of the net economic benefit to be received over the life of the asset. The steps followed when applying this approach include estimating the expected cash flows attributable to an asset over its life and converting these cash flows to present value through discounting. The discounting process utilises a discount rate which accounts for the time value of money and investment risk factors. The present values of the cash flows are then summated to calculate the indication of value for the asset.

The DCF approach is applied under conditions of uncertainty. In common usage, the word risk refers to any exposure to uncertainty in which the exposure has potential negative consequences. It is assumed that market participants are said to be risk averse. A risk averse market participant prefers situations with a narrower range of uncertainty over situations with a greater range of uncertainty relative to an expected outcome. Market participants seek compensation, referred to as a risk premium, for accepting uncertainty.

Therefore the determination of the discount rate implies the comparison of the cash-flows generated by the asset with the cash-flows generated by the most favourable alternative investment. In this respect, it must be carefully observed that the cash-flows from the asset being valued and the alternative investment are equivalent in terms of risk and maturity.

8.1.2 Market Approach

The market approach is predicated on the concept that the value of any company can be estimated by comparing and correlating its features to those similar companies that have been the subject of a relevant transaction. The market approach comprises two methods namely comparable company method and comparable transactions method.

The comparable company method focuses on analysing the data and valuation multiples of companies that can be considered comparable to those being valued. Adjustments are made to the comparable companies to compensate for differences between those companies and the company being valued. Appropriate valuation multiples are then applied to the subject company's normalised financial data to arrive at an indication of the value of the subject company.

The comparable transaction method measures value based on what other purchasers in the market have paid for companies that can be considered reasonably similar to those being valued. When the comparable transaction method is utilised, data are collected on the prices paid for reasonably comparable companies. Adjustments are made to compensate for differences between comparable transactions and the company being valued. The application of the comparable transaction method results in an estimate of the price reasonably expected to be realised from the sale of the company.

8.1.3 Asset-based Approach

This approach views the value of a company as the excess of assets over liabilities in adjusted value terms. The value of the issued shares in the company is based on the market value attributed to the assets of the company less the market value of the liabilities as at a specific date. This method is normally premised on the assumption that the company is operating as a going concern. However, when the future prospects of the company are extremely doubtful and liquidation is contemplated, the valuation of the company will be based on the assumption that the company is undertaking an orderly realisation of its assets or a "fire sale" of its assets. This method tends to be used for asset intensive businesses and in situations where the future prospects of the company are extremely doubtful and/or liquidation is being contemplated.

8.2 Selection of valuation methodology

For the purpose of this report, we have adopted the DCF approach to estimate the fair market value of 60% of the equity interest in Huayu Expressway Investment:

- The DCF approach is one of the most commonly used methodologies for valuing infrastructure projects. Particularly, the DCF approach is suited for valuing a project with a finite life, such as that of the Expressway which has a remaining concession period of approximately 6 years until 8 February 2027.

- Investments in toll road projects are capital intensive and require large amounts of upfront capital. The DCF approach can capture the characteristics of investments in toll road projects, including large initial capital outlays, high gearing and long lead times. Even though the Expressway became operational in 2002, the profitability and cash flows of Huayu Expressway Investment are still influenced by depreciation expenses of the construction costs in accordance with Chinese Accounting Standards ("CAS") and tax legislation, and interest payments associated with the bank loan used to finance construction of the Expressway.

- The cash flows of infrastructure projects can be predicted with a reasonable degree of certainty. The Expressway has a long history with steady traffic volumes and revenues. The Management Forecast used for the valuation has incorporated Management's anticipated impact on traffic volumes and toll rates brought along by the toll road reform policy announced in 2019 and competition from neighbouring expressways.

Prior to us concluding on the fair market value of 60% of the equity interest in Huayu Expressway Investment, we have cross-checked the outcome of the DCF valuation using the Market Approach.

We have not considered the Asset-based Approach for the purpose of this report as the net assets value of Huayu Expressway Investment does not reflect the potential future earnings or cash flows of the Expressway.

8.3 Application of the DCF approach

For the purpose of this report, we have relied on the Management Forecast for our analysis. In this regard, we note that:

- Management is responsible for preparation of the historical financial information of Huayu Expressway Investment used for the purpose of this report. We have not expressed an opinion on the historical financial information used for the purpose of this report.

- Management is responsible for preparation of the Management Forecast, underlying assumptions and financial model used by us for the purpose of the valuation. The forecast assumptions reflect Management's view of the future business and operation of Huayu Expressway Investment as at the Valuation Date and are based on judgemental estimates and assumptions made by Management about circumstances and events that have yet to take place.

- Based on our scope of work, we have not assessed the reasonableness of the assumptions of the Management Forecast. Accordingly, we have not expressed an opinion on the Management Forecast or its underlying assumptions. Additionally, we have not reviewed or audited the financial model used for the purpose of the valuation and therefore have not expressed an opinion on the financial model.

- Management has advised that the actual results of Huayu Expressway Investment for the period from 1 November 2020 to 28 February 2021 approximate those included in the Management Forecast.

- Participants in the Chinese toll road industry are in talks with the Chinese Government in relation to compensation for the loss of revenues as a result of the toll-free policy during the first half of 2020. Despite the announcement made by the Department of Transportation of Guangdong Province on 14 December 2020, there is no detailed guidance on the application process and mechanisms on the calculation of the compensation. If Huayu Expressway Investment was to apply for compensation, it could only lodge an application in 2026 (according to the announcement on 14 December 2020) and there is no indication on the timing of the outcome. As there are high uncertainties around the quantification of compensation and whether or not the compensation would be approved, Management has not incorporated any form of compensation into the Management Forecast.

For the purpose of this report, the DCF analysis has been prepared based on:

- Annual cash flows and mid period discounting – we have assumed the annual cash flows to take place at the middle of the financial year when calculating the discount factors. Whilst we understand that the cash flows of Huayu Expressway Investment for the first half of the year are typically lower than those for the second half[13], we consider the potential discrepancy on the net present value of the Expressway associated with using mid-year discounting to be minimal for the purpose of the valuation. However, with respect to the forecast cash flows for the period from 1 November 2020 to 31 December 2020, given that the actual results for that period approximate those assumed in the Management Forecast, we have assumed the cash flows for that period to take place as at the Valuation Date. For the forecast cash flow from 1 January 2021 to 31 December 2021, we have assumed the cash flow to take place as at 30 June 2021, being the middle of the period.

13 There are more holiday periods during the first half of the year. During holiday periods toll fees are waived for passenger vehicles with seven seats or below. In addition, traffic volumes for the second half of the year are typically higher than those of the first half.

- Nominal basis – based on standard valuation practice, the forecast assumptions have been prepared on a nominal basis, that is, incorporating forecast inflation.

- After tax cash flows – consistent with standard valuation practice, cash flows used for the DCF are prepared on an after-tax basis. As such, benefits associated with tax deductions of depreciation expenses and interest expenses have been considered in the Management Forecast.

- Geared cash flows – DCF analyses can be undertaken using ungeared cash flows (operating cash flows) or geared cash flows (cash flows available to equity holders). One of the rationales for choosing ungeared cash flows for the DCF analysis is that the valuation subject would maintain a constant debt-to-equity ratio. However, standalone infrastructure projects with a finite life are typically valued using geared cash flows, which we have adopted for the purpose of the valuation. This is because as the concession period of the Expressway approaches its end, Huayu Expressway Investment would gradually repay the outstanding bank loan and therefore is not expected to maintain a constant debt-to-equity ratio. Using geared cash flows for the DCF analysis can reflect the timing of principal repayments.

9 MANAGEMENT FORECAST

9.1 Traffic volumes

9.1.1 From 1 November 2020 to 31 December 2020

Whilst the traffic volumes for the five months ended 31 May 2020 were adversely impacted by COVID 19, the economic activities of Shenzhen and Guangdong Province recovered to pre COVID 19 levels in June 2020 (Section 6.4). However, the traffic volumes of the Expressway have been affected by the opening of Banyin Channel and the first phase of Eastern Transit Expressway (Sections 6.5 and 7.1.1), which Management expects the negative impact would be ongoing.

As a result, when forecasting the traffic volumes of the Expressway for the period from 1 November 2020 to 31 December 2020, Management has:

- Adopted the number of standard vehicle units for November and December 2019, and converted the amount to reflect the toll regime and toll rates effective from 6 May 2020.

- Applied a reduction factor of 13.5% to the traffic volume to reflect the ongoing competition from the neighbouring expressways. The reduction factor applied is consistent with the reduced number of standard vehicle units over the period from 1 June 2020 to 30 September 2020 when compared with the same period in 2019 (Section 7.1.1).

The following table summarises the forecast number of standard vehicle units for the two months ending 31 December 2020.

Forecast number of standard vehicle units for the period from 1 November 2020 to 31 December 2020

'000	**Nov-20**	**Dec-20**	**Total**
Standard vehicle units under old regime (2019 actual)	2,883	2,958	5,841
Standard vehicle units under new regime and toll rates (converted)	3,069	3,155	6,224
Reduction factor – ongoing competition (13.5%)	(414)	(426)	(840)
Forecast standard vehicle units	2,655	2,729	5,384

Source: Management, EY analysis

Management has advised that the actual number of standard vehicle units for the period from 1 November 2020 to 31 December 2020 approximates the Management Forecast.

9.1.2 From 1 January 2021 to 8 February 2027

Whilst there is a correlation between economic activities and the traffic volumes of the Expressway, the traffic volume growth fluctuated at around 5% for 2017 and 2018 as the Expressway approached capacity (Section 7.1.1). The growth rate further reduced to 1.7% in 2019 when peak traffic periods reached capacity (Section 7.1.1).

The opening of Banyin Channel in April 2020 and the first phase of Easter Expressway in May 2020 have caused the Expressway's traffic volumes to reduce by as much as 13.5% on average (Section 7.1.1), which brought the traffic volumes of the Expressway back to their 2015/2016 levels. With the freed-up capacity, Management expects the traffic volumes of the Expressway for the period from 1 January 2021 to 8 February 2027 (end of the concession) to grow at rates similar to the growth rates in 2017 and 2018.

As a result, when forecasting the growth in traffic volumes of the Expressway, Management has:

- Used the number of standard vehicle units for 2019 as a base for 2020 and converted the amount to reflect the toll regime and toll rates effective from 6 May 2020.

- Applied a reduction factor of 13.5% to reflect the ongoing competition from the neighbouring expressways (Sections 7.1.1 and 9.1.1).

- Considered the forecast GDP growth rates of Shenzhen and Guangdong Province (see table below). However, Management has adopted the recent traffic growth rate of the Expressway of 5% for 2021 and beyond, which is the growth rate for 2017 and 2018 (Section 7.1.1). Management notes that the traffic growth pattern of the Expressway in 2017 and 2018 (prior to the Expressway approaching capacity) is consistent with the short and medium term traffic volumes and capacity of the Expressway as at the Valuation Date.

Forecast of Guangdong Province GDP

Year	**2020**	**2021**	**2022**	**2023**	**2024**
Shenzhen GDP (RMB trillion)	2.9	3.1	3.4	3.7	4.0
Guangdong Province GDP (RMB trillion)	11.1	12.1	12.8	13.7	14.5
Growth rate (%)					
Shenzhen GDP	n/a	8.7%	8.5%	8.5%	8.5%
Guangdong Province GDP	n/a	9.3%	5.6%	7.0%	5.6%

Source: International Data Corporation, China Development Institute

- Considered the potential adverse impact on the Expressway when the second phase of Eastern Transit Expressway becomes operational in early 2024 (Section 6.5). In this regard, Management has assumed that the potential impact on traffic volumes to be equivalent to the opening of Banyin Channel and the first phase of Eastern Transit Expressway in 2020. Accordingly, when estimating the traffic volume for 2024, Management has applied a reduction factor of 13.5% to the forecast traffic volume for 2023.

Consistent with the methodology in which standard vehicle units are measured (Section 6.1), the forecast traffic volumes assumed by Management incorporate oversized vehicles.

The following table summarises the forecast standard vehicle units for the period from 1 January 2021 to 8 February 2027.

Forecast number of standard vehicle units for the period from 1 January 2021 to 8 February 2027

'000	2021	2022	2023	2024	2025	2026	1 Jan to 8 Feb 2027
Forecast standard vehicle unit	31,871	33,464	35,137	31,914	33,509	35,185	3,774

Source: Management, EY analysis

Management has advised that the actual number of standard vehicle units for the period from 1 January 2021 to 28 February 2021 approximates the Management Forecast.

9.2 Toll rates

Management has adopted the actual ATRPSVU for the period from 1 June 2020 to 31 October 2020 as the base for forecast toll rates. In this regard, we note that:

- Approximately 63% of the vehicles on the Expressway used the ETC system for the period from 1 July 2020 to 31 October 2020[14], which were entitled to a discount of 5% on toll rates. Management has assumed that an annual increment of 2% to the ETC penetration rate over the forecast period. For example, the forecast ETC penetrate rate for 2021 is expected at 65%. The discount applicable to ETC usage of 5% is expected to be offered throughout the forecast period.

- ATRPSVU incorporates the non-standard toll fees applicable to oversized vehicles (vehicles not included in the standard toll rate schedule). Management has assumed the percentage of oversized vehicles using the Expressway over the forecast period to be similar to historical levels.

- Management has not incorporated any escalation factors, such as inflation, into the adopted toll rate.

14 The observation for June 2020 was omitted as the ETC usage for that month appears abnormal.

The following table summarises the adopted ATRSVU over the forecast period.

In RMB	1 Nov to 31 Dec 2020	Year ending 31 Dec 2021	Year ending 31 Dec 2022	Year ending 31 Dec 2023	Year ending 31 Dec 2024	Year ending 31 Dec 2025	Year ending 31 Dec 2026	1 Jan to 8 Feb 2027
ATRSVU (1 Jun 2020 to 31 Oct 2020)	2.96	2.96	2.96	2.96	2.96	2.96	2.96	2.96
% ETC	63%	65%	67%	69%	71%	73%	75%	77%
% manual	37%	35%	33%	31%	29%	27%	25%	23%
ATRSVU reflects % ETC and 5% discount	2.87	2.87	2.86	2.86	2.86	2.86	2.85	2.85

Source: Management

9.3 Cost of service

Cost of service includes:

- Toll collectors' salaries – despite the anticipated increase in usage of ETC, manual toll collection is not expected to be phased out during the forecast period. Accordingly, the total salaries for toll collectors for the year ended 31 December 2019 is used as a base for the Management Forecast and adjusted the amount for inflation of 2.6%[15]. Toll collectors' salaries for the 10 months ended 31 October 2020 has not been used for benchmarking as the amount was affected by the temporary toll free policy (Section 7.1.2).

- Maintenance costs – as the level of maintenance cost is related to the traffic volumes, Management has used the average maintenance cost for the 3 years and 10 months ended 31 October 2020 of approximately RMB0.20 per standard vehicle unit as a base[16] and projected the forecast amount using forecast traffic volumes and an inflation rate of 2.6%.

- Payment processing fees – for the forecast period, payment processing fees have been calculated based on the assumed penetration rates for the use of the ETC system and the applicable processing fee rates. Manual toll collection is assumed to attract a processing fee of 0.5% on the toll rate (all manual toll collection is assumed to use electronic payment systems). Payment through the ETC system is expected to incur a processing fee of 0.65% on the toll rate. Both payment processing fee rates are consistent with historical actuals.

15 Source: Forecast inflation rate for 2024, Economist Intelligence Unit.

16 Excluded one-off maintenance costs for 2019 of RMB0.6 million and for the 10 months ended 31 October 2020 of RMB3.4 million.

- Depreciation and amortisation – see Section 9.7.

- Others – other expenses are assumed at RMB2.7 million per annum, which are consistent with historical levels, and adjusted for inflation of 2.6%.

9.4 Other revenue

Other revenues, which are mainly rental income associated with billboard advertising and cellular radio sites, have been projected based on existing rental agreements. These rental agreements are assumed to be renewed at similar teams during the forecast period. The following table summarises the existing rental agreements.

Rental agreements of Huayu Expressway Investment

Type of agreement	Start date	Expiry date	Annual rental income (Exclusive of taxes and VAT) *(RMB000)*
Billboards	1 January 2020	31 December 2020	772
Cell sites	15 March 2020	14 March 2023	105
Cell sites	1 May 2020	30 April 2023	50
Cell sites	1 July 2020	30 June 2023	50
Cell sites	1 July 2020	30 June 2023	58
Cell sites	1 July 2020	30 June 2023	50
Cell sites	1 April 2020	31 March 2023	50
			1,135

Source: Management

9.5 Administrative expenses

Administrative expenses are assumed at RMB6.0 million per annum, which are broadly consistent with historical levels, and adjusted for inflation of 2.6%.

Huayu Expressway Investment has been using approximately 500 square metres of Huayu Development's office space in Shenzhen at nil consideration. If the Proposed Transaction is implemented, Huayu Expressway Investment will enter into a formal agreement with Huayu Development for Huayu Expressway Investment to continue the use of the office space at nil consideration for an additional three years until end of June 2024 (assuming the Proposed Transaction is implemented at end of June 2021). For the purpose of the financial forecast, Management has assumed Huayu Expressway Investment would continue to occupy the office space of Huayu Development at nil consideration when the initial agreement expires at end of June 2024, until the end of the concession.

9.6 Finance costs and bank loan repayment

As at 31 October 2020, the total outstanding amount of the bank loan was RMB75 million, with interest charged at the lending rate published by the People's Republic Bank of China, adjusted for a factor of 0.9. Based on the terms of the bank loan, RMB35 million of the outstanding amount would be repaid on 25 December 2020, with the remaining RMB40 million to be repaid on 25 December 2021.

As at the Valuation Date, the lending rate published by the People's Republic Bank of China was 4.65%. Management has assumed that the published lending rate would remain unchanged for the forecast period and adopted 4.19% (4.65% × 0.9) as the applicable interest rate for the outstanding amount of the bank loan.

For the purpose of the valuation, we have further deducted the accrued interest as at 31 October 2020 of RMB0.3 million, which is related to the period from 21 September 2020 to 20 October 2020 (Section 7.2), and the unaccrued interest for the period from 21 October 2020 to 31 October 2020 of RMB0.1 million.

Management has advised that the cash balance of approximately RMB48.8 million as at 31 October 2020 is not expected to generate a material amount of interest income during the forecast period.

9.7 Depreciation and amortisation expenses

For the purpose of the valuation, the tax benefits associated with depreciation and amortisation expenses are calculated based on CAS, which Management has advised are consistent with tax legalisation in China.

In this regard, Management has advised that the construction costs of the Expressway were initially capitalised and depreciated on a unit of usage basis. For the purpose of the valuation the net book value of depreciable fixed assets of RMB156.6 million as at 31 October 2020 would be depreciated based on the forecast traffic volumes.

The following table summarises the annual depreciation expenses over the forecast period.

Depreciation expenses of fixed assets

In RMB'000	1 Nov to 31 Dec 2020	Year ending 31 Dec 2021	Year ending 31 Dec 2022	Year ending 31 Dec 2023	Year ending 31 Dec 2024	Year ending 31 Dec 2025	Year ending 31 Dec 2026	1 Jan to 8 Feb 2027
Opening balance	156,556	152,547	128,815	103,895	77,729	53,965	29,011	2,811
Depreciation (%)	–2.6%	–15.2%	–15.9%	–16.7%	–15.2%	–15.9%	–16.7%	–1.8%
Closing balance	152,547	128,815	103,895	77,729	53,965	29,011	2,811	–

Source: EY analysis

9.8 Capital Expenditure

In relation to implementation of the ETC system, Management expects the unpaid and unspent capital expenditure of RMB5.5 million to be paid during the year ending 31 December 2021 (Section 6.2).

Other than the above, Management does not anticipate further capital expenditure to be required for the Expressway for the remainder of the concession period.

9.9 Income tax

For the purpose of the Management Forecast, Management has adopted the statutory tax rate of 25% as the effective tax rate.

9.10 Movements in working capital

Management does not expect there would be material changes in working capital during the forecast period. In this regard, Management has advised that:

- The time lag between revenue recognition and cash receipts is minimal.
- Annual expenses are expected to be stable.

Accordingly, working capital balances as at 31 October 2020 are expected to remain unchanged during the forecast period and would be realised as at the end of the concession.

Payables associated with interest expenses (Section 9.6) and construction costs related to the new ETC system (Section 9.8) have been separately accounted for in the forecast cash flows.

9.11 Other adjustments

- Cash at bank and on hand – the balance as at 31 October 2020 of RMB48.8 million has been added to the present value of the cash flows. Management has advised that the amount is not expected to generate a material amount of interest income.

- Amounts due from, and due to related parties – the outstanding amounts as at 31 October 2020 have been added to and subtracted from the present value of the cash flows. We understand that these amounts have no fixed terms for repayment.

- Dividends declared – if the Proposed Transaction is approved, Huayu Expressway Investment would declare a dividend of RMB24.6 million to its existing shareholders, being Huayu Development and Shenzhen Expressway. As the dividend has not been accrued, we have deducted the amount from the present value of the cash flows.

10 DISCOUNT RATE

As the DCF has been prepared on a nominal, after-tax and geared basis, the relevant discount rate is a nominal cost of equity (*Ke*).

To estimate the cost of equity the capital asset pricing model ("CAPM") is used. The CAPM postulates that the cost of equity is equal to the return on risk-free securities plus an individual risk premium. The risk premium is the company's systematic risk (β) multiplied by the market price of risk (market risk premium).

The equation for the cost of equity is as follows:

$$K_e = R_f + \beta \times MRP + \alpha$$

with

R_f = Risk-free rate of return
β = Systematic risk of the equity
MRP = Market risk premium
α = Specific risk premium

10.1 Risk-free rate

The starting point for estimating the cost of equity is the risk-free rate of return. In practice the interest rate of long-term, risk-free financial investments, for example fixed-interest public sector securities, is used as a guideline for determining the risk-free rate. In selecting an appropriate risk-free rate to be used for the cost of equity calculation, we typically consider the yield-to-maturity on long-term government bonds, as a proxy for the risk-free rate.

With respect to the valuation of 60% of the equity interest in Huayu Expressway Investment, we note that the Expressway has a remaining concession period of approximately 6 years (from the Valuation Date to the end of the concession on 8 February 2027).

As there are no China Government Bonds with 6 years of maturity, we have selected the yield-to-maturity of 5-year China Government Bonds of 3.17% as at the Valuation Date (quoted by S&P Capital IQ) as the risk-free rate.

We have also considered the yield-to-maturity of China Government Bonds with 10 years of maturity of 3.23% as at the Valuation Date, which are widely used for valuation of long-term assets under the DCF approach. However, due to the remaining duration of the concession period, we have selected the 5-year China Government Bonds as a base to our analysis.

10.2 Market risk premium

The market risk premium (the price of risk) is the difference between the expected rate of return on the market portfolio and the risk-free rate. Historical capital market investigations have shown that investments in shares generate higher returns than investments in low-risk debt securities. Market risk premium reflects the premium that equity investors require to assume the risks of investing in equity as an asset class.

For the purpose of the valuation, we have assumed an equity risk premium of 7.5%.

10.3 Equity beta

The average market risk premium must be modified to reflect the specific risk structure. The CAPM accounts for the company-specific risk within the beta factor. Beta factors represent a weighting figure for the sensitivity of the company's returns compared to the trend of the entire market. They are thus a measure of volatility for the systematic risk.

Beta factors of more than 1 reflect a higher volatility; beta factors of less than 1 reflect a lower volatility than the market average. Beta factors are ideally determined with reference to the entire equity market, since the concept of systematic and specific risk requires that individual shares are measured in relation to the market portfolio.

We have selected a group of listed toll road operators in China as comparable companies (refer to Appendix A for a brief description of these companies). The following equity betas of the comparable companies have been sourced from S&P Capital IQ and are observed weekly over a period of three years, and monthly over a period of five years.

Comparable companies	Market capitalisation *(RMB million)*	3-year weekly equity beta	5-year monthly equity beta
Jiangsu Expressway Company Limited	45,701	0.70	0.37
Zhejiang Expressway Co., Ltd.	24,030	0.95	0.71
Shenzhen Expressway Company Limited	17,248	0.83	0.79
Sichuan Expressway Company Limited	8,368	0.67	0.66
Yuexiu Transport Infrastructure Limited	7,055	0.76	0.57
Shenzhen Investment Holdings Bay Area Dev Co Ltd	8,448	0.35	0.63
Anhui Expressway Company Limited	6,980	0.77	0.82
Qilu Expressway Company Limited	3,638	0.55	0.22*
Huayu Expressway Group Limited	305	0.20*	0.45*
China Resources and Transportation Group Limited	208	0.05*	1.08*
Maximum		0.95	0.82
Mean		0.70	0.65
Median		0.73	0.66
Minimum		0.35	0.37

Source: S&P Capital IQ

*Note *:* Excluded from our assessment of beta as there is insufficient statistic evidence

Based on the above, we have applied a beta in the range of 0.65 to 0.75 to estimate the discount rate.

10.4 Specific risk premium

We have considered the size of the Huayu Expressway Investment and have applied a size premium of 5% to the discount rate. The size premium has been determined based on Duff & Phelps 2020 Valuation Handbook.

Additionally, we have applied a specific risk premium of 1% to reflect the risk and uncertainty associated with the underlying assumptions of the Management Forecast, including the annual traffic growth rates and potential impact associated with competition from neighbouring expressways.

10.5 Adopted discount rate

The following table summarises the inputs to the discount rate calculation and the resulting discount rate.

Key parameters of discount rate computation

In RMB'000	**Low**	**High**
Risk-free rate	3.2%	3.2%
Equity beta	0.65	0.75
Equity risk premium	7.5%	7.5%
Size premium	5.0%	5.0%
Specific premium	1.0%	1.0%
Cost of equity	14.0%	14.8%
Discount rate (adopted)	14.0%	15.0%

Source: EY analysis

11 VALUATION OF 60% OF THE EQUITY INTEREST IN HUAYU EXPRESSWAY INVESTMENT

11.1 Summary of valuation

Based on the abovementioned assumptions, the following table summarises the fair market value of 60% of the equity interest in Huayu Expressway Investment.

Fair market value of 60% of the equity interest in Huayu Expressway Investment

In RMB'000	**Low**	**High**
Net present value	142,527	147,268
Add: Cash	48,803	48,803
Add: Amounts due from related parties	44,688	44,688
Less: Amounts due to related parties	(1,790)	(1,790)
Less: Dividend declared	(24,600)	(24,600)
Fair market value of 100% of Huayu Expressway Investment	209,630	214,370
Fair market value of 60% of Huayu Expressway Investment	125,778	128,622

Source: EY analysis

11.2 Valuation cross-check

In order to assess the reasonableness of the DCF results, we have compared the price-to-earnings ("P/E") ratio implied by the DCF results with the P/E ratios of comparable companies and recent transactions.

When calculating the implied P/E ratio of Huayu Expressway Investment, we have considered the earnings of Huayu Expressway Investment over three years ending 31 December 2021. Specifically, we note that:

- The net profit after tax of Huayu Expressway Investment for the year ended 31 December 2019 used for the analysis is reported under HKFRS.

- The net profit after tax for the year ended 31 December 2020 is based on the actual results for the 10 months ended 31 October 2020 (HKFRS) and estimated results for the two months ended 31 December 2020 (CAS). However, as most of the comparable companies reported their results using HKFRS, Management has converted the estimated results for the two months ended 31 December 2020 into HKFRS' equivalents. Management has advised that the key differences between HKFRS and CAS are recognition of fixed assets and associated depreciation.

- The net profit after tax for the year ending 31 December 2021 has been estimated using CAS. Consistent with the treatment for the estimated results for the year ended 31 December 2020, Management has converted the forecast results into HKFRS for comparison purposes.

The following table summarises the P/E ratios implied by the DCF analysis estimated using HKFRS financial results.

Implied P/E ratio of Huayu Expressway Investment as at the Valuation Date

In RMB'000	**Valuation Date**	**Year ended 31 Dec 2019**	**Year ended 31 Dec 2020**	**Year ending 31 Dec 2021 Forecast**
		Unaudited	Unaudited	
100% of the equity interest of Huayu Expressway Investment	209,630 – 214,370			
Profit after tax (HKFRS)		20,610	6,756	27,077
P/E ratio (times)		10.2 – 10.4	31.0 – 31.7	7.7 – 7.9

Source: EY analysis

The following tables summarise the P/E ratios of comparable companies (calculated based on HKFRS financial information) and recent relevant transactions.

Market multiples of comparable trading companies

Trading companies	Market capitalisation *(RMB million)*	Remaining life of toll road concession right *(years)*	Year ended 31 Dec 2019 Audited	Year ended 31 Dec 2020 Estimated	Year ending 31 Dec 2021 Forecast
Jiangsu Expressway Company Limited	45,701	n/a	10.9x	17.2x	10.5x
Zhejiang Expressway Co., Ltd.	24,030	9 – 15	6.5x	9.4x	5.9x
Shenzhen Expressway Company Limited	17,248	2 – 18	6.9x	13.0x	7.5x
Sichuan Expressway Company Limited	8,368	n/a	7.7x	311.7x	8.0x
Yuexiu Transport Infrastructure Limited	7,055	3 – 22	6.2x	6.9x	5.9x
Shenzhen Investment Holdings Bay Area Development Company Limited	8,448	7 – 18	13.8x	12.1x	12.3x
Anhui Expressway Company Limited	6,980	2 – 23	6.4x	9.8x	5.3x
Qilu Expressway Company Limited	3,638	14	7.0x	n/a	n/a
Huayu Expressway Group Limited	305	18	6.1x	n/a	n/a
China Resources and Transportation Group Limited	208	24	n/a	n/a	n/a

Source: S&P Capital IQ

Market multiples for comparable transactions

Target companies	% acquired	Transaction date	Consideration (USD million)	Remaining life of toll road concession right	P/E ratio
Hunan Daoyue Expressway Industry Co., Ltd.	40.0%	17/12/2018	68	20 years	47.2x
Hubei Wujing Highway Development Co., Ltd.	60.0%	13/8/2018	432	22 years	28.0x

Source: S&P Capital IQ, Circular – Very Substantial Disposal and connected Transaction of Huayu Expressway Group Limited dated 23 November 2018

When interpreting the cross-check results, the following factors have been taken into consideration:

- The majority of the comparable companies have a portfolio of toll roads with various concession periods. In general, toll roads with longer remaining concession periods tend to have higher valuations. This is due to the high upfront capital expenditure in relation to the construction of project being treated as sunk cost from a valuation perspective (except for tax benefits associated with depreciation).

- The trading multiples of the comparable companies for the year ended 31 December 2020 are reflective of the impacted results due to COVID-19 and the toll free policy.

- Larger companies typically have higher trading multiples than their smaller peers. This is consistent with the size premium concept under CAPM where large scale companies typically have lower required rate of return than their smaller counterparts. Based on the operating scale of the Huayu Expressway Investment, we consider its implied P/E ratio is more comparable to companies with small market capitalisation.

- The valuation of Huayu Expressway Investment is on a controlling basis and is inclusive of a control premium. Share prices of listed companies usually reflect prices of minority parcels of shares traded and are perceived to incorporate a minority discount. However, for utility companies (such as infrastructure companies) where their businesses and operations are typically highly regulated, there could be limited benefits associated with gaining control of the companies. There could be an exception if the company owns a large portfolio of infrastructure projects whereby they can gain benefits in efficient capital deployment. Accordingly, it can be argued that the comparable companies with a large portfolio of toll roads are typically traded at a minority discount as there are benefits associated with gaining control of these companies (these companies could already be trading at high earnings multiples due to their size). However, for their counterparts which have a single or a small number of projects, these companies could already be trading at their full value (these companies typically trade at low earnings multiples due to their size). Based on the above, the implied P/E ratio of Huayu Expressway Investment is more comparable to comparable companies with a small number of toll road projects.

Based on the abovementioned factors, we consider the trading multiples of the comparable companies calculated using the forecast earnings for the year ending 31 December 2021 to be more relevant for the comparison, as the forecast earnings reflect completion of the industry reform announced in 2019 and is the first full year of operating results post COVID-19. Given the characteristics of Huayu Expressway Investment (in particular, the remaining concession period is relatively short), we consider a P/E ratio at the low end of the range of the comparable companies (calculated based on forecast earnings for the year ending 31 December 2021) to be more comparable to Huayu Expressway Investment. Based on the forgoing, we consider the DCF result of Huayu Expressway Investment is broadly consistent with the outcome of the Market Approach.

11.3 Sensitivity analysis

Whilst Management has assumed that the future growth of the Expressway to be in conjunction with the forecast GDP of Shenzhen and Guangdong, there are uncertainties associated with the future performance of the Expressway, such as competition from neighbouring expressways.

As a result, we have conducted sensitive analyses on Management's key forecast assumptions, being its traffic volumes. The following table summarises the fair market value of 60% of the equity interest in Huayu Expressway Investment on the basis that the number of standard vehicle units for the period from 1 January 2021 to 8 February 2027 is set at 5% above and below Management's forecast assumptions.

Sensitivity analysis of 60% of the equity interest in Huayu Expressway Investment

In RMB'000	**Low**	**High**
Discount rate	15.0%	14.0%
Base case	125,778	128,622
Sensitivity scenarios		
Standard vehicle unit is set at 5% below the Management Forecast	117,340	119,993
Standard vehicle unit is set at 5% above the Management Forecast	134,215	137,251

Source: EY analysis

11.4 Valuation conclusion

Based on the above analyses, our concluded valuation result for 60% of the equity interest in Huayu Expressway Investment is in a range of RMB125.8 million to RMB128.6 million as at the Valuation Date.

APPENDIX A – DESCRIPTION OF COMPARABLE COMPANIES

Comparable companies	Description[17]
Anhui Expressway Company Limited	Anhui Expressway Company Limited constructs, operates, manages, and develops toll roads and associated service sections in Anhui province, the People's Republic of China. The company owns interests in the Hening Expressway, New Tianchang Section of National Trunk 205, Gaojie Expressway, Xuanguang Expressway, Lianhuo Highway Anhui Section, Guangci Expressway, Ninghuai Expressway Tianchang Section, and Ningxuanhang Expressway. It also provides pawn loan services. The company was founded in 1996 and is headquartered in Hefei, the People's Republic of China.
Huayu Expressway Group Limited	Huayu Expressway Group Limited, an investment holding company, invests in, builds, operates, and manages infrastructure projects in the People's Republic of China. The company constructs, operates, and manages the Sui-Yue Expressway, a dual three-lane expressway with a planned length of approximately 24.08 kilometers. It also distributes liquor and spirits under the Kweichow Moutai Chiew name. The company is headquartered in Yueyang, the People's Republic of China. Huayu Expressway Group Limited is a subsidiary of Velocity International Limited.

17 S&P Capital IQ.

Jiangsu Expressway Company Limited	Jiangsu Expressway Company Limited invests in, constructs, operates, and manages toll roads and bridges in the People's Republic of China. The company operates the Jiangsu section of Shanghai-Nanjing Expressway, Ningchang Expressway, Zhenli Expressway, Guangjing Expressway, Xicheng Expressway, Xiyi Expressway, Zhendan Expressway, Jiangyin Bridge, Sujiahang Expressway, and other toll roads in Jiangsu Province, the People's Republic of China. As of December 31, 2019, it operated 17 road and bridge projects; and owned approximately 840 kilometers of roads and bridges. The company also offers passenger transportation; and development and operation of ancillary services along the toll roads and bridges, including refueling, catering, shopping, advertising, accommodation, etc. In addition, it engages in real estate development activities. The company was founded in 1992 and is headquartered in Nanjing, the People's Republic of China. Jiangsu Expressway Company Limited is a subsidiary of Jiangsu Communications Holding Company Limited.

Shenzhen Expressway Company Limited	Shenzhen Expressway Company Limited, together with its subsidiaries, primarily invests in, constructs, operates, and manages toll highways and roads, as well as other urban and transport infrastructure in the People's Republic of China. The company provides construction management and highways operation management services for government and other enterprises, as well as project development and management, advertising, construction consulting, inter-network toll collection, and financial services; and billboard leasing, advertising agency, and design production and related services. It also invests in industries and project construction; and offers property management, real estate brokerage, and engineering consulting services. In addition, the company provides infrastructure construction, environment protection construction, capital market, apartment rental and management, environmental technology development consultation, and land development services. As of December 31, 2019, it operated and invested in 16 toll highway projects. The company was founded in 1996 and is headquartered in Shenzhen, the People's Republic of China. Shenzhen Expressway Company Limited is a subsidiary of Shenzhen International Holdings Limited.

Sichuan Expressway Company Limited	Sichuan Expressway Company Limited, together with its subsidiaries, invests in, constructs, operates, and manages expressway infrastructure projects in Sichuan Province, the People's Republic of China. It operates through five segments: Toll Roads and Bridges; City Operation; Financial Investment; Energy Investment; and Transportation, Tourism, Culture, and Education. The Toll Roads and Bridges segment engages in the operation of expressways and a high-grade toll bridges. The City Operation segment provides construction and upgrade services under the service concession arrangements and construction contracts, and advertising services, as well as engages in the investment, development, and rental of properties along expressways. The Financial Investment segment is involved in finance lease operation, financial investment, and factoring businesses. The Energy Investment segment operates gas stations along expressways; and sells petrochemicals and other oil products. The Transportation, Tourism, Culture, and Education segment engages in the education operations. It also offers logistics and property development services. Sichuan Expressway Company Limited was incorporated in 1997 and is based in Chengdu, the People's Republic of China.

Zhejiang Expressway Co., Ltd.

Zhejiang Expressway Co., Ltd., an investment holding company, invests, develops, operates, maintains, and manages roads in the People's Republic of China. It operates through Toll Operation, Securities Operation, and Others segments. The Toll Operation segment operates and manages high grade roads; and collects expressway tolls. The Securities Operation segment offers securities and future broking, margin financing and securities lending, securities underwriting and sponsorship, asset management, advisory, and proprietary trading services. The Others segments engages in hotel operation, high grade road construction, investment in other financial institutions, and other ancillary activities. It also offers vehicle towing, repair and emergency, and rescue services. The company was founded in 1997 and is based in Hangzhou, the People's Republic of China. Zhejiang Expressway Co., Ltd. is a subsidiary of Zhejiang Communications Investment Group Co., Ltd.

Qilu Expressway Company Limited

Qilu Expressway Company Limited, together with its subsidiaries, operates as an expressway operator in the People's Republic of China. The company constructs, maintains, operates, and manages the Jihe Expressway that has a total length of approximately 153.6 kilometers, which runs from Jinan City to Heze City in Shandong Province. It also produces and distributes outdoor advertising. The company was formerly known as Shandong Jihe Expressway Company Limited. Qilu Expressway Company Limited was founded in 2004 and is headquartered in Jinan, the People's Republic of China.

Shenzhen Investment Holdings Bay Area Development Company Limited	Shenzhen Investment Holdings Bay Area Development Company Limited, an investment holding company, develops, operates, and manages expressways in the People's Republic of China. The company operates toll-expressway projects comprising Guangzhou-Shenzhen Superhighway, Phase I of the Western Delta Route, Phase II of the Western Delta Route, and Phase III of the Western Delta Route. It is also involved in loan financing activities. The company is based in Wan Chai, Hong Kong. Shenzhen Investment Holdings Bay Area Development Company Limited is a subsidiary of Shenzhen Investment Holdings Co., Ltd.
Yuexiu Transport Infrastructure Limited	Yuexiu Transport Infrastructure Limited, together with its subsidiaries, invests in, develops, operates, and manages toll expressways and bridges in the People's Republic of China. As of December 31, 2019, the company had a total of 15 investments in operating expressways and bridge projects comprising Guangzhou Northern Second Ring Expressway, Guangzhou Western Second Ring Expressway, Guangzhou Northern Ring Road, Guangdong Humen Bridge, Shantou Bay Bridge, and Qinglian Expressway located in the Guangdong Province; Cangyu Expressway in Guangxi Zhuang Autonomous Region; Jinbao Expressway in Tianjin Municipality; Han-Xiao Expressway, Suiyuenan Expressway, Hancai Expressway, Han'e Expressway, and Daguangnan Expressway in Hubei Province; Changzhu Expressway in Hunan Province; Jinxiong Expressway in Tianjin municipality; and Weixiu Expressway in Henan Province with a total attributable toll length of approximately 534.9 kilometers. It also leases various properties. The company was formerly known as GZI Transport Limited and changed its name to Yuexiu Transport Infrastructure Limited in May 2011. Yuexiu Transport Infrastructure Limited is headquartered in Wanchai, Hong Kong.

China Resources and Transportation Group Limited	China Resources and Transportation Group Limited, an investment holding company, operates toll expressway in the People's Republic of China. The company operates through three segments: Expressway Operations, Petroleum Business, and Others. It operates heavy haul toll expressway designed primarily for coal transportation in the Inner Mongolia Province that runs from the Jungar Banner to Xinghe County. The Expressway Operations segment is involved in the operation, management, maintenance, and auxiliary facility investment of Zhunxing Expressway. The Petroleum Business segment trades in petroleum and related products; and constructs and operates compressed natural gas stations. The Others segment engages in the plantation and sale of timber logs from tree plantation area and outside suppliers; plantation and trade of seedlings; production and sale of refined plant oil; growing and sale of agricultural and forage products; and operation of solar power station. The company also offers investment and asset management, timber logging, tree plantation, and cold storage warehouse leasing services; and sells furniture and handicrafts. China Resources and Transportation Group Limited is headquartered in Kwun Tong, Hong Kong.

APPENDIX B – SOURCES OF INFORMATION

We have relied on the following information when preparing this report:

- Equity transfer agreement of the Proposed Transaction dated 7 April 2021.
- Company announcements in relation to the Proposed Transaction dated 7 April 2021.
- Concession Agreement and other official documents associated with the operation of the Expressway and toll regimes.
- Shareholders' agreement of Huayu Expressway Investment.
- Publicly available information on comparable companies/transactions.
- Discount rate parameters from S&P Capital IQ.

SCHEDULE OF KEY ASSUMPTIONS AND LIMITING CONDITIONS

1. This report has been prepared for the specific purpose identified above and solely for the use of Huayu and is not to be used in any other context without the express written consent of EY. EY expressly disclaims any liability by reason of the use of this report by any person other than Huayu and does not assume any responsibility or liability for losses incurred by any third party as a result of a reliance on any part of this report. EY's responsibility is solely to Huayu and is subject to the terms of its engagement letter. This report may not have considered issues relevant to third parties and EY shall have no responsibility whatsoever to any third party which obtains a copy of this report. Any use such a third party may choose to make of this report is entirely at its own risk.

2. No investigation of the title to Huayu Expressway Investment's assets has been made. The ownership claims of Huayu Expressway Investment to its assets are assumed to be valid. To the extent that EY's services relate to assets, properties or business interests, EY shall assume no responsibility for matters of legal description or title, and EY shall be entitled to make the following assumptions: (i) title is good and marketable, (ii) there exist no liens or encumbrances, (iii) there is full compliance with all applicable government regulations and laws (including, without limitation, zoning regulations), and (iv) all required licences, certificates of occupancy, consents, or legislative or administrative authority from any government, private entity or organisation have been or can be obtained or renewed for any use to which EY services relate.

3. In connection with this report, we have not been requested to make, and have not made, any physical inspection or independent appraisal of any of the assets, properties or liabilities (fixed, contingent, derivative, off-balance-sheet or otherwise) of Huayu Expressway Investment, nor were we provided with any such appraisal.

4. In the course of our analysis, we were provided with written information, oral information, and/or data in electronic form, related to the structure, operation, and financial performance of Huayu Expressway Investment's businesses and assets. We have relied upon this information in our analysis and in the preparation of this report and have not independently verified its accuracy or completeness. No responsibility is assumed for information furnished by others (including management of Huayu), and such information is believed to be reliable.

5. Certain historical financial data used in our engagement were derived from unaudited financial statements and are the responsibility of management of Huayu. We have not independently verified the accuracy or completeness of the data provided and do not express an opinion or offer any form of assurance regarding its accuracy or completeness.

6. We have not performed an examination or compilation of the financial forecasts of Huayu Expressway Investment, and, accordingly, do not express an opinion or offer any form of assurance on the financial forecasts or the underlying assumptions. Furthermore, there will usually be differences between estimated and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

7. We have not evaluated the solvency of Huayu Expressway Investment under any foreign, state/provincial or federal laws relating to bankruptcy, insolvency or similar interests. The valuation of Huayu Expressway Investment has been conducted assuming its business is a going concern.

8. We are not tax, legal or regulatory experts; where relevant and permitted, we have relied on the assessments made by advisors to Huayu with respect to such issues.

9. This report assumes full compliance with all applicable laws and regulations, unless otherwise stated.

10. EY believes that this report must be considered as a whole and that selecting portions of the analysis or factors without considering all factors and analysis may create a misleading view of the process underlying EY's evaluation.

11. We reserve the right (but will not be obligated) to revise this report in light of any relevant information (that we consider material to this report) that comes to our attention after the date of issuance.

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)

The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

30 April, 2021

Dear Sirs or Madam,

MAJOR ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE EQUITY TRANSFER AGREEMENT

We refer to the valuation prepared by Ernst & Young Transactions Limited on the fair market value of 60% of the equity interest in 深圳市華昱高速公路投資有限公司 (Shenzhen Huayu Expressway Investment Co., Ltd.*) as at 19 March 2021 (the "**Valuation**"). The Valuation has been arrived at using the discounted cash flow method and constitutes a profit forecast under Rule 14.61 of the Listing Rules. Capitalised terms used herein shall have the same meanings as defined in the circular of the Company dated 30 April 2021 unless the context otherwise requires.

We have reviewed the bases and assumptions upon which the Valuation has been prepared. We have also considered the report from KPMG, the Company's reporting accountants, dated 7 April 2021, regarding whether the discounted future cash flows, so far as the calculations are concerned, have been properly compiled in all material respects in accordance with the bases and assumptions as set out in the Valuation.

On the basis of the foregoing, we are of the opinion that the forecast has been made after due and careful enquiry.

For and on behalf of the Board
Huayu Expressway Group Limited
Chan Yeung Nam
Chairman and Executive Director

The following is the text of a report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for inclusion in the announcement dated 7 April 2021.

KPMG

REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF SHENZHEN HUAYU EXPRESSWAY INVESTMENT CO., LTD

TO THE BOARD OF DIRECTORS OF HUAYU EXPRESSWAY GROUP LIMITED

We refer to the discounted future cash flows on which the business valuation (''the Valuation'') dated 7 April 2021 prepared by Ernst & Young Transactions Limited in respect of the appraisal of the fair value of Shenzhen Huayu Expressway Investment Co., Ltd (the ''Target Company'') as at 19 March 2021 is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ''Listing Rules'').

Directors' Responsibilities

The directors of Huayu Expressway Group Limited (the ''Directors'') are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA''), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of Opinion

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG

Certified Public Accountants
Hong Kong
7 April 2021

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(i) Directors and chief executive' interests

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

The Company

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

Note: Mr. Chan, an executive Director and chairman of the Board, is deemed to be interested in 300,000,000 Shares held by Velocity International Limited by virtue of it being wholly-owned by him. On 12 January 2018, Velocity International Limited had pledged 300,000,000 Shares to TCG Capital Investment Limited (which is wholly owned by Mr. Chan Weng Lin) as security for another term loan facility provided to Velocity International Limited.

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

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

(ii) Substantial Shareholders' interests

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

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

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

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

3. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

(i) Interests in contracts

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

(ii) Interests in assets

Save for the Sales Interest to be disposed by the Vendor, a company wholly owned by Mr. Chan, none of the Directors had, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 December 2020, the date to which the latest published audited consolidated financial statements of the Group were made up.

4. COMPETING INTERESTS

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

5. SERVICE CONTRACTS

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

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group expiring or determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensation).

6. MATERIAL CONTRACTS

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

7. LITIGATION

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

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

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

Name	Qualification
Ernst & Young Transactions Limited	Ultimately owned by Ernst & Young (EY), which provides assurance, consulting, strategy and transactions, and tax services
KPMG	Certified Public Accountants
Lego Corporate Finance Limited	A corporation licensed under the SFO to carry out type 6 (advising on corporate finance) regulated activities as defined under the SFO

As at the Latest Practicable Date, none of the relevant team members of the Valuer nor the above two other experts had any direct or indirect shareholdings in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group, or any interests, directly or indirectly, in any assets which had been acquired, disposed of or leased to or which were proposed to be acquired, disposed of or leased to any members of the Enlarged Group since 31 December 2020, the date to which the latest published audited consolidated financial statements of the Group were made up.

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

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during 9:00 a.m. to 6:00 p.m., Monday to Friday (except public holidays) at the Company's principal place of business in Hong Kong at Unit 1205, 12/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong from the date of this circular up to and including the date of the EGM:

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

(ii) the Equity Transfer Agreement;

(iii) the annual reports of the Company for each of the three financial years ended 31 December 2018, 2019 and 2020;

(iv) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 24 to 25 of this circular;

(v) the letter of independent advice from the IFA, the text of which is set out on pages 26 to 49 in this circular;

(vi) the accountants' report on the Target Company, the text of which is set out in Appendix III to this circular;

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

(viii) the Valuation Report, the text of which is set out in Appendix V to this circular;

(ix) the letter issued by the Board on the forecast in connection with the Valuation, the text of which is set out in Appendix VI to this circular;

(x) the report from KPMG in relation to the calculation of discounted future cash flows in the Valuation Report, the text of which is set out in Appendix VII to this circular;

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

(xii) a copy of this circular.

10. GENERAL

(i) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business in Hong Kong is Unit 1205, 12/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong.

(ii) The Company's Hong Kong branch share registrar and transfer office is Tricor Services Limited which is situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(iii) The company secretary of the Company is Mr. Sin Ka Man. Mr. Sin has over 28 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He became an associate member of The Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) in January 1996, a fellow member of the Association of Chartered Certified Accountants in July 1997 and a certified practising accountant of the CPA Australia in December 2000. Mr. Sin obtained his bachelor degree in Social Sciences from the University of Hong Kong in December 1989, master degree in Finance from the University of Strathclyde, the United Kingdom in November 1993 and a master degree in Accounting from Curtin University of Technology, Australia in June 1998.

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

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1823)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (''**EGM**'') of Huayu Expressway Group Limited (the ''**Company**'') will be held at Unit 1205, 12/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong on Friday, 11 June 2021 at 11:30 a.m. for the following purposes:

AS SPECIAL BUSINESS

ORDINARY RESOLUTIONS

''**THAT**:

(a) the agreement (the ''**Equity Transfer Agreement**'') (a copy of which is tabled at the EGM, marked ''A'' and initialed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder which constitute a major acquisition (as defined under the Listing Rules) and a connected transaction (as defined under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the ''**Listing Rules**'') to the Company, be and are hereby approved, confirmed and ratified;

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

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

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

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

Hong Kong, 30 April 2021

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

Notes:

1. The register of members of the Company will be closed from 8 June 2021 to 11 June 2021 (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 7 June 2021 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 were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most, or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand in the register in respect of the relevant joint holding.

4. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof.

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

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

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

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

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

8. If typhoon signal no. 8 or above, or a "black rainstorm warming is hoisted or remains hoisted at 1:00 p.m. on the date of the EGM, the meeting will be postponed. The Company will post an announcement on the Main Board's 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.