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HUAYU EXPRESSWAY GROUP LIMITED

華昱高速集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1823)

MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 65% EQUITY INTERESTS IN THE TARGET COMPANY

THE ACQUISITION

On 29 June 2023 (after trading hours of the Stock Exchange), the Purchaser, the Vendor, Mr. Chan and the Target Company entered into the Equity Transfer Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Interests at the Consideration of RMB315,250,000 (equivalent to HK\$343,622,500).

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 25% but are all less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

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

THE ACQUISITION

The Board is pleased to announce that on 29 June 2023 (after trading hours of the Stock Exchange), the Purchaser, the Vendor, Mr. Chan and the Target Company entered into the Equity Transfer Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Interests at the Consideration of RMB315,250,000 (equivalent to HK\$343,622,500).

THE EQUITY TRANSFER AGREEMENT

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

Date

29 June 2023

Parties

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

Assets to be acquired

The Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Interests, being 65% equity interests in the Target Company subject to the terms and conditions of the Equity Transfer Agreement.

Consideration and payment terms

Pursuant to the Equity Transfer Agreement, the initial Consideration is RMB315,250,000 (equivalent to HK\$343,622,500), which shall be payable by the Purchaser to the Vendor in the following manner:

- (i) as to the first instalment of Consideration of RMB210,000,000 (equivalent to HK\$228,900,000), being approximately 66.61% of the initial Consideration, or as adjusted in accordance with the below section headed “Adjustment to the Consideration”, shall be paid within 30 business days upon fulfilment (or waiver) of the Conditions Precedent; and
- (ii) as to the second instalment of Consideration of RMB105,250,000 (equivalent to HK\$114,722,500), being approximately 33.39% of the initial Consideration, or as adjusted in accordance with the below section headed “Adjustment to the Consideration”, shall be paid within five years from the Completion Date and within 30 business days upon fulfilment (or waiver) of the conditions precedent as set out in the below section headed “Conditions precedent to payment of the second instalment of Consideration”.

Conditions Precedent

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

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

Save for Condition Precedent (i), the Purchaser may waive in writing any of the Conditions Precedent. If any of the Conditions Precedent is not satisfied (or waived, if applicable) on or before the Long Stop Date, the Purchaser may at its absolute discretion terminate the Equity Transfer Agreement in writing and thereafter, the Purchaser shall not have any obligations or liabilities towards the Vendor or the Target Company.

Completion

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

Upon Completion, the Target Company will become a 65%-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group.

Conditions precedent to payment of the second instalment of Consideration

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

- (i) The Purchaser having paid the first instalment of the Consideration upon fulfilment (or waiver) of the Conditions Precedent;
- (ii) The Vendor and the Purchaser having agreed on the amount of the adjusted Consideration and Penalty Amount (as defined in the below section headed “Adjustment to the Consideration”) (if any) in writing;
- (iii) The Vendor not having committed any material breach under the Equity Transfer Agreement;
- (iv) Guizhou Zunpeng having completed rectifications on the followings:
 - (1) to apply for the certificate of land use right in respect of the piece of land parcel with a land area of 161,785.1 square metres and registering such ownership under the name of Guizhou Zunpeng;
 - (2) to obtain all necessary construction licenses and complete the filing procedures of completion acceptance inspection in respect of its development projects in accordance with the relevant laws and regulations, and completing the ownership registration of all relevant properties and registering the same under the name of Guizhou Zunpeng;
 - (3) to obtain the relevant construction licenses and permits in accordance with the applicable laws and regulations in respect of various land parcels of Guizhou Zunpeng; and
 - (4) to obtain the authorisation and permission to use the relevant intellectual property rights and trade names prior to the production and sales of wine products under the brand name “Zunpeng”;
- (v) Guizhou Zunpeng was not determined by the relevant authority to be involved in any idle Land Parcel(s), nor received any punishment or charges arising therefrom, nor such idle Land Parcel(s) is required to be resumed, nor received any punishment regarding rectification, dismantling or confiscation of property or illegal income or penalty imposed by the relevant authority.

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

Adjustment to the Consideration

(i) *Adjustment due to declaration of profits or dividends*

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

Adjusted first instalment of Consideration = RMB210,000,000 – distribution amount x 65%

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

In consideration of the potential penalty and all related reasonable expenses in relation to the Land Parcels, provision was made and reflected in the net asset value of the Target Company as at 31 May 2023, where the corresponding amount attributable to the Sale Interests amounted to approximately RMB18.31 million (the “**Provision Amount**”). The Purchaser and the Vendor agreed that subject to the actual penalty amount incurred within five years from the Completion Date attributable to the Sale Interests (the “**Penalty Amount**”), adjustment shall be made to the second instalment of Consideration as below:

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

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

The Consideration was determined after arm’s length negotiation between the Company and the Vendor with reference to the net asset value of the Target Company of approximately RMB485.00 million (equivalent to HK\$528.65 million) as at 31 May 2023 extracted from the unaudited financial statements, having accounted for the Provision Amount. The net asset value attributable to the Sale Interests amounted to RMB315.25 million (equivalent to approximately HK\$343.62 million) as at 31 May 2023.

The Consideration will be funded by the internal resources of the Group. As the Target Company was established by the Vendor and Shenzhen Meishanghui and was not acquired from a third party, there is no original acquisition cost for the Sale Interests.

INFORMATION ON THE PARTIES

The Purchaser

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

The Vendor

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

INFORMATION OF THE TARGET COMPANY AND GUIZHOU ZUNPENG

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

The Target Company was established on 30 April 2019 under the laws of the PRC. The Target Company is principally engaged in wine trading and investment in Guizhou Zunpeng, and has commenced the business of wine trading since 2021.

On 14 October 2019, the Vendor, the Target Company and the JV Partner entered into a joint venture agreement to establish Guizhou Zunpeng under the laws of the PRC, pursuant to which Guizhou Zunpeng was owned as to approximately 44.94% by the Target Company and approximately 55.06% by the JV Partner, respectively. The Target Company's investment in Guizhou Zunpeng had been accounted for using the equity method. The financial performance of the Target Company was mainly attributed to the share of results of Guizhou Zunpeng.

Guizhou Zunpeng is principally engaged in the production and sales of base wine (基酒), which is a common raw material for production of Chinese liquor, and has commenced the initial stage of production and sales of base wine since 2020. The major customers of Guizhou Zunpeng include the Kweichow Moutai Group, a leading Chinese liquor and spirit producer in the PRC. As at the date of this announcement, the major assets of Guizhou Zunpeng included (i) the Land Parcels located at 播州區鴨溪鎮金刀村 (Jindao Village, Yaxi Town, Bozhou District*) with an aggregate area of 436,640.3 square metres designated for industrial use; and (ii) a distiller grains production facility with a gross floor area of 132,160.39 square metres erected on the Land Parcels. As at the date of this announcement, land use right certificates for (i) the Land Parcels in the aggregate

area of 274,855.2 square metres had been obtained, of which an aggregate area of 150,261 square metres was determined as idle land by the relevant authority pending Guizhou Zunpeng to obtain the necessary construction permits to start construction thereof; and (ii) the Land Parcel of 161,785.1 square metres was yet to be obtained.

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

	For the year ended		For the
	31 December		five
	2021	2022	months
	<i>RMB'000</i>	<i>RMB'000</i>	ended
			31 May
			2023
			<i>RMB'000</i>
Revenue	9,118	3,258	–
Profit/(loss) before taxation	15,975	60,861	32,886
Profit/(loss) after taxation	<u>15,975</u>	<u>60,861</u>	<u>32,886</u>

As of 31 May 2023, the net asset value of the Target Company extracted from the unaudited financial statements amounted to approximately RMB485.00 million (equivalent to HK\$528.65 million).

REASONS FOR AND BENEFITS OF THE ACQUISITION

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

Notwithstanding the revenue and profit of the Group's liquor and spirits trading business declined inevitably in recent years primarily impacted by the COVID-19 pandemic, in view of the increasing market consumption along with post-pandemic economic recovery in the PRC, the demand and consumption of liquor and spirits resumed rapidly. The Group's liquor and spirits trading business, which has been a significant revenue driver of the Group, has recovered and improved notably during the first quarter of 2023 as business has returned to normal upon the easing of pandemic restrictions from December 2022. The Board believes that the most difficult period was over with the resumption of business activities and recovery of economy, and the overall prospect of the wine and spirits market in the PRC remains generally optimistic. By leveraging on the resources and expertise of the joint venture partners in operation of Guizhou Zunpeng, it is expected that the Acquisition would enable the Company to benefit from the potential upside of the Target Company and Guizhou Zunpeng in the long term. While the Group has been in collaboration with the Kweichow Moutai Group as its sole distributor of Huamaojiu for years, the Acquisition would enable the Group to also tap into the manufacturing side of the wine supply chain. The Acquisition represents a strategic investment of the Group along the wine supply chain in furtherance of the Group's liquor and spirits trading business, which is in line with the business expansion strategy of the Group.

Having considered the above, the Directors (excluding the independent non-executive Directors whose views will be formed after taking into consideration the opinion of the Independent Financial Adviser) are of the view that the Acquisition and the terms of the Equity Transfer Agreement have been made on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 25% but are all less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

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

The Independent Board Committee, comprising all the independent non-executive Directors has been formed to advise the Shareholders on the Acquisition. An Independent Financial Adviser will be appointed by the Company to advise the Independent Board Committee and the Shareholders in this regard.

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

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

The Company will convene the EGM to consider and, if thought fit, to approve the Acquisition. The voting at the EGM will be conducted by way of a poll. Shareholders with a material interest in the Acquisition will be required to abstain from voting at the EGM. As Mr. Chan is interested in the Acquisition, he and his associates will abstain from voting on the relevant resolution(s) to be proposed at the EGM. Save for the aforesaid, to the best of the knowledge, information and belief of the Board, none of the Shareholders has a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder and hence, no other Shareholder will be required to abstain from voting on the resolution(s) to be proposed at the EGM to approve the same.

GENERAL INFORMATION

A circular containing, among other things, (i) further details of the Acquisition; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Acquisition; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and Shareholders in respect of the Acquisition; (iv) the financial information of the Target Company; (v) the unaudited pro forma financial information of the Group as enlarged by the Acquisition; and (vi) a notice convening the EGM, is expected to be despatched on or before 25 August 2023 in order to allow sufficient time for preparation of the relevant information to be included in the circular.

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Interests by the Purchaser from the Vendor as contemplated under the Equity Transfer Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Huayu Expressway Group Limited, a company incorporated under the laws of Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1823)
“Completion”	completion of the Acquisition
“Completion Date”	the date on which Completion takes place
“Conditions Precedent”	the conditions precedent to the Completion as set out in the Equity Transfer Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Sale Interests pursuant to the Equity Transfer Agreement
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and approve the Acquisition
“Equity Transfer Agreement”	the equity transfer agreement dated 29 June 2023 entered into among the Vendor, the Purchaser, Mr. Chan and the Target Company in relation to the Acquisition

“Group”	the Company and its subsidiaries
“Guizhou Zunpeng”	貴州尊朋酒業有限公司 (Guizhou Zunpeng Winery Co., Ltd.*), a company established in the PRC with limited liability, and owned as to approximately 55.06% by the JV Partner and as to approximately 44.94% by the Target Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors formed to advise the Shareholders in respect of the Acquisition
“Independent Financial Adviser”	an independent financial adviser which will be appointed by the Company to advise the Independent Board Committee and the Shareholders on the Equity Transfer Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholders who are not required to abstain from voting on such resolutions at the EGM due to any material interest in the Acquisition
“JV Partner”	貴州茅台酒廠(集團)循環經濟產業投資開發有限公司 (Guizhou Moutai Brewery (Group) Circular Economy Industrial Investment Development Co., Ltd.*), a member of the Kweichow Moutai Group, which was interested in approximately 55.06% in Guizhou Zunpeng as at the date of this announcement
“Land Parcels”	four pieces of land parcel with an aggregate area of 436,640.3 square metres of Guizhou Zunpeng
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2023 (or such later date as may be agreed by the parties to the Equity Transfer Agreement in writing)
“Mr. Chan”	Mr. Chan Yeung Nam, the chairman of the Board, an executive Director and a controlling Shareholder
“percentage ratio(s)”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau Special Administrative Region and Taiwan for the purpose of this announcement
“Purchaser”	深圳華昱酒業發展有限公司 (Shenzhen Huayu Wine Development Co., Ltd.*), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC

“Sale Interests”	65% of the equity interests in the Target Company
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Shenzhen Meishanghui”	深圳市梅商匯實業有限公司 (Shenzhen Meishanghui Co., Ltd.*), a company established in the PRC with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	華嘉酒業(深圳)有限公司 (Huajia Winery (Shenzhen) Co., Ltd.*), a company established in the PRC with limited liability which is owned as to 65% by the Vendor and 35% by Shenzhen Meishanghui as at the date of the Equity Transfer Agreement
“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.

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

Hong Kong, 29 June 2023

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

For the purpose of illustration only, unless otherwise indicated, conversion of RMB into HK\$ in this announcement is calculated at the approximate exchange rate of RMB1.00 = HK\$1.09.

* for identification purposes only