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Qilu Expressway Company Limited
齊魯高速公路股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1576)

2019 ANNUAL RESULTS
AND
PROPOSED DISTRIBUTION OF 2019 FINAL DIVIDEND

HIGHLIGHTS

- Revenue increased by approximately 28.38% to approximately RMB 1,183,339,000.
- Profit and total comprehensive income for the year attributable to owners of the parent increased by approximately 26.42% to approximately RMB516,421,000.
- Earnings per Share was approximately RMB0.26.
- Recommendation of payment of 2019 Final Dividend of RMB0.1630 (tax inclusive) per Share.

2019 ANNUAL RESULTS

The Board is pleased to announce the consolidated results of the Group for the year ended 31 December 2019, prepared in accordance with the Hong Kong Financial Reporting Standards, together with comparative figures for the preceding financial year:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	3	1,183,339	921,735
Cost of sales		<u>(427,891)</u>	<u>(299,208)</u>
Gross profit		755,448	622,527
Other income and gains	3	46,988	33,826
Administrative expenses		(62,809)	(77,382)
Other expenses		(29,636)	(465)
Finance costs	5	<u>(20,486)</u>	<u>(33,989)</u>
PROFIT BEFORE TAX	4	689,505	544,517
Income tax expense	6	<u>(173,084)</u>	<u>(136,012)</u>
PROFIT FOR THE YEAR		<u>516,421</u>	<u>408,505</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>516,421</u>	<u>408,505</u>
Attributable to:			
Owners of the parent		<u>516,421</u>	<u>408,505</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	8	<u>RMB0.26</u>	<u>RMB0.24</u>
Diluted			
– For profit for the year	8	<u>RMB0.26</u>	<u>RMB0.24</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

		2019	2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		137,135	120,015
Investment properties		21,445	10,532
Intangible assets		2,600,144	2,703,529
Prepayments and other receivables	10	26	33,526
		<hr/>	<hr/>
Total non-current assets		2,758,750	2,867,602
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		2,429	1,426
Trade and bills receivables	9	20,236	170,468
Other current assets		99	99
Prepayments and other receivables	10	12,323	6,811
Other financial assets at amortised cost	10	–	200,000
Financial assets at fair value through profit or loss	11	200,000	100,000
Cash and cash equivalents		1,396,168	1,006,860
		<hr/>	<hr/>
Total current assets		1,631,255	1,485,664
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*31 December 2019*

		2019	2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
CURRENT LIABILITIES			
Trade payables	12	25,274	21,458
Other payables and accruals	13	79,628	87,672
Interest-bearing bank borrowings		175,000	265,000
Tax payable		61,199	30,997
Provisions		148,420	113,490
		<hr/>	<hr/>
Total current liabilities		489,521	518,617
		<hr/>	<hr/>
NET CURRENT ASSETS		1,141,734	967,047
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,900,484	3,834,649
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		70,000	245,000
Other payables	13	25,643	27,076
Deferred tax liabilities	14	13,646	30,883
		<hr/>	<hr/>
Total non-current liabilities		109,289	302,959
		<hr/>	<hr/>
Net assets		3,791,195	3,531,690
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		2,000,000	2,000,000
Capital reserves		887,209	886,725
Other reserves		182,525	130,802
Retained earnings		721,461	514,163
		<hr/>	<hr/>
Total equity		3,791,195	3,531,690
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL INFORMATION

31 December 2019

1.1 BASIS OF PREPARATION

The financial information have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. The financial information are presented in Renminbi (“RMB”) and all values are rounded to nearest thousand (RMB’000) except when otherwise indicated.

Basis of consolidation

The consolidated financial information include the financial information of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial information of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

1.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK (IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015–2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases* and HK (IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's consolidated financial information. The nature and impact of the new and revised HKFRS are described below:

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK (IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK (SIC)-Int 15 *Operating Leases – Incentives* and HK (SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK (IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK (IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

Nature of the effect of adoption of HKFRS 16

Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (elected by class of underlying asset). The Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Impact on transition

Since the Group did not enter into contracts under operating lease as a lessee before 1 January 2019, the adoption of HKFRS 16 has had no significant impact on the financial position of the Group and opening balance of retained earnings as at the date of initial application of 1 January 2019.

- (b) HK (IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any significant impact on the financial position or performance of the Group.

1.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 No mandatory effective date yet determined but available for adoption

1.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2. OPERATING SEGMENT INFORMATION

The Group's revenue and contribution to the consolidated results are mainly derived from the management and operation of expressways, which is regarded as a single reportable segment. Segment performance reported internally to the Group's directors for the purposes of resource arrangement and performance assessment is consistent with the measurement of the Group's revenue and results presented in the consolidated statement of profit or loss and other comprehensive income. In addition, all of the Group's operations are located in Mainland China. Accordingly, no operating segment information is presented, other than the entity-wide disclosures.

Entity-wide disclosures

Geographical information

All of the Group's external revenue is derived from customers based in Mainland China, and all of the non-current assets of the Group are located in Mainland China. Accordingly, no geographical information is presented.

Information about major customers

During the years ended 31 December 2019 and 2018, no revenue derived from a single customer accounted for 10% or more of the Group's total revenue.

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Expressway business	1,090,536	917,795
Construction business	87,967	–
Other service businesses	858	510
<i>Revenue from other sources</i>		
Rental income*	3,978	3,430
	<u>1,183,339</u>	<u>921,735</u>

* Rental income comprises variable lease payments that do not depend on an index or a rate of RMB3,343,000 and fixed payments of RMB635,000 during the year ended 31 December 2019.

3. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(i) *Disaggregated revenue information*

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Type of revenue		
Expressway business	1,090,536	917,795
Construction business	87,967	–
Other service businesses	858	510
	<u>1,179,361</u>	<u>918,305</u>

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Timing of revenue recognition		
At a point in time	1,091,394	918,305
Over time	87,967	–
	<u>1,179,361</u>	<u>918,305</u>

(ii) *Performance obligations*

Information about the Group's performance obligations is summarised below:

Expressway business

Revenue from the expressway business representing toll income, is recognised when the vehicles pass the expressway and the Group received the payment or has the right to receive payment.

Construction business

The performance obligation is satisfied over time as construction services are rendered when the Group's performance creates and enhances an asset that the customer controls where the construction and upgrade services are performed.

3. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019	2018
	RMB'000	RMB'000
Amounts expected to be recognised as revenue:		
Within one year	55,222	87,967
After one year	–	55,222
	<u>55,222</u>	<u>143,189</u>

All amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year (2018: within two years). The amounts disclosed above do not include variable consideration which is constrained.

	<i>Note</i>	2019	2018
		RMB'000	RMB'000
Other income and gains			
Interest income from financial assets at fair value through profit or loss	4	3,880	–
Fair value gains from financial assets at fair value through profit or loss	4	769	146
Interest income from financial assets measured at amortised cost	4	1,688	260
Bank interest income	4	19,221	9,088
Compensation income for road damages		1,238	2,910
Government grants**		17,100	5,000
Foreign exchange differences, net	4	1,611	15,299
Others		1,481	1,123
		<u>1,481</u>	<u>1,123</u>
Other income and gains		<u>46,988</u>	<u>33,826</u>

** Government grants have been received for being successfully listed in HKEX. There were no unfulfilled conditions or contingencies related to these grants.

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	<i>Notes</i>	2019 RMB'000	2018 RMB'000
Construction costs in respect of service concession arrangements*		87,967	–
Maintenance and resurfacing costs and provisions*		117,902	72,298
Employee benefit expense** (including directors' and chief executive's remuneration):			
Wages, salaries and allowances, social security and benefits		69,213	60,431
Defined contribution pension scheme		9,681	8,370
Other staff benefits		2,644	4,715
		81,538	73,516
Depreciation in respect of**:			
– property, plant and equipment		8,761	11,043
– investment properties		652	262
Amortisation of intangible assets in respect of**:			
– service concession arrangements		166,322	174,619
– software		814	432
Listing expenses		–	24,611
Loss on disposal of items of property, plant and equipment		230	15
Loss on disposal of intangible assets		28,060	–
Impairment of financial assets included in prepayments and other receivables	10	45	(375)
Impairment of property, plant and equipment		1,084	–
Auditor's remuneration		1,320	1,520
Foreign exchange differences, net	3	(1,611)	(15,299)
Interest income from financial assets at fair value through profit or loss	3	(3,880)	–
Fair value gains from financial assets at fair value through profit or loss	3	(769)	(146)
Interest income from financial assets measured at amortised cost	3	(1,688)	(260)
Bank Interest income	3	(19,221)	(9,088)

4. PROFIT BEFORE TAX (CONTINUED)

* Construction costs in respect of service concession arrangements and maintenance and resurfacing costs and provisions for the year are included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.

** During the year ended 31 December 2019, employee benefit expense, depreciation in respect of property, plant and equipment and investment properties and amortisation of intangible assets of RMB48,100,000, RMB3,588,000 and RMB166,322,000 (2018: RMB44,347,000, RMB3,323,000 and RMB174,619,000), respectively are included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on interest-bearing bank borrowings	19,159	32,466
Accreted interest on an amount due to Qilu Transportation Development Group Company Limited (“Qilu Transportation”)	<u>1,327</u>	<u>1,523</u>
	<u>20,486</u>	<u>33,989</u>

6. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as no assessable profits were earned in or derived from Hong Kong during the year (2018: nil).

The provision for Mainland China current income tax is based on the statutory rate of 25% (2018: 25%) of the assessable profits during the year.

6. INCOME TAX EXPENSE (CONTINUED)

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current – Mainland China		
Charge for the year	190,014	136,403
Underprovision/(overprovision) in prior years	307	(416)
Deferred (note 14)	<u>(17,237)</u>	<u>25</u>
Total tax charge for the year	<u><u>173,084</u></u>	<u><u>136,012</u></u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, are as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Profit before tax	<u><u>689,505</u></u>	<u><u>544,517</u></u>
Tax at the statutory tax rate at 25%	172,376	136,129
Effect of different tax rate of a subsidiary operating in another jurisdiction	251	–
Expenses not deductible for tax	42	299
Tax losses not recognised	124	–
Tax losses utilised from previous periods	(16)	–
Adjustments in respect of tax of previous periods	<u>307</u>	<u>(416)</u>
Tax charge at the Group's effective tax rate	<u><u>173,084</u></u>	<u><u>136,012</u></u>

7. DIVIDENDS

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends paid by the Company	<u>257,400</u>	<u>379,209</u>

The final dividend in respect of the year ended 31 December 2017 with the amount of RMB379,209,000 was approved by the Company's shareholders on 5 June 2018. It has been paid in June and July 2018.

The final dividend in respect of the year ended 31 December 2018 with the amount of RMB257,400,000 was approved by the Company's shareholders on 10 June 2019. It has been paid in July 2019.

On 24 March 2020, the Company proposed a final dividend in respect of the year ended 31 December 2019 of RMB0.1630 per share, amounting to a total of approximately RMB326,000,000. The proposed dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,000,000,000 (2018: 1,726,027,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

9. TRADE AND BILLS RECEIVABLES

Trade receivables are analysed by category as follows:

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	19,636	170,468
Impairment	<u>–</u>	<u>–</u>
Trade receivables, net	19,636	170,468
Bills receivable	<u>600</u>	<u>–</u>
	<u>20,236</u>	<u>170,468</u>

Trade receivables mainly consist of toll road income receivables from Shandong Provincial Traffic Transport Department for the uncollected expressway income as at the relevant year end, which are expected to be settled within one month (2018: within three months).

Trade receivables are non-interest-bearing. The Group does not hold any collateral or other credit enhancements over these balances.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	<u>19,636</u>	<u>170,468</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., product type, and customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

9. TRADE AND BILLS RECEIVABLES (CONTINUED)

As at 31 December 2018 and 2019, the Group's major receivables are from Shandong Provincial Traffic Transport Department which is an government agency, in view of the history of business dealings with the debtors and there is no past due balance of the receivables due from it, the Group believes that there is no significant credit risk with these receivables. Management keeps reviewing and assessing the creditworthiness of the Group's existing customers on an ongoing basis based on historical payment records, the length of the overdue period, background and reputation of the debtors, the financial strength of the debtors and whether there are any disputes with the debtors. No expected credit losses were provided as the directors consider that the expected credit risks of these receivables are minimal.

10. PREPAYMENTS AND OTHER RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<i>Current portion</i>		
Prepayment to suppliers	7,171	436
Deposits and other receivables	4,033	4,711
Interest receivables	1,463	1,963
	<u>12,667</u>	<u>7,110</u>
Impairment allowance	<u>(344)</u>	<u>(299)</u>
	<u>12,323</u>	<u>6,811</u>
<i>Non-current portion</i>		
Prepayment for toll road upgrade project	–	31,526
Other receivables	26	2,000
	<u>26</u>	<u>33,526</u>
	<u>12,349</u>	<u>40,337</u>

10. PREPAYMENTS AND OTHER RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

The movements in provision for impairment of other receivables are as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
At 1 January	299	674
Impairment losses, net (<i>note 4</i>)	45	(375)
At 31 December	344	299

Financial assets included in prepayments and other receivables mainly represent deposits with suppliers and other parties. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group and are adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2019 was 6.26% (2018: 4.48%). The credit quality of the financial assets included in prepayments and other receivables is considered to be normal because they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk.

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Other financial assets at amortised cost	–	200,000

Other financial assets at amortised cost represents wealth management products with principal and interests guaranteed. As at 31 December 2018, no expected credit losses were provided as the directors consider that the expected credit risks of these financial assets were minimal.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Structured bank deposits	200,000	100,000

The structured bank deposits were issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

12. TRADE PAYABLES

An ageing analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 1 year	20,398	21,458
1 to 2 years	4,876	–
	<u>25,274</u>	<u>21,458</u>

Included in the trade payables are amounts totalling RMB60,000 (2018: RMB912,000) due to the Group's related parties, which are repayable on credit terms similar to those offered by other similar suppliers of the Group.

Trade payables are non-interest-bearing. Except for the retention money payables arising from construction and upgrade services which are normally settled between 1 and 2 years, credit periods granted by each individual supplier or contractor are on a case-by-case basis and set out in the respective contracts.

13. OTHER PAYABLES AND ACCRUALS

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Listing expense payables	–	32,246
Due to related parties	28,494	29,836
Staff salaries and welfare	25,409	23,333
Payables for purchases of long-term assets	31,028	12,003
Advance from customers	9,155	9,276
Other taxes and surcharge payables	4,101	3,418
Other retention payables and deposit received	2,683	2,629
Other payables and accruals	4,401	2,007
	105,271	114,748
Less: non-current portion	25,643	27,076
Current portion	79,628	87,672

Other payables are non-interest-bearing, and repayable based on credit periods which are granted by each individual supplier or contractor on a case-by-case basis and set out in the respective contracts.

14. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Provision for maintenance and resurfacing obligations <i>RMB'000</i>	Impairment of property, plant and equipment <i>RMB'000</i>	Replacement of intangible assets <i>RMB'000</i>	Accrued expenses <i>RMB'000</i>	Bad debt provisions <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018	24,307	-	-	238	169	299	25,013
Deferred tax credited/ (charged) to profit or loss during the year <i>(note 6)</i>	4,065	-	-	(1)	(94)	(299)	3,671
Gross deferred tax assets at 31 December 2018 and 1 January 2019	28,372	-	-	237	75	-	28,684
Deferred tax credited/ (charged) to profit or loss during the year <i>(note 6)</i>	8,719	271	6,942	(223)	11	-	15,720
Gross deferred tax assets at 31 December 2019	37,091	271	6,942	14	86	-	44,404

14. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

	Intangible assets amortisation differences between accounting and tax regulations <i>RMB'000</i>	Property, plant and equipment depreciation differences between accounting and tax regulations <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018	55,591	280	55,871
Deferred tax credited/(charged) to profit or loss during the year (<i>note 6</i>)	<u>3,909</u>	<u>(213)</u>	<u>3,696</u>
Gross deferred tax liabilities at 31 December 2018 and 1 January 2019	59,500	67	59,567
Deferred tax credited to profit or loss during the year (<i>note 6</i>)	<u>(1,485)</u>	<u>(32)</u>	<u>(1,517)</u>
Gross deferred tax liabilities at 31 December 2019	<u>58,015</u>	<u>35</u>	<u>58,050</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for reporting purposes:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Net deferred tax assets recognised in the consolidated statement of financial position	–	–
Net deferred tax liabilities recognised in the consolidated statement of financial position	<u>13,646</u>	<u>30,883</u>

14. DEFERRED TAX (CONTINUED)

The Group has tax losses arising in Hong Kong of RMB1,502,000 (2018: nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Mainland China of RMB1,152,000 (2018: RMB1,475,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Tax losses		
Tax losses not recognised as deferred assets	<u>2,654</u>	<u>1,475</u>

15. EVENTS AFTER THE REPORTING PERIOD

The Company received the Notice from the Ministry of Transport in relation to the Toll Fees payable for Toll Roads during the Control Period of the Novel Coronavirus Disease (Jiao Gong Lu Ming Dian [2020] No. 62) (《交通運輸部關於新冠肺炎疫情防控期間免收收費公路車輛通行費的通知》(交公路明電[2020]62號)) issued by the Ministry of Transport of the PRC on 15 February 2020, pursuant to which, according to the consent from the State Council of the PRC, it will waive the toll fees payable by all vehicles passing through toll roads (including toll bridges and tunnels) approved and established in accordance with the Highway Law of the People's Republic of China (《中華人民共和國公路法》) and the Regulation on Toll Road Management (《收費公路管理條例》) from 0:00 a.m. on 17 February 2020 to the end of the prevention and control period of the novel coronavirus disease (COVID-19) until further notice (the "National Scheme"). In accordance with the National Scheme, the Company will waive the toll fees of vehicles passing along the Jihe Expressway from the specified time until further notice from the government authorities.

Given that the Group derives a significant portion of its revenue from toll income contributed by vehicles using the Jihe Expressway, the directors of the Company expect that, depending on the period during which toll collection is waived, the waiver may have a material adverse impact on the Group's financial performance and the interim results of the Group for the six months ending 30 June 2020.

OVERVIEW OF BUSINESS DEVELOPMENT

Macroeconomic Environment and Social Development

The gross domestic product of the PRC amounted to RMB99.0865 trillion in 2019, representing an increase of 6.1% as compared with the previous year; based on the annual average exchange rate, GDP per capita has exceeded US\$10,000, reaching US\$10,276.

During the Reporting Period, the overall economic operation of the PRC was stable, and the development quality improved steadily. 2019, the year of the 70th anniversary of the new PRC, is a key year of comprehensive establishment of a well-off society. This year, the external environment and internal conditions that the economic development of the PRC encountered have become complex, with remarkable increase in certain economic and non-economic difficulties and challenges. Facing the complex situation of obvious increase in internal and external risk challenges, under the strong leadership of the Central Committee of the Communist Party of China with Comrade Xi Jinping as the core, each authority in all areas has earnestly adhered to the decision-making and deployment of the Central Committee of the Communist Party of China and the State Council, insisted on the general guideline of making progress amid stability, persisted in new development idea, strived to maintain supply-side structural reform as the main line, actively promoted high quality development, and prudently did the best to maintain stability of employment, finance, foreign trade, foreign capital, investment and expected duties. The three major battles have made crucial progress. The national economic operation has been generally stable and the development quality improved steadily. The major expected targets have been better achieved, laying a solid foundation for establishing a well-off society in an all-round way. In 2019, the economic operation of transportation was generally stable, and the investment scale operated at a high interval. The structure of passenger transportation was continuously optimized, and the freight volume and port cargo throughput achieved rapid growth. According to statistics from the Ministry of Transport, in 2019, the traffic of expressway vehicles increased by 8.8%, and the freight volume through expressways increased by 6.8%.

Review of our Operations

During the Reporting Period, the Company adhered to its steadfast operation and its mission to accelerating the pace of development. With the support from the Shareholders as well as the high-calibre leadership of the Board, the Company seized opportunities, overcame obstacles and thrived amid difficult situation. Various projects commenced efficiently. First, by adopting the enhancement of operational efficiency as the core objective, the Company has strengthened the management of its financial budget, quantified assessment indicators, and exceeded its annual performance targets. Second, by optimising its internal administration, the Company has continuously strengthened system building, and enhanced comprehensively its capabilities in terms

of compliance and execution. Third, by adhering to the reforms and innovation, the Company focused on international frontiers, planned proactively for new train of thought and realised new development.

During the Reporting Period, we continued to develop our business in accordance with our Concession Rights, namely to construct, maintain, operate and manage the Jihe Expressway. The traffic flow of Jihe Expressway for 2019 recorded a year-on-year increase of approximately 16.78% to approximately 22.53 million vehicles, among which an approximately 15.96% and 17.18% increase in the truck traffic volume and the passenger vehicle traffic volume, respectively. During the Reporting Period, major traffic flow of the Jihe Expressway was derived from class 1 passenger vehicles and class 5 trucks. We believe that this was mainly due to the geographical location of the Jihe Expressway which connects to (i) the key cities and districts, populous areas and tourist attractions in Shandong Province with higher passenger transportation; and (ii) many industrial zones of Shandong Province attracting more large cargo trucks to use the Jihe Expressway. For more details of our traffic flow, please refer to the section headed “Management Discussion and Analysis – Business Review – Expressway Business” in this announcement.

Leveraging on our information management systems, we adopted a centralised management of our Expressway Business and unified scheduling of road operations. To this end, we focused our operations on our toll collection, traffic management, and road maintenance and upgrade in order to increase our operational efficiency. The measures we have adopted in our operations include the following:

- (1) **Automated toll collection facilities to improve traffic efficiency:** pursuant to the relevant government policies, each of our toll stations are equipped with self-service pass dispensing machines and ETC toll lanes to improve the efficiency of vehicles into and out of the Jihe Expressway;
- (2) **Application of technologies in our daily operations:** we conducted round-the-clock monitoring of the traffic conditions of the Jihe Expressway with our high-resolution video cameras installed along the expressway which captured real-time traffic image and transmitted across our ten gigabyte ethernet to the display screens in the safety operation department at the headquarters;
- (3) **Emergency plans to ensure safe and smooth traffic:** our dedicated team from each of the management centres is on duty at all times to deal with emergency matters so as to ensure the smooth traffic of our expressway. Leveraging on our comprehensive monitoring system, our safety operation department acts as a high-level traffic coordination unit to facilitate swift access by our emergency response teams to traffic incidents and road emergencies; and
- (4) **Preventive maintenance measures to preserve quality road conditions:** we focus on preventive maintenance techniques to preserve our road condition and enhance the drivers’ experience. By making use of our advanced technologies, we are able to form comprehensive maintenance plans in advance. Implementation of preventive maintenance measures enables us to maintain the optimal quality of road surface for a longer service cycle and reduce maintenance cost in the long run.

In the coming year, we plan to strengthen our positioning as a high quality expressway operator in Shandong Province, and further enhance our income, operations and maintenance management as well as road-user experience. Please refer to the section headed “Management Discussion and Analysis – Prospects” in this announcement for more details.

OUTLOOK

2020 is the closing year for building a well-off society and implementing the “13th Five-Year” plan, as well as a crucial year of speeding up the construction in transportation to strengthen the country. Looking forward to 2020, the world economy will be adversely affected by factors such as long-term trade disputes and geopolitical tensions. Under the control of the government’s robust macroeconomic policies, the domestic economy is expected to shift from a rapid growth phase to a high quality development phase. Shandong Province is committed to the construction of the Provincial New and Old Kinetic Energy Conversion Comprehensive Experimental Zones, adheres to the new development concept, adheres to development notion of “putting quality first and giving priority to performance”, thus it provides the Company with a stable and healthy environment for development.

Leveraging on the listing platform of the Stock Exchange, we aim to fully utilise Hong Kong’s position as an international financial centre and set ourselves in par with leading peer listed companies. Following the requirements of the Shandong Province Old-to-New Energy Conversion Engineering Project (山東省新舊動能轉換重大工程要求), surrounding the themes of “efficiency and innovation” and targeting ourselves to “strengthen our fundamental business and develop new business (做強基礎產業、做優新興產業)”, we shall continue to enhance our expressway operation and management and, at the same time, leveraging on the overseas and domestic market, actively expand our operating business through capital management techniques including merger and acquisition and reorganisation in a timely manner in accordance with the details set out in the sub-section headed “Business – Our Competitive Strengths and Strategies – Business Strategies” in the Prospectus in order to strengthen and optimise our Company as well as make efforts to equip our Company as a domestic and overseas investment and financing platform, a production and financing collaboration platform, a principal business acquisition platform, an industrial upgrade platform and a strategic innovation platform so as to realise the robust growth in our principal business and generate better operating results, thereby continuously providing returns to our Shareholders.

As we see trends and opportunities, we also face many challenges. In December 2019, there was the outbreak of novel coronavirus pneumonia in Wuhan City, which quickly affected the nation. Under such circumstances, the Ministry of Transport introduced relevant policies for the prevention and control of the epidemic. First being the extension of waiver of toll fees for small-scale passenger vehicles with seven seats or below during the Lunar New Year holidays, extending the period from 0:00 on 24 January 2020 to 24:00 on 30 January 2020, to 24:00 on 8 February 2020; Second being the waiver of toll fees for all vehicles passing through toll roads (including toll bridges and tunnels) approved and established in accordance with the Highway Law of the People's Republic of China (《中華人民共和國公路法》) and the Regulation on Toll Road Management (《收費公路管理條例》) from 0:00 on 17 February 2020 to the end of the prevention and control period of the novel coronavirus disease until further notice.

Given that toll income is the major income source of the Group, the Directors expect that, subject to the policy of waiver of toll fees during the period of epidemic prevention and control, it may have a material adverse impact on the Group's financial performance and the interim results of the Group for the six months ending 30 June 2020. According to the announcement of the Ministry of Transport, "waiving the national toll fees payable for toll roads during the control period of the novel coronavirus disease is a major decision made in the public interest, pursuant to the relevant laws and regulations, relevant supporting security policies will be studied and introduced separately to coordinate and protect the legitimate rights and interests of toll road users, creditors, investors and operators." As such, the Company will actively maintain communication with the competent transportation department to pay close attention to the situation.

After the outbreak of the epidemic, the Group has properly implemented various epidemic prevention and control measures and is committed to strengthening the cooperation with relevant government authorities to fulfill our social responsibility and facilitate smooth traffic and transportation materials conducive to the prevention and control of the epidemic through the Jihe Expressway, and we have proactively contributed towards public health and safety. Subsequently, the Group will also adopt positive measures and make every effort to reduce the adverse effects of the epidemic.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Operations

Our principal operations comprise our expressway business for the construction, maintenance, operation and management of the Jihe Expressway. During the Reporting Period, our revenue comprised primarily the toll income from the Jihe Expressway.

Owing to the commencement of the construction activities of the Changqing University Science Park Interchange Project which forms our construction business, we recognised construction service income from such activities during the Reporting Period. We also derived certain service income from our advertisement business for the leasing of advertisement billboards along the Jihe Expressway and provision of advertisement publication services on the billboards.

Revenue

During the Reporting Period, the revenue from our operations was approximately RMB1,183.339 million, representing an increase of approximately 28.38% as compared to approximately RMB921.735 million in the corresponding period of last year. During the Reporting Period, toll income from the Jihe Expressway was approximately RMB1,090.536 million, representing an increase of 18.82% as compared to approximately RMB917.795 million in the corresponding period of last year. During the Reporting Period, the traffic flow of Jihe Expressway slightly increased from approximately 52,800 vehicles per day during the year ended 31 December 2018 to approximately 61,700 vehicles per day during the Reporting Period.

During the Reporting Period, our rental income amounted to approximately RMB3.978 million, among which service income from leasing the advertising board on both sides of the Jihe Expressway was approximately RMB2.745 million, representing an increase of approximately 7.9% from approximately RMB2.544 million in the corresponding period of last year. Such increase was mainly due to the increase in rental income from lease contracts newly entered into as compared with the same period last year. In addition, rental income arising from leasing the telecommunication signal transmission pipes along Jihe Expressway and investment properties amounted to approximately RMB1.233 million (corresponding period of last year: RMB0.886 million).

During the Reporting Period, other services businesses amounted to RMB858,000, representing an increase of approximately 68.24% as compared to approximately RMB510,000 of the same period of last year, mainly due to the service income from road clearance services for traffic accidents.

In addition, during the Reporting Period, the Company recognised a construction service income of RMB87.967 million (for the year ended 31 December 2018: nil) from the Changqing University Science Park Interchange Project of the Company for the year ended 31 December 2019. For more details of the project, please refer to the section headed “Business Review – Construction Business” in this announcement.

Cost of Sales and Gross Profit

During the Reporting Period, the cost of sales and gross profit from our operations were approximately RMB427.891 million and RMB755.448 million, respectively, as compared to approximately RMB299.208 million and RMB622.527 million for the corresponding period of last year, representing a year-on-year increase of approximately 43.01% and increase of approximately 21.35%, respectively. The gross profit margin of the Group was approximately 63.84% for the Reporting Period, representing a year-on-year decrease of approximately 3.7 percentage points as compared with approximately 67.54% in the corresponding period of last year. Costs of the Group mainly included amortisation of intangible assets, staff costs, maintenance costs and provisions of the Jihe Expressway. The increase in gross profit was mainly due to the increase in the toll income mentioned above.

Other Income and Gains

During the Reporting Period, the other income and gains were approximately RMB46.988 million (the corresponding period of 2018: approximately RMB33.826 million), which mainly comprised the income from bank interests and income from the government incentives. Increase in other income and gains was mainly due to the government grants of RMB17.100 million and bank interest received of RMB19.221 million.

Administrative Expenses

During the Reporting Period, the administrative expenses from our operations were approximately RMB62.809 million, representing a decrease of approximately 18.83% as compared to approximately RMB77.382 million for the corresponding period of last year, which was mainly due to a reduction in intermediary fees after the listing. Administrative expenses of the Group were mainly expended on salaries and wages, depreciation of property, plant and equipment and transportation expenses.

Other Expenses

During the Reporting Period, our other expenses were approximately RMB29.636 million, representing an increase of approximately 6,273.33% as compared to approximately RMB465,000 for the corresponding period of last year, which was mainly attributable to the losses from disposal of property, plant and equipment and intangible assets.

Finance Costs

During the Reporting Period, our finance costs were approximately RMB20.486 million, representing a decrease of approximately 39.73% as compared to approximately RMB33.989 million for the corresponding period of last year. During the Reporting Period, the finance costs decreased due to the repayment of certain bank loans.

Profit for the Period

During the Reporting Period, profit attributable to owners of the parent was approximately RMB516.421 million, representing an increase of approximately 26.42% as compared to approximately RMB408.505 million of profit attributable to owners of the parent for the corresponding period of last year. The increase in the profit during the period was primarily due to the increase in toll income collected by Jihe Expressway during the Reporting Period.

Liquidity and Financial Resources

During the Reporting Period, the Group financed its operation and capital expenditures with the Company's internal resources, long-term bank loans at floating interest rate and proceeds from the Global Offering. As at 31 December 2019, total bank loans of the Group amounted to approximately RMB245 million (31 December 2018: approximately RMB510 million) (which are all RMB-denominated), and total cash and cash equivalents (including bank deposits and cash) were approximately RMB1,396.168 million (31 December 2018: RMB1,006.860 million).

The Group has always pursued a prudent capital management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital in future development. As at 31 December 2019 and 2018, our Group's gearing ratio, calculated by dividing net debt⁽¹⁾ by total capital⁽²⁾ was not applicable.

Notes:

⁽¹⁾ Net debt = total borrowings – cash and cash equivalents

⁽²⁾ Total capital = total equity + net debt

Pledge of Assets and Contingent Liabilities

As at 31 December 2019, the Group did not pledge any of its assets and had no material contingent liabilities.

Employees, Remuneration Policy and Pension Plans

As at 31 December 2019, the Group employed a total of 404 (as at 31 December 2018: 408) employees in the PRC, including management staff, engineers, technicians, etc. During the Reporting Period, the Group's total expense on the remuneration of employees was approximately RMB81.538 million (for the year ended 31 December 2018: approximately RMB73.516 million).

The remuneration of the Group's employees includes basic salaries, bonuses and other staff benefits, such as social insurance, housing funds, corporate annuity, supplementary medical insurance and group life accident insurance coverage, etc.. In general, the Group determines the remuneration of our employees based on their performance, qualifications, positions and seniority within the Group. We also provide our employees with continuing education and regular on-the-job training based on their job duties. As stipulated by the laws and regulations in the PRC, the Group contributes to the State-sponsored retirement scheme for its employee in the PRC (i.e. pension insurance). The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries and bonuses), while the Group contributes 18% of such relevant income from January to April 2019, and 16% of such relevant income since May 2019, subject to certain ceiling. The State-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees. In addition, our Group also operates an additional employee pension plan (i.e. enterprise annuity). All our employees are entitled to an additional pension each year aggregating to 8% of the previous year's salaries.

Foreign Exchange Risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi.

As at 31 December 2019, the Group did not enter into any hedging arrangements to hedge against exposure in foreign currency risk. The foreign currency held by the Group is mainly the unused foreign currency fund obtained upon the Global Offering. Any substantial exchange rate fluctuation of foreign currencies against Renminbi, may cause financial impacts on the Group. The management of the Group will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arises.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no significant investments, material acquisitions or disposal of subsidiaries and associated companies by the Company during the Reporting Period.

BUSINESS REVIEW

During the Reporting Period, the Group recorded a total revenue of approximately RMB1,183.339 million, representing a year-on-year increase of approximately 28.38%, among which, toll income was approximately RMB1,090.536 million, representing a year-on-year increase of approximately 18.82%; revenue from construction business, rental income and other services businesses was approximately RMB92.803 million, representing a year-on-year increase of approximately 2,255.41%. During the Reporting Period, the Group achieved profit before tax of approximately RMB689.505 million, representing a year-on-year increase of approximately 26.63%. Profit for the period was approximately RMB516.421 million (2018: RMB 408.505 million), and earnings per share was approximately RMB0.26 (2018: RMB0.24).

Expressway Business

In 2019, the Company continuously strengthened the operation and management of the Jihe Expressway project, and strived to reduce the negative impact caused by the construction works of the Jinan-Qingdao Expressway. In light of the continuous impact of macroeconomic development and the resumption of traffic of Jinan-Qingdao Expressway and the positive impact brought by traffic control on Jingtai Expressway, the traffic flow of the Jihe Expressway increased slightly from approximately 52,800 vehicles per day during the year ended 31 December 2018 to approximately 61,700 vehicles per day during the Reporting Period. Increase in traffic flow led to substantial increase in toll income, resulting in the total toll income increased by approximately 18.82% to approximately RMB1,090.536 million for the Reporting Period.

Traffic Flows⁽¹⁾

Items	During the Reporting Period		During the same period last year		Year-on-year increase
	Traffic flow (ten thousand vehicles/day)	Percentage (%)	Traffic flow (ten thousand vehicles/day)	Percentage (%)	
Trucks					
class 1	0.33	5.35	0.27	5.19	20.55%
class 2	0.17	2.83	0.18	3.33	-0.93%
class 3	0.12	1.96	0.11	2.14	6.82%
class 4	0.11	1.78	0.10	1.81	14.73%
class 5	1.28	20.74	1.08	20.42	18.62%
Total flow of trucks	2.02	32.66	1.74	32.89	15.96%
Passenger vehicles					
class 1	3.9	63.26	3.3	62.48	18.23%
class 2	0.09	1.49	0.08	1.47	18.50%
class 3	0.09	1.46	0.10	1.86	-8.17%
class 4	0.07	1.13	0.07	1.3	1.20%
Total flow of passenger vehicles	4.16	67.34	3.55	67.11	17.18%
Average daily flow of traffic ⁽²⁾	6.17	100	5.28	100	
Total traffic flow	2,252.54 (ten thousand vehicles)	-	1,928.90 (ten thousand vehicles)	-	16.78%

Toll Income

	During the Reporting Period (After tax)	During the same period last year (After tax)	Year-on-year increase (%)
Total toll income (RMB'000)	1,090,536	917,795	18.82%
Average daily toll income (RMB'000,000)	2.99	2.51	19.12%
Average toll income per vehicle ⁽³⁾ (RMB)	48.41	47.58	1.74%

Notes:

- (1) Flow of traffic does not included toll-free vehicles.
- (2) Average daily flow of traffic is calculated by dividing the the traffic flow of Jihe Expressway of that year by the number of days of such year.
- (3) Average toll income per vehicle is calculated by dividing the total toll income of our Company of that year by the flow of vehicles of the Jihe Expressway of that year.

The toll income contributed by trucks using Jihe Expressway was significantly higher than that by passenger vehicles. The increase in the average toll income per vehicle during the Reporting Period was mainly due to significant increase in trucks using Jihe Expressway as a result of completion of construction and resumption to traffic of Jinan-Qingdao Expressway, and traffic control on Jingtai Expressway. Average toll income per vehicle increased from approximately RMB47.58 (after tax) for the year ended 31 December 2018 to approximately RMB48.41 (after tax) for the Reporting Period. In view of stable traffic flow on Jingtai Expressway, the management has strong confidence in the prospect of Jihe Expressway.

Our traffic flow for 2019 recorded a year-on-year increase of 16.78%, with a 17.18% increase in the passenger vehicle traffic and a 15.96% increase in truck traffic volume.

The analysis of the major reasons is as follows:

1. Increase in traffic flow and toll income as driven by sustained increase in car parc in both China and Shandong Province as well as national economic growth;
2. From November 2017 to date, as trucks with five axles or above were restricted from using Jinan-Qingdao Expressway (G20 Qingdao to Tangwang Interchange Section and G35 Tangwang Interchange to Jinan Toll Station Section); and due to the closure of both directions of G35 Xiaoxujia to Lingdian Interchange, some vehicles travelling between Heze City and eastern Shandong Province could not access G35 Jihe Expressway and G20 Jinan-Qingdao Expressway and were diverted to G1511 Rizhao-Dongming Expressway and G15 Shenyang-Haikou Expressway, which caused certain impact on traffic flow and toll income on Jihe Expressway. From 26 July 2019, Jinan-Qingdao Expressway was gradually resumed to traffic, and accordingly some vehicles travelling between Heze City and eastern Shandong Province do not detour anymore and start using Jihe Expressway, which drove increase in traffic flow and toll income; and
3. From 1 September 2019 to 28 February 2022, subject to traffic control at Mount Taishan Hub – Zaozhuang (Shandong-Jiangsu) interprovincial tollgate on G3 Jingtai Expressway, as driving speed is limited under 80km/h, and vehicles carrying hazardous chemicals, and oversized vehicles carrying non-detachable articles and trucks with five axles or above were restricted from traffic during traffic control, some vehicles were diverted to Jihe Expressway, which drove increase in traffic flow and toll income.

In 2019, the Company actively increased the popularity of smart payment, and made innovations in toll payment models. With “Internet+” technology and the development of electronic finance, we will actively develop new methods for toll payment. We promoted the use of Alipay and WeChat Pay for toll payment at the toll stations to ensure diversified payment methods and to facilitate public travel and effectively improve the service capacity of the expressway. We will optimize the function of the toll system, carry out governance on toll evasion, proactively increase channels for revenue growth, and ensure that the mission indicators for tolls are achieved. The Company will comprehensively improve the level of software and hardware adopted by toll stations, and gradually realise quantification of operation and management, smart tolling facilities, and efficient field duty. We will improve the service quality in an all-round manner, create the service brand of “Qilu Expressway”, and continuously improve the corporate image.

In 2019, as required by the Notice on Issuing the Implementation Plan for Deepening Institutional Reform of Toll Roads and Removing Tollgates at Provincial Boundaries on Expressways (Guo Fa Ban [2019] No.23) and the Notice on Issuing the Implementation Plan of Shandong Province for Deepening Institutional Reform of Toll Roads and Removing Tollgates at Provincial Boundaries on Expressways (Lu Zheng Ban Fa [2019] No.17), the Company sped up introduction of Electronic Toll Collection (ETC) system, and completed installation and online stand-alone debugging of devices for 28 sets of ETC gantry system, reconstruction of 46 ETC lane, all equipment for 1 sub-center and 10 entrance control lanes along the Jinhe Expressway before 31 October 2019, and met the requirements of the competent transportation department for network debugging at the end of October. Beginning on 1 November 2019, the Company cooperated with competent transportation department to carry out the nationwide network debugging work, and successfully completed the switch of the new charging system on 1 January 2020. In accordance with the overall arrangement of Shandong Province, all of the tollgates operated by the Company are available for weighing at entrance. From 1 December 2019, oversized and overloaded vehicles are advised to return through entrance weighing.

Toll Collection Policy

During the Reporting Period, the toll rates of the Jihe Expressway was governed by the Notice on Regulating Relevant Matters of Toll Rates of Toll Roads (Lu Jiao Cai [2017] No. 83) (《關於規範收費公路車輛通行費有關事項的通知》(魯交財[2017]83號)) which became effective from 1 January 2018. For details, please refer to the subsection headed “Business – Expressway Operations – Toll Rates” in the Prospectus.

From 1 January 2020, expressways in Shandong Province have commenced collection of tolls based on vehicle models. The toll standard of Jihe Expressway is subject to the Notice on Matters Related to Expressway Tolls (Lu Jiao Cai [2020] No.1)(《關於高速公路通行費有關事項的通知》(魯交財[2020]1號)). The re-approved vehicle classification shall be carried out in accordance with the Notice on Matters Related to the Implementation of New Industry Standard on Vehicle Classification of the Toll for Highways (JT/T489-2019) (Jiao Ban Gong Lu [2019] No.65)(《關於貫徹<收費公路車輛通行費車型分類>行業標準(JT/T489-2019)有關問題的通知》(交辦公路[2019]65號)).

Further, in accordance with relevant laws and regulations, certain vehicles were entitled to toll rate discounts and exemptions including (i) 5% discount given to drivers who drive vehicles registered in Shandong Province and use ETC for toll payment (With effect from from 1 July 2019, as required by the Notice of Confirmation of ETC Preferential Policies on Expressway by Department of Transport of Shandong Province (Lu Jiao Cai [2019] No.26) (《山東省交通運輸廳關於明確高速公路ETC優惠政策的通知》) (魯交財[2019]26號), a discount of 5% on toll is provided to all ETC vehicles with less than 7 seats using expressways within Shandong Province); (ii) toll exemption for vehicles of the the military, armed police force, etc.; (iii) toll exemption for small passenger vehicles on major festivals and holidays; (iv) Pursuant to the Notice of the Ministry of Transport of Shandong Province on Optimizing Toll Standard for Trucks on Expressways (Lu Jiao Cai Han [2020] No.20) (《山東省交通運輸廳關於優化完善高速公路貨車收費標準的通知》(魯交財函[2020]20號)), a discount on the toll standard for trucks in Shandong Province has been implemented since 15 February 2020; (v) vehicles legally loaded with the products within the National Catalogue of Fresh Agricultural Products shall be exempted from tolls; (vi) other vehicles exempted from tolls as required by State policies.

Rental Income

During the Reporting Period, rental income was mainly revenue from advertisement business. According to the relevant requirements of the local government authorities and the needs of expressway construction, certain billboards along the Jihe Expressway were demolished. As at the end of the Reporting Period, there were 48 billboards operating normally along the Jihe Expressway. As the rental income only accounted for a small proportion of revenue from operation during the Reporting Period, the Directors believe that the implementation of demolition of billboards according to the relevant requirements of the local government authorities and the needs of expressway construction will have no material adverse impact on our principal business. At the same time, the Group was also actively cultivating new revenue growth points for our advertisement business. For instance, a new LED advertising new media was built and put into use in April 2019.

Construction Business

Changqing University Science Park Interchange Project

During the Reporting Period, the Changqing University Science Park Interchange Project was progressing smoothly. In terms of bridge and culvert engineering, construction of C-channel bridge, widened university viaduct and flyover to Heze were completed; and main structure of three pipeline protection bridges was completed. In terms of subgrade engineering, the road clearing works had progressed for 41,600 square meters while the roadbed filling works had progressed for 107,000 cubic meters, and the accumulated excavation amounted to 18,000 cubic meters; cement stabilized gravel amounted to 3,400 cubic meters, and concrete retaining wall amounted to 1,400 cubic meters. In terms of pavement works, cement stabilized macadam amounted to 49,653 square meters and bituminous pavement amounted to 46,202 square meters. Transfer tunnel amounted to 58,860 square meters. In terms of temporary work, base construction, installation of construction site gate, road hardening within the site, dust-settling system, construction of rebar processing space, installation of fence around construction area, installation of transformer, layout of temporary power supply, pipeline protection and other work were completed. As of the end of 2019, output value of civil work amounted to RMB48,910,000, accounting for 62% of the overall progress.

The Company, by way of public tender, determined Shandong Huantai Construction Co., Ltd. (山東桓台建設工程有限公司) as the constructor, at a bid price of RMB14,580,294; and Tai'an Ruixing Engineering Consulting Co., Ltd. (泰安瑞興工程諮詢有限公司) as the supervisor, at a bid price of RMB247,500. Overall structure of buildings has been substantially completed, with an output value of RMB4,600,000 in total, accounting for 31.55% of overall progress. In addition, the Company by way of public tender, determined Shandong Kangqiao Traffic Technology Co., Ltd. (山東康橋交通科技有限公司) as the constructor of tollgate ceiling, at a bidding price of RMB1,953,307, and construction is expected to commence in 2020.

Changqing University Science Park Interchange Project is expected to be completed and delivered for use in September 2020. For details of the fundamental information of Changqing University Science Park Interchange Project, please refer to the sub-section headed "Business – Upgrade of the Jihe Expressway" in the Prospectus.

PROSPECTS

In 2019, the overall macroeconomic situation was complicated and severe. As the state's first comprehensive experimental zone for old-to-new energy conversion, Shandong Province has been deepening the supply-side structural reform. Judging from the operation in 2019, the traffic flow performance of the Jihe Expressway showed a good development trend. Although affected by the increased downward pressure on the economy in 2020 and relevant traffic policy on epidemic prevention and control issued by the Ministry of Transport in 2020 (for details, please refer to "Prospects" in this announcement). with the continuous optimization of the economic structure in Shandong Province and the promotion of old-to-new kinetic energy conversion the Company is still confident in future development.

In 2020, we will continue to increase the management of toll operations and highway maintenance, and strive to focus in the following areas:

(1) Step up in toll operation management

Firstly, the Company will strengthen the toll collection and operation management. The Company will actively adapt to the change of toll collection mode, and realizing the "three transitions" of toll operation from "manual management" to "data management", "traditional" to "intelligent", "focus on site management" to "focus on background audit". Secondly, the Company will actively promote the construction of intelligent toll stations, improving the software and hardware levels of toll stations to gradually realize the dataization of operation management, the intelligentization of tolling facilities, and the efficiency of field duty. Thirdly, the Company will carry out extensive charge service creation activities, giving play to the role model of toll collectors as a leading and demonstration model, and actively building the "Qilu Expressway" service brand. Fourthly, the Company will seriously carry out study on the work of overload control on expressway entrances, actively connecting with local relevant departments to establish an entrance weighing and returning working mechanism, formulate emergency plans for entrance weighing and returning, and other measures to maintain the order of highway entrance. Fifthly, the Company will promote the development of "early warning system for road abnormal events based on video analysis technology" to improve the timely detection, accurate positioning and timely rescue of road anomalies, improve the Company's efficiency in handling road anomalies, and make use of roadside equipment to alert passing vehicles to reduce the occurrence of secondary accidents.

(2) Upgrade in highway maintenance management

Firstly, the Company will promote the quality upgrade of traffic. The Company will focus on flood prevention, fire prevention, snow removal, skid prevention, emergency clearance, etc. to ensure smooth and safe roads. Secondly, the Company will promote the optimization of maintenance management level, accelerate the promotion of integration of maintenance, cultivate new advantages of maintenance development, enhance the overall level of highway maintenance. The Company will arrange the requirements of each level of duties and responsibility of maintenance management, establish a maintenance management appraisal system, and integrate forces from all aspects to continuously improve the efficiency of maintenance management. Thirdly, the Company will implement standardized maintenance, push forward construction of high quality and precise maintenance of road demonstration, improve the quality of maintenance and management, and enhance medium repair of maintenance as well as management and control of quality, safety and progress of special projects with strict quality and safety supervision and transportation organization guarantee to ensure reaching 100% excellent rating of projects.

Looking forward to 2020, the Company will maintain the positioning strategies on focused development and transformation, emphasise reform and innovation, capital operation and equity diversification, nurture new driving forces, with core works on enhancement of economic efficiency and optimisation of capital operation, in order to improve overall development quality and efficiency, lay a solid foundation for the establishment of a leading listed company in the industry and further increase the asset scale of its principal business and future profitability.

EVENTS AFTER THE REPORTING PERIOD

(1) Waiver of toll fees during the period of epidemic prevention

The Company received the Notice from the Ministry of Transport in relation to the Toll Fees payable for Toll Roads during the Control Period of the Novel Coronavirus Disease (Jiao Gong Lu Ming Dian [2020] No. 62) (《交通運輸部關於新冠肺炎疫情防控期間免收收費公路車輛通行費的通知》(交公路明電[2020] 62號)) issued by the Ministry of Transport of the PRC on 15 February 2020, pursuant to which, according to the consent from the State Council of the PRC, it will waive the toll fees payable by all vehicles passing through toll roads (including toll bridges and tunnels) approved and established in accordance with the Highway Law of the People's Republic of China (《中華人民共和國公路法》) and the Regulation on Toll Road Management (《收費公路管理條例》) from 0:00 a.m. on 17 February 2020 to the end of the prevention and control period of the novel coronavirus disease (COVID-19) until further notice (the "National Scheme"). In accordance with the National Scheme, the Company will waive the toll fees of vehicles passing along the Jihe Expressway from the specified time until further notice from the government authorities.

Given that the Group derives a significant portion of its revenue from toll income contributed by vehicles using the Jihe Expressway, the Directors expect that, depending on the period during which toll collection is waived, the waiver may have a material adverse impact on the Group's financial performance and the interim results of the Group for the six months ending 30 June 2020.

Please refer to the announcement dated 16 February 2020 for details.

(2) Acquisition of entire equity interest in Shandong Gangtong Construction Co., Ltd. (“Shandong Gangtong Construction”)

On 9 March 2020, the Company and the Pingyin County Highway Bureau Engineering Co., Ltd. (the “Vendor”) entered into the Transaction Agreement, pursuant to which the Company agreed to acquire, and the Vendor agreed to sell, the Target Equity at a total consideration of RMB25,665,600, following the successful bidding by the Company in respect of the Acquisition in a public tender. The consideration is financed by the internal resources of the Group. As at the date of this announcement, the Company is working on the relevant procedures of change of industrial and commercial registration in relation to the transfer of the equity interest.

Shandong Gangtong Construction currently possesses grade two qualification of general construction contracting for highway engineering, grade two qualification of professional contracting for highway pavement engineering and grade two qualification of professional contracting for highway subgrade engineering, and will be principally engaged in undertaking highway engineering and construction business, highway engineering and construction services and road maintenance services. The Company is of the view that the acquisition, which is an opportunity for the Company to enhance the capability of road construction and in-depth participation in highway construction in Shandong Province, the PRC, is conducive to the improvement of the Company's business scale, exploration of new profit growth points and expansion of the Company's income sources and market share, contributing to steady growth in cash flow of the Company, and further strengthens the core strengths in highway investment, management and operation of the Company, and remains competitive in the industry.

For further details of the above acquisition, please refer to the announcement of the Company dated 9 March 2020.

(3) Adjustment to standard of toll fees

From 1 January 2020, expressways in Shandong Province have commenced collection of tolls based on vehicle models. The toll standard of Jihe Expressway is subject to the Notice on Matters Related to Expressway Tolls (Lu Jiao Cai [2020] No.1)(《關於高速公路通行費有關事項的通知》(魯交財[2020]1號)). The re-approved vehicle classification shall be carried out in accordance with the Notice on Matters Related to the Implementation of New Industry Standard on Vehicle Classification of the Toll for Highways (JT/T489–2019) (Jiao Ban Gong Lu [2019] No.65)(《關於貫徹<收費公路車輛通行費車型分類>行業標準(JT/T489–2019)有關問題的通知》(交辦公路[2019]65號)). Meanwhile, pursuant to the Notice of the Ministry of Transport of Shandong Province on Optimizing Toll Standard for Trucks on Expressways (Lu Jiao Cai Han [2020] No.20) (《山東省交通運輸廳關於優化完善高速公路貨車收費標準的通知》(魯交財函[2020]20號)), a discount on the toll standard for trucks in Shandong Province has been implemented since 15 February 2020. For details, please refer to the paragraph headed “Toll Collection Policy” above.

Save as disclosed above, the Company has no other material events after the Reporting Period required to be disclosed as at the date of this announcement.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The H Shares of the Company has been listed and traded on the Stock Exchange since 19 July 2018. After deducting related expenses, the net proceeds of the Company from the Global Offering amounted to approximately HK\$1,177 million. During the Reporting Period, the use of proceeds from the Global Offering was in line with the usage disclosed in the Prospectus.

Use of Proceeds

The Group’s business objectives and intended use of proceeds as stated in the prospectus were based on the best estimation on future market conditions made by the Group in the preparation of the Prospectus. The actual use of proceeds was based on actual market development. The net proceeds from the Global Offering was approximately HK\$1,177 million. During the period from the listing date of the Company to the end of the Reporting Period, the net proceeds from the Global Offering had been applied as follows :

Business strategy as stated in the Prospectus	Actual net proceeds allocated for such strategy <i>HK\$'000</i>	Amount utilised up to 31 December 2019 <i>HK\$'000</i>	Balance as at 31 December 2019 <i>HK\$'000</i>	Expected time for the use of unutilised proceeds <i>(Note)</i>
Acquiring operative toll roads, bridges and relevant road-related infrastructure projects or interests	588,504	–	588,504	2020
Road maintenance of the Jihe Expressway	294,252	–	294,252	2020
Full or partial repayment of short-term bank loans	117,701	98,459	19,242	2020
Working capital and other general corporate purposes	117,701	1,971	115,730	2020
Optimising the Company's information management systems	58,850	41,008	17,842	2020
	=====	=====	=====	=====

Note: The expected timeline for utilising the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions. The Company shall timely disclose the manner of usage of the proceeds from the Global Offering in accordance with the requirements under the applicable laws and regulations (including the Listing Rules)

Proceeds from the Global Offering amounted to HK\$1.25 billion with the net proceeds of approximately HK\$1.177 billion. As at 31 December 2019, all net proceeds from the Global Offering (approximately HK\$1,177 million) has been deposited in the state; approximately 11.98% of overseas funds (approximately HK\$141 million) were used in accordance with the use of proceeds disclosed in the Prospectus for the year; the remaining approximately 88.02% of net proceeds from the Global Offering (approximately HK\$1,036 million) was retained within PRC, and is intended to be used by way of use of proceeds disclosed in the Prospectus.

As stated in the Prospectus, to the extent that the net proceeds are not immediately applied to the above purposes, the Group intends to place the funds into short-term deposits with banks or other financial institutions in Hong Kong or the PRC, or money-market instruments or other forms of banking deposits as permitted by the relevant laws and regulations.

PROMINENT RISK FACTORS

The risk exposed to a company refers to the impact on the ability of a company to realise its business objectives by the uncertainties arising in the future. Our Company is mainly engaged in the construction, operation and management of expressway. We believe that our Company is primarily exposed to political market and management risks. Our Company attaches great importance to the above risks by taking the initiative to identify, evaluate and respond to the risks arising in the course of operation and establishing and improving the systematic risk management mechanism.

(1) Political risk and measures

In terms of toll collection, the profit of our Company is mainly derived from the operation of toll roads. Pursuant to the Highway Law of the PRC (《中華人民共和國公路法》), the Regulations on the Administration of Toll Roads (《收費公路管理條例》) and other relevant rules, expressway companies do not have the independent pricing right of toll rates, and the determination and adjustment of toll rates of expressways under their control shall be reported to the competent transport authority and pricing authorities at the provincial level for review and approval. If there are significant changes in the operating environment, price level and operating costs and other factors, expressway companies may apply to the above authorities for adjustment to toll rates. However, there is no assurance that the application will be approved in time. In addition, as PRC residents generally pay close attention to the toll collection policy for expressways, our Company may be exposed to greater public pressure on favorable adjustments to policies. If the government introduces new toll collection policies for expressways and preferential policies on toll collection, expressway companies shall comply with such requirements, which will affect the stability of their operational efficiency to a certain extent. As at the date of this announcement, the Company has been in compliance with the requirements of the Notice from the Ministry of Transport in relation to the Toll Fees payable for Toll Roads during the Control Period of the Novel Coronavirus Disease (《交通運輸部關於新冠肺炎疫情防控期間免收收費公路車輛通行費的通知》), waiving the toll fees payable by all vehicles passing along Jihe Expressway until further notice from the government authorities.

In terms of concession rights, toll road assets are relatively monopolised under concession arrangements with a finite term of toll collection, and the sustainable development of expressway operators is exposed to stringent challenges upon expiration of the term of toll collection.

As to political risks, on the one hand, our Company shall take the initiative to strengthen the communication and reporting with the competent government authorities, and strive to win support and understanding from the government and society; on the other hand, it is necessary to strengthen its own strength and reinforce risk resistance capability. In addition, under the principle of self-motivation and prudence, our Company fully capitalises on its resource advantages such as management and technology, and actively conducts research and attempts to explore the industries and businesses that relate to the toll road industry and the core business competence of our Company so as to implement diversified development strategies that are highly related to our principal businesses.

(2) Changes in macroeconomic environment and measures

The toll road industry is sensitive to macroeconomic changes. Macroeconomic changes have direct impact on the demand for road transport, which in turn affects the traffic flow of toll road projects and the business performance of our Company. Although the long-term trend of stable economic development in the PRC remains promising, attention should still be paid to the current pressure of economic fluctuation. The potential landscapes and new problems to be raised in the existing economic operation at home and abroad will also pose potential worries and challenges to the PRC economy.

Our Company will analyse and study on the adjustments to relevant industrial policies, proactively communicate and coordinate with competent government authorities, and spare no efforts in safeguarding the interests of our Company and investors; through the analysis on the current economic situation and regulatory targets, judge the impact of the trend in macroeconomy on the demand for road transport, regularly collect the data of economic development in Shandong Province and surrounding regions, analyse the characteristics of the traffic flow of road network and the change of vehicle structure, and mitigate the negative impacts on our Company's operation brought by the changes in economic environment.

(3) Diversified travel patterns and changes in road network

With the rapid construction of the national railway network, the travel duration between any two cities/countrysides in the PRC will be substantially reduced by travelling via high-speed railway and intercity express, which has influenced the number of passengers on highways to a certain extent. On the other hand, the further optimisation of expressway networks will keep increasing parallel roads and alternative roads, and road network diversion has brought about negative impacts on the growth in our Company's toll revenue. Meanwhile, the overhaul, renovation and expansion of the roads along the toll road as well as the treatment works on the surrounding road and bridge projects will cause a change in the traffic flow of the road network, imposing an impact on the operating performance of our Company as to our expressway projects.

Our Company will keep abreast of road network planning and the status of project construction in a timely manner, conduct specialised analysis on road network in advance, and make reasonable prediction on the impact of relevant projects on the traffic flow of the existing projects of our Company. Our Company will make good use of its advantage of informatisation in carrying out marketing activities for road sections while maintaining effective publicity and diversion to attract traffic flow. Our Company will also continue to promote quality service with a smile (微笑服務), improve the efficiency of tolling, road traffic capacity and service level, and enhance the competitiveness of the road sections operated by our Company in the road network.

(4) Management risk and measures

Upon completion and operation of the Jihe Expressway, our Company shall conduct routine maintenance for roads to ensure a favorable traffic environment. Whereas the scope of maintenance is relatively broad with longer maintenance duration, the traffic flow may be affected; and in the process of operation, the expressway may suffer from serious damage when encountering flood, earthquake and other unforeseeable natural disasters, which may result in the failure of the expressway to maintain normal operation for a period of time. Further, in case of dense fog and heavy snow and ice, the expressway may be partially or even completely closed for a short time. In the event of serious traffic accidents, there may be traffic jams, weakened traffic capacity and damage to roads and bridges. These situations will directly lead to decreased toll revenue and increased maintenance costs, which will pose a negative impact on the operating performance of our Company.

In light of the above said management risks, our Company has adopted and will continue to adopt measures to prevent and respond to the following aspects: strengthening the preventive maintenance and repair works on roads, reasonably arranging construction and maintenance project implementation plans; effectively playing the role in linkage coordination mechanism with the traffic police, road administration and other departments, as well as reinforcing road patrol system under bad weather conditions, so as to ensure smooth and safe traffic on the Jihe Expressway.

In addition, our Company strives to implement our strategies including (i) paying close attention to high quality road-related assets to expand our business; (ii) further strengthening the application of information technology and improve the effectiveness of our technology; (iii) continuing to improve our operating efficiency and enhance our profitability; and (iv) establishing a more complete human resources system to attract, motivate and nurture high quality talents in road operation and management. Please refer to the sub-section headed “Business – Our Competitive Strengths and Strategies – Business Strategies” in the Prospectus for details. As of the date of this announcement, we were still in the process of identifying suitable acquisition or investment target of the road-related asset, and had neither entered into any agreement or memorandum

of understanding with any potential target. Further announcements on the latest developments will be made by the Company in accordance with the requirements of relevant laws and regulations (including but not limited to the Listing Rules).

AUDIT COMMITTEE AND SCOPE OF WORK OF THE GROUP'S EXTERNAL AUDITOR

The Audit Committee has reviewed the annual results of our Group for the year ended 31 December 2019 and is of the view that our Group has complied with all applicable accounting standards and requirements and made adequate disclosure.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group's external auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2019. The work performed by the Group's external auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and consequently no assurance has been expressed by the Group's external auditor on this announcement.

As at the date of this announcement, to the best knowledge of the board of Directors of the Company, information contained in this announcement is consistent with the information that will be contained in the 2019 annual report of the Company.

REPURCHASE, SALES AND REDEMPTION OF LISTED SECURITIES

During the Year, our Company did not repurchase, sell or redeem any of its Shares.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Our Company has adopted and complied with all applicable code provisions of the Corporate Governance Code. For the year, our Company has been in compliance with the applicable code provisions of the Corporate Governance Code.

COMPLIANCE WITH THE MODEL CODE

For the year, our Company had adopted a code of conduct regarding Directors' and Supervisors' securities transactions on terms not less than the required standard set out in the Model Code. Having made specific enquiries with all the Directors and Supervisors, it was confirmed that the Directors and Supervisors have complied with the Model Code in relation to securities transactions by the Directors and its standards of code of conduct and there had not been any non-compliance with the relevant requirements of the Model Code.

CLOSURES OF REGISTER OF MEMBERS

2019 AGM

The 2019 AGM will be held on Thursday, 11 June 2020. For the purpose of determining our Shareholders' entitlement to attend the 2019 AGM, the register of members of our Company will be closed from Tuesday, 12 May 2020 to Thursday, 11 June 2020 (both days inclusive), during which no transfer of Shares will be registered. In order to qualify to attend and vote at the 2019 AGM, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with our Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders), or the head office of the Company in the PRC at Room 2301, Block 4, Zone 3, Hanyu Financial & Business Centre, No. 7000, Jingshi East Road, High-tech Zone, city, Shandong, PRC (for Domestic Shareholders), not later than 4:30 p.m. on Monday, 11 May 2020.

Proposed Distribution of 2019 Final Dividend

The Board has proposed the payment of a cash dividend of RMB0.1630 (tax inclusive) per Share to all Shareholders in an aggregate amount of RMB326,000,000 (tax inclusive) as the 2019 Final Dividend for the year ended 31 December 2019. The payment of such dividend is subject to consideration and approval by Shareholders at the 2019 AGM, and, if approved, such dividend will be paid to the Domestic Shareholders and H Shareholders whose names appeared on the register of members of our Company on Monday, 22 June 2020. Such dividend will be denominated and declared in Renminbi, and paid to the Domestic Shareholders and H Shareholders in Renminbi and Hong Kong dollars, respectively. The exchange rate for dividend paid in Hong Kong dollars shall be the average middle rate for the five business days preceding the date of declaration of such dividend at the 2019 AGM (i.e., Thursday, 11 June 2020) as announced by the People's Bank of China. The share register of our Company will be closed from Wednesday, 17 June 2020 to Monday, 22 June 2020 (both days inclusive). In order to be entitled to the 2019 Final Dividend distribution, Shareholders who have not registered are required to deposit the transfer documents together with relevant share certificates at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders), or the head office of our Company in the PRC at Room 2301, Block 4, Zone 3, Hanyu Financial & Business Centre, No. 7000, Jingshi East Road, High-tech Zone, Jinan City, Shandong Province, the PRC (for Domestic Shareholders) by no later than 4:30 p.m. on Tuesday, 16 June 2020.

The Board is set to distribute the 2019 Final Dividend on Friday, 31 July 2020. If there are any changes to the expected dividend payment date, an announcement will be published as soon as practicable and in accordance with the Listing Rules.

Tax on Dividends

According to the Enterprise Income Tax law of the People's Republic of China and its implementation regulations effective on 29 December 2018, and the provisions of the "Circular on Questions Concerning Withholding and Remitting Enterprise Income Tax for Dividends Received by Overseas H-share Holders (Non-resident Enterprise Shareholders) from Chinese Resident Enterprises (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation, the income of resident enterprise and non-resident enterprise derived in the PRC will be subject to enterprise income tax. Enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC are resident enterprises, which shall file tax return on their own and pay income tax for the income derived in the PRC in accordance with laws. Enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC are non-resident enterprises, if non-resident enterprises establish no organizations and sites within the territory of China, or though establish organizations and sites but the dividends and bonds received have no real connection to the organizations and sites established, such enterprises shall pay the corporate income tax at the rate of 10.0% of its income from the Chinese territory. The Company shall pay the enterprise income tax at the rate of 10% of the annual dividend of H shares non-resident enterprise shareholders in accordance with laws. After the resident enterprise shareholders submit the legal opinion within the prescribed time limit and the Company submits such opinion to the competent tax authorities for confirmation, the Company will not withhold and pay any corporate income tax when distributing the 2019 final dividends to the H Share resident enterprise shareholders who are registered on the dividend record date.

In accordance with the "Circular on Certain Issues Concerning the Policies of Individual Income Tax" (Cai Shui Zi [1994]No.020) (《關於個人所得稅若干政策問題的通知》(財稅字[1994]020號)) promulgated by the Ministry of Finance and the State Administration of Taxation on 13 May 1994, overseas individuals are, temporarily, exempted from the PRC individual income tax for dividend or bonuses received from foreign invested enterprises. As the Company is a foreign-invested enterprise, the Company will not withhold and pay the individual income tax on behalf of individual shareholders when the Company distributes the dividends to overseas individual shareholders whose names appear on the register of members of H shares of the Company. In accordance with the "Individual Income Tax Law of the People's Republic of China" (2018 Revised) took effect on 1 January 2019 and its implementation regulations, individuals have no domicile in China but have resided in the PRC for a total of 183 days or more in a tax year are individual residents

(“Individual Residents”). The Company will withhold and pay 20% of the individual income tax on behalf of individual shareholders when the Company distributes the dividends to Individual Residents Shareholders whose names appear on the register of members of H shares of the Company.

If H Shareholders intend to change its shareholder status, please enquire about the relevant procedures with your agents or transferee agent. The Company will strictly comply with the law or the requirements of the relevant government authority to withhold and pay enterprise income tax and individual income tax on behalf of the relevant shareholders based on the register of members for H Shares as at the dividend registration date. The Company assumes no responsibility and will not entertain any claims arising from any failure to timely determine, or inaccurate determination of, the status of the Shareholders or any dispute over the arrangement of withholding and paying enterprise tax and individual income tax on behalf of such Shareholders. Shareholders should consult their tax advisers regarding the PRC, Hong Kong and other tax implications of owning and disposing of the H Shares.

If H Shareholders consider that the tax rate adopted by the Company for the withholding and payment of enterprise income tax or individual income tax on their behalf is not the same as the tax rate stipulated in relevant laws and regulations or any tax treaties between the PRC and the countries (regions) in which they are domiciled, please submit promptly to the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, on or before 4:30 p.m. on Tuesday, 16 June 2020, a letter of entrustment and a legal opinion certifying that they are resident enterprise as stipulated in the Enterprise Income Tax Law of the People’s Republic of China or all application materials showing that they are residents of a country (region) for Individual H Shareholders which has entered into a tax treaty with the PRC. The Company will then submit the above documents to competent tax authorities for confirmation and proceed with the subsequent tax related arrangements.

DEFINITIONS

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

“2019 AGM”	the annual general meeting of our Company to be convened and held on Thursday, 11 June 2020 or the adjournment thereof
“2019 Final Dividend”	the final dividend proposed by the Board to be paid to the Shareholders in the form of a cash dividend of RMB0.1630 (tax inclusive) per Share

“Advertisement Business”	our business in relation to the leasing of advertisement billboards built along the Jihe Expressway and the provision of the advertisement publication services on those advertisement billboards
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of Directors
“Changqing University Science Park Interchange Project”	the improvement project of our Company for the construction of a new interchange on Jihe Expressway with a ramp connecting to the Changqing University Science Park. Please refer to the sub-section headed “Business Review – Construction Business” in this announcement
“class 1”	truck of 2 tons or less and passenger vehicle with 7 seats or less
“class 2”	truck of 2 to 5 tons (including 5 tons) and passenger vehicle with 8 to 19 seats
“class 3”	truck of 5 to 10 tons (including 10 tons) and passenger vehicle with 20 to 39 seats
“class 4”	truck of 10 to 15 tons (including 15 tons), 20-foot container vehicle and passenger vehicle with 40 seats or above
“class 5”	truck of 15 tons or above and 40-foot container vehicle
“Company” or “our Company”	Qilu Expressway Company Limited (齊魯高速公路股份有限公司), a joint stock company incorporated in the PRC with limited liability on 6 December 2016
“Company Law”	Company Law of the People’s Republic of China (《中華人民共和國公司法》)

“Concession Agreement”	the concession agreement in respect of the Jihe Expressway project entered into between the Shandong Provincial Traffic Transport Department (山東省交通運輸廳) (as authorised by the Shandong Provincial People’s Government (山東省人民政府)) and our Company on 26 September 2004
“Concession Rights”	the rights to (i) design and construct the Jihe Expressway and its ancillary facilities; and (ii) to maintain, operate and manage the Jihe Expressway and its ancillary facilities (including but not limited to the rights in relation to the repair and maintenance of the Jihe Expressway and the toll collection of vehicles thereon) pursuant to the Concession Agreement
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Director(s)”	director(s) of our Company
“Domestic Share(s)”	ordinary Share(s) in the share capital of our Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB
“Domestic Shareholder(s)”	holder(s) of the Domestic Share(s)
“Expressway Business”	our business in relation to the construction, maintenance, operation and management of the Jihe Expressway
“Global Offering”	the offer of our Company’s H Shares for subscription by the public in Hong Kong and outside the United States in offshore transactions, details of which can be found in the Prospectus
“Group”, “our Group”, “us” or “we”	our Company and, except where the context otherwise requires, its subsidiary
“H Share(s)”	overseas listed foreign invested ordinary Share(s) in the share capital of our Company, with a nominal value of RMB1.00 each, which was listed and traded on the Stock Exchange

“H Shareholder(s)”	holders of the H Share(s)
“HK\$” or “Hong Kong dollars” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“HKAS(s)”	Hong Kong Accounting Standard(s)
“HKFRS” or “Hong Kong Financial Reporting Standards”	Hong Kong Financial Reporting Standards (including HKASs and Interpretations) issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jihe Expressway”	Jinan (濟南) to Heze (荷澤) Expressway, the approximately 153.6 km expressway running through nine districts/counties under four cities from Jinan City to Heze City in Shandong Province
“Listing”	the listing of the Company’s H Shares on the Main Board of the Stock Exchange on 19 July 2018
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Ministry of Transport”	Ministry of Transport of the PRC (中華人民共和國交通運輸部)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“PRC” or “State”	the People’s Republic of China, which for the purpose of this announcement exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus of the Company dated 29 June 2018 in connection with the Global Offering
“Qilu Transportation”	Qilu Transportation Development Group Company Limited* (齊魯交通發展集團有限公司), a limited liability company incorporated in the PRC on 30 June 2015

“Reporting Period” or “Year”	the year ended 31 December 2019
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SDRC”	Shandong Provincial Development and Reform Committee (山東省發展和改革委員會)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share(s)”	Domestic Shares and/or H shares (as the case may be)
“Shareholder(s)”	holder(s) of our Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of the Company established pursuant to the Company Law
“US\$”	US dollars, the lawful currency of United States

By order of the Board
Qilu Expressway Company Limited
Li Gang
Chairman

Shandong, the PRC
24 March 2020

As at the date of this announcement, the executive Directors are Mr. Li Gang, Mr. Peng Hui and Mr. Liu Qiang; the non-executive Directors are Mr. Chen Dalong, Mr. Wang Shaochen, Mr. Zhou Cenyu, Mr. Su Xiaodong, Ms. Kong Xia, Mr. Yuan Ruizheng and Mr. Tang Haolai; and the independent non-executive Directors are Mr. Cheng Xuezhao, Mr. Li Hua, Mr. Wang Lingfang, Mr. He Jiale and Mr. Han Ping.

* *For identification purpose only*