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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)

2020 ANNUAL RESULTS AND PROPOSED DISTRIBUTION OF 2020 FINAL DIVIDEND

HIGHLIGHTS

- Revenue increased by approximately 3.51% to approximately RMB1,689,536,000 (compared with the revenue from operations in the corresponding period of last year).
- Profit and total comprehensive income for the year attributable to owners of the parent increased by approximately 4.20% to approximately RMB620,776,000 (compared with the profit and total comprehensive income for the year attributable to owners of the parent in the corresponding period of last year).
- Earnings per Share was approximately RMB0.31.
- Recommendation of payment of the 2020 Final Dividend of RMB0.180 (tax inclusive) per Share.

Note: Comparative figures have been restated pursuant to the merger accounting for business combination under common control of the Group. Details of the restatements are set out in Note 1 to the sub-section headed “2020 Annual Results – Notes to Financial Information” in this announcement.

2020 ANNUAL RESULTS

The Board is pleased to announce the consolidated results of the Group for the year ended 31 December 2020, prepared in accordance with the HKFRS, together with comparative figures for the preceding financial year:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000 (Restated)
REVENUE	3	1,689,536	1,632,243
Cost of sales		(706,403)	(680,393)
Gross profit		983,133	951,850
Other income and gains	3	48,753	48,171
Administrative expenses		(74,521)	(67,420)
Impairment losses on contract assets		(92)	–
Other expenses		(15,647)	(29,636)
Finance costs	5	(114,844)	(107,715)
Share of profits and losses of an associate		499	–
PROFIT BEFORE TAX	4	827,281	795,250
Income tax expense	6	(206,505)	(199,522)
PROFIT FOR THE YEAR		620,776	595,728
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		620,776	595,728
Attributable to:			
Owners of the parent		620,776	595,728
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	8	RMB0.31	RMB0.30
Diluted			
– For profit for the year	8	RMB0.31	RMB0.30

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*31 December 2020*

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		333,701	375,899
Investment properties		20,559	21,445
Right-of-use assets	9(a)	78,173	–
Intangible assets		5,621,348	5,955,880
Investment in an associate	10	20,974	–
Deferred tax assets	11	541	–
Prepayments and other receivables	12	26	26
		<hr/>	<hr/>
Total non-current assets		6,075,322	6,353,250
CURRENT ASSETS			
Inventories		3,876	2,429
Trade and bills receivables	13	83,097	25,390
Contract assets	14	3,266	–
Other current assets		63	99
Prepayments and other receivables	12	2,888	12,328
Financial assets at fair value through profit or loss	15	464,804	200,000
Cash and cash equivalents		74,731	1,397,177
		<hr/>	<hr/>
Total current assets		632,725	1,637,423

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*31 December 2020*

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i> (Restated)
CURRENT LIABILITIES			
Trade payables	16	84,911	148,365
Other payables and accruals	17	97,023	672,581
Interest-bearing bank and other borrowings		534,355	328,048
Lease liabilities	9(b)	2,928	–
Tax payable		79,761	61,199
Provision		177,468	148,420
		<hr/>	<hr/>
Total current liabilities		976,446	1,358,613
		<hr/>	<hr/>
NET CURRENT (LIABILITIES)/ASSETS		(343,721)	278,810
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,731,601	6,632,060
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		2,722,712	1,643,326
Lease liabilities	9(b)	75,911	–
Other payables	17	24,139	25,643
Deferred tax liabilities	11	10,019	13,646
		<hr/>	<hr/>
Total non-current liabilities		2,832,781	1,682,615
		<hr/>	<hr/>
Net assets		2,898,820	4,949,445
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		2,000,000	2,000,000
Capital reserves		–	2,148,076
Other reserves		61,619	182,525
Retained earnings		837,201	618,844
		<hr/>	<hr/>
Total equity		2,898,820	4,949,445
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NOTES TO FINANCIAL INFORMATION

31 December 2020

1.1 BASIS OF PREPARATION

These 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. These financial information are presented in Renminbi (“RMB”) and all values are rounded to nearest thousand (RMB’000) except when otherwise indicated.

Going concern basis

As at 31 December 2020, the Group’s current liabilities exceeded its current assets by RMB343,721,000, primarily due to the expenditure incurred on the acquisition of the Deshang and Shennan Expressways. As at 31 December 2020, total interest-bearing bank and other borrowings in current liabilities in relation to the acquisition of the Deshang and Shennan Expressways amounted to RMB463,796,000.

In view of the net current liabilities position, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. As at 31 December 2020, based on the arrangements entered into with the licensed banks in Mainland China, the undrawn banking facilities amounting to RMB1,000,000,000 are available for withdrawal before May 2021 and RMB2,005,000,000 are available for withdrawal before August 2021 for the refinancing of an existing loan by the Group. Having considered the cash flows from operations and its available resource of finance, the directors are of the opinion that the Group is able to meet in full its financial obligations as they fall due in the foreseeable future and it is appropriate to prepare the financial statements on a going concern basis.

Merger accounting for business combinations under common control

On 2 June 2020, the Company entered into the Transfer Agreement with Qilu Transportation, which was ultimate holding company of the Company before the joint restructuring of Shandong Hi-Speed Group and Qilu Transportation. Pursuant to the Transfer Agreement, the Company acquired the toll collection rights of Deshang Expressway and Shennan Expressway (“the Target Business”) from Qilu Transportation at a total consideration of RMB2,345,401,000. Since the Company and the Target Business were ultimately controlled by Qilu Transportation both before and after the completion of the transaction, the acquisition of the Target Business was accounted for using the principles of merger accounting.

1.1 BASIS OF PREPARATION (CONTINUED)

Merger accounting for business combinations under common control (Continued)

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the years ended 31 December 2020 and 2019 included the results, changes in equity and cash flows of the Target Business then comprising the Group, as if the business structure of the Group immediately after the completion of the acquisition had been in existence throughout the years ended 31 December 2020 and 2019, or since their respective dates of acquisition, incorporation or registration, where this is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2019 has been prepared to present the state of affairs of the Group and the Target Business as if the business structure of the Group immediately after the completion of the acquisition had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the Target Business attributable to the Company as at 31 December 2019.

Restatement of operating results and financial positions of the Group

As a result of the application of merger accounting to include the operating results of the Target Business, the operating results previously reported by the Group for the year ended 31 December 2019 have been restated as below:

	The Group (As previously reported) <i>RMB'000</i>	Merger accounting The Target Business <i>RMB'000</i>	The Group (Restated) <i>RMB'000</i>
Revenue	1,183,339	448,904	1,632,243
Profit before tax	689,505	105,745	795,250
Profit for the year and attributable to owners of the Company	<u>516,421</u>	<u>79,307</u>	<u>595,728</u>

The financial positions previously reported by the Group at 31 December 2019 have been restated as below to include the assets and liabilities of the Target Business using the existing book values:

31 December 2019

	The Group (As previously reported) <i>RMB'000</i>	Merger accounting The Target Business <i>RMB'000</i>	The Group (Restated) <i>RMB'000</i>
Non-current assets	2,758,750	3,594,500	6,353,250
Current assets	1,631,255	6,168	1,637,423
Current liabilities	489,521	869,092	1,358,613
Non-current liabilities	<u>109,289</u>	<u>1,573,326</u>	<u>1,682,615</u>
Total equity	<u>3,791,195</u>	<u>1,158,250</u>	<u>4,949,445</u>

1.1 BASIS OF PREPARATION (CONTINUED)

Restatement of operating results and financial positions of the Group (Continued)

1 January 2019

	The Group (As previously reported) <i>RMB'000</i>	Merger accounting The Target Business <i>RMB'000</i>	The Group (Restated) <i>RMB'000</i>
Non-current assets	2,867,602	3,764,597	6,632,199
Current assets	1,485,664	35,243	1,520,907
Current liabilities	518,617	1,020,961	1,539,578
Non-current liabilities	302,959	1,726,374	2,029,333
Total equity	<u>3,531,690</u>	<u>1,052,505</u>	<u>4,584,195</u>

For this business combination under common control, no amount is recognised in consideration for goodwill or excess of the Group's interest in the net fair value of the Target Business's identifiable assets, liabilities and contingent liabilities over the cost of acquisition at the time of common control combination. The difference between the consideration and book value of the Target Business at the time of common control combination is charged to the reserves and retained earnings of the Group.

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 2020. 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).

1.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

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.

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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “Conceptual Framework”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) 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 has applied the amendments prospectively to transactions that occurred after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group’s property have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB153,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

- (e) 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, or both. The amendments did not have any significant impact on the financial information and 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>Reference to the Conceptual Framework</i> ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{3, 6}
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ^{3, 5}
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ²
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ²
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ²

- 1 Effective for annual periods beginning on or after 1 January 2021
- 2 Effective for annual periods beginning on or after 1 January 2022
- 3 Effective for annual periods beginning on or after 1 January 2023
- 4 No mandatory effective date yet determined but available for adoption
- 5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
- 6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank and other borrowings denominated in RMB based on the National Interbank Offered Rates ("LPR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

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

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- *HKFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- *HKFRS 16 Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

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 2020 and 2019, 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
<i>Revenue from contracts with customers</i>		
Expressway business	1,541,041	1,538,915
Construction business	142,665	88,384
Other service businesses	1,920	858
<i>Revenue from other sources</i>		
Rental income*	3,910	4,086
	<u>1,689,536</u>	<u>1,632,243</u>

* Rental income comprises variable lease payments that do not depend on an index or a rate of RMB3,267,000 and fixed payments of RMB643,000 during the year ended 31 December 2020.

3. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(i) *Disaggregated revenue information*

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Type of revenue		
Expressway business	1,541,041	1,538,915
Construction business	142,665	88,384
Other service businesses	1,920	858
	<u>1,685,626</u>	<u>1,628,157</u>
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Timing of revenue recognition		
At a point in time	1,542,961	1,539,773
Over time	142,665	88,384
	<u>1,685,626</u>	<u>1,628,157</u>

(ii) *Performance obligations*

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

Expressway business

Revenue from the expressway business represents toll income and is recognised when the vehicles pass the expressway and the Group receives 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Amounts expected to be recognised as revenue:		
Within one year	<u>164,339</u>	<u>55,222</u>

All amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year (2019: within one year). The amounts disclosed above do not include variable consideration which is constrained.

	<i>Note</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Other income and gains			
Interest income from financial assets at fair value through profit or loss	4	5,107	3,880
Fair value gains from financial assets at fair value through profit or loss	4	2,568	769
Interest income from financial assets measured at amortised cost	4	–	1,688
Bank interest income	4	16,083	19,221
Compensation income for road damages		3,662	2,421
Government grants		16,617	17,100
Foreign exchange differences, net	4	2,516	1,611
Others		<u>2,200</u>	<u>1,481</u>
Other income and gains		<u>48,753</u>	<u>48,171</u>

4. PROFIT BEFORE TAX

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

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i> (Restated)
Construction costs*		123,820	88,384
Maintenance and resurfacing costs and provisions*		98,357	126,211
Employee benefit expense** (including directors' and chief executive's remuneration):			
Wages, salaries and allowances, social security and benefits		112,292	105,300
Defined contribution pension schemes		7,214	14,135
Other staff benefits		6,901	4,468
		126,407	123,903
Depreciation in respect of**:			
– property, plant and equipment		69,535	52,877
– right-of-use assets	9	2,304	–
– investment properties		886	652
Amortisation of intangible assets in respect of**:			
– service concession arrangements		325,612	322,200
– software		1,519	814
(Gain)/loss on disposal of items of property, plant and equipment		(295)	230
Loss on disposal of intangible assets		–	28,060
Impairment of trade receivables	13	2,074	–
Impairment of contract assets	14	92	–
Impairment of financial assets included in prepayments and other receivables	12	39	45
Impairment of property, plant and equipment		13,520	1,084
Auditor's remuneration		1,450	1,320
Foreign exchange differences, net	3	(2,516)	(1,611)
Interest income from financial assets at fair value through profit or loss	3	(5,107)	(3,880)
Fair value gains from financial assets at fair value through profit or loss	3	(2,568)	(769)
Interest income from financial assets measured at amortised cost	3	–	(1,688)
Bank Interest income	3	(16,083)	(19,221)

4. PROFIT BEFORE TAX (CONTINUED)

* Construction costs 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 2020, the construction cost includes labor costs related to construction projects of RMB4,897,000 (2019: nil).

** During the year ended 31 December 2020, employee benefit expense, depreciation in respect of property, plant and equipment, right-of-use assets and investment properties, and amortisation of intangible assets of RMB81,998,000, RMB57,352,000 and RMB325,612,000 (2019: RMB86,801,000, RMB47,704,000 and RMB322,200,000 (restated)), 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Interest expenses on interest-bearing bank borrowings	101,828	106,388
Interest expenses on loans from Shandong Hi-Speed Group	10,400	–
Interest on lease liabilities (note 9(b))	1,360	–
Accreted interest on an amount due to Shandong Hi-Speed Group	1,256	1,327
	<u>114,844</u>	<u>107,715</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 (2019: nil).

The provision for Mainland China current income tax is based on the statutory rate of 25% (2019: 25%) of the assessable profits during the year.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Current – Mainland China		
Charge for the year	211,355	216,452
(Overprovision)/underprovision in prior years	(682)	307
Deferred (note 11)	(4,168)	(17,237)
	<u>206,505</u>	<u>199,522</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 is as follows:

6. INCOME TAX EXPENSE (CONTINUED)

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Profit before tax	<u>827,281</u>	<u>795,250</u>
Tax at the statutory tax rate at 25%	206,820	198,812
Effect of different tax rate of a subsidiary operating in another jurisdiction	123	251
Income not subject to tax	(125)	–
Expenses not deductible for tax	346	44
Tax losses not recognised	23	124
Tax losses utilised from previous periods	–	(16)
Adjustments in respect of tax of previous periods	<u>(682)</u>	<u>307</u>
Tax charge at the Group's effective tax rate	<u>206,505</u>	<u>199,522</u>

The share of tax attributable to associate amounting to RMB182,000 (2019: nil) is included in “Share of profits and losses of an associate” in the consolidated statement of profit or loss and other comprehensive income.

7. DIVIDENDS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Proposed final- RMB0.180 (2019: RMB0.163) per ordinary share	<u>360,000</u>	<u>326,000</u>

The proposed final 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 amounts 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 (2019: 2,000,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

9. LEASES

The Group as a lessee

The Group has lease contracts for various items of land use rights and buildings used in its operations. Annual payments were made to acquire the leased land from the owners with lease periods of 20 to 24 years, and ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 2 and 6 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) *Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land RMB' 000	Buildings RMB' 000	Total RMB' 000
As at 31 December 2019 and 1 January 2020	–	–	–
Additions	77,299	3,178	80,477
Depreciation charge	<u>(1,536)</u>	<u>(768)</u>	<u>(2,304)</u>
As at 31 December 2020	<u><u>75,763</u></u>	<u><u>2,410</u></u>	<u><u>78,173</u></u>

(b) *Lease liabilities*

The carrying amount of lease liabilities and the movements during the year are as follows:

	2020 RMB' 000
Carrying amount at 1 January	–
New leases	80,477
Accretion of interest recognised during the year	1,360
Covid-19-related rent concessions from lessors	(153)
Payments	<u>(2,845)</u>
Carrying amount at 31 December	<u><u>78,839</u></u>
Analysed into:	
Current portion	2,928
Non-current portion	<u><u>75,911</u></u>

9. LEASES (CONTINUED)

The Group as a lessee (Continued)

(c) *The amounts recognised in profit or loss in relation to leases are as follows:*

	2020 RMB'000
Interest on lease liabilities	1,360
Depreciation charge of right-of-use assets	2,304
Covid-19-related rent concessions from lessors	(153)
	<hr/>
Total amount recognised in profit or loss	3,511
	<hr/> <hr/>

The Group as a lessor

The Group leases its investment properties consisting of 14 (2019: 14) commercial properties in Mainland China and advertisement billboards and telecommunication cable pipes under operating lease arrangements. The terms of the leases generally require the tenants to provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB3,910,000 (2019: RMB4,086,000 (restated)), details of which are included in note 3 to the financial information.

At 31 December 2020, undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 RMB'000	2019 RMB'000 (Restated)
Within one year	2,931	2,256
After one year but within two years	2,027	2,211
After two years but within three years	974	1,640
After three years but within four years	875	1,165
After four years but within five years	693	715
After five years	523	2,032
	<hr/>	<hr/>
	8,023	10,019
	<hr/> <hr/>	<hr/> <hr/>

10. INVESTMENT IN AN ASSOCIATE

2020
RMB'000

Share of net assets

20,974

The Group did not have any investments in associates in 2019.

Particulars of the Group's associate are as follows:

Name	Particulars of capital invested	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Jinan Xinyue New Road Material Research and Development Co., Ltd.	Paid-up capital of RMB30,000,000	PRC/ Mainland China	40	Material research and development

The Group's shareholdings in the associate all comprise equity shares held through a wholly-owned subsidiary of the Company, Shandong Gangtong Construction. Jinan Xinyue New Road Material Research and Development Co., Ltd. ("Jinan Xinyue") became an associate of the Group upon the completion of the acquisition of Shandong Gangtong Construction on 30 March 2020.

The financial year of the above associate is coterminous with that of the Group.

Jinan Xinyue, which is considered a material associate of the Group, is a strategic partner of the Group engaged in the research and development of materials used for road maintenance and construction and is accounted for using the equity method.

The following table illustrates Jinan Xinyue's summarised financial position information as at 31 December 2020 and summarised financial performance information for the period from 30 March to 31 December 2020 (i.e., the period after Jinan Xinyue has become an associate of the Group), adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements.

10. INVESTMENT IN AN ASSOCIATE (CONTINUED)

	31 December 2020 RMB'000
Current assets	40,025
Non-current assets	33,459
Current liabilities	(21,050)
	<hr/>
Net assets	52,434
	<hr/> <hr/>
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	40%
Group's share of net assets of the associate	20,974
	<hr/>
Carrying amount of the investment	20,974
	<hr/> <hr/>
	Period from 30 March to 31 December 2020
Revenue	47,220
Profit for the period	1,248
Total comprehensive income for the period	1,248
	<hr/>
Share of the associate's profit for the period	499
	<hr/> <hr/>

11. 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>	Total <i>RMB'000</i>
At 1 January 2019 (as restated)	28,372	–	–	237	75	28,684
Deferred tax credited/(charged) to the statement of profit or loss and other comprehensive income during the year (note 6)	8,719	271	6,942	(223)	11	15,720
Gross deferred tax assets at 31 December 2019 and 1 January 2020	37,091	271	6,942	14	86	44,404
Deferred tax credited/(charged) to the statement of profit or loss and other comprehensive income during the year (note 6)	7,097	3,319	(2,934)	165	551	8,198
Gross deferred tax assets at 31 December 2020	<u>44,188</u>	<u>3,590</u>	<u>4,008</u>	<u>179</u>	<u>637</u>	<u>52,602</u>

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>	Fair value adjustment of financial assets at fair value through profit or loss <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019 (as restated)	59,500	67	–	59,567
Deferred tax credited to the statement of profit or loss and other comprehensive income during the year (note 6)	(1,485)	(32)	–	(1,517)
Gross deferred tax liabilities at 31 December 2019 and 1 January 2020	58,015	35	–	58,050
Deferred tax charged/(credited) to the statement of profit or loss and other comprehensive income during the year (note 6)	3,416	(28)	642	4,030
Gross deferred tax liabilities at 31 December 2020	<u>61,431</u>	<u>7</u>	<u>642</u>	<u>62,080</u>

11. DEFERRED TAX (CONTINUED)

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Net deferred tax assets recognised in the consolidated statement of financial position	541	–
Net deferred tax liabilities recognised in the consolidated statement of financial position	<u>10,019</u>	<u>13,646</u>
Net deferred tax liabilities	<u><u>9,478</u></u>	<u><u>13,646</u></u>

The Group has tax losses arising in Hong Kong of RMB734,000 (2019: RMB1,502,000) that are not available for offsetting against future taxable profits of the company in which the losses arose because the company still has no operation activities as at 31 December 2020.

The Group also has tax losses arising in Mainland China of RMB400,000 (2019: RMB1,152,000) 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 item:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Tax losses not recognised as deferred assets	<u><u>2,636</u></u>	<u><u>2,654</u></u>

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

12. PREPAYMENTS AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
<i>Current portion</i>		
Prepayment to suppliers	717	7,171
Deposits and other receivables	2,554	4,038
Interest receivables	–	1,463
	<u>3,271</u>	<u>12,672</u>
 Impairment allowance	 <u>(383)</u>	 <u>(344)</u>
	<u>2,888</u>	<u>12,328</u>
 <i>Non-current portion</i>		
Other receivables	<u>26</u>	<u>26</u>
	<u>2,914</u>	<u>12,354</u>

The movement in provision for impairment of other receivables is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At beginning of year	344	299
Impairment losses, net (note 4)	<u>39</u>	<u>45</u>
 At end of year	 <u>383</u>	 <u>344</u>

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 2020 was 15.00% (2019: 6.26%). 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.

13. TRADE AND BILLS RECEIVABLES

Trade receivables are analysed by category as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Trade receivables	84,806	24,790
Impairment	<u>(2,074)</u>	<u>—</u>
Trade receivables, net	82,732	24,790
Bills receivable	<u>365</u>	<u>600</u>
	<u>83,097</u>	<u>25,390</u>

Trade receivables mainly consist of receivables of construction contracting and toll road income receivables from Shandong Transport Department for the uncollected expressway income as at the relevant year end.

For receivables of construction contracting, the payment terms of contract work receivables are stipulated in the relevant contracts. The Group's trading terms with its customers are mainly on credit. The credit period offered by the Group is three to six months.

Trade receivables of toll road income from Shandong Transport Department are expected to be settled within one month (2019: within one month).

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

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Within one year	<u>82,732</u>	<u>24,790</u>

The movement in the loss allowance for impairment of trade receivables is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At beginning of year	—	—
Impairment losses, net (note 4)	<u>(2,074)</u>	<u>—</u>
At end of year	<u>(2,074)</u>	<u>—</u>

13. TRADE AND BILLS RECEIVABLES (CONTINUED)

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.

The Group's toll road income receivables were from Shandong Transport Department and there is no past due balance. Management keeps reviewing and assessing the creditworthiness of the Group's existing customer on an ongoing basis. No expected credit losses were provided as the directors consider that the expected credit risks of toll road income receivables are minimal.

Considering the creditworthiness of the customers and the fact of having no business dealing history, the Group measures expected credit losses of the construction contracting receivables by reference to the construction industrial experience and the expected credit loss rate is set to be 3%.

14. CONTRACT ASSETS

	2020 RMB'000
Contract assets arising from:	
Construction services	3,358
Impairment	(92)
	<hr/>
	3,266
	<hr/> <hr/>

The Group did not have any contract assets as at 31 December 2019. Contract assets are initially recognised for revenue earned from the provision of construction services as the receipt of consideration is conditional on successful completion of construction. Included in contract assets for construction services are retention receivables. Upon completion of construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2020 was the result of the increase in the provision of construction contracting at the end of the year.

During the year ended 31 December 2020, RMB92,000 (2019: nil) was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 13 to the financial information.

14. CONTRACT ASSETS (CONTINUED)

The expected timing of recovery or settlement for contract assets as at 31 December 2020 is as follows:

	2020 RMB'000
Within one year	<u><u>3,266</u></u>

The movement in the loss allowance for impairment of contract assets is as follows:

	2020 RMB'000
At beginning of year	–
Impairment losses (note 4)	<u>92</u>
At end of year	<u><u>92</u></u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables for groupings of various customer segments with similar loss patterns (i.e., by 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.

Set out below is the information about the credit risk exposure on the Group's contract assets excluding retentions using a provision matrix:

	2020
Expected credit loss rate	3%
Gross carrying amount (RMB'000)	3,054
Expected credit losses (RMB'000)	92

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Structured bank deposits	452,568	200,000
Wealth management products	12,236	–
	464,804	200,000

The structured bank deposits and wealth management products 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.

16. TRADE PAYABLES

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Within 1 year	81,220	30,789
1 to 2 years	593	110,655
Over 2 years	3,098	6,921
	84,911	148,365

Included in the trade payables are amounts totalling RMB10,611,000 (2019: RMB167,000 (restated)) 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.

17. OTHER PAYABLES AND ACCRUALS

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i> (Restated)
Due to related parties		52,980	609,749
Staff salaries and welfare		35,437	29,192
Other taxes and surcharge payables		10,320	5,324
Advance from customers		8,261	9,155
Payables for purchases of long-term assets	(b)	7,440	31,028
Other payables and accruals	(b)	3,707	7,907
Other retention payables and deposits received	(b)	2,232	3,284
Contract liabilities	(a)	785	–
Interest payables		–	2,585
		121,162	698,224
Less: Non-current portion		24,139	25,643
Current portion		97,023	672,581

Notes:

- (a) Details of contract liabilities are as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
Construction services	785	–

Contract liabilities include short-term advances received from customers for construction services when the pace of progress billings exceeds the pace of relevant construction projects.

- (b) 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.

18. EVENTS AFTER THE REPORTING PERIOD

As at the date of this announcement, there is no significant subsequent event after the Reporting Period.

OVERVIEW OF BUSINESS DEVELOPMENT

Macroeconomic Environment and Social Development

2020 was an extremely challenging year. Facing the severe impact of the pandemic and the complicated international landscape, China's economy showed strong development resilience, huge potential and enormous wiggle room. In 2020, China's total gross domestic product surpassed RMB100 trillion for the first time to reach RMB101.6 trillion, representing a year-on-year growth of 2.3%. Shandong Province, the place where the Group's principal businesses are located in, recorded a year-on-year gross regional product growth of 3.6%, reaching RMB7,312.90 billion. With robust economic development against headwinds and steady improvement in economic quality, the major economic indicators of Shandong Province outperformed expectation and excelled the national average.

Review of our Operations

During the Reporting Period, the Group closely focused on two aspects, namely "efficiency" and "service". While working on pandemic prevention and control on one hand, we made efforts in the production and operation on the other hand, striving to enhance the Group's service quality and brand image and have achieved prominent results. First, we strengthened our management of toll collection. We equipped ourselves with advanced information management system to achieve better control and command, increase operational and management efficiency and ensure road safety and smooth traffic flow. Second, we strengthened our maintenance management. We introduced a full life-cycle concept, based on which we standardised our maintenance operation, enhanced our preventive maintenance and routine maintenance efforts, promptly handled and eliminated safety hazards and hidden dangers, with the aim of increasing road capacity. Third, we insisted on risk management. We firmly established the guidance thought of "safety work is no trivial matter and safety responsibility is of paramount importance" (安全工作無小事，安全責任重如山), and developed targeted preventive measures to eliminate hidden safety dangers and make rectifications on discovered latent road defects in a timely manner. Fourth, we implemented pandemic prevention and control work and performed our social responsibility. We established a pandemic prevention and control work responsibility system, formulated a contingency plan for pandemic prevention and control and a manual for prevention and control, and improved the implementation of prevention and control response measures, to ensure zero infection of our staff.

During the Reporting Period, the Group set creating greater value and return for Shareholders as its development goal. In tandem with endeavouring in the principal businesses of expressway operation, the Group also looked for long-term growth. To achieve this, the Group took capital operation as a key approach for deepening the reform of investment and financing systems, accelerating the new and old kinetic energy conversion (新舊動能轉換) and tapping into international capital markets, and regarded it as an important opportunity for the Company to promote reform and innovation, to achieve success, excellence and expansion, and to push forward the implementation of fundraising projects. In September 2020, the Company completed the acquisition of the Deshang and Shennan Expressways. The acquisition enlarged the scale of the Company's principal business, realised the consolidation of core expressway assets in the region, and increased the Company's continuing profitability and regional competitiveness. Meanwhile, the Company seized the opportunities arising from the regional city enhancement and urban construction market to actively develop the upstream and downstream business in the highway industry. The completion of acquisition of the 100% equity interest in Shandong Gangtong Construction in March 2020 enhanced the Company's capability of road construction, nurtured new drivers for profit growth, and expanded the Company's business scale.

We continued to have regard to the Expressway Business as the principal operation of the Company, which comprises the construction, maintenance, operation and management of the Jihe Expressway, the Deshang Expressway (Liaocheng – Fan County section) and the Shennan Expressway. During the Reporting Period, the Group's Expressway Business sustained an overall stable operation, recording revenue of RMB1,541,041,000. Due to the pandemic, the traffic volume on the Jihe Expressway during the Reporting Period decreased from approximately 61,700 vehicles per day during the year ended 31 December 2019 to approximately 56,700 vehicles per day during the Reporting Period. The toll income from the Jihe Expressway decreased by approximately 3.73% to approximately RMB1,049,899,000 during the Reporting Period. The Deshang Expressway (Liaocheng – Fan County section) recorded a traffic volume of approximately 47,500 vehicles per day and a toll income of approximately RMB441,808,000. The Shennan Expressway recorded a traffic volume of approximately 8,100 vehicles per day and a toll income of approximately RMB49,334,000. For details, please refer to the sub-sections headed “Financial Review – Operations – Revenue” and “Business Review – Expressway Business” under the “Management Discussion and Analysis” section in this announcement.

Outlook

In 2020, we experienced a challenging and complicated macroeconomic landscape. Due to the pandemic, the Company suspended the collection of tolls from all vehicles during the pandemic prevention and control period as required by the Ministry of Transport. During the period of combating with the pandemic, the Company enhanced the cooperation with the government authorities by ensuring the smooth passage of the Jihe Expressway for the transportation of anti-pandemic supplies, upon which enabling the Company to make contribution to the pandemic prevention and control work and public safety. Upholding to new development philosophies, Shandong Province demonstrated a relatively strong development momentum that drove its high-quality economic growth. This, in turn, safeguarded the continuous development of the Company. Viewing on the overall operating performance for the full year of 2020, the Company maintained a positive development trajectory, and is confident in its future development.

2021 is the first year for China to implement the 14th Five-Year Plan and embark on a new journey to fully build a modern socialist China. It is also an important year for the Company to accelerate its development. Embracing the theme for high-quality development, the Company will step into a new stage of development, implement a new development philosophy and establish a new development strategic plan. The Company will set the ideas of collaboration, participation and common interests as the directions, take reform and innovation as the drivers, operational management as the foundation and capital operation as the approach, and focus on our principal businesses while looking for long-term development. We will build up team spirit and forge concerted effort, make our best endeavour to move forward and diligently complete all targets and missions set out by the Board. We are committed to developing ourselves as a first-class listed company and strive to further create value for Shareholders and make contribution to society.

For further details of the Group's further business development, please refer to the subsection headed "Management discussion and analysis – Business review – Prospects" in this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

(Unless otherwise specifically stated, comparative figures of 2019 has been restated pursuant to the merger accounting for business combination under common control of the Group. Details of the restatements are set out in Note 1 to the sub-section headed “2020 Annual Results – “Notes to Financial Information” in this announcement.)

FINANCIAL REVIEW

Operations

Our principal operations comprise our Expressway Business for the construction, maintenance, operation and management of the Jihe Expressway, the Deshang Expressway (Liaocheng – Fan County section) and the Shennan Expressway. During the Reporting Period, our revenue comprised primarily the toll income collected from users of the above expressways.

Reference is made to the announcement of the Company dated 14 September 2020. The Company completed the acquisition of the toll collection rights of the Deshang and Shennan Expressways on that day. Since then, the Company is responsible for the operation, maintenance and management of the Deshang and Shennan Expressways and collection of tolls from vehicles passing the Deshang and Shennan Expressways. For further details of the acquisition of Deshang and Shennan Expressways Toll Collection Rights, please refer to the sub-section headed “Significant Investments, Material Acquisitions or Disposal of Subsidiaries, Associated Companies and Joint Ventures—(2) Acquisition of the Toll Collection Rights in Respect of the Deshang Expressway (Liaocheng – Fan County section) and the Shennan Expressway” under this section.

Owing to the commencement of construction activities for the Changqing University Science Park Interchange Project which forms our construction business, we recognised revenue from construction business in respect of such activities during the Reporting Period. In addition, upon completion of the acquisition of Shandong Gangtong Construction, the Group derived revenue from engineering services in respect of highway engineering, construction engineering and other engineering projects since April 2020. We also recorded certain service income from the leasing of pipes for communication signal transmission and advertisement billboards along the Jihe Expressway and the provision of advertisement publication services.

Revenue

During the Reporting Period, we recorded a revenue from operations of approximately RMB1,689,536,000, representing an increase of approximately 3.51% compared with that of approximately RMB1,632,243,000 of last year. Such revenue from operations included the revenue from the Expressway Business which amounted to RMB1,541,041,000, representing a slight year-on-year increase by approximately RMB2,126,000 (or 0.14%). During the Reporting Period, toll income from the Jihe Expressway was approximately RMB1,049,899,000, representing a decrease of approximately 3.73% compared with that of approximately RMB1,090,536,000 of last year. Our toll income from the Deshang and the Shennan Expressways was approximately RMB491,142,000, representing an increase of approximately 9.54% from that of approximately RMB448,379,000 of last year. We achieved a slight increase in the total toll income, which was primarily attributable to the fact that the increase in toll income as driven by the higher traffic volume on the Deshang and the Shennan Expressways was larger than the decrease in toll income resulted from the decline in traffic volume on the Jihe Expressway.

During the Reporting Period, owing to the notices issued by the competent transportation authorities of the State, vehicle toll collection was suspended for a certain period of time for the purpose of pandemic prevention and control, which had a negative impact on the toll income of the Group for the first half of 2020. Based on the analysis of the traffic volume and toll income of the Company in previous and current years, the relevant impact from the pandemic on the Group's toll income is approximately RMB360 million. For further details of the movements in our toll income and the underlying traffic volume analysis, please refer to the sub-section headed "Business Review – Expressway Business" in this announcement.

During the Reporting Period, we recorded a revenue from construction business of approximately RMB142,665,000, representing an increase of approximately 61.41% from that of approximately RMB88,384,000 of last year. The amount included the revenue from construction business recognised for projects of the Group, such as the Changqing University Science Park Interchange Project, of RMB51,332,000 as at 31 December 2020, and the revenue from engineering services of RMB91,333,000 which was mainly derived from Shandong Gangtong Construction. For details, please refer to the sub-section headed "Business Review – Construction Business" in this announcement.

During the Reporting Period, we recorded a rental income of approximately RMB3,910,000, representing a decrease of approximately 4.31% from that of RMB4,086,000 of last year. The rental income mainly represented the service income from leasing the advertisement billboards along both sides of the Jihe Expressway of approximately RMB2,942,000 (representing an increase of approximately 7.18% from that of approximately RMB2,745,000 of last year), and the rental income from leasing the pipes for communication signal transmission along the expressways and investment properties of approximately RMB968,000 (representing a decrease of approximately 27.82% from that of RMB1,341,000 of last year). Such decrease in rental income was primarily attributable to the rent reductions on the investment properties due to the pandemic.

In addition, during the Reporting Period, we recorded an income from other service businesses of approximately RMB1,920,000, representing an increase of approximately 123.78% as compared to approximately RMB858,000 of last year, mainly attributable to the service income generated from road clearance services for traffic accidents.

Cost of Sales and Gross Profit

During the Reporting Period, our cost of sales and gross profit were approximately RMB706,403,000 and RMB983,133,000 respectively, as compared to those of approximately RMB680,393,000 and RMB951,850,000 of last year, representing a year-on-year increase of approximately 3.82% and 3.29% respectively. Gross profit margin of the Group was approximately 58.19% for the Reporting Period, representing a year-on-year decrease of approximately 0.13 percentage point as compared with approximately 58.32% in the corresponding period of last year. Costs of the Group were mainly incurred from amortisation of intangible assets, staff costs, construction costs, maintenance costs and provisions of the Jihe Expressway and the Deshang and Shennan Expressways.

Other Income and Gains

During the Reporting Period, other income and gains were approximately RMB48,753,000 (as compared to approximately RMB48,171,000 of last year), which mainly comprised the receipt of government grants of RMB16,617,000 and the bank interest income of RMB16,083,000.

Administrative Expenses

During the Reporting Period, administrative expenses from our operations were approximately RMB74,521,000, representing an increase of approximately 10.53% as compared to approximately RMB67,420,000 of last year. Such increase in administrative expenses was mainly attributable to the professional service fees incurred for the acquisition of the Deshang and Shennan Expressways, together with the inclusion of the administrative expenses of Shandong Gangtong Construction upon acquisition of its entire equity interest. The administrative expenses of the Group mainly included salaries and wages, depreciation of property, plant and equipment, transportation expenses and professional fees.

Other Expenses

During the Reporting Period, other expenses were approximately RMB15,647,000, representing a decrease of approximately 47.20% as compared to approximately RMB29,636,000 of last year, which was mainly attributable to the decrease in loss on disposal of property, plant and equipment and intangible assets from those of the previous year.

Finance Costs

During the Reporting Period, our finance costs were approximately RMB114,844,000, representing an increase of approximately 6.62% as compared to approximately RMB107,715,000 of last year. During the Reporting Period, the Debt Assignment Agreements and the Debt Assumption Agreement were entered into for the acquisition of the Deshang and Shennan Expressways pursuant to which we assumed the obligations of principal and interest payments, which resulted in an increase in the Group's finance costs.

Share of Profits and Losses of an Associate

During the Reporting Period, our share of profits and losses of an associate was approximately RMB499,000 (corresponding period of 2019: nil), which represented the share of profits of the Group's associate company in the Reporting Period using equity method. During the Reporting Period, the Group had one associate company operating in the PRC, namely Jinan Xinyue, with 40% of its equity interest is held by Shandong Gangtong Construction. For details, please refer to the sub-section headed "Significant Investments, Material Acquisitions or Disposals of Subsidiaries, Associated Companies and Joint Ventures – (1) Acquisition of the Entire Equity Interest of Shandong Gangtong Construction" in this section.

Profit for the Year

During the Reporting Period, profit attributable to owners of the parent was approximately RMB620,776,000, representing an increase of approximately 4.20% as compared to that of approximately RMB595,728,000 of last year. The increase in profit for the year was primarily attributable to the development of the construction business in addition to our Expressway Business through the acquisition of Shandong Gangtong Construction which enhanced the Group's profitability. Although the toll income of the Group declined in the first half of 2020 due to the pandemic, the economic recovery, repair work of surrounding roads and exemplification of growth potential of the Deshang and Shennan Expressways in traffic volume in the second half of the year had led to the overall traffic volume of the expressways operated and managed by the Group maintaining at a certain level. In addition, the Group made great efforts in cutting expenditures by the implementation of cost-reduction and efficiency-optimisation measures and utilised its idle funds for wealth management, which enhance its asset value and increased the overall revenue level of the Group.

Liquidity and Financial Resources

During the Reporting Period, the Group financed its operations and capital expenditures with the Group's internal resources, floating rate bank loans, borrowings from Shandong Hi-Speed Group and proceeds from the Global Offering. As at 31 December 2020, the Group had total loans of approximately RMB3,257,067,000 (31 December 2019: RMB2,541,985,000), which were all denominated in RMB, and total cash and cash equivalents (including bank deposits and cash) of approximately RMB74,731,000 (31 December 2019: RMB1,397,177,000).

The Group adopts a prudent capital management policy and actively manages its liquidity position. It maintains sufficient standby banking facilities to meet daily operation needs and any capital requirements for future development. As at 31 December 2020 and 2019, the Group's gearing ratio, as calculated by dividing net debt⁽¹⁾ by total capital⁽²⁾, was approximately 52.33% and 18.79% respectively.

As a result of the pandemic, the net cash flows from operating activities of the Group declined in

2020. However, due to the fact that the Company is an asset-heavy company the costs of which are mainly comprised of depreciation and amortisation expenses, it did not lead to a deficiency in working capital or have any material impact on the Group ability in meeting financial obligations or debt covenants.

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 2020, the Group's toll collection right in respect of the Deshang Expressway (Liaocheng – Fan County section) was pledged to secure a bank loan granted by a Lending Bank for the related construction project financing. As at 31 December 2020, the net carrying amount of the toll collection right in respect of the Deshang Expressway (Liaocheng – Fan County section) was RMB2,314,288,000. Save as mentioned above, as at 31 December 2020, the Group had no material contingent liabilities.

Employees, Remuneration Policy and Pension Plans

As at 31 December 2020, the Group had a total of 687 (as at 31 December 2019: 404 (non-restated)) employees in the PRC, including management staff, engineers, technicians, etc. During the Reporting Period, the Group's total staff remuneration expenses were approximately RMB131,304,000 (approximately RMB123,903,000 for the corresponding period of last year).

The Group's remuneration for employees includes basic salaries, bonuses and other staff benefits, such as social insurance, housing provident fund, corporate annuity, supplementary medical insurance and group life accident insurance, etc.. In general, the Group remunerates the employees based on their performance, qualification, position and seniority within the Group. The Group also provides the employees with continuing education and regular on-the-job training based on their job duties. In compliance with the requirements of the PRC laws and regulations, the Group contributes to the State-sponsored retirement scheme (i.e. pension insurance) for its employee in the PRC. The Group's employees make monthly contributions to the scheme at approximately 8% of the relevant income (comprising wages, salaries and bonuses), while the Group contributes 16% of the relevant income, subject to certain ceiling. In light of the pandemic, Jinan Social Insurance Affairs Centre (濟南市社會保險事業中心) exempted the Group from such contribution for the period between February and December 2020. The State-sponsored retirement scheme is responsible for all post-employment benefit obligations payable to the retired employees. In addition, the Group also operates an additional employee pension plan (i.e. corporate annuity). All 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 2020, the Group did not enter into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial fluctuation in the exchange rate 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 DISPOSALS OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

(1) Acquisition of the Entire Equity Interest of Shandong Gangtong Construction

On 9 March 2020, following the successful bidding by the Company in a public tender, the Company and Pingyin County Highway Bureau Engineering Company Limited (平陰縣公路局工程有限公司) (“Pingyin County Highway Bureau Engineering”) entered into a transaction agreement, pursuant to which the Company agreed to acquire, and Pingyin County Highway Bureau Engineering agreed to sell, the entire equity interest in Shandong Gangtong Construction at a total consideration of RMB25,665,600. The consideration was funded by the internal resources of the Group. Upon completion of the acquisition on 30 March 2020, Shandong Gangtong Construction became a subsidiary of the Company, and Jinan Xinyue, with 40% of its equity interest held by Shandong Gangtong Construction, became an associate of the Company. Shandong Gangtong Construction currently possesses Class B Qualification for General Contracting of Highway Construction (公路工程施工總承包貳級資質), Class B Qualification for Professional Contracting of Highway Pavement Works (公路路面工程專業承包貳級資質), and is principally engaged in the undertaking of highway construction works and the provision of highway construction services and highway maintenance services.

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

(2) Acquisition of the Toll Collection Rights in Respect of the Deshang Expressway (Liaocheng - Fan County section) and the Shennan Expressway

On 2 June 2020, Qilu Transportation (as the transferor) and the Company (as the transferee) entered into, among others, the Transfer Agreement, pursuant to which, the Company acquired from Qilu Transportation the Deshang and Shennan Expressways Toll Collection Rights, including the rights in relation to (i) the operation, maintenance and management of the expressways, and (ii) the toll collection from vehicles passing along the expressways, but excluding the operational rights in respect of the advertisement business (including the leasing of advertisement billboards built along the expressways and the provision of the related advertisement publication services) and the service facilities business along the expressways. The consideration of the acquisition of the Deshang and Shennan Expressways Toll Collection Rights was RMB2,290 million. Part of the consideration in the amount of RMB941,926,395.60 was funded by the proceeds from the Global Offering, and the remaining balance was funded by the internal resources and bank borrowings of the Group. In accordance with the provisions under the Transfer Agreement, the Company agreed to assume the Assumed Liabilities comprising (i) the total outstanding loans of RMB1,726,374,000 in the facilities provided by the Lending Banks to Qilu Transportation for the Deshang and Shennan Expressways construction projects; and (ii) the total outstanding loans of RMB570,611,303.14 from Qilu Transportation for the Deshang and Shennan Expressways construction projects. The payment of the Assumed Liabilities was funded by the internal resources and bank borrowings of the Group.

Upon completion of the transactions under the Transfer Agreement, the Company had entered into the Debt Assignment Agreements with Qilu Transportation and each of the Lending Banks, pursuant to which, Qilu Transportation agreed to transfer its rights and obligations under the bank facility agreements with the Lending Banks in relation to the Deshang and Shennan Expressways construction projects to the Company with effect from the Transfer Agreement Effective Date, and the Company shall from then be responsible for the repayment of the principal of such bank facilities as well as the interests thereof. The total principal and interest repayable under the Debt Assignment Agreements immediately after the Benchmark Date were RMB1,726,374,000 and RMB354,006,400, respectively.

The Company entered into the Debt Assumption Agreement with Qilu Transportation on 2 June 2020, pursuant to which, the Company agreed to assume, with effect from the Transfer Agreement Effective Date, the loans in the total principal amount of RMB570,611,303.14 (as at the Benchmark Date) provided by Qilu Transportation for the Deshang and Shennan Expressways construction projects and the repayment thereof to Qilu Transportation. The total principal and interest to be repaid under the Debt Assumption Agreement immediately after the Benchmark Date are RMB570,611,303.14 and RMB50,807,453.05, respectively.

Pursuant to the Transfer Agreement, the Company may use the land under the Deshang and Shennan Expressways to maintain normal operation of the expressways during the Transfer Terms. In this regard, in order to ensure the Company's exclusive and unfettered rights to use the land under the Deshang and Shennan Expressways during the Transfer Terms, the Company entered into the Deshang and Shennan Expressways Land Lease Agreement with Qilu Transportation on 2 June 2020 which took effective on the Transfer Agreement Effective Date. Pursuant to the agreement, commenced from the Transfer Agreement Effective Date to the expiry date of the Transfer Terms, the Company shall lease from Qilu Transportation the land use rights in respect of a total of 27 land parcels under the main line and the alongside facilities (excluding advertising and service facilities) of the Deshang and Shennan Expressways with a gross floor area of 5,311,463.30 square metres. The respective annual rental for the land use right in respect of the land under the Deshang Expressway (Liaocheng - Fan County section) and the Shennan Expressway is RMB4,429,890.56 and RMB1,343,670.05, respectively.

As the acquisition of the Deshang and Shennan Expressways Toll Collection Rights (including the entering into of the above agreements) constituted a very substantial acquisition under Chapter 14 of the Listing Rules and a connected transaction under Chapter 14A of the Listing Rules, the acquisition was approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 11 August 2020.

On 14 September 2020, the Company received the Decision of Non-Prohibition on Anti-Monopoly Review on Concentration of Operators (Anti-Monopoly Review Decision [2020] No.338) (經營者集中反壟斷審查不予禁止決定書(反壟斷審查決定[2020]338號)) issued by the Administration for Market Regulation Bureau that it has decided not to prohibit the above acquisition after review and allowed the acquisition to be implemented henceforth, and therefore, the transactions under the Transfer Agreement were completed on the same day. Upon completion, all assets, liabilities, businesses, contracts (other than the Excluded Contracts) and related rights and obligations within the scope of the Transfer Interest were entitled to and borne by the Company from the Benchmark Date. Further, as an inalienable part of the Transfer Interest, a total of 41 properties used for management, maintenance and emergency response along the Deshang and Shennan Expressways were transferred to the Company on the same day. The legal titles of the abovementioned properties are borne by the Company thereafter during the Transfer Terms.

In addition, according to the Transfer Agreement, certain consideration adjustments were stipulated therein including, among others, that upon issue of the final financial audit report in respect of the settlement of the Shennan Expressway project, in case that the project settlement amount of the project after deducting the costs for construction of service areas (including but not limited to the preliminary charges, land requisition and demolition fee, construction and installation fee, supervision fee, management payment for the construction entity, loan interests, special assessment fee and other expenses in relation to the construction of service areas) exceeds RMB1,101,657,413.73 (being the estimated project settlement amount adopted in appraised market value of the expressway toll collection rights under the valuation report of the Deshang and Shennan Expressways), Qilu Transportation shall pay the Company the difference, and vice versa. At the same time, the Company shall pay Qilu Transportation the costs which shall be borne by the Company for the performance of the Excluded Contracts after the Benchmark Date.

After completion of the transactions under the Transfer Agreement, according to the financial audit report in respect of the Shennan Expressway project settlement, it was determined that the project settlement amount of the Shennan Expressway project after deducting the costs for construction of service areas was RMB1,046,266,793.57, which was lower than the estimated project settlement amount adopted in the appraised market value of the Deshang and Shennan Expressways Toll Collection Rights under the valuation report (being RMB1,101,657,413.73). Therefore, the parties to the Transfer Agreement determined that, after taking into account the settlement amount of the Shennan Expressway project and other consideration adjustment factors under the Transfer Agreement, the Company shall pay Shandong Hi-Speed Group the consideration adjustment for the acquisition in the amount totalling RMB56,174,914.03. As at the date of this announcement, the amount in respect of the consideration adjustment has been fully settled.

For further details of the acquisition of the Deshang and Shennan Expressways Toll Collection Rights, please refer to the announcements of the Company dated 2 June 2020, 11 August 2020, 14 September 2020 and 29 December 2020, respectively, and the Acquisition Circular.

After completion of the Joint Restructuring, in order to implement the spirit of the Joint Restructuring, Shandong Hi-Speed Group, Qilu Transportation and the Company entered into the Tripartite Agreements on 26 November 2020. Pursuant to the agreements, Shandong Hi-Speed Group assumed, among other things, all contractual rights and obligations of Qilu Transportation under the Transfer Agreement, the Debt Assumption Agreement and the Deshang and Shennan Expressways Land Lease Agreement above, the Company shall continue to be bound by the terms and conditions of the above agreements to enjoy all contractual rights against, and perform the obligations thereunder for, Shandong Hi-Speed Group. For further details of the Joint Restructuring and the Tripartite Agreements, please refer to the sub-section headed “Joint Restructuring at Shareholder Level” in this announcement.

BUSINESS REVIEW

During the Reporting Period, the Group achieved a total revenue from operations of approximately RMB1,689,536,000, representing a year-on-year increase of approximately 3.51%. The Expressway Business remained the Group's principal business, from which we realised a toll income of approximately RMB1,541,041,000, representing a year-on-year increase of approximately 0.14%; revenue from construction, rental income and other services businesses was approximately RMB148,495,000, representing a year-on-year increase of approximately 59.11%. During the Reporting Period, the Group achieved a profit before tax of approximately RMB827,281,000, representing a year-on-year increase of approximately 4.03%. Profit for the year was approximately RMB620,776,000 (corresponding period of last year: RMB595,728,000), generating earnings per share of approximately RMB0.31 (corresponding period of last year: RMB0.30).

Expressway Business

In 2020, the Company further strengthened the operational management of the expressway projects in operation. During the Reporting Period, the number of vehicles in-trips reduced due to the pandemic. In addition, the toll-free period for small passenger vehicles during the Lunar New Year extended pursuant to the instruction under the policy of the competent authorities, and toll collection were exempted in accordance with the Notice of the Ministry of Transport on Waiver of Tolls for Vehicles on Toll Roads during COVID-19 Pandemic Prevention and Control Period (《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》). The traffic volume on the Jihe Expressway declined by 7.85% from approximately 61,700 vehicles per day for the year ended 31 December 2019 to approximately 56,700 vehicles per day during the Reporting Period and the total toll income decreased by 3.73% to approximately RMB1,049,899,000 during the Reporting Period. Nevertheless, as stated in the sub-section headed “Letter from the board – Reasons for and Benefits of the Acquisition – The Acquisition of the Target Expressways Toll Collection Rights and Assumption of the Assumed Liabilities” in the Acquisition Circular, the Deshang and Shennan Expressways are an important component of the Shandong 9–5–1–7 Expressway Network, connecting to areas in Shandong Province with relatively eminent agricultural, commercial, tourism, other economic development. Amid the pandemic, demand for passenger and freight transportation in the surrounding areas drove continued increase in the traffic volume of the Deshang and Shennan Expressways during the Reporting Period. The Deshang Expressway (Liaocheng – Fan County section) and the Shennan Expressway recorded traffic volume of approximately 47,515 and 8,090 vehicles, respectively, per day during the Reporting Period. The Deshang and Shennan Expressways recorded a toll income of RMB491,142,000 during the Reporting Period, representing an increase of RMB9.54% from that of RMB448,379,000 in 2019.

Details of the traffic volume⁽¹⁾ of the above expressways are set out below:

Expressways managed by the Group during the Reporting Period	Total annual volume of passenger vehicle traffic ('000)	Total annual volume of truck and special motor vehicle traffic ('000)	Total annual traffic volume ('000)	Daily average traffic volume⁽²⁾
The Jihe Expressway	13,798	6,960	20,758	56,716
The Deshang Expressway (Liaocheng – Fan County section)	9,125	8,266	17,391	47,515
The Shennan Expressway	1,432	1,530	2,961	8,090

Notes:

- (1) The statistical scope of traffic volume covers data of vehicles on the Group's managed expressways with profit sharing in the expressway network. Traffic volume does not include toll-free vehicles.

The traffic volume includes data of the following four types of vehicles:

- ① Vehicles passing the toll stations at both entrance and exit on the expressways managed by the Group;
- ② Vehicles passing the toll stations at entrance on the expressways not managed by the Group but passing the toll stations at exit on the expressways managed by the Group;
- ③ Vehicles passing the toll stations at entrance on the expressways managed by the Group but passing the toll stations at exit on the expressways not managed by the Group;
- ④ Vehicles passing driving on the expressways managed by the Group but not passing the toll stations at entrance or exit on the expressways managed by the Group.

The expressways managed by the Group as mentioned above refer to the Jihe Expressway, the Deshang Expressway (Liaocheng – Fan County section) and the Shennan Expressway.

- (2) Average daily traffic volume is calculated by dividing the traffic volume on the respective expressways managed by the Group in the Reporting Period by the number of days of the Reporting Period.

Other than the foregoing, the traffic volume and the corresponding toll income of the Jihe Expressway and the Deshang and Shennan Expressways during the Reporting Period were also affected by the combined factors of the following:

- (1) owing to the pandemic, the Ministry of Transport introduced corresponding traffic policy on pandemic prevention and control. First, the end date of the toll-free period for small passenger vehicles with 7 seats or fewer during the Lunar New Year holiday commenced at 00:00 on 24 January 2020 was extended from 24:00 on 30 January 2020 to 24:00 on 8 February 2020. Second, in accordance with the Notice of the Ministry of Transport on Waiver of Tolls for Vehicles on Toll Roads during COVID-19 Pandemic Prevention and Control Period (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)), with effect from 00:00 on 17 February 2020 and ended at 00:00 on 6 May 2020, toll fees were waived for all vehicles passing through toll roads (including toll bridges and tunnels) constructed pursuant to the approval granted under the provisions under the Highway Law of the People's Republic of China (《中華人民共和國公路法》) and the Regulation on the Administration of Toll Roads (《收費公路管理條例》);
- (2) due to the pandemic, all local PRC governments have taken stringent prevention and control measures. As the logistics industry was significantly affected, the toll income fell sharply in January 2020. In December 2020, there remained sporadic cases in some regions, which had adverse impact to the logistics industry;
- (3) Shandong provincial government authorities introduced policies to offer toll discounts for trucks, which has adverse impact on our toll income. First, according to the relevant requirements of the Notice of the Shandong Provincial Traffic Department on Optimising and Improving Toll Rates 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)), effective from 15 February 2020, trucks in Class 3, Class 4, Class 5 and Class 6 driving on the Jihe Expressway and the Deshang Expressway (Liaocheng – Fan County section) are offered 2%, 6%, 5% and 1% discount, respectively; and trucks in Class 3, Class 4 and Class 5 driving on the Shennan Expressway are offered 6%, 7% and 7% discount, respectively. Second, according to the Notice of the Shandong Provincial Traffic Department, the Shandong Provincial Development and Reform Committee and the Shandong Provincial Finance Department on Offering Expressway Toll Discounts for Certain Trucks (《山東省交通運輸廳山東省發展和改革委員會山東省財政廳關於對部分貨車實行高速公路通行費折扣優惠的通知》), from 1 September 2020 to 30 June 2021, a 15% discount on toll fee is offered for trucks with an ETC device set installed driving on expressways in Shandong Province;
- (4) with the commissioning of the adjacent expressways and national and provincial highways, for instance, G220 Expressway was gradually completed and open to traffic, Shenfan Road (莘范路) (G240 Expressway, Shen County – Fan County section) was open to traffic in October 2020 and Dongliang Expressway (董梁高速) was commissioned in October 2020, the traffic flows of the Jihe Expressway and the Deshang and Shennan Expressways were diverted to a certain extent; and
- (5) other than the above negative impacts, there were factors positive to the traffic volume and toll income of the Jihe Expressway, such as the full reopening of the Jinan – Qingdao section of G20 Qingyin Expressway since 15 December 2019 and the implementation of traffic control at the Mount Taishan Hub – Zaozhuang section (Shandong – Jiangsu boundary) of G3 Jingtai Expressway since 1 September 2019.

Toll Collection Policy

Effective from 1 January 2020, expressways in Shandong province have commented collection of tolls based on new classification of vehicles models. The toll rates of the Jihe Expressways are 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-determined classification of vehicle types shall be conducted pursuant to the Notice on Matters Related to the Implementation of the Industry Standards (JT/T489-2019) for “Vehicle Classification of the Toll for Highway” (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, according to the Notice of the Shandong Provincial Traffic Department on Optimising and Improving Toll Rates 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)), effective from 15 February 2020, some trucks are offered discounts on toll rates in Shandong Province.

In addition, according to the relevant rules and regulations, certain types of vehicles are entitled to toll fee discounts and exemption, including (i) with effect from 1 July 2019, as required by the Notice of the Shandong Provincial Traffic Department on Clarifying Expressway ETC Preferential Policy (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 toll fee discount of 5% is given to all ETC vehicles driving on expressways in Shandong province; (ii) the toll exemption for vehicles of the military and armed police forces and the like; (iii) the toll exemption for small passenger vehicles with 7 seats or fewer on major festivals and holidays; (iv) pursuant to the Notice of the Shandong Provincial Traffic Transport Department on Optimising and Improving Toll Rates 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)), with effect from 15 February 2020, some trucks are given discounts on toll rates in Shandong Province; (v) according to the relevant provisions of Notice of the Shandong Provincial Traffic Department, the Shandong Provincial Development and Reform Committee and the Shandong Provincial Finance Department on Offering Expressway Toll Discounts for Certain Trucks (Lu Jiao Fa [2020] No. 10) (《山東省交通廳山東省發展和改革委員會山東省財政廳關於對部分貨車實行高速公路通行費折扣優惠的通知》(魯交發[2020]10號)), during the period between 1 September 2020 and 30 June 2021, a 15% discount on toll fee is offered for trucks with an ETC device set installed driving on expressways in Shandong Province; (vi) the toll exemption for vehicles legally fully loaded with the products within the national Catalogue of Fresh and Alive Agricultural Products (《鮮活農產品品種目錄》); and (vii) the toll exemptions for vehicles as required by other national policies.

Rental Income

During the Reporting Period, rental income mainly represented the revenue from the Advertisement Business. As at the end of the Reporting Period, there were 49 billboards in normal operation along the Jihe Expressway. Rental income accounted for a relatively small proportion of our revenue during the Reporting Period. Meanwhile, the Group also actively nurtured new drivers for profit growth for the Advertisement Business. In July 2020, we built a new LED advertising media which has already been put into use.

Construction Business

The Changqing University Science Park Interchange Project

Due to the pandemic, construction workers abroad were unable to timely resume work and suppliers of raw materials failed to carry out production as scheduled. To address such difficulties, we stringently implemented the required pandemic prevention and control work and proactively promoted the resumption of work and production and 20 February 2020, we obtained the governmental approval for resumption of work. Thereupon, we focused our effort on the management of construction progress, environmental protection, safety, quality and other areas. As at the end of the Reporting Period, the constructions projects were basically completed. The Company will further cooperate with the local government in promoting coordination, and make rational arrangement for the rest of project construction and the commissioning according to the progress of coordination work.

Shandong Gangtong Construction

During the Report Period, Shandong Gangtong Construction was proactive in securing projects for construction. On 17 June 2020, it was awarded the bid for the construction project of “four-good rural roads (四好農村路)” in Pingyin County in 2020 (at the bid price of RMB114,913,569). On 22 October 2020, it was awarded the bid for the construction of emergency roads in Pingyang County for the prevention of floods from the Yellow River (at the bid price of RMB149,975,075.11).

To overcome the pandemic impact, Shandong Gangtong Construction firmly focused on the resumption of work and production and increased its effort in addressing a number of difficulties and problems at the construction sites such as slow demolition, excessive pipelines, serious pollution and suspension of work in bad weather. By adhering to precise implementation of measures, endeavouring in organisation and coordination work, further optimising construction plan, making better deployment and use of mechanical equipment and materials, imposing strict control on construction procedures, quality, safety, environmental protection and other aspects, Shandong Gangtong Construction pressed ahead with the “four-good rural roads (四好農村路)” project and successfully achieved the construction targets of controlling construction period, saving cost and ensuring quality.

Shandong Gangtong Construction will further enhance the connection and communication with local governments, intensify its effort in market expansion, strengthen external cooperation, vigorously secure construction projects, make rational arrangement for construction plan, speed up the construction progress of awarded projects and promote high-quality corporate development.

PROSPECTS

In 2020, the Group is set to adapt to the changes arising from the impact from the pandemic. We take advantage of our robust information management system and adopt scientific technique to increase our operational and management efficiency, centralise the management of the Expressway Business and unify the planning of road operation. We also strengthen the management of maintenance and standardise our maintenance operation, in order to handle and eliminate hidden dangers in a timely manner and increase road capacity. In the ensuing year, we will further strengthen our management of toll collection operation and maintenance in an effort to bring enhanced experience to road users.

In 2021, by leveraging on the listing platform of the Stock Exchange and fully capitalising on Hong Kong's position as an international financial centre, the Company will actively seek to benchmark itself with advanced listed industry players. While strengthening our principal Expressway Business, we will embrace the corporate positioning and strategic goals of Qilu Expressway and target at international frontiers, modern technology, information technology, industrial future and other high-end sectors, so as to aggressively explore new models for business development, identify market-oriented investments, further strengthen capital operation, expand business scale, and promote high-quality development of the Company.

JOINT RESTRUCTURING AT SHAREHOLDER LEVEL

(1) The Merger Agreement

On 12 August 2020, the Company received a notification from Qilu Transportation that pursuant to the relevant requirements from Shandong SASAC on the Joint Restructuring, Qilu Transportation shall be merged and absorbed by Shandong Hi-Speed Group. Subsequently, on 23 September 2020, Qilu Transportation and Shandong Hi-Speed Group entered into the Merger Agreement, whereby Qilu Transportation shall be merged by absorption by Shandong Hi-Speed, and upon completion of the Joint Restructuring, Qilu Transportation shall be deregistered while Shandong Hi-Speed Group shall continue to subsist as the merged company. All the assets, liabilities, business, employees, contracts and qualifications together with all other rights and obligations of Qilu Transportation, and the subordinating branch entities and equity interest or other interest in the subordinating companies held by Qilu Transportation would be assumed by Shandong Hi-Speed Group as the surviving company.

On 17 November 2020, the Company was informed by Shandong Hi-Speed Group and Qilu Transportation that they had obtained the decision report of non-prohibition on anti-monopoly review on concentration of operators issued by the Administration for Market Regulation Bureau indicating its decision not to prohibit the Joint Restructuring after review and allowed Joint Restructuring to be implemented henceforth. Further, Shandong Hi-Speed Group notified the Company that it received a notice from the Jinan City Administrative Examination and Approval Service Bureau (濟南市行政審批服務局) on 17 November 2020 informing that Qilu Transportation had been deregistered by the competent authorities in the PRC on 16 November 2020 as a result of the Joint Restructuring, and as advised by the Company's PRC legal advisers, the deregistration of Qilu Transportation indicates the completion of the Joint Restructuring. After completion of the Joint Restructuring, Shandong Hi-Speed became the controlling Shareholder, and Shandong SASAC remained the ultimate controlling entity.

For details, please refer to the announcements of the Company dated 13 July 2020, 12 August 2020, 21 August 2020, 23 September 2020 and 17 November 2020.

(2) Grant of Waiver of Mandatory General Offer by the Executive

As disclosed in the announcement of the Company dated 12 August 2020, upon completion of the Joint Restructuring, it might trigger an obligation on the part of Shandong Hi-Speed Group to make a mandatory general offer for all the Shares other than those owned or agreed to be acquired by or parties acting in concert with it under Rule 26.1 of the Takeovers Code, unless otherwise waived by the Executive. Shandong Hi-Speed Group and Qilu Transportation jointly made an application to the Executive pursuant to Note 6(a) and Note 8 to Rule 26.1 of the Takeovers Code for the waiver of an obligation on the part of Shandong Hi-Speed Group to make a mandatory general offer for all the Shares other than those owned or agreed to be acquired by or parties acting in concert with it. On 21 August 2020, the Company was informed by Shandong Hi-Speed Group and Qilu Transportation that the Executive had granted such waiver on 20 August 2020.

For details, please refer to the announcements of the Company dated 12 August 2020 and 21 August 2020.

(3) Entering into of the Tripartite Agreements

As advised by the Company's PRC legal advisers, in compliance with the provisions of the Merger Agreement and the applicable PRC laws and regulations, and for the purposes of confirming that both the Company and Shandong Hi-Speed Group shall enjoy the benefits and comply with the obligations under the Subsisting Agreements, Shandong Hi-Speed Group, Qilu Transportation and the Company completed the execution of the Tripartite Agreements on 26 November 2020 pursuant to which Shandong Hi-Speed Group assumed all contractual rights and obligations of Qilu Transportation under the Subsisting Agreements, and the Company continued to be bound by the terms and conditions of the Subsisting Agreements to enjoy all contractual rights against, and perform the obligations under the said agreements for, Shandong Hi-Speed Group. Save as disclosed above, there were no changes to the other terms of the Subsisting Agreements.

For details, please refer to the announcement of the Company dated 26 November 2020.

EVENTS AFTER THE REPORTING PERIOD

The Group has no 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 have been listed and traded on the Stock Exchange since 19 July 2018. After deducting the related expenses, the Company received net proceeds from the Global Offering of approximately HK\$1,177 million.

As disclosed in the Acquisition Circular, the Company intended to apply the remaining balance of the proceeds from the Global Offering (being RMB941,926,395.60) in full to settle part of the consideration under the acquisition of the Deshang and Shennan Expressways Toll Collection Rights. The change of use of proceeds from the Global Offering was approved by the independent Shareholders at the extraordinary general meeting of the Company held on 11 August 2020 as stated in the announcement of the Company dated 11 August 2020.

As at 31 December 2020, the remaining balance of the proceeds from the Global Offering (being RMB941,926,395.60) has been fully utilised for the settlement of part of the consideration under the acquisition of the Deshang and Shennan Expressways Toll Collection Rights.

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 2020 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 2020 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 2020. 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, information contained in this announcement is consistent with the information that will be contained in the 2020 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

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

COMPLIANCE WITH THE MODEL CODE

For the year, the 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

2020 AGM

The 2020 AGM is scheduled to be held on Thursday, 24 June 2021. For the purpose of determining the Shareholders' entitlement to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Tuesday, 25 May 2021 to Thursday, 24 June 2021 (both days inclusive), during which no transfer of Shares will be registered. In order to qualify to attend the 2020 AGM, unregistered Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the 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, 24 May 2021.

Proposed Distribution of 2020 Final Dividend

The Board proposes a payment of a cash dividend of RMB0.180 (tax inclusive) per Share to all Shareholders in an aggregate amount of RMB360,000,000 (tax inclusive) as the 2020 Final Dividend for the year ended 31 December 2020. The proposal for such dividend payment is subject to consideration and approval by Shareholders at the 2020 AGM, and, if approved, such dividend will be payable to the Domestic Shareholders and H Shareholders whose names appeared on the register of members of the Company on Monday, 5 July 2021. Such dividend will be denominated and declared in Renminbi, and will be paid to the Domestic Shareholders and H Shareholders in Renminbi and Hong Kong dollars, respectively. The exchange rate for the payment of dividend in Hong Kong dollars shall be the average middle rate for the five working days preceding the date

of declaration of such dividend at the 2020 AGM (i.e., Thursday, 24 June 2021) as announced by the People's Bank of China. The share register of the Company will be closed from Wednesday, 30 June 2021 to Monday, 5 July 2021 (both days inclusive), during which no transfer of Shares will be registered. In order to be entitled to the 2020 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 the 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, 29 June 2021.

The Board has scheduled to distribute the 2020 Final Dividend on Tuesday, 31 August 2021. Announcement(s) will be published by the Company as soon as practicable and in accordance with the Listing Rules for any changes to the expected date of dividend payment.

Tax on Dividends

According to the relevant provisions of the Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅法》) which came into effect on 29 December 2018 and its implementation regulations, resident enterprises are enterprises which are set up in China in accordance with law, or which are set up in accordance with the law of a foreign country (region) but which are actually under the administration of institutions in China. Non-resident enterprises are enterprises which are set up in accordance with the law of a foreign country (region) and whose actual administrative institution is not in China, but which have institutions or establishments in China, or which have no such institutions or establishments but have income generated from inside China. According to the provisions of the Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to Holders of H Shares Who Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) (《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》(國稅函[2008]897號)) issued by the State Taxation Administration, a PRC resident enterprise, when distributing dividends for 2008 and for the years afterwards to holders of H Shares who are overseas non-resident enterprises, shall be subject to the enterprise income tax withheld at a uniform rate of 10%. Therefore, when distributing dividends to holders of H shares who are non-resident enterprise, the Company withhold the enterprise income tax at the uniform rate of 10% in accordance with the law; and when distributing dividends to holders of H shares who are resident enterprises set up in China or are set up in accordance with the law of a foreign country (region) but whose actual administrative institution is in China with a legal opinion submitted within the prescribed time limit and confirmed by the competent tax authorities after submission by the Company, the Company does not withhold any enterprise income tax. Resident enterprises shall file tax return on their own and pay income tax in accordance with the law in respect of their income derived in the PRC.

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 provisions of the Individual Income Tax Law of the People’s Republic of China (《中華人民共和國個人所得稅法》) (2018 Revised) which came into effect on 1 January 2019 and its implementation regulations, when distributing dividends to shareholders whose names appear on the register of members of H Shares of the Company who are resident individuals (the “**Resident Individuals**”), the Company shall withhold and pay the individual income tax at the rate of 20% on their behalf. Resident Individuals refer to individuals who have domiciles in China or who have no domicile but have resided in the PRC for a total of 183 days or more in a tax year.

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, 29 June 2021, 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:

“2020 AGM”	the annual general meeting of the Company to be convened and held on Thursday, 24 June 2021 or the adjournment thereof
“2020 Final Dividend”	the final dividend proposed by the Board to be paid to the Shareholders in the form of a cash dividend of RMB0.180 (tax inclusive) per Share
“Acquisition Circular”	the circular of the Company dated 26 June 2020 in relation to, among others, the acquisition of the Deshang and Shennan Expressways Toll Collection Rights by the Company from Qilu Transportation
“Administration for Market Regulation Bureau”	the Bureau of the State Administration for Market Regulation
“Advertisement Business”	the business of the Group 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
“Assumed Liabilities”	the liabilities and the repayment of which assumed by the Company under the Debt Assignment Agreements and the Debt Assumption Agreement
“Audit Committee”	the audit committee of the Board
“Benchmark Date”	24:00 hour on 31 December 2019
“Board”	the board of Directors
“Changqing University Science Park Interchange Project”	the improvement project of the Company for the construction of a new interchange on the Jihe Expressway with a ramp connecting to the Changqing University Science Park. Please refer to the sub-section headed “Business – Upgrade of the Jihe Expressway” in the Prospectus and the sub-section headed "Management Discussion and Analysis – Business Review – Construction Business" in this announcement for details
“China” or “PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan

“Class 3”	passenger vehicles with a length of not less than 6,000 millimetres and an approved passenger capacity of not more than 39 persons; trucks with a total of 3 axles (including suspension axles); and special motor vehicles with a total of 3 axles (including suspension axles)
“Class 4”	passenger vehicles with a length of not less than 6,000 millimetres and an approved passenger capacity of not less than 40 persons; trucks with a total of 4 axles (including suspension axles); and special motor vehicles with a total of 4 axles (including suspension axles)
“Class 5”	trucks with a total of 5 axles (including suspension axles); and special motor vehicles with a total of 5 axles (including suspension axles)
“Class 6”	trucks with a total of 6 axles (including suspension axles); and special motor vehicles with a total of 6 or more axles (including suspension axles)
“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, the H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1576)
“controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Debt Assignment Agreements”	the agreements entered into among the Company, Qilu Transportation and each of the Lending Banks upon completion of the transactions under the Transfer Agreement, to transfer the rights and obligations under the relevant bank facilities in respect of the construction projects of the Deshang and Shennan Expressways from Qilu Transportation to the Company with effect from the Transfer Agreement Effective Date
“Debt Assumption Agreement”	the agreement entered into between the Company and Qilu Transportation on 2 June 2020 pursuant to which the Company agreed to assume the loans provided by Qilu Transportation for the Deshang and Shennan Expressways construction projects and the repayment thereof to Qilu Transportation with effect from the Transfer Agreement Effective Date, under which the total principal and interest to be repaid immediately after the Benchmark Date are RMB570,611,303.14 and RMB50,807,453.05, respectively
“Deshang and Shennan Expressways”	collectively, the Deshang Expressway (Liaocheng – Fan County section) and the Shennan Expressway

“Deshang and Shennan Expressways Land Lease Agreement”	the land use right lease agreement entered into between the Company and Qilu Transportation on 2 June 2020 pursuant to which Qilu Transportation agreed to lease the land use rights in respect of a total of 27 parcels of land under the main line and the alongside facilities (excluding advertising and service facilities) of the Deshang and Shennan Expressways, details of which are set out in the Acquisition Circular
“Deshang and Shennan Expressways Service Agreement”	the agreement dated 2 June 2020 and entered into among the Company, Qilu Transportation Liaocheng Branch and Qilu Transportation for the secondment of the employees of Qilu Transportation Liaocheng Branch recruited under the public-institution staffing standards to provide the Company with services such as toll collection and maintenance of the Deshang and Shennan Expressways, details of which are set out in the Acquisition Circular
“Deshang and Shennan Expressways Toll Collection Rights”	the toll collection rights in respect of the Deshang and Shennan Expressways to be transferred to the Company under the Transfer Agreement, such rights comprise the rights in relation to (i) the operation, maintenance and management of the expressways and (ii) toll collection from vehicles passing along the expressways but do not include the operating rights in respect of the Advertisement Business (including the leasing of advertisement billboards built along the expressways and the provision of the advertisement publication services on those advertisement billboards) and operations of the service facilities along the expressways
“Deshang Expressway (Liaocheng – Fan County section)”	an expressway running from West Ring Expressway of Liaocheng City, Shandong Province to the intersection of Gucheng Town of Shen County and Yancunpu Town of Fan County (Shandong-Henan boundary), and connecting to the Fan County section of the Deshang Expressway in Henan Province, with a total length of approximately 68.942 kilometers
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	ordinary Share(s) in the share capital of the 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)
“ETC”	electronic toll collection system to collect tolls electronically by using automatic vehicle identification technology without the need for vehicles to stop for payment

“Excluded Contracts”	certain contracts in respect of the construction project of the Shennan Expressway and, as at the Latest Practicable Date, the final contract sum of such contracts are still subject to certification in accordance with the acceptance and settlement (竣工結算) of the project
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegates
“Expressway Business”	our business in relation to the construction, maintenance, operation and management of the Jihe Expressway, the Deshang Expressway (Liaocheng – Fan County section) and the Shennan Expressway
“Global Offering”	the offer of H Shares for subscription by the public in Hong Kong and outside the United States of America in offshore transactions, details of which can be found in the Prospectus
“Group”, “us” or “we”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign invested ordinary Share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which was listed and traded on the Stock Exchange
“H Shareholder(s)”	holders of H Share(s)
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKAS(s)”	Hong Kong Accounting Standard(s)
“HKFRS”	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 to Heze Expressway, the expressway running through nine districts/counties under four cities from Jinan City to Heze City in Shandong Province, with a length of approximately 153.6 kilometers
“Jinan Xinyue”	Jinan Xinyue New Road Material Research and Development Company Limited (濟南鑫岳新型道路材料研發有限公司), a limited liability company incorporated under the laws of the PRC and an associate held by the Group through Shandong Gangtong Construction as to 40% of its equity interest

“Joint Restructuring”	the joint restructuring of Shandong Hi-Speed Group and Qilu Transportation by way of merger by absorption of Qilu Transportation by Shandong Hi-Speed Group pursuant to the Merger Agreement
“Lending Banks”	collectively, China Construction Bank Corporation Jinan Zhenzhuquan Subbranch (中國建設銀行股份有限公司濟南珍珠泉支行), Bank of China Limited Jinan Branch (中國銀行股份有限公司濟南分行), and Huaxia Bank Co., Ltd. Huaiyin Subbranch (華夏銀行濟南槐蔭支行), being the banks providing financing facilities for the construction projects of the Deshang and Shennan Expressways
“Listing”	the listing of the H Shares of the Company on the Main Board of the Stock Exchange on 19 July 2018
“Listing Land Lease Agreement”	the agreement entered into between the Company and Qilu Transportation on 12 December 2017, pursuant to which Qilu Transportation agreed to lease to the Company the land use rights in respect of the land parcels of the Jihe Expressway, details of which are set out in the Prospectus
“Listing Property Lease Agreement”	the agreement entered into between the Company and Qilu Transportation on 12 December 2017, pursuant to which Qilu Transportation agreed to lease to the Company a total of 45 properties used by the seven management centres and one maintenance and emergency response centre on the Jihe Expressway, details of which are set out in the Prospectus
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Merger Agreement”	the merger agreement dated 23 September 2020 and entered into between Shandong Hi-Speed Group and Qilu Transportation in relation to the Joint Restructuring
“Ministry of Transport”	the Ministry of Transport of the People’s Republic of China (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 to the Listing Rules
“pandemic”	the COVID-19 pandemic
“PBOC”	the People’s Bank of China, the central bank of the PRC
“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 and deregistered by the PRC competent authorities upon completion of the Joint Restructuring on 16 November 2020, and a then controlling Shareholder before completion of the Joint Restructuring
“Qilu Transportation Liaocheng Branch”	Shandong Hi-Speed Group Company Limited Liaocheng Branch (山東高速集團有限公司聊城分公司) (formerly known as Qilu Transportation Development Group Company Limited Liaocheng Branch (齊魯交通發展集團有限公司聊城分公司)), formerly a branch company of Qilu Transportation before completion of the Joint Restructuring and currently a branch company of Shandong Hi-Speed Group
“Remuneration and Appraisal Committee”	the remuneration and appraisal committee of the Board
“Reporting Period” or “Year”	the year ended 31 December 2020
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Shandong 9-5-1-7 Expressway Network”	the “nine-vertical; five-traverse; one-ring and seven-radials and multiple connections (九縱五橫一環七射多連)” layout of the Shandong provincial expressway network under the Shandong Provincial Expressway Network Middle-to-Long Term Development Plan (2018-2035) (《山東省高速公路網中長期規劃(2018-2035)》) promulgated by the Shandong Provincial Government, whereby the total length of expressways under the network will reach 9,000 km by 2035
“Shandong Gangtong Construction”	Shandong Gangtong Construction Co., Ltd.* (山東港通建設有限公司), a company incorporated under the laws of the PRC with limited liability and a wholly owned subsidiary of the Company as at the date of this announcement
“Shandong Hi-Speed Group”	Shandong Hi-Speed Group Company Limited* (山東高速集團有限公司), a limited liability company incorporated in the PRC, holding approximately 38.93% of the total issued Shares as at the date of this announcement, is an existing controlling Shareholder
“Shandong SASAC”	State-owned Assets Supervision and Administration Commission of the Shandong Province (山東省政府國有資產監督管理委員會)
“Share(s)”	ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, including Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of Share(s)

“Shennan Expressway”	an expressway running from the K150+400 point of Deshang Expressway at the south of Beixuzhuang Village, Shen County, Shandong Province, the PRC, and connecting to the Henan-Shandong Boundary-Nanle section of Nanlin Expressway in Henan Province at the east bank of the Tuhai River in the south of Xiduantun Village, with a total length of approximately 18.267 kilometers
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsisting Agreements”	collectively the Listing Property Lease Agreement, the Listing Land Lease Agreement, the Deshang and Shennan Expressways Land Lease Agreement, the Transfer Agreement, the Debt Assumption Agreement and the Deshang and Shennan Expressways Service Agreement
“Supervisor(s)”	member(s) of the supervisory committee of the Company established pursuant to the Company Law of the People’s Republic of China
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs
“Transfer Agreement”	the conditional Toll Road Interest Transfer Agreement (《收費公路權益轉讓合同》) dated 2 June 2020 and entered into between Qilu Transportation (as transferor) and the Company (as transferee) in relation to the transfer of the Deshang and Shennan Expressways Toll Collection Rights, as supplemented and amended by a supplemental agreement to the Toll Road Interest Transfer Agreement (《收費公路權益轉讓合同》之補充協議) entered into between the above parties on the same date, details of which are set out in the Acquisition Circular
“Transfer Agreement Effective Date”	the date on which the Transfer Agreement shall become effective following the fulfillment of all conditions precedent of the Transfer Agreement, being 11 August 2020
“Transfer Interest”	the interest in respect of the Deshang and Shennan Expressways Toll Collection Rights
“Transfer Terms”	the terms during which the Company shall be entitled to exercise the Deshang and Shennan Expressways Toll Collection Rights, that is, from the Benchmark Date to 15 November 2040 (in respect of the Deshang Expressway (Liaocheng – Fan County section)) and from the Benchmark Date to 27 September 2043 (in respect of the Shennan Expressway), unless otherwise extended by the concession authority or other government authority due to policy or other reasons in future

“Tripartite Agreements” the tripartite agreements of which Shandong Hi-Speed Group, Qilu Transportation and the Company completed the execution on 26 November 2020 in relation to, among other things, the confirmation of the assumption of all contractual rights and obligations of Qilu Transportation under the Subsisting Agreements by Shandong Hi-Speed Group

“%” per cent

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

Shandong, the PRC
26 March 2021

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. Tang Haolai and Mr. Du Zhongming; and the independent non-executive Directors are Mr. Cheng Xuezhao, Mr. Li Hua, Mr. Wang Lingfang, Mr. He Jiale and Mr. Han Ping.