



齐鲁高速
Qilu Expressway

Qilu Expressway Company Limited
齐鲁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
INTERIM REPORT

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Definitions

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

“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of Directors of the Company
“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 for details
“Class 1”	passenger vehicles with a length of less than 6,000 millimetres and an approved passenger capacity of not more than 9 persons; trucks with a total of 2 axles (including suspension axles), a length of less than 6,000 millimetres and a maximum allowable total mass of less than 4500 kilograms; and special motor vehicles with a total of 2 axles (including suspension axle), a length of less than 6,000 millimetres and a maximum allowable total weight of less than 4,500 kilograms
“Class 2”	passenger vehicles and passenger car-trailer combinations with a length of less than 6,000 millimetres and an approved passenger capacity of 10 to 19 persons; trucks with a total of 2 axles (including suspension axle), a length of not less than 6,000 millimetres and a maximum allowable total mass of not less than 4,500 kilograms; and special motor vehicles with a total of 2 axles (including suspension axles), a length of not less than 6,000 millimetres and a maximum allowable total weight of not less than 4,500 kilograms
“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 established in the PRC with limited liability on 6 December 2016
“Company Law”	the Company Law of the People’s Republic of China 《中華人民共和國公司法》
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“COSCO SHIPPING”	China COSCO Shipping Corporation Limited* (中國遠洋海運集團有限公司), a limited liability company incorporated in the PRC on 5 February 2016

Definitions

“COSCO SHIPPING (Hong Kong)”	COSCO SHIPPING (Hong Kong) Co., Limited (中遠海運(香港)有限公司), a company incorporated in Hong Kong with limited liability on 3 September 1992
“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
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any of his delegates
“Global Offering”	the offer of the Company’s H Shares for subscription by the public in Hong Kong and outside the United States in offshore transactions, details of which are set out in the Prospectus
“Group”, “us” or “we”	the Company and, except where the context otherwise requires, all of its subsidiaries
“H Share(s)”	the overseas listed foreign invested ordinary Share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed and traded on the Stock Exchange
“HK\$” or “Hong Kong dollars” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jihe Expressway”	Jinan (濟南) to Heze (菏澤) Expressway, the approximately 153.6 kilometres expressway running through nine districts/counties under four cities from Jinan City to Heze City in Shandong Province
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Nomination Committee”	the nomination committee of the Board
“pandemic”	the COVID-19 pandemic
“PRC” or “State”	the People’s Republic of China, which for the purpose of this report, excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus of the Company dated 29 June 2018 in connection with the Global Offering
“Qilu Transportation”	Qilu Transportation Development Group Company Limited* (齊魯交通發展集團有限公司), a limited liability company incorporated in the PRC on 30 June 2015
“Remuneration and Appraisal Committee”	the remuneration and appraisal committee of the Board
“Reporting Period”	the six months ended 30 June 2020

Definitions

“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“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, and 70% of the equity interest of which is held by Shandong SASAC
“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
“Shandong SASAC”	State-owned Assets Supervision and Administration Commission of the Government of the Shandong Province
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share(s)”	Domestic Share(s) and/or H share(s) (as the case may be)
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategy Committee”	the strategy committee of the Board
“Supervisor(s)”	member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of the Company established pursuant to the Company Law
“Takeovers Code”	the Code on Takeovers and Mergers and Share Repurchases

* For identification purposes only

REGISTERED NAME OF THE COMPANY

In Chinese: 齊魯高速公路股份有限公司

In English: Qilu Expressway Company Limited

LEGAL REPRESENTATIVE

Mr. Li Gang

BOARD OF DIRECTORS

(1) Executive Directors

Mr. Li Gang (*Chairman of the Board*)

Mr. Peng Hui

Mr. Liu Qiang

(2) Non-executive Directors

Mr. Chen Dalong

Mr. Wang Shaochen

Mr. Zhou Cenyu

Mr. Su Xiaodong

Ms. Kong Xia

Mr. Yuan Ruizheng

Mr. Tang Haolai

(3) Independent Non-executive Directors

Mr. Cheng Xuezhao

Mr. Li Hua

Mr. Wang Lingfang

Mr. He Jiale

Mr. Han Ping

BOARD COMMITTEES

(1) Audit Committee

Mr. He Jiale (*Chairman*)

Mr. Wang Shaochen

Mr. Li Hua

(2) Remuneration and Appraisal Committee

Mr. Li Hua (*Chairman*)

Mr. Cheng Xuezhao

Mr. Wang Lingfang

(3) Nomination Committee

Mr. Li Gang (*Chairman*)

Mr. Cheng Xuezhao

Mr. Li Hua

Mr. Wang Lingfang

(4) Strategy Committee

Mr. Li Gang (*Chairman*)

Mr. Peng Hui

Mr. Liu Qiang

Mr. Wang Shaochen

Mr. Li Hua

SUPERVISORY COMMITTEE

(1) Shareholder Representative Supervisors

Ms. Meng Xin (*Chairperson of the Supervisory Committee*)

Mr. Zhang Yin

Mr. Wu Yongfu

(2) Employee Supervisors

Mr. Hao Dehong

Ms. Hou Qinghong

Mr. Wang Shun

(3) Independent Supervisors

Mr. Li Ruzhi

Mr. Meng Qinghui

Corporate Information

JOINT COMPANY SECRETARIES

Mr. Lian Shengguo
Ms. So Shuk Yi Betty (ACIS, ACS)

AUTHORISED REPRESENTATIVES

Mr. Li Gang
Ms. So Shuk Yi Betty (ACIS, ACS)

AUDITOR

Ernst & Young

Certified Public Accountants
22/F CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

LEGAL ADVISER AS TO PRC LAW

DeHeng Law Offices (Jinan)

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No.8 Long'ao Road North, Lixia District,
Jinan City, PRC

LEGAL ADVISER AS TO HONG KONG LAW

Li & Partners

22/F, World-Wide House,
19 Des Voeux Road Central,
Central, Hong Kong

REGISTERED ADDRESS

Room 2301, Block 4,
Zone 3, Hanyu Financial & Business Centre,
No. 7000, Jingshi East Road,
High-tech Zone, Jinan City,
Shandong Province, PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Room 2301, Block 4,
Zone 3, Hanyu Financial & Business Centre,
No. 7000, Jingshi East Road,
High-tech Zone, Jinan City,
Shandong Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower,
No. 248 Queen's Road East,
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Construction Bank Corporation, Changqing
Sub-branch
Industrial and Commercial Bank of China Limited,
Jinan Jing'er Road Sub-branch
China Merchants Bank Co. Ltd., Jinan Kaiyuan Sub-branch
Bank of China, Jinan Shungeng Sub-branch
Bank of China (Hong Kong) Limited

H SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investor Services Limited

Shops 1712-1716,
17th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

COMPANY WEBSITE

www.qlecl.com

STOCK CODE

1576

Management Discussion and Analysis

FINANCIAL REVIEW

Operations

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

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

Revenue

During the Reporting Period, the revenue from our operations was approximately RMB351,340,000, representing a decrease of approximately 27.41% as compared to approximately RMB484,034,000 in the corresponding period of last year. During the Reporting Period, toll income from the Jihe Expressway was approximately RMB312,218,000, representing a decrease of approximately 32.67% as compared to approximately RMB463,697,000 in the corresponding period of last year. During the Reporting Period, the traffic flow of the Jihe Expressway decreased from approximately 55,600 vehicles per day during the six months ended 30 June 2019 to approximately 33,000 vehicles per day during the Reporting Period. Such decrease in both toll income and traffic flow was mainly attributable to (i) the decreased travelling activities and the decline in number of vehicles passing through the Jihe Expressway during the pandemic period; (ii) the end time of the toll-free period for small passenger vehicles during the Lunar New Year holiday was extended from 24 January 2020 at 00:00 to 8 February 2020 at 24:00, as a strengthened measure for the prevention and control of COVID-19 pandemic outbreak; and (iii) the waiver of toll fees payable by vehicles passing along the Jihe Expressway during the period from 17 February 2020 at 00:00 to 6 May 2020 at 00:00 in accordance with the Notice from the Ministry of Transport in relation to the Toll Fees Payable for Toll Roads during the Prevention and Control Period of COVID-19 Pandemic (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)).

During the Reporting Period, revenue from construction business amounted to RMB36,404,000, representing an increase of approximately 103.15% from RMB17,920,000 in the corresponding period of last year. The amount included the revenue from construction business of approximately RMB28,050,000 that was recognised by the Company for the Changqing University Science Park Interchange Project as at 30 June 2020, and the revenue from other engineering services of RMB8,354,000. For details of the above project, please refer to the sub-section headed "Business – Upgrade of the Jihe Expressway" in the Prospectus.

During the Reporting Period, our rental income amounted to approximately RMB2,182,000, of which service income from leasing the advertisement billboards along both sides of the Jihe Expressway accounted for approximately RMB1,463,000, representing a decrease of approximately 3.30% from approximately RMB1,513,000 in the corresponding period of last year. Such decrease was mainly attributable to the removal of certain advertisement billboards during the same period of last year. In addition, service income contributed by the rental income from leasing the transmission pipes for communication signals along the Jihe Expressway and investment properties amounted to approximately RMB719,000.

During the Reporting Period, our income from other services businesses amounted to approximately RMB536,000, representing an increase of approximately 17.29% as compared to approximately RMB457,000 for the same period of last year, mainly attributable to the service income generated from road clearance services for traffic accidents.

Management Discussion and Analysis (Continued)

Cost of Sales and Gross Profit

During the Reporting Period, cost of sales and gross profit from our operations were approximately RMB166,386,000 and RMB184,954,000 respectively, as compared to those of approximately RMB145,737,000 and RMB338,297,000 for the corresponding period of last year, representing an increase of approximately 14.17% and a decrease of approximately 45.33% year-on-year respectively. Gross profit margin of the Group was approximately 52.64% for the Reporting Period, representing a year-on-year decrease of approximately 17.25 percentage points as compared with approximately 69.89% in the corresponding period of last year. Costs of the Group mainly included amortisation of intangible assets, staff costs, maintenance costs and provisions of the Jihe Expressway. The increase in cost of sales was mainly attributable to the rising expressway construction costs, and the decrease in gross profit was mainly attributable to the waiver of toll fees during the pandemic period.

Other Income and Gains

During the Reporting Period, other income and gains were approximately RMB27,061,000 (approximately RMB27,464,000 for the corresponding period of 2019), which mainly comprised bank interest income and incentive income from the government. The year-on-year decrease in other income and gains was mainly attributable to the reduction of government grants received when compared to the same period of last year.

Administrative Expenses

During the Reporting Period, administrative expenses from our operations were approximately RMB27,958,000, representing an increase of approximately 10.79% as compared to approximately RMB25,236,000 for the corresponding period of last year. The increase in administrative expenses was mainly attributable to the incurrence of professional service fees for the acquisitions of the Deshang Expressway (Liaocheng - Fan County) and the Shen County - Nanle (Shangdong - Henan Boundary) Expressway in the first half of the year together with the inclusion of administrative expenses of Shandong Gangtong Construction. The administrative expenses of the Group were mainly expended on salaries and wages, depreciation of property, plant and equipment and fees paid for engaging professional parties for the acquisitions.

Other Expenses

During the Reporting Period, no other expenses were recorded (corresponding period of 2019: approximately RMB28,360,000).

Finance Costs

During the Reporting Period, our finance costs were approximately RMB5,094,000, representing a decrease of approximately 53.70% as compared to approximately RMB11,001,000 for the corresponding period of last year. During the Reporting Period, the interest-bearing bank borrowings and their interest costs decreased due to the repayment of certain bank loans, which in turn led to a reduction in finance costs.

Share of Profits of an Associate

During the Reporting Period, our share of profits of an associate was approximately RMB655,000 (corresponding period of 2019: nil), represented the share of profits of the Group's associate corporation in the Reporting Period using equity method of accounting. During the Reporting Period, the Company had one associate corporation operating in the PRC.

Profit for the Period

During the Reporting Period, profit attributable to owners of the parent was approximately RMB135,397,000, representing a decrease of approximately 40.10% as compared to that of approximately RMB226,028,000 for the corresponding period of last year. The decrease in profit for the period from our operations was primarily attributable to the waiver of toll fees during the pandemic period.

Management Discussion and Analysis (Continued)

Liquidity and Financial Resources

During the Reporting Period, the Group financed its operations and capital expenditures with the Company's internal resources, long-term floating rate bank loans and proceeds from the Global Offering. As at 30 June 2020, total bank loans of the Group amounted to approximately RMB165,000,000 (31 December 2019: approximately RMB245,000,000) (which are all RMB-denominated), and total cash and cash equivalents (including bank deposits and cash) were approximately RMB1,579,131,000 (31 December 2019: approximately RMB1,396,168,000).

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 30 June 2020, the Group's gearing ratio, as calculated by dividing net debt⁽¹⁾ by total capital⁽²⁾, was not applicable (as at 31 December 2019: not applicable).

Notes:

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

(2) Total capital = total equity + net debt

Pledge of Assets and Contingent Liabilities

As at 30 June 2020, the Group did not pledge any of its assets and had no material contingent liabilities.

Employees, Remuneration Policy and Pension Plans

As at 30 June 2020, the Group had a total of 444 (as at 30 June 2019: 405) employees in the PRC, including management staff, engineers, technicians, etc. During the Reporting Period, the Group's total staff remuneration expenses were approximately RMB38,920,000 (for the six months ended on 30 June 2019: approximately RMB36,555,000).

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 schemes for its employee in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries and bonuses), while the Group contributes 16% of such relevant income, subject to certain ceiling. In light of the pandemic, Ji'nan Social Insurance Affairs Center* (濟南市社會保險事業中心) exempted the Group from such contribution for the period from February 2020 to December 2020. The State-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees. In addition, the Group also operates an additional employee pension plan. All the 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 30 June 2020, the Group did not enter into any hedging arrangements to hedge against exposure in foreign currency risk. The foreign currencies held by the Group are mainly the unused foreign currency funds received after the Global Offering. Any substantial fluctuation in the exchange rate of foreign currencies against Renminbi may cause financial impacts on the Group. 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.

Management Discussion and Analysis (Continued)

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

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

On 9 March 2020, following the successful bidding by the Company in respect of the acquisition in a public tender, the Company and Pingyin County Highway Bureau Engineering Co., Ltd.* (平陰縣公路局工程有限公司) (the “Vendor”) entered into a transaction agreement, pursuant to which the Company agreed to acquire, and the Vendor agreed to sell, the entire equity interests of Shandong Gangtong Construction at a total consideration of RMB25,665,600. The consideration was financed by the internal resources of the Group. Upon completion of the acquisition on 30 March 2020, Shandong Gangtong Construction become a subsidiary of the Group.

Shandong Gangtong Construction now 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 Class B Qualification for Professional Contracting of Highway Subgrade Works (公路路基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 Toll Collection Rights in Respect of the Deshang Expressway (Liaocheng – Fan County section) and the Shen County – Nanle (Shandong – Henan boundary) Expressway

On 2 June 2020, Qilu Transportation (as the transferor) and the Company (as the transferee) entered into, among others, a transfer agreement, pursuant to which, the Company shall acquire from Qilu Transportation the toll collection rights in respect of the Deshang Expressway (Liaocheng – Fan County section) and the Shen County to Nanle (Shandong – Henan boundary) Expressway (the “Target Expressways”) (the “Acquisition of Target Expressways Toll Collection Rights”), including the rights in relation to (i) the operation, maintenance and management of the Target Expressways, and (ii) the toll collection from vehicles passing along the Target Expressways, but excluding the advertisement business along the Target Expressways (including the leasing of advertisement billboards built along the Target Expressways and the provision of the related advertisement publication services) and the operational rights of the service facilities business. The consideration of the Acquisition of Target Expressways Toll Collection Rights was RMB2,290 million. Part of the consideration as to RMB941,926,395.60 shall be funded by the proceeds from the Global Offering and the remaining balance will be funded by the internal resources and bank loans of the Group.

As agreed under the transfer agreement, the Company agreed to assume the assumed liabilities comprising (i) the total outstanding loans of RMB1,726,374,000 currently at an annual interest rate of 4.9% in the facilities provided by the lending banks to Qilu Transportation for the Target Expressways construction projects; and (ii) the total outstanding loans of RMB570,611,303.14 from Qilu Transportation for the Target Expressways construction projects currently at an annual interest rate of 4.75%. The payment of the assumed liabilities shall be funded by the internal resources and bank borrowings of the Group.

Management Discussion and Analysis (Continued)

The Company will enter into debt assignment agreements with Qilu Transportation and each of the lending banks on or before the completion Date, pursuant to which, Qilu Transportation will, on the effective Date, transfer its rights and obligations under the bank facility agreements with the lending banks in relation to the Target Expressways construction projects to the Company, and the Company will 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 to be repaid under the debt assignment agreements immediately after the benchmark date are RMB1,726,374,000 and RMB354,006,400, respectively.

The Company entered into a debt assumption agreement with Qilu Transportation on 2 June 2020, pursuant to which, the Company agrees to assume, from the 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 Target 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 Target Expressways to maintain normal operation of the Target 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 Target Expressways, the Company entered into a land lease agreement with Qilu Transportation on 2 June 2020 which will be effective on the effective date. Pursuant to the agreement, commencing from the effective date to the expiry date of the transfer terms, the Company will 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 Target 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 Target Expressways Toll Collection Rights constitutes a very substantial acquisition under Chapter 14 of the Listing Rules and a connected transaction under Chapter 14A of the Listing Rules, the Acquisition of Target Expressways Toll Collection Rights was approved by independent Shareholders at the extraordinary general meeting of the Company held on 11 August 2020.

For further details of the Acquisition of Target Expressways Toll Collection Rights, please refer to the announcement and circular of the Company dated 2 June 2020 and 26 June 2020 respectively, and the announcement of the Company dated 11 August 2020.

Management Discussion and Analysis (Continued)

BUSINESS REVIEW

During the Reporting Period, the Group achieved a total revenue from operations of approximately RMB351,340,000, representing a year-on-year decrease of approximately 27.41%, of which, toll income was approximately RMB312,218,000, representing a year-on-year decrease of approximately 32.67%; revenue from construction, rental income and other services businesses was approximately RMB39,122,000, representing a year-on-year increase of approximately 92.37%. During the Reporting Period, the Group achieved a gross profit of approximately RMB184,954,000, representing a year-on-year decrease of approximately 45.33%. Profit for the period was approximately RMB135,397,000, generating earnings per share of approximately RMB0.07.

Expressway Business

In the first half of 2020, the Company continued to strengthen the operational management of the Jihe Expressway project, with focus on minimising the negative impacts caused by the waiver of toll fees in response of the COVID-19 pandemic. In light of the relatively long toll-free period for the pandemic, the traffic flow of the Jihe Expressway decreased from approximately 55,600 vehicles per day during the six months ended 30 June 2019 to approximately 33,000 vehicles per day during the Reporting Period. Total toll income decreased by approximately 32.67% to approximately RMB312,218,000 during the Reporting Period.

Toll Collection Policy

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

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

Management Discussion and Analysis (Continued)

Traffic Flow ⁽¹⁾

	During the Reporting Period		During the same period of last year		Year-on-year increase
	Traffic flow (ten thousand vehicles/day)	Percentage	Traffic flow (ten thousand vehicles/day)	Percentage	
Classification of Trucks ^{(2), (5)}					
Class 1	0.24	7.34%	0.30	5.47%	-19.89%
Class 2	0.11	3.40%	0.16	2.94%	-31.02%
Class 3	0.15	4.60%	0.11	2.00%	37.22%
Class 4	0.07	2.08%	0.09	1.67%	-25.44%
Class 5	0.03	1.00%	1.03	18.47%	-96.77%
Class 6	0.46	13.83%			
Total traffic flow of trucks	1.06	32.23%	1.70	30.55%	-36.95%
Classification of special motor vehicles					
Special motor vehicles 1	0.0011	0.03%			
Special motor vehicles 2	0.0015	0.04%			
Special motor vehicles 3	0.0004	0.01%			
Special motor vehicles 4	0.0004	0.01%			
Special motor vehicles 5	0.0000	0.00%			
Special motor vehicles 6	0.0001	0.00%			
Total traffic flow of special motor vehicles	0.0035	0.11%			
Classification of passenger vehicles					
Class 1	2.18	65.97%	3.61	64.96%	-39.31%
Class 2	0.01	0.27%	0.09	1.58%	-89.70%
Class 3	0.03	0.79%	0.09	1.64%	-71.19%
Class 4	0.02	0.63%	0.07	1.27%	-70.08%
Total traffic flow of passenger vehicles	2.23	67.66%	3.86	69.45%	-41.77%
Average daily traffic flow ⁽³⁾	3.30		5.56		-40.56%
Total traffic flow	600.99 (in ten thousands)		1,005.61 (in ten thousands)		-40.24%

Management Discussion and Analysis (Continued)

Toll Income

	During the Reporting Period (After tax)	During the same period last year (After tax)	Year-on-year increase
Total toll income (in RMB thousand)	312,218	463,697	-32.67%
Average daily toll income (in RMB million)	1.72	2.56	-32.81%
Average toll income per vehicle ⁽⁴⁾ (RMB)	51.95	46.11	12.67%

Notes:

- (1) Traffic flow does not include toll-free vehicles.
- (2) From 1 January 2020, expressways in Shandong Province have commenced collection of tolls based on vehicle classification. The toll collection standard of the Jihe Expressway is subject to the Notice on Matters Related to Expressway Tolls (Lu Jiao Cai [2020] No.1)《關於高速公路通行費有關事項的通知》魯交財[2020]1號)). The re-approved vehicle classification shall be carried out in accordance with the Notice on Matters Related to the Implementation of 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)). It may be not entirely comparable with the traffic flow in the corresponding period of 2019. Toll vehicle classifications are respectively categorised into three types, namely passenger vehicles, trucks and special motor vehicles.
- (3) Average daily traffic flow is calculated by dividing the traffic flow of the Jihe Expressway in the Reporting Period by the number of days of the Reporting Period.
- (4) Average toll income per vehicle is calculated by dividing the total toll income of the Company during the Reporting Period by the traffic flow of the Jihe Expressway in the Reporting Period.
- (5) Trucks with more than six axles are charged using the toll rates applicable to oversized transportation vehicles based on the total number of axles of the vehicles.

When compared to the corresponding period of last year, the traffic flow in 2020 decreased by 40.24%, in which that of passenger vehicles decreased by 41.77% while that of trucks decreased by 36.95%. The analysis of the major reasons of the decrease is as follows:

To address the impacts of the pandemic in the PRC, the Ministry of Transport introduced corresponding toll-free policies for the prevention and control of the pandemic. 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, 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》.

The toll income contributed by trucks using the Jihe Expressway was significantly higher than that by passenger vehicles. The increase in the average toll income per vehicle during the Reporting Period was mainly attributable to the significant increase in the number of vehicles passing through the entire Jihe Expressway as a result of completion of construction and resumption of operation of the Jinan-Qingdao Expressway, together with the traffic control on the Jingtai Expressway. Our average toll income per vehicle increased from approximately RMB46.11 (after tax) for the period ended 30 June 2019 to approximately RMB51.95 (after tax) for the Reporting Period.

Management Discussion and Analysis (Continued)

Rental Income

During the Reporting Period, rental income mainly represented the revenue from advertisement business. As at the end of the Reporting Period, there were 48 billboards normally operating along the Jihe Expressway. Rental income accounted for a relatively small proportion of our revenue from operations during the Reporting Period. Meanwhile, the Group also actively cultivated new revenue growth points for the advertisement business. A new LED advertising media was built in June 2020 and yet to be put into use.

Construction Business

Changqing University Science Park Interchange Project

During the Reporting Period, construction workers abroad were unable to timely resume to work and suppliers of raw materials failed to carry out production as scheduled due to the impact of the pandemic. In the face of such difficulties, we stringently implemented the required pandemic prevention and control measures and proactively expedited the resumption of work and production. On 20 February 2020, the government approved the resumption of work. Thereupon, on the premise of pursuing better management in such areas as work progress and environmental protection, we set safety as the top priority. Starting from the designing stage, we took serious initiatives in carrying out the works for safety management in order to ensure smooth progress of construction projects. Meanwhile, we made all-out effort in quality control by adopting strict management and supervision with an aim to deliver quality construction projects. As at the end of the Reporting Period, as to main line construction, the construction projects for bridges and culverts, roadbed and toll stations were basically completed and construction works for road surface were in progress at connection paths and field areas. As to building construction, the main structure of the building was completed and renovation was underway. We also finished laying pipe network at field areas. As to other construction projects, the main structure of toll canopy was built and we started working on greenery project as well as electrical and mechanical engineering project.

In the second half of the year, based on the progress of co-ordination work with the local government, the Company will make rational arrangement for the rest of project construction and the commencement of operation.

PROSPECTS

In the first half of 2020, COVID-19 pandemic unexpectedly broke out. The spread and growth of the pandemic at home and abroad have brought unprecedented challenges to the global economy. In view of this, the CPC Central Committee and the State Council paid great attention and laid out a comprehensive plan, under which local governments adopted stringent prevention and control measures to combat the pandemic outbreak. As required by the Ministry of Transport, the Company waived the toll fees for all vehicles during the period of pandemic prevention and control. To make contribution to the pandemic prevention and public safety, during the pandemic prevention period, the Company worked closer with government departments by ensuring smooth traffic along the Jihe Expressway for transporting pandemic prevention supplies. In retrospect of the business operations in the first half of the year, although the results performance during the period was materially affected by the toll-free policy implemented for the pandemic, the Jihe Expressway exhibited a steady momentum in terms of traffic flow.

In tandem with endeavouring in the principal businesses, the Company also looks for long-term growth. To achieve this, the Company gets deep understanding of the development of and change in the transportation industry, studies and determines the vision for medium- and long-term development of the expressway sector in a serious manner. Embracing the corporate positioning and strategic goals of Qilu Expressway and targeting at international frontiers, modern technology, information technology, industrial future and other high-end sectors, the Company aggressively explores models for business development. On 30 March 2020, the Company completed the acquisition of 100% equity interest of Shandong Gangtong Construction. The Company will take active steps in developing both the upstream and downstream businesses in the highway industry, to moderately usher in diversified business operations. The acquisitions of the toll collection rights of the Target Expressways have been approved by independent Shareholders at an extraordinary general meeting. Next, the Company will speed up the implementation of projects as planned taking into account the market environment.

Management Discussion and Analysis (Continued)

To weather the pandemic headwinds, the Company keeps abreast of the market movements. In Shandong Province, the government is pushing forward the establishment of the New and Old Kinetic Energy Conversion Comprehensive Pilot Zone (新舊動能轉換綜合試驗區). Upholding new development ideas, the government places great effort in promoting industrial integration and upgrade and also accelerating the construction of transport and other infrastructure facilities. This provides a stable and healthy environment for the development of expressways. With the two principles of “efficiency” and “innovation” in mind, the Company sets “strengthening the fundamental businesses and developing new businesses” (做強基礎產業、做優新興產業) as targets. While further strengthening the operational management of expressway business, the Company will strive for achievements, excellence and expansion by proactively developing its operating businesses in both international and domestic markets through mergers and acquisitions, reorganisations and other capital operation activities, in efforts to develop itself as domestic and international platforms for investment and financing, industry-finance integration, acquisition of principal businesses, industrial upgrade and strategic innovation and thereby endeavours to continuously generate returns for the Shareholders.

EVENTS AFTER THE REPORTING PERIOD

On 12 July 2020, the Company was informed by Qilu Transportation that the Shandong Provincial Government was contemplating a joint restructuring between Qilu Transportation and Shandong Hi-Speed Group.

References are made to the announcement of the Company dated 13 July 2020 in relation to the proposed joint restructuring of Qilu Transportation and Shandong Hi-Speed Group and the announcement of the Company dated 12 August 2020 in relation to the joint restructuring by way of merger by absorption of Qilu Transportation by Shandong Hi-Speed Group. The joint restructuring, if materialised, may 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 waived by the Executive. As such, the Company was informed that Shandong Hi-Speed Group and Qilu Transportation will jointly make an application to the Executive for the waiver of the mandatory general offer pursuant to Note 6(a) and Note 8 to Rule 26.1 of the Takeovers Code. As at the date of this report, Shandong Hi-Speed Group and Qilu Transportation have not yet obtained such waiver, which may or may not be granted by the Executive. Further, Shandong Hi-Speed Group and Qilu Transportation have jointly informed the Company that should the waiver applied for be unavailable, they will review whether or not and how best to proceed with the joint restructuring in the circumstances, and a general offer may or may not be made.

The Company will make further announcement(s) on the progress of the contemplated joint restructuring in a timely manner as and when required under the Takeovers Code and/or the Listing Rules.

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

Management Discussion and Analysis (Continued)

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.

Use of Proceeds

The Group's business objectives and intended use of proceeds as stated in the Prospectus were based on the best estimate on the future market conditions made by the Group in preparation of the Prospectus. The actual use of proceeds was dependent on the actual market development. The net proceeds from the Global Offering amounted to approximately HK\$1,177 million. During the Reporting Period, the Group did not utilise the net proceeds from the Global Offering. During the period from the listing date of the Company to the end of the Reporting Period, the net proceeds from the Global Offering have been applied as follows:

Business strategy as stated in the Prospectus	Actual net proceeds allocated for such strategy HK\$' 000	Amount utilised up to 30 June 2020 HK\$' 000	Balance as at 30 June 2020 HK\$' 000	Expected time for use of unutilised proceeds (Note)
Acquiring operative toll roads, bridges and relevant road-related infrastructure projects or interests	588,504	—	588,504	2020
Road maintenance of the Jihe Expressway	294,252	—	294,252	—
Full or partial repayment of short-term bank loans	117,701	98,459	19,242	—
Working capital and other general corporate purposes	117,701	1,971	115,730	—
Optimising the Company's information management systems	58,850	41,008	17,842	—

Note:

As stated in the announcement of the Company dated 2 June 2020 and the circular of the Company dated 26 June 2020, the Company planned to apply in full the remaining balance of the proceeds from the Global Offering (that is RMB941,926,395.60) to settle part of the consideration under the Acquisition of Target Expressways Toll Collection Rights. As stated in the announcement of the Company dated 11 August 2020, the change in use of proceeds from the Global Offering was approved by independent Shareholders at the extraordinary general meeting of the Company held on 11 August 2020.

As at the date of this report, the remaining balance of the proceeds from the Global Offering (that is RMB941,926,395.60) was applied in full to settle part of the consideration under the Acquisition of Target Expressways Toll Collection Rights.

PUBLICATION AND DISPATCH OF INTERIM REPORT

This report is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.qlecl.com), and the 2020 interim report of the Group containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and published on the respective websites of the Company and the Stock Exchange in due course.

Other Information

SHARE CAPITAL

As at 30 June 2020, the total issued share capital of the Company amounted to RMB2,000,000,000, which was divided into 2,000,000,000 Shares with a nominal value of RMB1.00 each, including:

Share capital of the Company as at 30 June 2020 was as follows:

Class of Shares	Number of Shares	Approximate percentage of the issued share capital of the Company
Domestic Shares	900,000,000	45.00%
H Shares	1,100,000,000	55.00%
Total	2,000,000,000	100%

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES OF THE COMPANY

As at 30 June 2020, so far as the Directors and Supervisors of the Company are aware, other than the Directors, Supervisors and senior management of the Company and their respective associates, the following persons had or were deemed to have an interest or short position in the Shares, underlying Shares and debentures which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Number of Shares held	Capacity	Class of Shares	Approximate percentage of the total number of relevant class of issued share capital of the Company	Approximate percentage of the total issued share capital of the Company	Long position/ short position
Qilu Transportation	778,500,000	Beneficial interest	Domestic Shares	86.50%	38.93%	Long position
COSCO SHIPPING (Hong Kong)	600,000,000	Beneficial interest	H Shares	54.55%	30.00%	Long position
China Ocean Shipping Company Limited ⁽¹⁾	600,000,000	Interest in controlled corporation	H Shares	54.55%	30.00%	Long position
COSCO SHIPPING ⁽¹⁾	600,000,000	Interest in controlled corporation	H Shares	54.55%	30.00%	Long position
Shenhua National Power Shandong Construction Group Limited	121,500,000	Beneficial interest	Domestic Shares	13.50%	6.08%	Long position
Shenhua National Power Group Company Limited ⁽²⁾	121,500,000	Interest in controlled corporation	Domestic Shares	13.50%	6.08%	Long position
China Energy Investment Corporation Limited ⁽²⁾	121,500,000	Interest in controlled corporation	Domestic Shares	13.50%	6.08%	Long position
CITIC-Prudential Life Insurance Company Ltd.	103,750,000	Beneficial interest	H Shares	9.43%	5.19%	Long position
Prudential Corporation Holdings Limited ⁽³⁾	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position

Other Information (Continued)

Name of Shareholders	Number of Shares held	Capacity	Class of Shares	Approximate percentage of the total number of relevant class of issued share capital of the Company	Approximate percentage of the total issued share capital of the Company	Long position/ short position
Prudential Holdings Limited ⁽³⁾	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
Prudential Corporation Asia Limited ⁽³⁾	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
Prudential plc ⁽³⁾	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
CITIC Corporation Limited ⁽⁴⁾	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
CITIC Limited ⁽⁴⁾	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
CITIC Glory Limited ⁽⁴⁾	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
CITIC Polaris Limited ⁽⁴⁾	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
CITIC Group Corporation ⁽⁴⁾	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
Shandong Hi-Speed Investment Holdings Co., Ltd.	103,750,000	Beneficial interest	H Shares	9.43%	5.19%	Long position
Shandong Hi-Speed Group Co., Ltd. ⁽⁵⁾	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position

Notes:

- (1) COSCO SHIPPING (Hong Kong) is wholly owned by China Ocean Shipping Company Limited. China Ocean Shipping Company Limited is wholly owned by COSCO SHIPPING. Therefore, China Ocean Shipping Company Limited and COSCO SHIPPING are deemed to be interested in the H shares held by COSCO SHIPPING (Hong Kong) under the SFO.
- (2) Shenhua National Power Shandong Construction Group Limited is wholly owned by Shenhua National Power Group Company Limited. Shenhua National Power Group Company Limited is wholly owned by China Energy Investment Corporation Limited. Therefore, Shenhua National Power Group Company Limited and China Energy Investment Corporation Limited are deemed to be interested in the Domestic Shares held by Shenhua National Power Shandong Construction Group Limited under the SFO.
- (3) 50% shares of CITIC-Prudential Life Insurance Company Ltd. are owned by Prudential Corporation Holdings Limited. Prudential Corporation Holdings Limited is wholly owned by Prudential Holdings Limited. Prudential Holdings Limited is wholly owned by Prudential Corporation Asia Limited. Prudential Corporation Asia Limited is wholly owned by Prudential plc. Therefore, Prudential Corporation Holdings Limited, Prudential Holdings Limited, Prudential Corporation Asia Limited and Prudential plc are deemed to be interested in the H Shares held by CITIC-Prudential Life Insurance Company Ltd. under the SFO.
- (4) The remaining 50% shares of CITIC-Prudential Life Insurance Company Ltd. are owned by CITIC Corporation Limited. CITIC Corporation Limited is wholly owned by CITIC Limited. Shares of CITIC Limited are owned by CITIC Glory Limited and CITIC Polaris Limited as to 23.38% and 29.58%, respectively. CITIC Glory Limited is wholly owned by CITIC Group Corporation and CITIC Polaris Limited is wholly owned by CITIC Group Corporation. Therefore, CITIC Corporation Limited, CITIC Limited, CITIC Glory Limited, CITIC Polaris Limited and CITIC Group Corporation are deemed to be interested in the H Shares held by CITIC-Prudential Life Insurance Company Ltd. under the SFO.
- (5) Shandong Hi-Speed Investment Holdings Co., Ltd. is wholly owned by Shandong Hi-Speed Group Co., Ltd. Therefore, Shandong Hi-Speed Group Co., Ltd. is deemed to be interested in the H Shares held by Shandong Hi-Speed Investment Holdings Co., Ltd. under the SFO.

Other Information (Continued)

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2020, none of the Directors, Supervisors or chief executives of the Company and their respective associates had, or was deemed to have, any interest or short position in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

REPURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, the Company or any of its subsidiaries did not repurchase, sell or redeem any of the Company's listed securities.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Changes in Directors, Supervisors and Senior Management during the Reporting Period

There were no changes in the Directors, Supervisors and senior management of the Group during the Reporting Period.

Changes in Directors, Supervisors and Senior Management after the Reporting Period and up to the Date of this Report

Ms. Xu Yuehong has been appointed as a deputy general manager of the Company with effect from 6 August 2020. For details, please refer to the announcement of the Company dated 6 August 2020.

Save as disclosed above, there were no changes in the Directors, Supervisors and senior management of the Company after the Reporting Period and up to the date of this report.

CHANGES IN THE INFORMATION OF DIRECTORS AND SUPERVISORS

Mr. Tang Haolai has been appointed as vice general manager and a member of party committee of Shandong Hi-Speed Investment Holdings Co., Ltd. (山東高速投資控股有限公司) with effect from 2 April 2020.

Mr. Zhou Cenyu has been appointed as a secretary of the party general branch and the chairman of the board of directors (a legal representative) of Qilu Transportation and Logistics Development Company Limited (齊魯交通物流發展有限公司) and has ceased to be a member of the party committee and the director of the office of the board of directors of Qilu Transportation, with effect from 5 August 2020.

Ms. Kong Xia has been appointed as a secretary of the party committee of the head office of Shandong Hi-Speed Group Company Limited and has ceased to be the department head of the human resources department of Qilu Transportation and a member of the party committee of the headquarters of Qilu Transportation, with effect from 5 August 2020.

Mr. Zhang Yin has been appointed as a director of the project development and capital operation centre of Shandong Hi-Speed Group Company Limited and has ceased to be the deputy director of the financial management department and the director of the asset management center of Qilu Transportation, with effect from 5 August 2020.

Save as disclosed above, during the Reporting Period and up to the date of this report, there were no other changes in the information of the Directors and the Supervisors which shall be disclosed and has been disclosed under Rule 13.51B(1) of the Listing Rules.

Other Information (Continued)

MATERIAL LITIGATION AND ARBITRATION

So far as the Directors of the Company are aware, the Group was not engaged in any material litigation, arbitration or claim, and no litigation or claim of material importance was pending or threatened against the Group during the Reporting Period.

CORPORATE GOVERNANCE

The Group is committed to maintaining a high standard of corporate governance. The Board is responsible for the implementation of corporate governance, including: (a) formulating, developing and reviewing the corporate governance policies and practices of the Company; (b) reviewing and supervising the training and continuous professional development of the Directors and senior management; (c) reviewing and supervising the policies and practices for the compliance with laws and regulatory requirements by the Company; (d) developing, reviewing and supervising the code of conduct and compliance manual, if any, for employees and the Directors; and (e) reviewing the compliance of the Corporate Governance Code by the Company and the disclosure in the corporate governance report. The Board believes that an effective corporate governance system can safeguard the interests of Shareholders and promote the corporate value and accountability of the Company.

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

The Board will continue to review and improve its corporate governance system to ensure the compliance of the Corporate Governance Code.

COMPLIANCE WITH THE MODEL CODE

Since the listing of the Company, the Company has adopted a code of conduct regarding the Directors' and Supervisors' securities transactions on terms not less than the required standard set out in the Model Code. Having made specific enquiries of all the Directors and Supervisors, it was confirmed that the Directors and Supervisors of the Company have complied with the Model Code in relation to securities transactions by the Directors and its own code of conduct during the Reporting Period.

INTERIM DIVIDEND

The Board does not recommend to declare any interim dividend for the six months ended 30 June 2020.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in accordance with the provisions of the Corporate Governance Code. The Audit Committee has reviewed the unaudited interim financial report of the Group for the six months ended 30 June 2020.

Report on Review of Interim Financial Information

To the Board of Directors of Qilu Expressway Company Limited

(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 23 to 40, which comprises the condensed consolidated statement of financial position of Qilu Expressway Company Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2020 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

20 August 2020

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	Notes	2020 (Unaudited) RMB' 000	2019 (Unaudited) RMB' 000
REVENUE	5	351,340	484,034
Cost of sales		(166,386)	(145,737)
Gross profit		184,954	338,297
Other income and gains		27,061	27,464
Administrative expenses		(27,958)	(25,236)
Other expenses		–	(28,360)
Finance costs		(5,094)	(11,001)
Share of profits of an associate		655	–
PROFIT BEFORE TAX	6	179,618	301,164
Income tax expense	7	(44,221)	(75,136)
PROFIT FOR THE PERIOD		135,397	226,028
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		135,397	226,028
Attributable to:			
Owners of the parent		135,397	226,028
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the period	9	RMB0.07	RMB0.11
Diluted			
– For profit for the period	9	RMB0.07	RMB0.11

Interim Condensed Consolidated Statement of Financial Position

30 June 2020

	Notes	30 June 2020 (Unaudited) RMB' 000	31 December 2019 (Audited) RMB' 000
NON-CURRENT ASSETS			
Property, plant and equipment	10	134,608	137,135
Investment properties		21,002	21,445
Intangible assets	11	2,542,374	2,600,144
Investment in an associate		21,129	–
Other receivables		25	26
Total non-current assets		2,719,138	2,758,750
CURRENT ASSETS			
Inventories		5,463	2,429
Trade and bills receivables	12	22,411	20,236
Contract assets		1,365	–
Other current assets		99	99
Prepayments and other receivables		10,196	12,323
Financial assets at fair value through profit or loss		109,614	200,000
Cash and cash equivalents		1,579,131	1,396,168
Total current assets		1,728,279	1,631,255
CURRENT LIABILITIES			
Trade payables	17	71,492	25,274
Dividend payables	8	326,000	–
Other payables and accruals		43,076	79,628
Interest-bearing bank borrowings	15	95,000	175,000
Tax payable		44,912	61,199
Provisions	16	158,363	148,420
Total current liabilities		738,843	489,521
NET CURRENT ASSETS		989,436	1,141,734
TOTAL ASSETS LESS CURRENT LIABILITIES		3,708,574	3,900,484
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	15	70,000	70,000
Other payables		23,511	25,643
Deferred tax liabilities		14,367	13,646
Total non-current liabilities		107,878	109,289
Net assets		3,600,696	3,791,195
EQUITY			
Equity attributable to owners of the parent			
Share capital	13	2,000,000	2,000,000
Capital reserves		887,209	887,209
Other reserves		182,629	182,525
Retained earnings		530,858	721,461
Total equity		3,600,696	3,791,195

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Note	Attributable to owners of the parent				Total RMB' 000
		Share capital RMB' 000	Capital reserves RMB' 000	Other reserves RMB' 000	Retained earnings RMB' 000	
At 1 January 2020 (audited)		2,000,000	887,209	182,525	721,461	3,791,195
Profit for the period		-	-	-	135,397	135,397
Total comprehensive income for the period		-	-	-	135,397	135,397
Appropriations to other reserves		-	-	104	-	104
Dividends declared	8	-	-	-	(326,000)	(326,000)
At 30 June 2020 (unaudited)		2,000,000	887,209	182,629	530,858	3,600,696

	Note	Attributable to owners of the parent				Total RMB' 000
		Share capital RMB' 000	Capital reserves RMB' 000	Other reserves RMB' 000	Retained earnings RMB' 000	
At 1 January 2019 (audited)		2,000,000	886,725	130,802	514,163	3,531,690
Profit for the period		-	-	-	226,028	226,028
Total comprehensive income for the period		-	-	-	226,028	226,028
Reversal of share issue expenses		-	484	-	-	484
Dividends declared		-	-	-	(257,400)	(257,400)
At 30 June 2019 (unaudited)		2,000,000	887,209	130,802	482,791	3,500,802

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	2020 (Unaudited) RMB' 000	2019 (Unaudited) RMB' 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	259,485	565,649
Interest received	10,964	8,905
Income tax paid	(59,787)	(68,743)
Net cash flows from operating activities	210,662	505,811
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment and intangible assets	395	387
Purchase of financial assets at fair value through profit or loss	(314,500)	(100,000)
Proceeds from disposal of financial assets at fair value through profit or loss	405,563	100,000
Proceeds from maturity of financial assets at amortised cost	–	200,000
Interest received from financial assets at fair value through profit or loss	3,735	969
Interest received from financial assets at amortised cost	–	1,945
Purchase of property, plant and equipment and intangible assets	(10,041)	(5,291)
Acquisition of a subsidiary	(25,666)	–
Payments for other investing activities	(2,760)	(2,760)
Net cash flows from investing activities	56,726	195,250
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of interest-bearing bank borrowings	(80,000)	(50,000)
Payment of interest expenses	(4,466)	(10,338)
Share issuance expenses	–	(32,169)
Net cash flows used in financing activities	(84,466)	(92,507)
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of period	1,396,168	1,006,860
Effect of foreign exchange rate changes, net	41	110
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,579,131	1,615,524

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

1. GENERAL INFORMATION

Qilu Expressway Company Limited (the "Company") is principally engaged in the construction, maintenance, operation and management of the Jihe Expressway in Shandong Province in the People's Republic of China (the "PRC"), and is entitled to toll collection from vehicles passing through the Jihe Expressway for a period of 30 years, starting from 26 September 2004 to 25 September 2034, and its subsidiaries (together with the Company, the "Group") are engaged in the outdoor advertising production and distribution along the Jihe Expressway and also engaged in undertaking highway engineering and construction business, highway engineering and construction services and road maintenance services. The Group has operations mainly in Shandong Province in the PRC.

The Company's H shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 19 July 2018.

This interim condensed consolidated financial information is presented in Renminbi ("RMB"), and all values are rounded to the nearest thousand (RMB' 000) except when otherwise indicated.

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

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 (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2020

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and impact of the revised HKFRSs that are relevant to the preparation of the Group's interim condensed consolidated financial information are described below:

- (a) 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 or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) 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 covid-19 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 retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the Group's interim condensed consolidated financial information.
- (c) 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. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

4. OPERATING SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company that makes strategic decisions. Management has determined the operating segments based on these reports.

All of the Group's operations and assets are located in the PRC. Therefore, the chief operating decision-maker only considers the Group's business from a product perspective, rather than a geographic perspective.

In consideration that the revenue and profit from construction services, rental income and other services businesses are immaterial compared to the expressway business, the chief operating decision-maker reviews the performance of the Group as a whole.

Accordingly, the Group has only one single reportable operating segment and no discrete operating segment financial information is available.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2020

5. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Revenue from contracts with customers		
Expressway business	312,218	463,697
Construction business	36,404	17,920
Other services businesses	536	457
Revenue from other sources		
Rental income	2,182	1,960
	351,340	484,034

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2020

	Expressway business RMB' 000 (Unaudited)	Construction business RMB' 000 (Unaudited)	Other services businesses RMB' 000 (Unaudited)	Total RMB' 000 (Unaudited)
Timing of revenue recognition				
Services transferred at a point in time	312,218	–	536	312,754
Services transferred over time	–	36,404	–	36,404
Total revenue from contracts with customers	312,218	36,404	536	349,158

For the six months ended 30 June 2019

	Expressway business RMB' 000 (Unaudited)	Construction business RMB' 000 (Unaudited)	Other services businesses RMB' 000 (Unaudited)	Total RMB' 000 (Unaudited)
Timing of revenue recognition				
Services transferred at a point in time	463,697	–	457	464,154
Services transferred over time	–	17,920	–	17,920
Total revenue from contracts with customers	463,697	17,920	457	482,074

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2020

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Depreciation of property, plant and equipment	10,464	4,177
Depreciation of investment properties	443	209
Amortisation of intangible assets	85,791	81,900
(Gain)/Loss on disposal of items of property, plant and equipment, net	(295)	214
Loss on disposal of items of intangible assets, net	–	28,080

7. 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 period (six months ended 30 June 2019: nil).

The provision for PRC current income tax is based on the statutory rate of 25% (six months ended 30 June 2019: 25%) of the assessable profits during the period.

	For the six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Current income tax		
– PRC corporate income tax	43,500	82,248
Deferred income tax		
– Charge/(credit) for the period	721	(7,112)
Total tax charge for the period	44,221	75,136

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2020

8. DIVIDENDS

On 24 March 2020, the board of the Company declared the dividend of RMB0.1630 per ordinary share, amounting to a total of RMB326,000,000, which was approved at the Company's Annual General Meeting on 11 June 2020.

As at 30 June 2020, such dividend has not been paid.

The board of the Company did not declare any interim dividend to shareholders for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

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

Basic earnings per share are calculated by dividing the consolidated profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the period. The Company has no dilutive potential shares.

	For the six months ended 30 June	
	2020	2019
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Profit attributable to owners of the parent	135,397	226,028
Weighted average number of ordinary shares in issue (<i>thousands</i>)	2,000,000	2,000,000
Basic and diluted earnings per share (<i>expressed in RMB per share</i>)	0.07	0.11

10. PROPERTY, PLANT AND EQUIPMENT

		For the six months ended 30 June	
		2020	2019
		RMB' 000	RMB' 000
	Note	(Unaudited)	(Unaudited)
Carrying amount at beginning of period		137,135	120,015
Additions		2,846	1,136
Acquisition of a subsidiary	14	5,191	–
Depreciation		(10,464)	(4,177)
Disposals		(100)	(1,701)
Carrying amount at end of period		134,608	115,273

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2020

11. INTANGIBLE ASSETS

	For the six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Carrying amount at beginning of period	2,600,144	2,703,529
Additions	28,060	20,209
Amortisation	(85,791)	(81,900)
Disposals	–	(28,099)
Adjustment	(39)	–
Carrying amount at end of period	2,542,374	2,613,739

12. TRADE AND BILLS RECEIVABLES

	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Trade receivables	22,411	19,636
Impairment	–	–
Trade receivables, net	22,411	19,636
Bills receivable	–	600
	22,411	20,236

Trade receivables amounting to RMB13,854,000 (31 December 2019: RMB19,113,000) mainly consist of toll road income receivable from the Shandong Provincial Traffic Transport Department(山東省交通運輸廳) (“Shandong Transport Department”) for uncollected expressway income as at the end of reporting period, which is expected to be settled within one month (2019: within one month).

The ageing analysis of the trade receivables was based on the transaction date and the trade receivables were aged within three months as at 30 June 2020 and 31 December 2019.

13. SHARE CAPITAL

Ordinary shares, issued and fully paid:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Number of shares	2,000,000,000	2,000,000,000
Share capital (RMB' 000)	2,000,000	2,000,000

14. BUSINESS COMBINATION

On 30 March 2020, The Group acquired a 100% equity interest in Shandong Gangtong Construction Co., Ltd. ("Shandong Gangtong"), which is engaged in undertaking highway engineering and construction business, highway engineering and construction services and road maintenance services, at a cash consideration of RMB25,665,600. The fair value of identifiable net assets of Shandong Gangtong on the acquisition date was RMB25,665,600. The acquisition was made as part of the Group's strategy to further strengthen the capability of road traffic construction.

The fair values of the identifiable assets and liabilities of Shandong Gangtong as the date of acquisition were as follows:

	Fair value recognised on acquisition RMB' 000 (Unaudited)
Property, plant and equipment (note 10)	5,191
Investment in an associate	20,475
Total identifiable net assets at fair value	25,666
Goodwill on acquisition	–
Satisfied by:	
Cash	25,666

The Group incurred transaction costs of RMB984,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses with amounts of RMB577,000 in the consolidated statement of comprehensive income for the six months ended 30 June 2020.

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB' 000
Cash consideration	25,666
Cash and bank balances acquired	–
Net outflow of cash and cash equivalents included in cash flows from investing activities	(25,666)
Transaction costs of the acquisition included in cash flows used in operating activities	(577)
	(26,243)

Since the acquisition, Shandong Gangtong contributed RMB8,354,000 and RMB570,000, respectively, to the consolidated revenue and profit for the six months ended 30 June 2020, which were included in the condensed consolidated statement of comprehensive income.

Had the combination taken place at the beginning of the period, the revenue and the profit of the Group for the period would have been RMB8,354,000 and RMB327,000, respectively.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2020

15. INTEREST-BEARING BANK BORROWINGS

	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Unsecured		
Non-current	70,000	70,000
Current	95,000	175,000
	165,000	245,000

	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Within 1 year	95,000	175,000
Between 1 and 2 years	70,000	70,000
	165,000	245,000

16. PROVISIONS

	Maintenance and resurfacing obligations For the six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Carrying amount at beginning of period	148,420	113,490
Additional provisions	14,420	21,484
Utilisation of provisions	(4,477)	(6,484)
Carrying amount at end of period	158,363	128,490

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2020

17. TRADE PAYABLES

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

	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Within 1 year	67,144	20,398
Between 1 and 2 years	234	4,876
Between 2 and 3 years	4,114	–
	71,492	25,274

Included in the trade payables are amounts of RMB2,400,000 (31 December 2019: nil) due to an associate, which are payables on credit terms similar to those offered by the associate to its major customers.

18. CONTINGENT LIABILITIES

As at 30 June 2020 and 31 December 2019, the Group did not have any significant contingent liabilities.

19. COMMITMENTS

At 30 June 2020, the capital expenditure contracted for but not recognised as liabilities was as follows:

	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Contracted, but not provided for:		
Upgrade project of the Ji-He Expressway	23,226	36,711
Property, plant and equipment	690	–
	23,916	36,711

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2020

20. RELATED PARTY TRANSACTIONS

In addition to the related party information and transactions disclosed elsewhere in the interim condensed consolidated financial information, the following is a summary of the significant related party transactions entered into during the ordinary course of business between the Group and its related parties.

(a) Information of related parties

	Relationships with the Group
Qilu Transportation Development Group Company Limited ("Qilu Transportation")	Ultimate holding Company
COSCO SHIPPING (Hong Kong) Co., Limited ("COSCO SHIPPING (Hong Kong)")	Shareholder of the Company
Shenhua National Power Shandong Construction Group Limited ("Shandong Construction")	Shareholder of the Company
Shandong Transport Department	Parent office of Shandong Highway Bureau
Shandong Transportation Engineering Supervision Consulting Co., Ltd. ("Shandong Transportation Supervision")	Subsidiary of Qilu Transportation
Qilu Transportation Information Group Company Limited ("Qilu Transportation Information")	Subsidiary of Qilu Transportation
Jinan Xinyue New Road Material Research and Development Co., Ltd. ("Jinan Xinyue")	Associate of the Company

(b) Transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

		For the six months ended 30 June	
		2020	2019
		RMB' 000	RMB' 000
	Note	(Unaudited)	(Unaudited)
Purchases of goods:			
– Jinan Xinyue	(i)	2,400	–

Note:

- (i) During the reporting period, the transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2020

20. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties

	Note	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Trade and other receivables:			
Trade receivables:			
– Shandong Transport Department		13,854	19,113
Other receivables:			
– Jinan Xinyue		30	–
		13,884	19,113
Trade and other payables:			
Trade payables:			
– Shandong Transportation Supervision		60	60
– Jinan Xinyue		2,400	–
Other payables:			
– Qilu Transportation	(i)	26,271	28,403
– Qilu Transportation Information		–	91
		28,731	28,554
Dividend payables:			
– Qilu Transportation		126,912	–
– COSCO SHIPPING (Hong Kong)		97,800	–
– Shandong Construction		19,788	–
		244,500	–

Note:

- (i) Amount represented payable for land and property lease in respect of the concession arrangement with annual payment of RMB2,760,000 for the years from 2018 to 2034. The amount was measured at the present value of lease payments to be made over the lease term.

The amount of RMB2,760,000 in relation to the land and property lease for the six months ended 30 June 2020 was paid in March 2020.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2020

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Financial liabilities				
Interest-bearing bank borrowings	165,000	245,000	164,572	244,410
Other payables non-current	23,511	25,643	23,511	25,643
	188,511	270,643	188,083	270,053

Management has determined that the carrying amounts of cash and cash equivalents, trade and bills receivables, contract assets, financial assets included in prepayments and other receivables, trade payables, dividend payables and financial liabilities included in the current portion of other payables and accruals based on their notional amounts reasonably approximate to their fair values because these financial instruments are mostly short term in nature.

The Group invests in unlisted investments, which represent financial products issued by banks in Mainland China. The Group has estimated the fair value of the unlisted investments based on quoted market prices or by using a discounted cash flow valuation model based on the market interest rate of instruments with similar terms and risks.

The fair values of interest-bearing bank borrowings and the non-current portion of other payables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own-performance risk for interest-bearing borrowings as at 30 June 2020 and 31 December 2019 were assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2020

	Fair value measurement using			Total RMB' 000 (Unaudited)
	Quoted prices in active markets (Level 1) RMB' 000 (Unaudited)	Significant observable inputs (Level 2) RMB' 000 (Unaudited)	Significant unobservable inputs (Level 3) RMB' 000 (Unaudited)	
Financial assets at fair value through profit or loss:				
Investments in financial products	8,937	100,677	–	109,614

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2020

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

As at 31 December 2019

	Fair value measurement using			Total RMB' 000 (Audited)
	Quoted prices in active markets (Level 1) RMB' 000 (Audited)	Significant observable inputs (Level 2) RMB' 000 (Audited)	Significant unobservable inputs (Level 3) RMB' 000 (Audited)	
Financial assets at fair value through profit or loss:				
Investments in financial products	-	200,000	-	200,000

The movements in fair value measurement within Level 3 during the period are as follows:

	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Financial assets at fair value through profit or loss:		
At 1 January	-	100,000
Disposal	-	(100,000)
At 30 June	-	-

The Group did not have any financial liabilities measured at fair value at 30 June 2020 and 31 December 2019.

During the reporting period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2020

22. EVENTS AFTER THE REPORTING PERIOD

- (a) On 2 June 2020, Qilu Transportation and the Company entered into, among others, a transfer agreement, pursuant to which, the Company shall acquire from Qilu Transportation the toll collection rights in respect of the Deshang Expressway (Liaocheng – Fan County section) and the Shennan Expressway (the “Target Business”) at a cash consideration of RMB2,290,000,000. The acquisition of the Target Business has been approved by at the extraordinary general meeting of the Company held on 11 August 2020. Details of the acquisition are set out in the Group’s circular dated 26 June 2020.
- (b) On 12 July 2020, the Company was informed by Qilu Transportation that the Shandong Provincial Government was contemplating a joint restructuring between Qilu Transportation and Shandong Hi-Speed Group Company Limited. On 12 August 2020, the Company received a notification from Qilu Transportation that pursuant to the relevant requirements from the State-owned Assets Supervision and Administration Commission of Shandong Provincial Government (“Shandong SASAC”) on the joint restructuring, Qilu Transportation shall be merged and absorbed by Shandong Hi-Speed Group. As a result 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 shall be assumed by Shandong Hi-Speed Group as the surviving company. After the joint restructuring, Qilu Transportation, the ultimate holding company, will be changed to Shandong Hi-Speed Group which is owned by Shandong SASAC. Details of the proposed merger are set out in the Company’s announcement dated 12 August 2020.

23. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved and authorised for issue by the board of directors of the Company on 20 August 2020.