



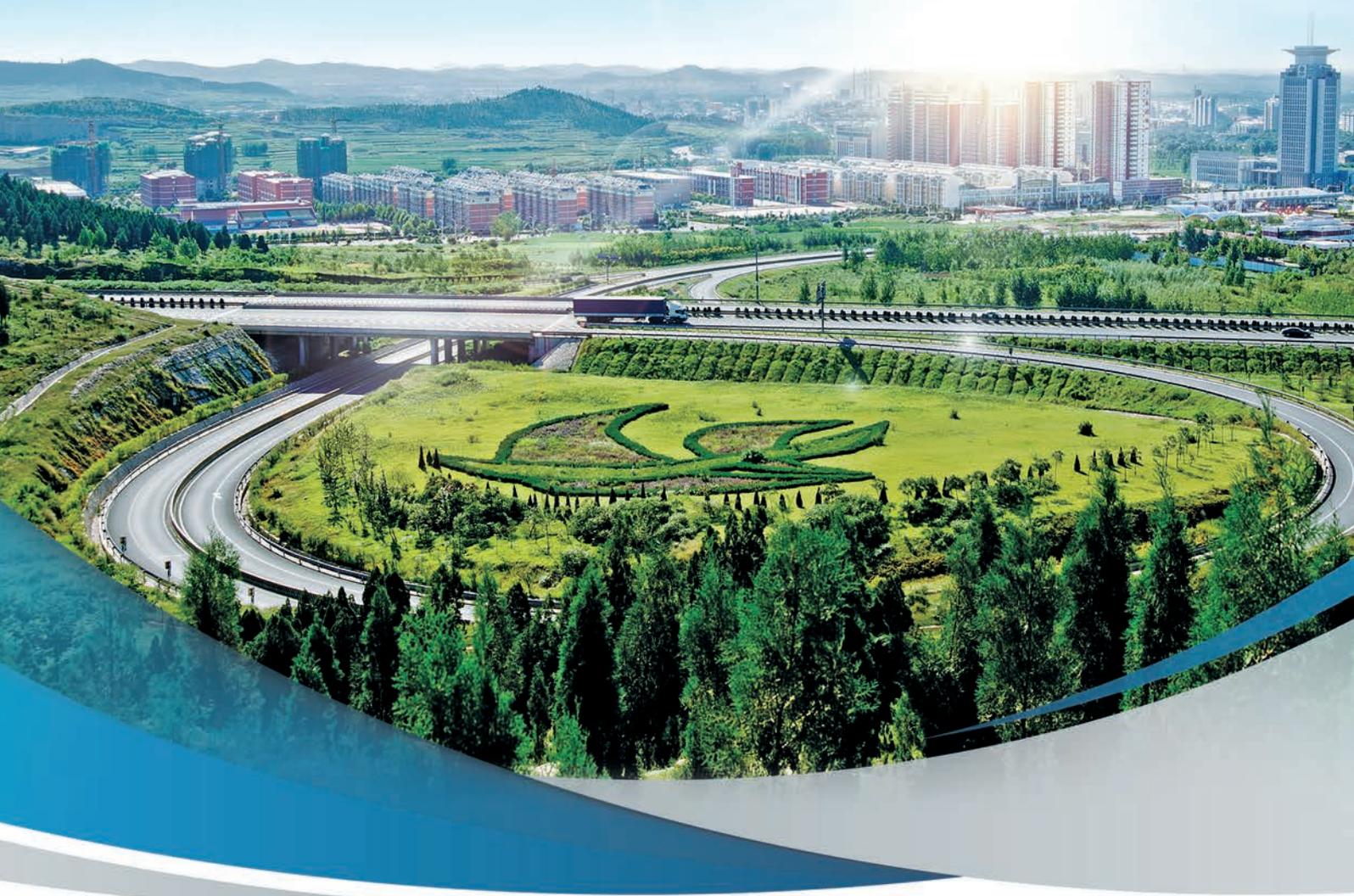
齐鲁高速
Qilu Expressway

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

2019 ANNUAL REPORT



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Definitions and Glossary of Technical Terms

“2019 AGM”	the annual general meeting of the Company to be convened and held on Thursday, 11 June 2020 or the adjournment thereof
“2019 Final Dividend”	the final dividend proposed by the Board to be paid to the Shareholders in the form of a cash dividend of RMB0.1630 (tax inclusive) per Share
“Advertisement Business”	our business in relation to the leasing of advertisement billboards built along the Jihe Expressway and the provision of the advertisement publication services on those advertisement billboards
“Articles of Association”	the articles of association of the Company
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of Directors
“Changqing University Science Park Interchange Project”	the improvement project of the Company for the construction of a new interchange on Jihe Expressway with a ramp connecting to the Changqing University Science Park. Please refer to the sub-section headed “Business Review – Construction Business” in this report for details
“class 1”	truck of 2 tons or less and passenger vehicle with 7 seats or less
“class 2”	truck of 2 to 5 tons (including 5 tons) and passenger vehicle with 8 to 19 seats
“class 3”	truck of 5 to 10 tons (including 10 tons) and passenger vehicle with 20 to 39 seats
“class 4”	truck of 10 to 15 tons (including 15 tons), 20-foot container vehicle and passenger vehicle with 40 seats or above
“class 5”	truck of 15 tons or above and 40-foot container vehicle
“Company” or “the Company”	Qilu Expressway Company Limited (齊魯高速公路股份有限公司), a joint stock company incorporated in the PRC with limited liability on 6 December 2016
“Company Law”	Company Law of the People's Republic of China (《中華人民共和國公司法》)
“Concession Agreement”	the concession agreement in respect of the Jihe Expressway project entered into between the Shandong Provincial Traffic Transport Department (山東省交通運輸廳) (as authorised by the Shandong Provincial People's Government (山東省人民政府)) and the Company on 26 September 2004

Definitions and Glossary of Technical Terms (Continued)

“Concession Rights”	the rights to (i) design and construct the Jihe Expressway and its ancillary facilities; and (ii) to maintain, operate and manage the Jihe Expressway and its ancillary facilities (including but not limited to the rights in relation to the repair and maintenance of the Jihe Expressway and the toll collection of vehicles thereon) pursuant to the Concession Agreement
“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
“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, the entire equity interest of which is held by the Stated-owned Assets Supervision and Administration Commission of the State Council of the PRC, and being one of our Controlling Shareholders
“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, as at the Reporting Period, the Controlling Shareholders own approximately 30.00% equity interest of the Company
“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)
“Expressway Business”	our business in relation to the construction, maintenance, operation and management of the Jihe Expressway
“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 can be found in the Prospectus
“Group”, “our Group”, “us” or “we”	the Company and, except where the context otherwise requires, its subsidiary
“H Share(s)”	overseas listed foreign invested ordinary Share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which was listed and traded on the Stock Exchange
“H Shareholder(s)”	holders of the H Share(s)

Definitions and Glossary of Technical Terms (Continued)

“HK\$” or “Hong Kong dollars” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“HKAS(s)”	Hong Kong Accounting Standard(s)
“HKFRS” or “Hong Kong Financial Reporting Standards”	Hong Kong Financial Reporting Standards (including HKASs and Interpretations) issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jihe Expressway”	Jinan (濟南) to Heze (菏澤) Expressway, the approximately 153.6 km expressway running through nine districts/counties under four cities from Jinan City to Heze City in Shandong Province
“Jihe Petroleum”	Shandong Jihe Expressway Petroleum Management Company Limited* (山東濟荷高速石化油氣管理有限公司), a limited liability company incorporated in the PRC on 25 December 2007, 51.00% of equity interest of which was transferred by the Company to a subsidiary of Qilu Transportation in April 2017 pursuant to the Reorganisation
“Jihe Service”	Shandong Jihe Expressway Service Company Limited* (山東濟荷高速服務有限公司), currently known as Shandong Luchang Expressway Service Area Management Company Limited* (山東魯暢高速公路服務區管理有限公司), a limited liability company incorporated in the PRC on 6 February 2005, 51.00% of equity interest of which was transferred by the Company to a subsidiary of Qilu Transportation in April 2017 pursuant to the Reorganisation
“Listing”	the listing of the Company’s H Shares on the Main Board of the Stock Exchange on 19 July 2018
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Ministry of Transport”	Ministry of Transport of the PRC (中華人民共和國交通運輸部)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“Nomination Committee”	the nomination committee of the Board
“PRC” or “State”	the People’s Republic of China, which for the purpose of this report exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus of the Company dated 29 June 2018 in connection with the Global Offering

Definitions and Glossary of Technical Terms (Continued)

“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, as at the Reporting Period, the Controlling Shareholders own approximately 38.93% equity interest of the Company
“Remuneration and Appraisal Committee”	the remuneration and appraisal committee of the Board
“Reorganisation”	the reorganisation arrangements undergone by our Group in preparation of its Listing
“Reporting Period” or “Year”	the year ended 31 December 2019
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SDRC”	Shandong Provincial Development and Reform Committee (山東省發展和改革委員會)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Shandong Transport Department”	Shandong Provincial Traffic Transport Department (山東省交通運輸廳)
“Share(s)”	Domestic Shares and/or H shares (as the case may be)
“Shareholder(s)”	holder(s) of our Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategy Committee”	the strategy committee of the Board
“Supervisor(s)”	the member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of the Company established pursuant to the Company Law
“US\$”	US dollars, the lawful currency of United States

Corporate Information

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

(1) Remuneration and Appraisal Committee

Mr. Li Hua (*Chairman*)

Mr. Cheng Xuezhao

Mr. Wang Lingfang

(2) Nomination Committee

Mr. Li Gang (*Chairman*)

Mr. Cheng Xuezhao

Mr. Li Hua

Mr. Wang Lingfang

(3) 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. Wu Yongfu

Mr. Zhang Yin

(2) Employee Supervisors

Mr. Hao Dehong

Ms. Hou Qinghong

Mr. Wang Shun

(3) Independent Supervisors

Mr. Li Ruzhi

Mr. Meng Qinghui

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)

6/F, Building 5, Yulan Square,
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

COMPLIANCE ADVISER

Zhongtai International Capital Limited

19/F, Li Po Chun Chambers,
189 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

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the annual report of the Group for the year ended 31 December 2019.

OVERVIEW OF BUSINESS DEVELOPMENT

Macroeconomic Environment and Social Development

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

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

Review of our Operations

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

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

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

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

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

Chairman's Statement (Continued)

OUTLOOK

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

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

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

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

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

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my gratitude to the ardent support and assistance from all Shareholders, investors and business partners. Meanwhile, I would also like to express my sincere gratitude to all employees of the Group for their hard work.

Qilu Expressway Company Limited

Li Gang

Chairman

24 March 2020

Financial Highlights

	Change	2019	2018	2017	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Summary of consolidated statement of profit and loss and other comprehensive income						
Revenue	261,604	1,183,339	921,735	1,045,060	999,846	861,949
Gross profit	132,921	755,448	622,527	752,210	702,350	479,418
Profit before income tax	144,988	689,505	544,517	666,533	589,282	336,828
Profit and total comprehensive income attributable to owners of the parent Company	107,916	516,421	408,505	528,152	443,226	250,296
Basic/diluted earnings per share (<i>RMB</i>)	0.02	0.26	0.24	0.35	0.30	0.17
Summary of consolidated statement of financial position						
Cash and cash equivalents	389,308	1,396,168	1,006,860	415,835	367,549	55,613
Current liabilities	(29,096)	489,521	518,617	561,431	606,739	434,037
Total assets	36,739	4,390,005	4,353,266	3,637,886	3,831,325	3,688,740
Borrowings	(265,000)	245,000	510,000	825,000	1,300,000	1,515,000
Gearing ratio	N/A	N/A	N/A	14.18%	29.24%	42.94%
Net assets per Share (<i>RMB</i>)	0.13	1.90	1.77	1.65	1.50	1.31
Return on net assets	2.05%	13.62%	11.57%	21.43%	19.88%	13.06%
Summary statement of cash flows						
Net cash flows from operating activities	281,326	949,162	667,836	675,640	757,987	546,843
Net cash flows from investing activities	423,519	11,856	(411,663)	188,480	(18,426)	(41,149)
Net cash flows from financing activities	(892,874)	(573,321)	319,553	(815,834)	(427,625)	(578,692)
Net increase (decrease) in cash and cash equivalents	(188,029)	387,697	575,726	48,286	311,936	(72,998)

Management Discussion and Analysis

FINANCIAL REVIEW

Operations

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

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

Revenue

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

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

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

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

Management Discussion and Analysis (Continued)

Cost of Sales and Gross Profit

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

Other Income and Gains

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

Administrative Expenses

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

Other Expenses

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

Finance Costs

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

Profit for the Period

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

Management Discussion and Analysis (Continued)

Liquidity and Financial Resources

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

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

Notes:

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

⁽²⁾ Total capital = total equity + net debt

Pledge of Assets and Contingent Liabilities

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

Employees, Remuneration Policy and Pension Plans

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

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

Management Discussion and Analysis (Continued)

Foreign Exchange Risk

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

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

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

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

BUSINESS REVIEW

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

Expressway Business

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

Management Discussion and Analysis (Continued)

Traffic Flows⁽¹⁾

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

Toll Income

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

Notes:

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

Management Discussion and Analysis (Continued)

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

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

The analysis of the major reasons is as follows:

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

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

In 2019, as required by the Notice on Issuing the Implementation Plan for Deepening Institutional Reform of Toll Roads and Removing Tollgates at Provincial Boundaries on Expressways (Guo Fa Ban [2019] No.23) and the Notice on Issuing the Implementation Plan of Shandong Province for Deepening Institutional Reform of Toll Roads and Removing Tollgates at Provincial Boundaries on Expressways (Lu Zheng Ban Fa [2019] No.17), the Company sped up introduction of Electronic Toll Collection (ETC) system, and completed installation and online stand-alone debugging of devices for 28 sets of ETC gantry system, reconstruction of 46 ETC lane, all equipment for 1 sub-center and 10 entrance control

Management Discussion and Analysis (Continued)

lanes along the Jinhe Expressway before 31 October 2019, and met the requirements of the competent transportation department for network debugging at the end of October. Beginning on 1 November 2019, the Company cooperated with competent transportation department to carry out the nationwide network debugging work, and successfully completed the switch of the new charging system on 1 January 2020. In accordance with the overall arrangement of Shandong Province, all of the tollgates operated by the Company are available for weighing at entrance. From 1 December 2019, oversized and overloaded vehicles are advised to return through entrance weighing.

Toll Collection Policy

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

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

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

Rental Income

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

Management Discussion and Analysis (Continued)

Construction Business

Changqing University Science Park Interchange Project

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

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

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

PROSPECTS

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

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

(1) Step up in toll operation management

Firstly, the Company will strengthen the toll collection and operation management. The Company will actively adapt to the change of toll collection mode, and realizing the "three transitions" of toll operation from "manual management" to "data management", "traditional" to "intelligent", "focus on site management" to "focus on background audit". Secondly, the Company will actively promote the construction of intelligent toll stations,

Management Discussion and Analysis (Continued)

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

(2) Upgrade in highway maintenance management

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

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

EVENTS AFTER THE REPORTING PERIOD

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

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

Management Discussion and Analysis (Continued)

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

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

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

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

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

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

(3) Adjustment to standard of toll fees

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

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

Management Discussion and Analysis (Continued)

USE OF PROCEEDS FROM THE GLOBAL OFFERING

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

Use of Proceeds

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

Business strategy as stated in the Prospectus	Actual net proceeds allocated for such strategy HK\$'000	Amount utilised up to 31 December 2019 HK\$'000	Balance as at 31 December 2019 HK\$'000	Expected time for the 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	2020
Full or partial repayment of short-term bank loans	117,701	98,459	19,242	2020
Working capital and other general corporate purposes	117,701	1,971	115,730	2020
Optimising the Company's information management systems	58,850	41,008	17,842	2020

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

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

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

Management Discussion and Analysis (Continued)

PROMINENT RISK FACTORS

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

(1) Political risk and measures

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

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

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

(2) Changes in macroeconomic environment and measures

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

Management Discussion and Analysis (Continued)

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

(3) Diversified travel patterns and changes in road network

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

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

(4) Management risk and measures

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

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

Management Discussion and Analysis (Continued)

In addition, the Company strives to implement our strategies including (i) paying close attention to high quality road-related assets to expand our business; (ii) further strengthening the application of information technology and improve the effectiveness of our technology; (iii) continuing to improve our operating efficiency and enhance our profitability; and (iv) establishing a more complete human resources system to attract, motivate and nurture high quality talents in road operation and management. Please refer to the sub-section headed “Business – Our Competitive Strengths and Strategies – Business Strategies” in the Prospectus for details. As of the date of this report, we were still in the process of identifying suitable acquisition or investment target of the road-related asset, and had neither entered into any agreement or memorandum of understanding with any potential target. Further announcements on the latest developments will be made by the Company in accordance with the requirements of relevant laws and regulations (including but not limited to the Listing Rules).

Corporate Governance Report

The Board is pleased to present the corporate governance report of the Company for the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Group is committed to maintaining high level 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 of 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. In the past year, actions and measures were taken by the Board to improve the corporate governance gradually and further strengthen the development of the Company's corporate governance system. The Board believes that an effective corporate governance system can safeguard the best interests of the Shareholders and promote the value and accountability of the Company.

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.

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

THE BOARD

Duties and Division of Responsibility

The Board shall act in the interests of all the Shareholders and shall be accountable to the general meeting. The Board shall mainly be responsible for: implementing the resolutions of the general meeting; determining the operation plan and investment program of the Company; formulating the annual financial budget plan and final accounting plan of the Company; formulating the profit distribution plan of the Company; determining the establishment of internal management bodies and formulating the basic management system of the Company. The Company has established four special committees under the Board to oversee specific matters of the Company, namely, the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Strategy Committee. The Board has delegated relevant duties to the respective committees, which are contained in the terms of reference of the relevant committees. Besides, the management of the Company will provide sufficient consultation to the Board and the Board committees when appropriate to facilitate the Directors in making informed decision.

The Chairman and the General Manager

The Board is responsible for decision making on important matters of the Company and the management is authorised to manage the daily operation of the Company. The Company does have the post of general manager. During the Year, Mr. Li Gang and Mr. Peng Hui acted as the Chairman and the general manager of the Company, respectively, with clear division of duties. The Chairman shall oversee the work of the Board and monitor the implementation of the resolutions adopted by the Board, and the general manager shall coordinate the operation of the business of the Company under the supervision of the Board. As such, the Company has complied with the requirements under code provision A.2.1 of the Corporate Governance Code. Save as disclosed in the section headed "Profiles of Directors, Supervisors and Senior Management" in this annual report, there is no financial, business, family or other important relationship between the Directors, the Chairman and the general manager.

Composition of the Board

As of 31 December 2019, the Board comprised fifteen Directors, including three executive Directors, Mr. Li Gang (Chairman), Mr. Peng Hui and Mr. Liu Qiang, seven non-executive Directors, Mr. Chen Dalong, Mr. Wang Shaochen, Mr. Zhou Genyu, Mr. Su Xiaodong, Ms. Kong Xia, Mr. Yuan Ruizheng and Mr. Tang Haolai, and five independent non-executive Directors, Mr. Cheng Xuezhao, Mr. Li Hua, Mr. Wang Lingfang, Mr. He Jiale and Mr. Han Ping.

During the Year, the Board had complied with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules to have not less than three independent non-executive Directors, including at least an independent non-executive Director who has the relevant professional qualification or is an expert in accounting or financial management. Besides, in accordance with Rule 3.10A of the Listing Rules, not less than one third of the Directors shall be independent non-executive Directors. The Company had five independent non-executive Directors, representing five fifteenths of the total number of Directors; therefore, the Company has been in compliance with relevant requirements.

In accordance with the Articles of Association, the Directors (including non-executive Directors) shall have a term of office of three years from the date of passing the resolution of the general meeting until the expiration of term of office of the Board. The Directors are eligible for re-election upon the expiration of term of office, provided that no independent non-executive Director shall serve consecutive terms for more than nine years.

Time Commitment of Directors

In addition to attending formal meetings, the Directors shall also review reports of the management and regular operation reports of the Company and understand all affairs and matters of the Company through field visit and other channels, so as to effectively perform their duties. After making particular enquiries, the Board is of the view that the Directors have devoted sufficient time and efforts to perform their duties.

Training and Professional Development of Directors

During the Year, all Directors have received trainings in the written form or by participating in seminars. The Directors will be updated with the latest developments in legal and regulatory requirements and the operation of the Company to facilitate the performance of their duties. Training will also be provided for the Directors when necessary to ensure that the Directors understand the business and operation of the Group, and their duties and obligations under the Listing Rules and the applicable laws and regulations.

Corporate Governance Report (Continued)

The individual training record of each Director received for the Year is summarised below:

Name	Attending or participating in seminars/ reading materials relevant to the director's duties
Executive Directors	
–Mr. Li Gang (<i>Chairman of the Board</i>)	✓
–Mr. Peng Hui	✓
–Mr. Liu Qiang (Appointed as the executive Director on 19 November 2019)	✓
Non-executive Directors	
–Mr. Chen Dalong	✓
–Mr. Wang Shaochen	✓
–Mr. Zhou Cenyu (Appointed as non-executive Director on 19 November 2019)	✓
–Mr. Su Xiaodong	✓
–Ms. Kong Xia (Appointed as non-executive Director on 19 November 2019)	✓
–Mr. Yuan Ruizheng	✓
–Mr. Tang Haolai	✓
Independent Non-executive Directors	
–Mr. Cheng Xuezhao	✓
–Mr. Li Hua	✓
–Mr. Wang Lingfang	✓
–Mr. He Jiale	✓
–Mr. Han Ping (Appointed as the independent non-executive Director on 19 November 2019)	✓

Meetings of the Board

Unless otherwise specified by the Articles of Association, more than half of the number of Directors shall form a quorum of a Board meeting. A Director who is unable to attend Board meeting may appoint another Director to attend on his behalf as a proxy by a power of attorney which shall contain the name and capacity of the proxy and the scope and duration of the appointment. No Director shall vote on any resolution for himself or on behalf of other Directors if he has interest in the parties or matters in relation to the resolution. The Board meeting may be held by telephone or other similar communications equipment. Any Director who fails to attend a Board meeting in person or by proxy shall be deemed to have waived his voting rights. The Board shall prepare minutes of Board meetings after meetings are concluded to record the matters resolved. The minutes shall be initialed by all Directors who have attended the meeting and the person who has prepared the minutes.

All Directors are provided with all relevant information of matters to be discussed in the Board meetings in a timely manner, and they may seek independent professional advice and services from the company secretary and senior management of the Company. Upon reasonable request to the Board, the Directors may seek independent professional advice, as and when necessary, at the Company's expenses.

Corporate Governance Report (Continued)

During the Year, the Board convened seven meetings. The attendance record of Directors at the Board meetings is as follows:

Name	Number of meetings attended/ Number of meetings held during Directors' term of office	Number of meetings attended by entrusting other Directors	Attendance rate
Executive Directors			
– Mr. Li Gang (<i>Chairman of the Board</i>)	7/7	0	100%
– Mr. Peng Hui	7/7	0	100%
– Mr. Liu Qiang (Appointed as the executive Director on 19 November 2019)	1/1	0	100%
Non-executive Directors			
– Mr. Chen Dalong	7/7	0	100%
– Mr. Wang Shaochen	7/7	0	100%
– Mr. Zhou Cenyu (Appointed as non-executive Director on 19 November 2019)	1/1	0	100%
– Mr. Su Xiaodong	6/7	1	86%
– Ms. Kong Xia (Appointed as non-executive Director on 19 November 2019)	1/1	0	100%
– Mr. Yuan Ruizheng	7/7	0	100%
– Mr. Tang Haolai	7/7	0	100%
– Mr. Wu Dengyi (Retired as non-executive Director on 19 November 2019)	6/6	0	100%
– Mr. Li Jie (Retired as non-executive Director on 19 November 2019)	6/6	0	100%
– Mr. Wang Long (Retired as non-executive Director on 19 November 2019)	6/6	0	100%
Independent Non-executive Directors			
– Mr. Cheng Xuezhao	7/7	0	100%
– Mr. Li Hua	7/7	0	100%
– Mr. Wang Lingfang	7/7	0	100%
– Mr. He Jiale	7/7	0	100%
– Mr. Han Ping (Appointed as the independent non-executive Director on 19 November 2019)	1/1	0	100%
– Mr. Wu Yuxiang (Retired as independent non-executive Director on 19 November 2019)	6/6	0	100%

Corporate Governance Report (Continued)

During the Year, the Company held two general meetings. The attendance record of Directors at the general meetings during the Year is as follows:

Name	Number of meetings attended/Number of meetings held during Directors' term of office	Attendance rate
Executive Directors		
– Mr. Li Gang (<i>Chairman of the Board</i>)	2/2	100%
– Mr. Peng Hui	2/2	100%
– Mr. Liu Qiang (Appointed as the executive Director on 19 November 2019)	Not applicable	Not applicable
Non-executive Directors		
– Mr. Chen Dalong	2/2	100%
– Mr. Wang Shaochen	2/2	100%
– Mr. Zhou Cenyu (Appointed as non-executive Director on 19 November 2019)	Not applicable	Not applicable
– Mr. Su Xiaodong	2/2	100%
– Ms. Kong Xia (Appointed as non-executive Director on 19 November 2019)	Not applicable	Not applicable
– Mr. Yuan Ruizheng	0/2	0%
– Mr. Tang Haolai	1/2	50%
– Mr. Wu Dengyi (Retired as non-executive Director on 19 November 2019)	1/2	50%
– Mr. Li Jie (Retired as non-executive Director on 19 November 2019)	1/2	50%
– Mr. Wang Long (Retired as non-executive Director on 19 November 2019)	1/2	50%
Independent Non-executive Directors		
– Mr. Cheng Xuezhao	1/2	50%
– Mr. Li Hua	2/2	100%
– Mr. Wang Lingfang	1/2	50%
– Mr. He Jiale	2/2	100%
– Mr. Han Ping (Appointed as the independent non-executive director on 19 November 2019)	Not applicable	Not applicable
– Mr. Wu Yuxiang (Retired as independent non-executive Director on 19 November 2019)	1/2	50%

Corporate Governance Report (Continued)

Board Committees

The Board has four committees, namely the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Strategy Committee.

During the Year, the attendance record of Directors at each Board committee is as follows:

Name	Number of meetings attended/Number of meetings held during Directors' term of office			
	Audit Committee	Remuneration and Appraisal Committee	Nomination Committee	Strategy Committee
Executive Directors				
– Mr. Li Gang (<i>Chairman of the Board</i>)	–	–	4/4	1/1
– Mr. Peng Hui	–	–	–	1/1
– Mr. Liu Qiang (Appointed as a member of the Strategy Committee on 19 November 2019)	–	–	–	Not applicable
Non-executive Directors				
–Mr. Wang Shaochen	4/4	–	–	1/1
Independent Non-executive Directors				
– Mr. Cheng Xuezhao (Appointed as a member of the Nomination Committee on 19 November 2019)	–	4/4	Not applicable	–
– Mr. Li Hua	4/4	4/4	4/4	1/1
– Mr. Wang Lingfang	–	4/4	4/4	–
– Mr. He Jiale (Appointed as the chairman of the Audit Committee on 19 November 2019)	1/1	–	–	–
– Mr. Wu Yuxiang (Retired as the chairman of the Audit Committee, a member of the Strategy Committee and a member of the Nomination Committee on 19 November 2019)	3/3	–	4/4	1/1

Audit Committee

The major responsibilities of the Audit Committee include but are not limited to (1) proposing the appointment, re-appointment or termination of external auditor; (2) reviewing and supervising the independence and objectiveness of the external auditor and the effectiveness of the audit process in accordance with applicable standards; (3) reviewing the financial information of the Company and its disclosure; (4) supervising the financial reporting system, the risk management and the internal control procedures of the Company; and (5) to strengthening the communication between, the internal auditor and the external auditor. The terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

The Audit Committee comprises three Directors, including Mr. He Jiale, Mr. Wang Shaochen and Mr. Li Hua. Mr. He Jiale, the independent non-executive Director, acts as chairman of the committee. All members of the Audit Committee are non-executive Directors, among whom, Mr. He Jiale and Mr. Li Hua are independent non-executive Directors.

During the Year, the Audit Committee convened 4 meetings to, among others, review the financial results of the Group for the year ended 31 December 2018 and for the six months ended 30 June 2019, discuss the proposed change of auditor and review the existing risk management and internal control systems of the Group before submitting to the Board for approval.

The Audit Committee has reviewed and confirmed the audited consolidated financial statements in this annual report and has discussed with the management on the financial statements and the internal control of the Company. The Audit Committee is of the view that these financial statements are prepared in accordance with the applicable accounting standards and requirements and the disclosure is adequate.

The Audit Committee is also aware of the existing risk management and internal control systems of the Group, and is aware that such systems will be reviewed annually.

Remuneration and Appraisal Committee

The major responsibilities of the Remuneration and Appraisal Committee include but are not limited to (1) reviewing the remuneration packages and policies of all Directors and senior management and providing advice to the Board on establishing a formal and transparent remuneration policy determination procedure; (2) reviewing the policy and structure of the remuneration of Directors, Supervisors and senior management (including non-monetary benefits, pension and allowance) and the remuneration policy determination procedure, and providing advice to the Board in this regard; (3) proposing to the Board on the remuneration of non-executive Directors; (4) reviewing and monitoring the compensation for Directors who are dismissed or removed due to misconduct so as to ensure that the compensation is in compliance with the contract terms or reasonable and appropriate if not in compliance with the contract terms; and (5) monitoring the implementation of the remuneration policy for Directors, Supervisors and senior management. The terms of reference of the Remuneration and Appraisal Committee are available on the websites of the Company and the Stock Exchange.

The Remuneration and Appraisal Committee comprises three Directors, including Mr. Li Hua, Mr. Cheng Xuezhao and Mr. Wang Lingfang, all being independent non-executive Directors. Mr. Li Hua, an independent non-executive Director, acts as chairman of the committee.

Corporate Governance Report (Continued)

During the Year, the Remuneration and Appraisal Committee convened 4 meetings to discuss the proposed remuneration of the candidates for Directors and candidates for senior management and made recommendations to the Board.

In accordance with paragraph B.1.5 of the Corporate Governance Code, the remunerations of the senior management by remuneration band for the year ended 31 December 2019 are set out below:

No. (Notes)	Remuneration band (RMB)	Numbers of persons
1	0 – 500,000	33
2	500,001 – 1,000,000	2

Notes:

No.1 includes 17 Directors, 10 Supervisors and 6 members of the senior management; and

No.2 includes 2 Directors.

Further details of the remunerations of the Directors and the five highest-paid employees as required under Appendix 16 to the Listing Rules are disclosed in Notes 8 and 9 to the consolidated financial statements for the Year.

Nomination Committee

The major responsibilities of the Nomination Committee are (1) to review the criteria and procedure for selection of Directors and senior management, and the structure, number of members and composition (including but not limited to skill, knowledge and experience) of the Board and senior management once a year, and to propose changes to the Board and senior management for implementation of the Company's strategy; (2) to identify, select and nominate candidates for Director and senior management for approval by the Board or to advise the Board in this regard; (3) to advise the Board on the appointment, re-appointment and succession of Directors and senior management; (4) to review the independence of the independent non-executive Directors; and (5) to perform other duties delegated by the Board. The terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The Nomination Committee comprises four Directors, including Mr. Li Gang, Mr. Cheng Xuezhao, Mr. Li Hua and Mr. Wang Lingfang. Independent non-executive Directors account for the majority of the committee. Mr. Li Gang, the Chairman, acts as chairman of the committee.

During the Year, the Nomination Committee held 4 meetings to discuss the nomination policy, independence of independent non-executive directors, and qualification of candidate of directors and candidate of senior management of the Company.

The Company also adopted a nomination policy on 21 March 2018, which provides that one criterion for considering a candidate as qualified is that such candidate is able to devote sufficient time and energy to company affairs, contribute to the diversity of the Board and effectively fulfil duties of the Board. Before submitting the list of candidates for Directors to the Board, the Nomination Committee shall review the list and make suggestions to the Board. Among them, the Nomination Committee reviews the candidate's personal resume, conducts due diligence, evaluates the candidate's academic background, professional qualification, industry-related experience, character and integrity, and refers to the diversification policy of the Board to make an assessment.

Strategy Committee

The major responsibilities of the Strategy Committee are (1) to review and advise on the long-term development strategy of the Company; (2) to review and advise on major investment and financing plans to be approved by the Board as required by the Articles of Association; (3) to review and advise on major capital operation and asset operation to be approved by the Board as required by the Articles of Association; (4) to review and advise on other significant matters affecting the development of the Company; (5) to inspect the implementation of the above matters; and (6) to perform other duties delegated by the Board. The terms of reference of the Strategy Committee are available on the websites of the Company and the Stock Exchange.

The Strategy Committee comprises five Directors, including Mr. Li Gang, Mr. Peng Hui, Mr. Wang Shaochen, Mr. Liu Qiang and Mr. Li Hua. Mr. Li Gang, the Chairman, acts as chairman of the committee.

During the Year, the Strategic Committee held 1 meeting to discuss the investment plan of the Company for the year 2019.

Diversity of the Board

In accordance with the Listing Rules, the Board has developed and adopted the Board Member Diversity Policy. With reference to the policy above, the Nomination Committee has reviewed the composition of the Board in accordance with the Listing Rules and concluded that the composition of the Board is in compliance with the diversity requirements of the Listing Rules in terms of age, educational background, industry experience, region and duration of service.

DIRECTORS

Appointment and Re-election of Directors

Directors (including non-executive Directors and independent non-executive Directors) shall be elected by the general meeting with a term of office of three years from the date of passing the resolution of the general meeting until the expiration of term of office of the Board. The Directors are eligible for re-election upon the expiration of term of office, provided that no independent non-executive Director shall serve consecutive terms for more than nine years.

The Chairman and the Vice Chairman shall be elected and removed by over half of the members of the Board, with a term of office of three years, and may be re-elected upon the expiration of term.

Each of the current Directors has entered into a service contract with the Company, effective for three years upon approval by Shareholders and subject to termination in accordance with the terms of the respective contracts.

None of the Directors has entered or proposed to enter into a service contract with any member of the Group, other than those contracts that would be expired within one year or whose relevant employers could terminate within one year without the payment of compensation (except statutory compensation).

Corporate Governance Report (Continued)

Nomination of Directors

In accordance with the Articles of Association, the candidates of Directors shall be nominated or recommended by the existing Board or in the form of proposal by the Shareholders separately or jointly holding over 3% of the Shares of the Company. The Board shall verify the qualifications and requirements of the candidates of Directors, and a written resolution should be proposed at the general meeting for approval after the candidate of Director is determined by proposal.

Independence of Independent Non-executive Directors

The Company currently has five independent non-executive Directors, and none of them has served as independent non-executive Director for more than six years. The number and qualification of the independent non-executive Directors are in compliance with the requirements of the Listing Rules and the Articles of Association. Their independence is highly guaranteed as none of the independent non-executive Directors has any business and financial relationship with the Company or its subsidiaries and has no management function in the Company.

Each of our five independent non-executive Directors has given their written confirmation of their independence in accordance with Rule 3.13 of the Listing Rules. Based on such confirmation and to the best knowledge of the Board, all current independent non-executive Directors are independent and are in compliance with the requirement of Rule 3.13 of the Listing Rules.

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.

Directors' Preparation Responsibilities on Financial Statements

The Directors acknowledge their responsibilities to prepare the financial statements of the Group in accordance with relevant statutory requirements and generally accepted accounting principles in Hong Kong and ensuring that the financial statements give a true and fair view of the Group's financial position.

According to Code C.1.1 of the Corporate Governance Code, the management shall provide sufficient explanation and information to the Board so that the Board can have an informed assessment of such information before financial and other information are submitted to the Board for approval. The Company will also provide monthly reports on the results, positions and prospects of the Group to all members of the Board.

SHAREHOLDERS AND GENERAL MEETINGS

Particulars of Controlling Shareholders

Controlling shareholders of the Company are Qilu Transportation, China COSCO Shipping Corporation Limited, China Ocean Shipping Company Limited, and COSCO SHIPPING (Hong Kong).

The operation of the Company is independent from its controlling shareholders in terms of personnel, organisation, assets and business. The activities of controlling shareholders are governed, and controlling shareholders have not taken any action beyond their authority without approval of the Shareholders at the general meeting and have not directly or indirectly intervened the operation and decision of the Company.

Shareholdings of the substantial shareholders and details of the Non-Competition Agreement and Undertaking of controlling shareholders during the Year are set out in the "Report of the Board of Directors" in this report.

General Meetings

The Company is committed to ensuring that all Shareholders, in particular the minority Shareholders, are treated equally and are able to exercise all their rights. The general meeting is the highest authority of the Company and performs its duties in accordance with all applicable laws.

To safeguard the interests and rights of Shareholders, all major matters shall be proposed as separate resolutions at the general meeting for consideration in accordance with the applicable laws and the Listing Rules. The rights of Shareholders and voting procedures of the general meeting shall be contained in the relevant circular in accordance with the Articles of Association and the Listing Rules, which shall be dispatched to Shareholders within a specified period of time and shall be published on the websites of the Stock Exchange and the Company.

During the Reporting Period, the Company convened one annual general meeting and one extraordinary general meeting. For details of proposals and resolutions considered at the 2018 Annual General Meeting held on 10 June 2019 and the extraordinary general meeting held on 19 November 2019, please refer to relevant announcements published on the websites of the Stock Exchange and the Company.

CONTROL SYSTEM

Supervisory Committee

The Supervisory Committee is the supervisory authority of the Company and shall be accountable to the general meeting. Supervisors shall act independently in accordance with the laws to protect the legitimate interests of Shareholders and the Company.

The authority and duties of the Supervisory Committee include (but are not limited to): (1) reviewing the financial statements, business report and profit distribution plan prepared by the Board and retaining certified accountant or certified auditor to review the financial information; (2) supervising the financial activities of the Company; (3) demanding the rectification of acts of the Directors, general manager and senior management which are against the interests of the Company; and (4) exercising other power, authority and duties in accordance with the Articles of Association.

Corporate Governance Report (Continued)

As of 31 December 2019, the Supervisory Committee comprises eight members, including three employee representative supervisors (i.e. Mr. Hao Dehong, Ms. Hou Qinghong and Mr. Wang Shun), three shareholder representative Supervisors (i.e. Ms. Meng Xin, the chairman of Supervisory Committee, Mr. Wu Yongfu and Mr. Zhang Yin) and two independent Supervisors (i.e. Mr. Li Ruzhi and Mr. Meng Qinghui).

Supervisors who are representatives of the Shareholders shall be elected and removed by the general meeting. Employee representative supervisors shall be elected and removed by the employee representative meeting, employee general meeting or other democratic procedures. Each Supervisor shall have a term of three years from the date when relevant resolution is approved by the general meeting or employee representative meeting until the expiration of the term of the Supervisory Committee, subject to re-election upon the expiration.

Particulars of the Supervisors are set out in the section “Profiles of Directors, Supervisors and Senior Management” of this report.

During the Reporting Period, the Supervisory Committee convened 3 regular meetings, at which proposals, including the Resolution on 2018 Work Report of the Supervisory Committee, the 2018 Profit Distribution and Dividend Distribution Plan; the 2018 Final Financial Report; the 2019 Financial Budget Plan; 2018 Internal Control Valuation Report; the 2018 Annual Report of the Company; the Resolution on Declaration for the 2018 Financial Statement to Auditors and Audit Firms; the 2018 Audited Financial Statement and Auditor’s Report of the Company; the Resolution on Election for the Expiry of the Session of the Board of Supervisors and the Candidates for Non-employee Supervisors of the Second Session of the Supervisory Committee; the Resolution on the Remuneration of Supervisors; and the Resolution on Election on Chairman of the Second Session of the Supervisory Committee of the Company, were considered and approved.

Internal Control and Risk Management

The Board shall have the decision on all operation matters and is committed to establishing and improving the internal control and risk management system. It shall also supervise the implementation of the risk management and internal control system to safeguard the investment of the Shareholders and the assets of the Group.

The Board recognises its responsibility on risk management and internal control systems and reviews their effectiveness. Such systems are designed to manage rather than eliminate the risk of failing to achieve business objectives, and only provide reasonable but not absolute guarantee of material misrepresentation or loss.

The Board has delegated its responsibility (together with relevant authority) for risk management and internal control to the Audit Committee. The Audit Committee is responsible for supervising the design, implementation and monitoring of the management in respect of risk management and internal control systems. The management has confirmed to the Audit Committee (and the Board) the effectiveness of such systems for the year ended 31 December 2019.

Key Features of Risk Management and Internal Control Systems

The Board shall be responsible for risk management and internal control systems of the Company, and shall review the effectiveness of such systems. The Supervisory Committee shall supervise the establishment and implementation of internal control system by the Board. The management is responsible for organising and leading the daily operation of internal control system.

Corporate Governance Report (Continued)

Scope of responsibilities:

The Board

1. Be responsible for risk management and internal control systems and continuously review their effectiveness, so that the Company can establish and maintain effective risk management and internal control systems;
2. Review risk management and internal control systems of the Company at least once a year, and ensure that at each review, the Company has sufficient resources, employee qualification and experience, employee training courses and relevant budgets in terms of accounting, internal audit and financial reporting functions. In case of additional matters that need to be reported, the Chairman will determine whether to report such matters to the Board;
3. Supervise the design, implementation and monitoring of the management in respect of risk management and internal control systems.

The Audit Committee

1. Review and assess the completeness and effectiveness of financial supervision and control, internal control and risk management systems, mechanisms and policies;
2. Evaluate the risk management and the internal control assessment and audit results, and urge improvement regarding risk management and internal control defects;
3. Discuss with the management about the internal control system to ensure that the management has set up an effective internal control system. The discussion shall cover the sufficiency of resources and employee qualification and experience, and the adequacy of trainings taken by employees and relevant budgets in terms of accounting and financial reporting functions;
4. Study, either initiatively or under the engagement of the Board, important review results related to risk management and internal control matters and the management's feedback about such review results.

The Management

1. Be responsible for risk management and internal control, and conduct management in this regard;
2. Report information about risk management and internal control to the Board and the Audit Committee.

The management presents report of risk management and internal control to the Audit Committee and the Board at the annual meeting held each year, so that the Board is able to make judgement about the effectiveness of internal control and risk management.

The Company applies relevant policies and procedures to review the effectiveness of risk management and internal control systems and to address material internal control defects, which include the requirement that the management of the Company shall conduct regular evaluation and acquire latest information in this regard. In the meantime, the Company has developed a set of clean system to offer guarantee for anti-corruption, reporting and supervision.

Corporate Governance Report (Continued)

Specific procedures to identify, assess and manage material risks

1. *Risk identification*

Determine risk measurement criteria and identify risks which may have potential impact on the company.

2. *Risk assessment*

Assess risks identified and classify them by risk level.

3. *Risk response*

Select the response strategy according to the risk level, and the risk control department tracks the effectiveness of such response strategy. At the same time, formulate relevant countermeasures to avoid the recurrence of risks or reduce the related risks.

4. *Risk monitoring*

Monitor risks continuously and regularly, and adjust risk management and internal monitoring procedures when appropriate to ensure that relevant monitoring procedures are appropriate and effective. Report the results of risk monitoring to the management and the Board regularly.

In a bid to become resilient to changes of external environment and maintain the profitability, the Company optimises business procedures and transform business and management modes through management innovation and business reform. It also exerts great efforts to mid- and long-term planning, cost reduction, organisation and procedure optimisation, capability improvement and other aspects to ensure that the strategy and annual plan are realised.

Internal Audit Function

The internal audit function of the Company is performed by the Audit and Legal Department, which directly reports to the Audit Committee.

Dealing with and Publishing Inside Information

For procedures and internal control related to dealing with and publishing inside information, the Company:

1. acknowledges its responsibilities under the SFO and the Listing Rules, the most important principle of which provides that where relevant information is determined as inside information, an announcement shall be published as soon as reasonably and practicably feasible; and
2. pays close attention to applicable laws and regulations when dealing with such matters.

A self-evaluation report has been prepared by the Board in respect of the risk management and internal control matters of the Company during the Reporting Period. The Board has reviewed the control system of the Company and is of the view that during the Reporting Period, such system was effective and sufficient and the management of the Company should further perfect its risk management and internal control systems to promote the improvement of its corporate governance.

AUDITORS' REMUNERATION

The remunerations paid/payable to the Company's auditors during the year are set out as follows:

Service Provided	Fee paid/payable <i>RMB'000</i>
Audit fee	940
Non-audit fee – Interim review	380

JOINT COMPANY SECRETARIES

Mr Lian Shengguo (“Mr. Lian”) and Ms. So Shuk Yi Betty (“Ms. So”) act as the joint company secretaries of the Company since 7 June 2018.

Particulars of Mr. Lian and Ms. So are set out in the section headed “Profiles of Directors, Supervisors and Senior Management” in this report.

Ms. So serves as the vice president of SWCS Corporate Services Group (Hong Kong) Limited, and is responsible for advising the Board on corporate governance matters to ensure the compliance with policies and procedures set by the Board, and applicable laws, rules and regulations. Mr. Lian is the main contact of Ms. So in the Company.

Both Mr. Lian and Ms. So have confirmed that they have received not less than 15 hours of relevant professional training as required by Rule 3.29 of the Listing Rules during the Year.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONSHIP

Convening of Extraordinary General Meeting

Shareholders separately or jointly holding not less than ten percent (10%) of Shares in issue may propose to the Board to convene extraordinary general meeting or class shareholders' meeting, which shall be submitted in written form. The Board, according to the laws, administrative regulations and provisions of the Articles of Association, shall provide written feedback on whether agrees or not to hold an extraordinary general meeting or class shareholders' meeting within ten (10) days after receiving the request.

Enquiry to the Board

The shareholder communication policy of the Company aims to maintain transparency and provide information about major development of the Group to shareholders and investors in a timely fashion. The general meeting the Company is the formal channel of communication between shareholders and the Board. The Chairman and chairmen of board committees (other members of the committees concerned if they are not able to attend meetings in person) will attend the general meeting to communicate directly with shareholders.

Corporate Governance Report (Continued)

Shareholders may send their enquiries and questions to the Board office to the following address:

Address: Room 2212, Block 4, Zone 3, Hanyu Financial & Business Centre, No. 7000 Jingshi East Road, Hi-tech Zone, Jinan City, Shandong Province, the PRC

Tel: 86-531-87207088

Procedures for Proposal at the General Meeting

Shareholder(s) separately or jointly holding more than 3% of the Shares in the Company may propose additional resolutions to the Board in writing. Upon receipt of the proposals, the Board shall inform other Shareholders in two days. The Company shall include matters set out in the proposals which fall within the scope of the general meeting into the agenda of the meeting.

Amendment of Constitutional Documents

During the Year, the Company made no amendments to the Articles of Association.

Communication with Investors and Investor Relationship

The Company's management values the investor relation management, and has established Measures of Information Disclosure, Investor Relation Management System and other regulatory systems to standardise and optimise the investor relation management.

During the Reporting Period, while earnestly performing statutory information disclosure obligations, the Company launched investor relation activities in various forms to provide investors with information which they were interested in, to promote the transparency of corporate operation and to build mutual understanding and trust. Meanwhile, the Company absorbed advice provided by investors in the course of information delivery and collected feedback from investors to boost benign interactions between the Company and investors.

In the investor relation activities, office of the Board was responsible for investor relation management. Work assumed by them included: answering telephone and e-mail enquiries through investor hotline and e-mail; receiving delegations of investors and securities analysis agencies; participating in investor promotion activities; organising roadshows; providing particulars about the Company, information disclosure and corporate governance through the website of the Company.

Profiles of Directors, Supervisors and Senior Management

As at the date of this report, the biographies of Directors, Supervisors and Senior Management of the Company are as follows:

DIRECTORS

(1) Executive Directors

Mr. Li Gang, aged 51, currently serves as the chairman of the Board, executive Director and secretary of the party committee of the Company.

Mr. Li has over 30 years of experience in the highway industry and has held various positions in relevant government traffic management departments and enterprises. Mr. Li served as an accountant in the collection office of Jinan highway management division from July 1988 to March 1994, a deputy director of the collection and inspection office of Jinan Highway Administration Bureau from March 1994 to February 1999, the head and secretary of the party branch of Jinan Highways Development Centre (濟南公路產業開發中心) and the general manager of Jinan Jinyu Road Industrial Development Co., Ltd. (濟南金宇公路產業發展有限公司) from March 1999 to January 2004. Mr. Li also served as the deputy director and member of the party committee of Jinan Highway Administration Bureau and chairman of Jinan Jinhong Construction Consulting Co., Ltd. (濟南金鴻建設諮詢有限公司) from January 2004 to March 2008. Mr. Li joined the Company in December 2007 and acted as Director and deputy general manager. He also served as Director, deputy general manager and secretary of the party committee of the Company from March 2008 to April 2011, executive deputy general manager and secretary of the party committee from April 2011 to November 2014. Mr. Li has served as chairman and secretary of the party committee of the Company since November 2014.

Mr. Li served as the chairman of the supervisory committee of Dongying Yellow River Bridge Co., Ltd. (formerly known as Dongying Yellow River Bridge Expressway Co., Ltd.) from March 2015 to July 2016.

Mr. Li was praised as an advanced productivity worker by Highway Administration Committee of Jinan of CPC (中共濟南市公路管理局委員會) and Highway Administration Bureau of Jinan (濟南市公路管理局) in January 2004. He was also rewarded May 1 Labour Medals of Jinan by Jinan Workers' General Union (濟南市總工會) in April 2006. Mr. Li received second prize from Shandong Provincial Workers' General Union (山東省總工會) and Shandong Provincial Transport Department in a campaign regarding the construction of major transport projects in Shandong in June 2006. Mr. Li completed a thesis titled "Opinions on the Improvement of Toll Management and Services of Expressway (《關於加強高速公路收費管理提高服務質量的幾點思考》)" with Li Huaqing, Han Chunhua and Yang Kun, which was praised in March 2008 as an outstanding thesis for academic exchange of 2007 by Shandong Highway Society.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Li graduated from Jinan Jiaotong College (濟南交通學校) in Jinan, PRC, under the MOC in July 1988 with a technical secondary school academic qualification majoring in finance and accounting. He was qualified as an accounting assistant by the MOF in December 1992. Mr. Li studied in Shandong Cadres Correspondence University (山東幹部函授大學) in Jinan, the PRC, in June 1997 majoring in financial accounting, and obtained a cadre part-time undergraduate degree academic certificate from Shandong Cadres Correspondence University. Mr. Li was granted the title of senior political analyst by Corporate Ideological and Political Work Qualification Assessment Office of Shandong(山東省企業思想政治工作人員專業職務評定工作辦公室) in September 2006. Mr. Li obtained a master's degree in business administration from Tianjin University in Tianjin, the PRC, in January 2016.

Mr. Peng Hui, aged 55, is currently an executive Director, general manager and deputy secretary of the party committee of the Company.

Mr. Peng has over 30 years of experience in the transportation industry. He acted as the head of paratransit of Tianjin Ocean Shipping Company (天津遠洋運輸公司) from September 1984 to September 1998, manager of COSCO Bulk International Ocean Manning Company (中遠散運國際海員外派公司) from October 1998 to July 2008, assistant to general manager of COSCO SHIPPING (Hong Kong) Industry & Trade Limited (中遠海運(香港)工貿有限公司) from July 2008 to June 2011 and deputy general manager of COSCO SHIPPING (Hong Kong) Industry & Trade Limited (中遠海運(香港)工貿有限公司) from July 2011 to May 2014. Mr. Peng joined the Company as Director in October 2011. He has served as an executive Director, general manager and deputy secretary of the party committee of the Company since May 2014.

Mr. Peng graduated from Qingdao Ocean Shipping Mariners College (青島遠洋船員學院) in Qingdao, the PRC, in July 1990 with a diploma majoring in marine engineering management. In December 2004, he graduated from Party School of Tianjin Municipal Committee of the Communist Party of China (中共天津市委黨校) in Tianjin, the PRC, with a part-time undergraduate degree in Law.

Mr. Liu Qiang, aged 51, currently serves as an executive Director, the deputy general manager and a member of the party committee of the Company. He concurrently serves as a director of Qilu Expressway (Hong Kong) Company Limited, a wholly-owned subsidiary of the Company and chairman of Shandong Gangtong Construction Co., Ltd., a wholly-owned subsidiary of the Company.

Mr. Liu has nearly 30 years of experience in the construction industry. Mr. Liu served as an officer of the Pingyin Construction Committee from February 1992 to April 1994. He served as the deputy director of demolition and relocation office under the Pingyin Urban Construction and Management Bureau (平陰縣城市建設管理事業局) from April 1994 to April 1996; branch committee secretary of the Pingyin gardening management unit from April 1996 to April 1999; and deputy head of the Pingyin Housing and Urban-Rural Construction Department from April 1999 to August 2005. He has served as deputy head (person in charge) of the Pingyin Highway Management Bureau and deputy secretary of the party panel of Pingyin Highway Management Bureau since August 2005; and deputy secretary of the committee of Pingyin Transportation Bureau since June 2007.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Liu joined the Company in September 2007 and worked as the head of Pingyin Management Department until February 2008, member of the party committee of the Company from February 2008 to March 2008, chief economist and member of the party committee of the Company from March 2008 to May 2008, chief economist, member of the party committee, chairman of labour union of the Company from May 2008 to December 2014. He has been the chief economist, member of the party committee, chairman of labour union and secretary of disciplinary commission of the Company from December 2014 to June 2019. Mr. Liu also served as a director of Jihe Petroleum from December 2011 to August 2017. He has been the deputy general manager and a member of the party committee of the Company since June 2019. Mr. Liu has served as a director of Qilu Expressway (Hong Kong) Company Limited, a wholly-owned subsidiary of the Company, since August 2019. He served as the chairman of Shandong Gangtong Construction Co., Ltd., a wholly-owned subsidiary of the Company, since 19 March 2020. He served as an executive Director, deputy general manager and a member of the party committee of the Company since November 2019.

In February 2006, Mr. Liu was named as Advanced Production Worker of Jinan highway system for 2005 (濟南公路系統2005年度先進生產(工作)者) by Jinan Highway Management Bureau and Jinan Party Committee. In June 2011, he was named as the Advanced Individual for Shandong Transportation Energy Saving and Emission Reduction Work under the Eleventh Five-year Plan (“十一·五”全省交通運輸節能減排工作先進個人) by the Shandong Transport Department. In April 2015, he was named as the Outstanding Organisation Individual of National Health Cup Campaign (“安康杯”競賽優秀組織個人) by the Shandong General Union and Shandong Province Administration of Production Safety.

In July 1988, Mr. Liu graduated from Shandong Province Jinan Urban Construction School (山東省濟南城市建設學校) (currently known as the Shandong Urban Construction Vocational College) in Jinan, the PRC, with technical school academic qualification majoring in surveying and mapping. In June 1993, he graduated from Correspondence Institute of the Party School of the China Communist Party (中央黨校函授學院) in Beijing, the PRC, with a diploma majoring in economic management. In December 2002, he graduated from The Shandong Province Party Committee School of Shandong Committee of the Communist Party of China (中國共產黨山東省委員會黨校) in Jinan, the PRC, with a part-time undergraduate degree (transferred from an associate program) in Construction and Operation. In May 2004, he completed a postgraduate course in administrative management in Beijing Normal University in Beijing, the PRC. In September 2007, Mr. Liu was qualified as a senior political analyst by the Duty Assessment Office for Ideological and Political Staff at Enterprises in Shandong (山東省企業思想政治工作人員專業職務評定工作辦公室).

(2) Non-executive Directors

Mr. Chen Dalong, aged 58, is currently the vice chairman of the Board and non-executive Director of the Company. He concurrently serves as the director and general manager of COSCO SHIPPING (Hong Kong) Industry & Trade Limited (中遠海運(香港)工貿有限公司), the vice chairman of the board of directors of Shenzhen Guangju Investment Holdings Limited (深圳市廣聚投資控股(集團)有限公司), and the vice chairman of the board of directors of Shenzhen Guangju Energy Co., Ltd. (深圳市廣聚能源股份有限公司) (listed on the Shenzhen Stock Exchange, stock code: 000096).

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Chen had worked for Shanghai Ocean Shipping Co., Ltd. (上海遠洋運輸公司) and served as shipping trainee, deputy secretary of the office of the general manager and chief assistant of the office of the general manager from August 1985 to September 1996. He was the trainee of the operation and management cadre training course of China Ocean Shipping (中遠集團) from September 1996 to September 1997. He served as the deputy general manager of Donghong Hotel (東虹大酒店) from September 1997 to March 1999; deputy general manager and general manager of Shanghai Yuanyang Shipping Supply Company (上海遠洋船舶供應公司) from March 1999 to October 2002; deputy general manager of Shanghai Yuanyang Lushang Production Corporation (上海遠洋陸上產業總公司) from October 2002 to August 2004; assistant to general manager of Shanghai Ocean Shipping Co., Ltd. (上海遠洋運輸公司) and general manager of Ocean Hotel (遠洋賓館) from September 2004 to May 2006; deputy general manager of Shanghai Ocean Shipping Co., Ltd. (上海遠洋運輸公司), general manager of Shanghai Yuanyang Holding Corporation (上海遠洋實業總公司) and general manager of Ocean Hotel from May 2006 to January 2012; and deputy general manager and secretary of the party committee of COSCO South-China International Freight Co., Ltd. (華南中遠國際貨運有限公司) from January 2012 to May 2016. He has been the general manager of COSCO SHIPPING Industry & Trade (formerly known as COSCO (Hong Kong) Industry & Trade Holdings Limited) since May 2016; vice chairman of the board of directors of Shenzhen Guangju Investment Holdings Limited (深圳市廣聚投資控股(集團)有限公司) since November 2016; and vice chairman of the board of directors of Shenzhen Guangju Energy Co., Ltd. (深圳市廣聚能源股份有限公司) (Shenzhen Stock Exchange stock code: 000096) since December 2016. He has been appointed as the vice chairman of the Board and a non-executive Director of the Company since December 2017.

Mr. Chen is currently serving as the director of Smart Watch Assets Limited, Freetech Intelligent Road Regeneration Engineering Investment Co., Ltd. (英達智能道路再生工程投資有限公司) (held by COSCO SHIPPING Industry & Trade as to 49.00%) and Tianjin Expressway Maintenance Company Limited (天津市高速公路養護有限公司) (held by Freetech Intelligent Road Regeneration Engineering Investment Co., Ltd. as to 55.00%) and the chairman of the board of directors of (i) Hebei Jixing Expressway Co., Ltd. (河北冀星高速公路有限公司); (ii) Tianjin Tianyu Expressway Co., Ltd. (天津天預高速公路有限公司); (iii) Tianjin Tian'ang Expressway Co., Ltd. (天津天昂高速公路有限公司); (iv) Tianjin Tianxu Expressway Co., Ltd. (天津天旭高速公路有限公司); (v) Tianjin Tianda Expressway Co., Ltd. (天津天達高速公路有限公司); (vi) Tianjin Tianwei Expressway Co., Ltd. (天津天偉高速公路有限公司); (vii) Tianjin Tianduo Expressway Co., Ltd. (天津天奪高速公路有限公司); (viii) Tianjin Tianfu Expressway Co., Ltd. (天津天富高速公路有限公司); (ix) Tianjin Tianyong Expressway Co., Ltd. (天津天永高速公路有限公司); and (x) Tianjin Tianxian Expressway Co., Ltd. (天津天顯高速公路有限公司). Smart Watch Assets Limited is the wholly-owned subsidiary of COSCO SHIPPING (Hong Kong) and the controlling shareholder of the above (i) to (x) companies.

Mr. Chen graduated from Shanghai Maritime College (上海海運學院) (currently known as Shanghai Maritime University) in Shanghai, the PRC in July 1985 with a bachelor's degree of engineering, majoring in marine engineering management. Mr. Chen received the qualification as an engineer from the intermediate professional engineering service assessment committee of Shanghai Ocean Shipping Co., Ltd. (上海遠洋運輸公司) in August 1996.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Wang Shaochen, aged 54, is currently a non-executive Director of the Company. Mr. Wang concurrently serves as a deputy director of the human resources sharing services centre (Jinan branch) of Shenhua National Power Group, and the chairman of the labour union and a member of the party committee of Shandong Construction.

Mr. Wang had worked for Huangtai Thermal Power Station (黃台火力發電廠) in Shandong and held various positions, including the duty officer, the deputy chief officer, the secretary of the branch committee of grey water field team (灰水分場團), member of the welfare division of the labour union, the deputy secretary to the operation department and party branch, from July 1984 to December 1997. Mr. Wang served in the office of Luneng Fuels Group Co., Ltd. (魯能燃料集團有限公司) from December 1997 to August 1999. He worked for the planning and logistic department of Luneng Fanmao Co., Ltd. (魯能帆茂有限公司) from August 1999 to September 2000, and served as the deputy manager of the Huangtai branch of Luneng Fuels Group Co., Ltd. (魯能燃料集團有限公司) from September 2000 to March 2002. He served in the general department of Shandong Luneng Development Group Co., Ltd. (山東魯能發展集團有限公司) from March 2002 to July 2008, and acted as the deputy manager of the general department of Shandong Luneng Development Group Co., Ltd. from July 2008 to March 2009. He was the manager of the general department of Shandong Luneng Electricity Inspection, Maintenance and Operation Co., Ltd. (山東魯能發電檢修運營有限公司) from March 2009 to June 2011, and the head of the affairs department of Guowang Energy Development Co., Ltd. (國網能源開發有限公司) from June 2011 to February 2013. Mr. Wang served as the chairman of the labour union of the management and a member of the party committee of Shandong Construction from February 2013 to May 2015, and has been a deputy director of the human resources sharing services centre (Jinan branch) of Shenhua National Power Group, and the chairman of the labour union and a member of the party committee of Shandong Construction since May 2015. Mr. Wang was appointed as a non-executive Director of the Company in November 2014.

Mr. Wang graduated from Shandong TV University in Jinan, the PRC, in June 1995, majoring in professionals of economic management, and obtained the graduation certificate from the Self-taught Higher Education and Examination Committee of Shandong Province (山東省高等教育自學考試委員會專科畢業證書). Mr. Wang received a certificate in recognition of the professional economic (industrial) qualification from Ministry of Personnel of the PRC in November 1999. He graduated from the legal studies programme jointly organised by the China Central Radio and TV University (currently known as the Open University of China) in Beijing, the PRC, and China University of Political Science and Law, in Beijing, the PRC, in July 2004 and obtained a bachelor's degree from China Central Radio and TV University. He received a certificate of senior economist from the Hubei branch of Ministry of Personnel of the PRC in December 2006 and a certificate of professional secretary (level 3) from the Ministry of Human Resources and Social Security of the PRC in November 2010.

Mr. Zhou Cenyu, aged 48, is currently a non-executive Director of the Company, and a member of the party committee and the director of the office of the board of directors of Qilu Transportation.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Zhou served as a cadre of Jiezhuang Town, Rencheng District, Jining City of Shandong Province from July 1993 to June 1997, and was a staff member, deputy section chief and section chief of Shandong Wenlian Personnel Office from June 1997 to November 2002. He served as a section level inspector (正科級檢查員) of Shandong Province Enterprises Disciplinary Committee (山東省管企業紀工委) from November 2002 to June 2004 and a staff member and director of the first bureau of discipline committee of Shandong State-owned Assets Supervision and Administration Commission from June 2004 to November 2008. He served as the deputy director of the leadership management division, deputy head and researcher of the organization department of the party committee of Shandong SASAC from November 2008 to May 2015. He served as the director-level supervisor of the third office of Shandong Province Enterprises Supervisory Board (山東省管企業監事會第三辦事處) from May 2015 to October 2015. He served as the temporary person-in-charge of the work department and the deputy secretary of the headquarters of the party committee of Qilu Transportation from October 2015 to April 2018. He has been serving as a member of the party committee of Qilu Transportation since January 2018 as well as the director of the office of the Board of Qilu Transportation since April 2018. Mr. Zhou has served as a non-executive Director of the Company since November 2019.

Mr. Zhou holds a bachelor's degree in engineering from the department of chemical engineering of Yantai University, majoring in chemical engineering and a master's degree in business administration from School of Management, Shandong University.

Mr. Su Xiaodong, aged 55, is currently a non-executive Director of the Company. He concurrently serves as the investment director and general manager of the capital and investment department of COSCO SHIPPING (Hong Kong) Co., Limited (中遠海運(香港)有限公司).

Mr. Su worked for the planning department of China Ocean Shipping Company Limited (中國遠洋運輸有限公司) from August 1988 to March 1993. He served as the manager of the consulting department of COSCO Investment Company (中遠投資公司) from March 1993 to September 1997. From September 1997 to March 2012, he worked for China Ocean Shipping Company Limited (中國遠洋運輸有限公司) and held various positions including assistant manager of the asset management centre, officer of the development department and vice head and deputy manager of administrative office of the planning department. He also served as deputy general manager of the strategic development department of China COSCO Holdings Company Limited from August 2005 to February 2009 and manager of the asset operation office of the strategic development department of China Ocean Shipping Company Limited from February 2009 to March 2012. He has served as the general manager of the planning department of COSCO SHIPPING (Hong Kong) Co., Limited (中遠海運(香港)有限公司) from March 2012 to January 2019 and investment director and general manager of the capital and investment department of COSCO SHIPPING (Hong Kong) Co., Limited since January 2019. Mr. Su has served as a non-executive Director of the Company since September 2012.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Su is currently serving as the director of (i) Hebei Jingshi Expressway Development Co., Ltd. (河北京石高速公路開發有限公司); (ii) COSCO H.K. (Beijing) Investment Co., Limited (香遠(北京)投資有限公司); (iii) Hebei Jixing Expressway Co., Ltd. (河北冀星高速公路有限公司); (iv) Tianjin Tianyu Expressway Co., Ltd. (天津天預高速公路有限公司); (v) Tianjin Tian'ang Expressway Co., Ltd. (天津天昂高速公路有限公司); (vi) Tianjin Tianxu Expressway Co., Ltd. (天津天旭高速公路有限公司); (vii) Tianjin Tianda Expressway Co., Ltd. (天津天達高速公路有限公司); (viii) Tianjin Tianwei Expressway Co., Ltd. (天津天偉高速公路有限公司); (ix) Tianjin Tianduo Expressway Co., Ltd. (天津天奪高速公路有限公司); (x) Tianjin Tianfu Expressway Co., Ltd. (天津天富高速公路有限公司); (xi) Tianjin Tianyong Expressway Co., Ltd. (天津天永高速公路有限公司); and (xii) Tianjin Tianxian Expressway Co., Ltd. (天津天顯高速公路有限公司). Smart Watch Assets Limited is the wholly-owned subsidiary of COSCO SHIPPING (Hong Kong) and the controlling shareholder of the above (i) to (xii) companies.

Mr. Su graduated from Northern Jiaotong University (currently known as Beijing Jiaotong University) in Beijing, the PRC, with a bachelor's degree majoring in industrial management engineering in July 1988. Mr. Su was accredited as a senior economist by the MOC in November 1999.

Ms. Kong Xia, aged 49, is currently a non-executive Director of the Company, and the department head of the human resources department of Qilu Transportation and a member of the party committee of the headquarters of Qilu Transportation.

Ms. Kong served as a cadre of Shandong Provincial Transport Projects Supervision and Consultation Ltd. from July 1993 to June 1997. From June 1997 to November 2000, she served successively as a civil servant and the deputy section chief of the planning and infrastructure department of Shandong Provincial Transport Department. She served successively as the deputy section chief, section chief and deputy director of the planning and infrastructure department of Shandong Provincial Transport Department from November 2000 to July 2010. She served successively as the deputy director and researcher of the integrated planning department of Shandong Provincial Traffic Transport Department from July 2010 to October 2015. She served as the temporary person-in-charge of the maintenance technology department of Qilu Transportation from October 2015 to December 2015. She served successively as the presiding expert and department head of the corporate management department of Qilu Transportation from December 2015 to April 2018. She has been serving as the department head of the human resources department of Qilu Transportation and a member of the party committee of the headquarters of Qilu Transportation since April 2018. Ms. Kong has served as a non-executive Director of the Company since November 2019.

Ms. Kong holds a bachelor's degree in engineering from the Southeast University, majoring in highways and urban roads and a master's degree and postgraduate's degree in business administration from Shandong University.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Yuan Ruizheng, aged 39, currently is a non-executive Director of the Company. He also served as the special assistant to the general manager of CITIC-Prudential Life Insurance Company Ltd..

Mr. Yuan has joined Citic-Prudential Life Insurance Co., Ltd. since November 2014 and currently serves as the special assistant to general manager of the company. He was a researcher of the research and development department of CSC Financial Co., Ltd (a company listed on the Stock Exchange, stock code: 06066) from December 2010 to November 2014. He has been the chairman of the board of directors and legal representative of Gongqing City Citavic Investment Company Limited* (共青城信航投資有限公司) since November 2018. Mr. Yuan holds a bachelor's degree in management engineering from Tianjin University and a master's degree in science management and engineering from National University of Defense Technology. Mr. Yuan was appointed as a Director of the Company in December 2018. Mr. Yuan has served as a non-executive Director of the Company since December 2018.

Mr. Tang Haolai, aged 37, currently is a non-executive Director of the Company. He also served as a manager of the auditing legal department of Shandong Highway Investment Group Co., Ltd.

Mr. Tang was a deputy manager of the legal audit department of Shandong High-Speed Investment Holdings Co., Ltd. (山東高速投資控股有限公司) from May 2017 to October 2018 and has been the manager of the legal audit department of Shandong High-Speed Investment Holdings Co., Ltd. since October 2018. He has been a director of Shandong Hi-Speed (Shanghai) Asset Management Co., Ltd. (山東高速(上海)資產管理有限公司), a supervisor of Jinan Shangao Deguang Investment Co., Ltd. (濟南山高德廣投資有限公司) and the chairman and manager of Beijing Weite Real Estate Development Co., Ltd. (北京偉特房地產開發有限公司) since December 2017. He has also been the chairman of Jinan Yihai Guanghe Property Co., Ltd. (濟南易海光合置業有限公司) since September 2018, a non-independent director of Goldcard Smart Group Co., Ltd. (金卡智能集團股份公司) (a company listed on the Shenzhen Stock Exchange, stock code: 300349) since December 2018 and a director of Shandong Oriental Ocean Sci-Tech Co., Ltd (山東東方海洋科技股份有限公司)(a company listed on the Shenzhen Stock Exchange, stock code: 002086) since December 2019. Mr. Tang has served as the non-executive Director of the Company since December 2018.

Mr. Tang holds a bachelor's degree in law from the law school of the Weihai campus of Shandong University and a master's degree in theory of law from the law school of Shandong University.

(3) Independent Non-executive Directors

Mr. Cheng Xuezhao, aged 51, currently is an independent non-executive Director of the Company. He also serves as an assistant general manager of Hualu Holdings Co., Ltd (華魯控股集團有限公司) and vice chairman of the board of directors and general manager of China Shandong Group Limited (華魯集團有限公司), a director of Hualu International Financial Leasing Co., Ltd. (華魯國際融資租賃有限公司) and a director of Hualu Investment Development Co., Ltd. (華魯投資發展有限公司).

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Cheng served as an officer, assistant manager and manager in the Shandong Provincial Finance Department (山東省財政廳) from July 1994 to April 1997. He worked as a manager of Hongkong Macao (International) Group Co., Ltd. (港澳國際(集團)有限公司) from April 1997 to April 1999. He was a manager and deputy general manager of general office, deputy general manager and general manager of asset operation department of China Shandong Group Limited and a general manager of capital operation department of Hualu Holdings Co., Ltd. from April 1999 to October 2006. He participated in the preparation of the establishment of the Central Geological Exploration Fund management Center of the MLR from October 2006 to January 2008. He was the head of general office, member of the branch committee and officer of general office of the Central Geological Exploration Fund Management Center (國土資源部中央地質勘查基金) under the MLR from January 2008 to September 2011. He has worked as the assistant general manager of Hualu Holdings Co., Ltd. and concurrently the vice chairman of the board of directors and general manager of China Shandong Group Limited since September 2011. He has also worked as a director of Hualu International Financial Leasing Co., Ltd. since November 2013, a director of Shandong Hualu-Hensheng Chemical Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600426) from March 2015 to April 2018 and a director of Hualu Investment Development Co., Ltd. since June 2016. Mr. Cheng served as an independent non-executive director of Prosper Construction Holdings Limited (瑞港建設控股有限公司) (a company listed on the Stock Exchange, stock code: 06816) since December 2018. Mr. Cheng has served as an independent non-executive Director of the Company since July 2018.

Mr. Cheng graduated from Shandong Normal University (山東師範大學) in Jinan, the PRC, with a bachelor's degree majoring in English language and literature in July 1991. Mr. Cheng graduated from Shandong University (山東大學) in Jinan, the PRC, with a master's degree in English language and literature in June 1994. He graduated from Wright State University in Dayton, Ohio, the United States of America, with a master's degree in business administration in November 2005.

Mr. Li Hua, aged 66, currently is an independent non-executive Director of the Company.

Mr. Li worked for the Institute of Highway Planning and Design of the MOC (交通部公路規劃設計院) from December 1977 to May 1989 and held various positions including assistant engineer, engineer and manager. He worked as an engineer of National Communications Investment Company (國家交通投資公司) from May 1989 to August 1991; officer of the Engineering Management Division of the MOC (交通部工程管理司) from August 1991 to April 1994; deputy director and director of the Management Office of Maintenance and Repair (養護管理處) under the Highway Management Division of the MOC (交通部公路管理司) from April 1994 to July 1998; director of the Management Office under the Highway Division of the MOC (交通部公路司) from July 1998 to October 2003 and was designated as the vice mayor of Luoyang, Henan Province for poverty alleviation from March 2002 to February 2003 during his tenure; assistant to director (director level) of the Highway Division of the MOC from October 2003 to July 2004; deputy director of the Highway Division of the MOC from July 2004 to March 2009; director of the Highway Bureau of the MOT from March 2009 to May 2012; and director of the Highway Bureau and the Highway Network Center (路網中心) of the MOT from May 2012 to January 2014. Mr. Li has served as an independent non-executive Director of the Company since July 2018.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Li was awarded the third prize for science advancement by the State Education Commission (國家教委) in July 1992. Mr. Li was awarded the first prize for science advancement by the MOC in July 1993.

Mr. Li graduated from Xi'an Highway Institute (西安公路學院) in Xi'an, the PRC, with a bachelor's degree in highway construction in December 1977, and graduated from Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in Beijing, the PRC, majoring in business economics with postgraduate qualification in November 1998.

Mr. Wang Lingfang, aged 62, is currently an independent non-executive Director of the Company.

Mr. Wang served as a supervisor, specialised engineer and deputy head of the boiler team, officer of the quality inspection department, deputy manager, deputy manger and chief engineer, acting manager and chief engineer, committee member and manager in SEPCOII Electric Power Construction Co., Ltd. (山東電力建設第二工程公司) from September 1987 to July 2005. He served as chairman of the board of director in Shandong Construction from July 2005 to June 2009. Mr. Wang acted as the Chairman of the Company from October 2005 to March 2008 and served as general manager and member of the party committee in SEPCO Nuclear Power Construction Group Corp. (山東電力核電建設集團公司) from June 2009 to April 2014. Mr. Wang served as deputy general manager in the electrical engineering business unit of Powerchina Limited (中國電力建設股份有限公司) (Shanghai Stock Exchange stock code: 601669) from April 2014 to August 2015, and served as the consultant of SEPCO Electric Power Construction Corporation (山東電力基本建設總公司)/SEPCO Nuclear Power Construction Group Corporation from August 2015 to March 2017. Mr. Wang has served as an independent non-executive Director of the Company since July 2018.

Mr. Wang was recognised as an Outstanding Entrepreneur in Shandong jointly by Shandong Enterprise Confederation (山東省企業聯合會), Shandong Entrepreneur Association (山東省企業家協會), Shandong Industrial and Economics Confederation (山東省工業經濟聯合會) and Shandong Quality Management Association (山東省質量管理協會) in April 2011. In May 2013, he was recognised as the Outstanding Entrepreneur of National Power Construction of 2012 (2012年度全國電力建設優秀施工企業家) by China Electric Power Construction Association. Mr. Wang was also recognised as the National Outstanding Entrepreneur in Construction Industry of 2012 (2012年度全國優秀施工企業家) by China Association of Construction Enterprise Management in September 2013.

Mr. Wang graduated from Shandong Engineering Institute (山東工學院) (currently known as Shandong University), located in Jinan City, the PRC with a bachelor's degree in thermodynamics equipment of power plant in July 1982, and graduated from Shandong University in Jinan, the PRC with a master's degree in power engineering in June 2002. Mr. Wang was recognised as a senior engineer by Senior Engineering Profession Qualification Evaluation Committee of Shandong Electric Power Industry Bureau (山東省電力工業局工程技術職務高級評審委員會) in January 1995 and a professorate senior engineer by Power Construction Corporation of China Ltd. in December 2013.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. He Jiale, aged 65, is currently an independent non-executive Director of the Company. He concurrently serves as an independent non-executive Director of China International Marine Containers (Group) Co., Ltd (a company listed on the Stock Exchange, stock code: 02039), and a company listed on the Shenzhen Stock Exchange, stock code: 000039).

Mr. He has served as a director of the finance department and deputy general manager of COSCO (Group) Company (中國遠洋運輸(集團)總公司) (currently known as China Ocean Shipping Company Limited (中國遠洋運輸有限公司)) from October 1994 to December 1997; and the chief accountant of COSCO Container Lines Co., Ltd. (中遠集裝箱運輸有限公司) (currently known as COSCO Shipping Lines Co. Ltd. (中遠海運集裝箱運輸有限公司)) from January 1998 to September 2003. He also served as the chief financial officer of COSCO (Hong Kong) Group Limited (中遠(香港)集團有限公司) (currently known as COSCO SHIPPING (Hong Kong) Co., Ltd. (中遠海運(香港)有限公司)) from October 2003 to November 2005, and concurrently served as its director and chief financial officer from February 2012 to November 2015. He also served as an executive director of COSCO International Holdings Limited (中遠國際控股有限公司), (currently known as COSCO SHIPPING International (Hong Kong) Co., Ltd. (中遠海運國際(香港)有限公司), a company listed on the Stock Exchange, stock code: 00517) from November 2003 to January 2006 and from April 2012 to December 2015. He also served as the chief financial officer of China COSCO Holdings Company Limited (中國遠洋控股股份有限公司) (currently known as COSCO SHIPPING Holdings Co., Ltd. (中遠海運控股股份有限公司), a company listed on the Stock Exchange, stock code: 01919, and a company listed on the Shanghai Stock Exchange, stock code: 601919) from November 2005 to January 2012. In addition, he served as a non-executive director of Chong Hing Bank Limited (創興銀行有限公司) (a company listed on the Hong Kong Stock Exchange, stock code: 01111) from May 2012 to February 2014. He was an executive director of COSCO Pacific Limited (中遠太平洋有限公司) (currently known as COSCO SHIPPING Ports Limited (中遠海運港口有限公司), a company listed on the Stock Exchange, stock code: 01199) from November 2003 to June 2005 and from January 2009 to March 2013. He served as a supervisor of China International Marine Containers (Group) Co., Ltd. (中國國際海運集裝箱(集團)股份有限公司) (a company listed on the Stock Exchange, stock code: 02039, and a company listed on the Shenzhen Stock Exchange, stock code: 000039) from September 2013 to May 2016, and an independent non-executive director since June 2019. Mr. He was appointed as an independent non-executive Director of the Company in December 2018.

Mr. He graduated from the postgraduate studies of international business, management science and engineering from Shanghai University and is a senior accountant.

Mr. Han Ping, aged 50, is currently an independent non-executive Director of the Company, and the vice president of Long Far Herbal Medicine Manufacturing (Hong Kong) Limited and the chairman of Prosperity Capital International Limited (繁榮資本國際有限公司).

Mr. Han served as a trader of Merrill Lynch Securities from September 1998 to September 1999. He has been serving as the vice president of Long Far Herbal Medicine Manufacturing (Hong Kong) Limited since February 2001 and the chairman of Prosperity Capital International Limited since May 2011. Mr. Han has served as an independent non-executive Director of the Company since November 2019.

Mr. Han holds a bachelor's degree in business administration and finance from the Bernard M. Baruch College, the City University of New York in the USA.

Profiles of Directors, Supervisors and Senior Management (Continued)

SUPERVISORS

(1) Chairman of the Supervisors

Ms. Meng Xin, aged 48, serves as the chairman of the Supervisory Committee of the Company. She also serves as the general manager of the financial department of COSCO SHIPPING (Hong Kong).

Ms. Meng worked as a staff of the financial department, deputy director of the financial department, director of the financial department and director of development division of the market development department of China Ocean Shipping Agency (中國外輪代理總公司) from July 1994 to December 2001. She also served as the director of investment development division and deputy general manager of the cooperation and development department, deputy general manager of the planning department, deputy general manager and general manager of the financial department of COSCO Logistics Co., Ltd. (中國遠洋物流有限公司) from January 2002 to November 2016. She has been the general manager of the financial department of COSCO SHIPPING (Hong Kong) since October 2017. She has been appointed as the chairman of the Supervisory Committee of the Company since December 2017.

Ms. Meng serves as director of COSCO SHIPPING (Hong Kong) Industry & Trade Limited; director of COSCO Treasury Company Limited, held as to 100% by COSCO SHIPPING; director of Great Victory Holdings Ltd., held as to 100% by COSCO SHIPPING; director of Peaktrade Investments Limited, held as to 100% by COSCO SHIPPING; director of Smart Watch Assets Limited, which is a wholly-owned subsidiary of COSCO SHIPPING (Hong Kong) and is also the Controlling Shareholder of (i) Hebei Jingshi Expressway Development Co., Ltd. (河北京石高速公路開發有限公司); (ii) Hebei Jixing Expressway Co., Ltd. (河北冀星高速公路有限公司); (iii) Tianjin Tianyu Expressway Co., Ltd. (天津天預高速公路有限公司); (iv) Tianjin Tian'ang Expressway Co., Ltd. (天津天昂高速公路有限公司); (v) Tianjin Tianxu Expressway Co., Ltd. (天津天旭高速公路有限公司); (vi) Tianjin Tianda Expressway Co., Ltd. (天津天達高速公路有限公司); (vii) Tianjin Tianwei Expressway Co., Ltd. (天津天偉高速公路有限公司); (viii) Tianjin Tianduo Expressway Co., Ltd. (天津天奪高速公路有限公司); (ix) Tianjin Tianfu Expressway Co., Ltd. (天津天富高速公路有限公司); (x) Tianjin Tianyong Expressway Co., Ltd. (天津天永高速公路有限公司); and (xi) Tianjin Tianxian Expressway Co., Ltd. (天津天顯高速公路有限公司). Ms. Meng is also a director of the companies listed in items (ii) to (xi) above.

Ms. Meng graduated from Central University of Finance and Economics in Beijing, the PRC, in June 1994 with a bachelor's degree in economics majoring in accounting. Ms. Meng obtained a senior accountant certificate from COSCO (then known as China Ocean Shipping (Group) Corporation) in November 2012.

(2) Shareholder representative Supervisor

Mr. Wu Yongfu, aged 50, currently serves as the Shareholder representative Supervisor of the Company and the financial manager of Shandong Construction.

Mr. Wu has over 20 years of experience in finance. He served as a cashier trainee of Shandong Luneng Group Electricity Development Co., Ltd. (山東魯能電力開發有限公司) from July 1992 to February 1993, a cashier, accountant, auditor and financial officer of project site of SEPCO1 Electric Power Construction Corporation from March 1993 to November 1998 successively. He served as auditor of the labour and financial department, deputy manager of the human resources and financial department, and the manager of the financial department of Shenzhen Shandong Hedian Engineering Co., Ltd. (深圳山東核電工程有限責任公司) from November 1998 to January 2010. Mr. Wu has served as a financial manager of Shandong Construction since February 2010. Mr. Wu has served as a Supervisor of the Company since April 2011.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Wu graduated from Finance School of Shandong Province (山東省財政學校) (currently known as Shandong University of Science and Technology) in Tai'an, the PRC, in July 1992 with a technical school academic qualification majoring in industrial finance and accounting. He graduated from Shandong Economics University (山東經濟學院) (currently known as the Shandong University of Finance and Economics) in Jinan City, the PRC, in December 1995 with a tertiary school academic qualification majoring in accounting by self-studied examination. Mr. Wu was awarded a certificate of accounting professional (會計師資格證書) by the MOF in May 1997. Mr. Wu obtained a certificate of postgraduate degree of business administration (工商管理專業研究生課程證書) from Tianjin University in Tianjin, the PRC in March 2005 and obtained a certificate of correspondence undergraduate degree upgrading from higher education for adults (成人高等教育函授專科起點升本科畢業證書) in engineering management from Harbin Institute of Technology (哈爾濱工業大學) in Harbin, the PRC, from a distance learning programme, in July 2013.

Mr. Zhang Yin, aged 45, currently serves as a shareholder representative Supervisor of the Company, and the deputy director of the financial management department of Qilu Transportation.

Mr. Zhang served successively as a staff member of the traffic and transportation department, deputy section chief of the cargo management division of the transportation management department, section chief of the integrated department of the transportation management office and the deputy director of the port traffic management department of the transportation administration office of Jinan City Transportation Bureau (濟南市交通局) from July 1997 to October 2015. He has been serving as the staff member of the safety operation department, deputy director of the financial management department and director of the asset management center of Qilu Transportation since October 2015. He has been serving as the chairman of supervisory committee of Shandong Guilu Highway Construction Co., Ltd. (山東桂魯高速公路建設有限公司) since April 2016. He has been serving as the chairman of supervisory committee of Shandong Binlai Expressway Co., Ltd. (山東濱萊高速公路有限公司) since September 2016. He served as a supervisor of Qilu Transportation Investment Co., Ltd. (齊魯交通投資有限公司) from May 2018 to August 2018. He has been serving as a supervisor of Shandong Hi-speed Road & Bridge Co., Ltd. (山東高速路橋集團股份有限公司) since April 2019. Mr. Zhang has served as a Supervisor of the Company since November 2019.

Mr. Zhang graduated from Shandong Economics University (currently known as Shandong University of Finance and Economics, located in Jinan City, the PRC) in July 1997, majoring in international accounting. He obtained a master's degree in management from Shandong Economics University (currently known as Shandong University of Finance and Economics, located in Jinan City, the PRC) in March 2009, majoring in accounting.

(3) Employee Supervisor

Mr. Hao Dehong, aged 49, currently serves as our employee representative Supervisor. and the department head of the corporate management department.

Mr. Hao served as a cashier and the deputy head of the finance division of a transport engineering branch of Shandong Luqiao Group Co., Ltd. (山東省路橋集團有限公司) from July 1989 to February 1998, deputy head of the finance department of the transport engineering branch of Shandong Luqiao Group Co., Ltd. from February 1998 to June 1999 and the chief financial responsible officer of Shandong Luqiao Group Co., Ltd. from June 1999 to April 2004. He joined the Company in May 2004. He is responsible for financial affairs and has held various positions including chief accountant and vice head of Pingyin South management centre. He acted as the head of Xiaoli management centre from September 2013 to June 2017. Mr. Hao has served as the head of enterprise management department since June 2017 and has served as the employee representative Supervisor of the Company since March 2011.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Hao graduated from Shandong Economics University (山東經濟學院) (presently known as the Shandong University of Finance and Economics) in Jinan, the PRC, in July 1992 with a diploma qualification majoring in accounting by self-studied examination from a distance learning programme. He received an intermediate accountant qualification in May 1999 from the Ministry of Personnel and MOF. Mr. Hao graduated from Beijing Jiaotong University (北京交通大學) in Beijing, the PRC, in July 2006 with a bachelor's degree majoring in accounting by correspondence education.

Ms. Hou Qinghong, aged 48, is currently our employee representative Supervisor and the department head of the Department of the Party Working Group.

Ms. Hou worked at Liaocheng Daily (聊城日報社) from July 1992 to November 2007. She joined the Company in November 2007. She is responsible for political and human resources affairs and has held various positions including officer of women employees' committee of the labour union, head and deputy manager of the human resources department and member of the disciplinary committee. She has served as member of the disciplinary committee, officer of women employees' committee of the labour union and head of the Party Operation Department since July 2017 and has become an employee representative Supervisor since March 2011.

Ms. Hou obtained Outstanding Youth Civilisation Worker in the Traffic and Transportation Industry of Shandong Province for the year 2011 (交通運輸行業2011年度山東省優秀青年文明工作者榮譽) from Shandong Provincial Committee (山東省委員會) and Shandong Provincial Traffic Transport Department Committee (山東省交通運輸廳委員會) under the Communist Youth League of China (中國共產主義青年團) in September 2012. Besides, she was accredited as provincial "Female Advanced Worker" (巾幗建功先進工作者) by Shandong Provincial Traffic Transport Department Committee (山東省交通運輸廳委員會) and Women's League of Shandong Province (山東省婦女聯合會) in March 2014.

Ms. Hou graduated from Liaocheng Institute of Education (聊城師範學院) (presently known as the Liaocheng University) in Liaocheng, the PRC, in July 1992 with a degree of bachelor of arts majoring in Chinese language and literature education. She received a Certificate of Advanced Studies Course for Postgraduate in Literary Aesthetics (文藝學專業研究生課程進修班結業證書) from Shandong University (山東大學) in Jinan, the PRC, in September 2002. She was qualified as a chief editor by Human Resource Bureau of Shandong Province (山東省人事廳) in November 2003. She obtained a Qualification Certificate of First Level Corporate Human Resources Professional (一級企業人力資源管理師資格證書) from the Ministry of Human Resources and Social Security of the PRC and a Vocational Training Certificate of Senior Human Resources Management Professional (高級人力資源法務(規劃)師資格證書) from China Employment Training Technical Instruction Center (中國就業培訓技術指導中心) in October 2013.

Mr. Wang Shun, aged 49, currently serves as an employee Supervisor, the general office director and vice chairman of labor union of the Company.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Wang worked in Tai'an Highway Bureau (泰安市公路局) from July 1995 to November 2007, and was responsible for financial work. Mr. Wang joined the Company in November 2007 and served as the deputy director of Dongping administrative office, manager of operation dispatch center and manager of information technology department; the manager of information technology department of the Company since June 2017; and the general office director and vice chairman of labor union of the Company since August 2018. Mr. Wang has served as an employee Supervisor Since October 2019.

Mr. Wang graduated from Changsha Communications University (長沙交通學院) (located in Changsha City, China) in July 1995, majoring in Finance.

(4) Independent Supervisor

Mr. Li Ruzhi, aged 56, currently serves as an independent Supervisor of the Company.

He has worked at Jointide Law Firm, Shandong since December 2002 and is now a deputy director, senior partner and first-grade lawyer. He served as the chairman of the labour union, the head of general manager office and a senior economist of Shandong Petroleum & Chemical Economic Trade Head Office from July 1994 to December 2012. Mr. Li has served as an independent Supervisor of the Company since December 2018.

Mr. Li holds a bachelor's degree in Chinese Language and Literature from the Department of Chinese of Beijing Normal University and a bachelor's degree in Law from Shandong University.

Mr. Meng Qinghui, aged 64, currently served as an independent Supervisor of the Company.

Mr. Meng served as an accountant of Qingdao Ocean Shipping Co., Ltd. from September 1978 to March 1982. He served as the deputy manager of the finance department of Hong Kong Ocean Shipping Company (香港遠洋輪船公司) from March 1982 to August 1989. He served as the manager of the finance department of Tianlong Shipping Co., Ltd. (天龍船務有限公司) from August 1989 to December 1995. He served as the manager of the finance department of COSCO HIT Terminal (Hong Kong) Ltd. from January 1996 to August 1997. He served as the general manager of the finance department of COSCO (Hong Kong) Group Limited (currently known as COSCO SHIPPING (Hong Kong) Co., Limited) from September 1997 to July 2016. He served as an executive director of COSCO SHIPPING International (Hong Kong) Co., Ltd. (a company listed on the Stock Exchange, stock code: 00517) from March 2002 to July 2008. He served as a non-executive director of Soundwill Holdings Limited (a company listed on the Stock Exchange, stock code: 00878) from April 2003 to April 2011. He served as a nonexecutive director of Chong Hing Bank Limited (a company listed on the Stock Exchange, stock code: 01111) from March 2008 to February 2014. He also served as the chairman of the Supervisory Committee of the Company from February 2011 to December 2017. Mr. Meng has served as an independent Supervisor of the Company since November 2019.

Mr. Meng graduated from Central South University (located in Changsha, the PRC) in September 1978, majoring in foreign languages and accounting.

Profiles of Directors, Supervisors and Senior Management (Continued)

SENIOR MANAGEMENT

Mr. Peng Hui, aged 55, currently is an executive Director, general manager and deputy secretary of the party committee. For further details of the profile of Mr. Peng, please refer to the section headed "Director".

Mr. Liu Qiang, aged 51, currently serves as an executive Director, the deputy general manager and a member of the party committee of the Company. He concurrently serves as a director of Qilu Expressway (Hong Kong) Company Limited, a wholly-owned subsidiary of the Company and chairman of Shandong Gangtong Construction Co., Ltd., a wholly-owned subsidiary of the Company. For further details of the profile of Mr. Liu, please refer to the section headed "Director".

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Li Andong, aged 50, currently serves as our chief financial officer and member of the party committee.

Mr. Li has almost 30 years of experience in financial management. He worked as a leading accountant and a deputy head of finance department in Shandong Juxian Highway Bureau (山東省莒縣公路局) from July 1990 to February 1994, head of finance department in Shandong Rizhao City Highway Bureau (Donggang District) from February 1994 to April 1997, an officer, the deputy head and the head of audit department in Shandong Rizhao Highway Bureau from April 1997 to October 2004, an auditor of audit department in the Ministry of Communications of the PRC successively and an editor of "Transportation Audit" from May 2000 to April 2001, officer and head of finance department in Shandong Highway Bureau successively from October 2004 to April 2014. He joined the Company in December 2007 and served as a supervisor, member of the party committee, Chief Financial Officer and secretary to the Board. He has been our chief financial officer since January 2010.

Mr. Li concurrently served as the director of Jihe Service from July 2011 to August 2017, director of Jihe Petroleum from December 2011 to August 2017, supervisor of Shandong Dongqing Highway Company Limited from September 2014 to July 2016, and director of CRCC Shandong Beijing — Shanghai Expressway Jile Company Limited from October 2014 to October 2016.

Mr. Li was awarded as Advancement Individual in national transportation internal audit (全國交通內部審計工作先進個人) by the Ministry of Communications of the PRC in June 2004. In November 2005, he won the third prize of Shandong Technology Award (科學技術獎三等獎) promulgated by Shandong Technology Awards Committee.

Mr. Li graduated from Jinan Communications College (濟南交通高等專科學校) in Jinan, the PRC, with a tertiary school academic qualification majoring in engineering financial accounting in July 1990. In November 1993, Mr. Li was qualified as an accountant by Ministry of Finance. He graduated from Shandong Province Party Committee School (山東省委黨校) in Jinan, PRC with part-time undergraduate degree (associate grade) in economics management in December 1998. In September 2000, he was qualified as a senior auditor by Shandong Auditing Positions Senior Assessment Committee.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Chen Xiulin, aged 47, currently serves as our deputy general manager, a member of the party committee and the secretary to the Board.

Mr. Chen was a member of the political affairs department of Shandong Dezhou Machine Tool Factory (山東德州機床廠) from July 1994 to January 1999, a member and vice head of political affairs division of Jining Highway Management Bureau (濟寧市公路管理局) from January 1999 to October 2004. He was the officer of the political affairs division of the Highway Bureau of the Shandong Provincial Transport Department from October 2004 to March 2005. He served as the deputy manager of the political affairs division of the Highway Bureau of the Shandong Provincial Transport Department from March 2005 to October 2006. He worked as the manager of the political affairs division of the Highway Bureau of the Shandong Provincial Transport Department from October 2006 to June 2014 and concurrently served as the head of the general department of Shandong Binde Expressway Projects Office (山東省濱德高速公路項目辦). Mr. Chen joined the Company in November 2014 and served as the deputy general manager of the Company. He has served as the deputy general manager and a member of the party committee of the Company since November 2014 and has concurrently been serving as the secretary to the Board since April 2016.

Mr. Chen concurrently served as the standing deputy general manager of Shandong Malong Expressway Company Limited (山東馬龍高速公路有限公司) from June 2014 to April 2016, the director of Dongying Yellow River Bridge Co., Ltd. (formerly known as Dongying Yellow River Bridge Expressway Co., Ltd.) from March 2015 to July 2016, and supervisor of Shandong Jizou Highway Company Limited (山東省濟鄒公路有限公司) from September 2015 to July 2016.

Mr. Chen graduated from Northeast Forestry University (東北林業大學) in Harbin, the PRC in June 1994 with a bachelor's degree in engineering majoring in forestry engineering. In September 2004, Mr. Chen was qualified as a senior political analyst by the Senior Assessment Committee for Ideological and Political Staff at Enterprises in Shandong (山東省企業思想政治工作人員專業職務高級評審委員會).

Mr. Liu Liangrong, aged 51, currently serves as our deputy general manager and a member of the party committee.

Mr. Liu served as the turbine technician of SEPCOIII Electric Power Construction Co., Ltd. (山東電力建設第三工程有限有限公司) from July 1988 to March 1990, the tunnel engineer of Shenzhen Shandong Nuclear Power Construction Company Limited (深圳山東核電工程有限有限公司) from March 1990 to September 1992, the professional engineer at the technical department of SEPCOIII Electric Power Construction Co., Ltd. from September 1992 to January 2000, the quality engineer, engineer of the Hong Kong projects, project manager of the Diandong projects and deputy chief engineer and project manager of the Indian projects of Shenzhen Shandong Nuclear Power Construction Company Limited from January 2000 to January 2013, project manager and deputy chief engineer of the Indian projects of Shandong Construction from January 2013 to July 2013 and the deputy chief engineer of Shandong Construction since July 2013. Mr. Liu has joined the Company and served as the deputy general manager since April 2015. Mr. Liu has been the deputy general manager and a member of the party committee since December 2016. Mr. Liu also served as a director of Jihe Service from May 2015 to August 2017.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Liu graduated from Shandong Industrial University (presently known as Shandong University) in Jinan, the PRC in July 1988 with a bachelor's degree in engineering majoring in power thermal dynamics. In December 2001, Mr. Liu was qualified as a senior engineer by the Senior Technical Expert Qualifications Board of State Electric Power Corporation (國家電力公司高級專業技術資格評審委員會). In September 2012, he was qualified as a certified supervisory engineer by the Ministry of Housing and Urban-Rural Development of the PRC. In November 2015, he was qualified as a certified first-class architect by the Ministry of Housing and Urban-Rural Development of the PRC.

Mr. Zhang Junfeng, aged 42, currently serves as the secretary to the disciplinary committee and a member of the party committee of the Company.

From July 2001 to July 2009, Mr. Zhang successively served as clerk of the public prosecution department of the People's Procuratorate of Gaomi City, clerk of the investigation and supervision department, clerk of the civil and administration inspection department, assistant inspector, inspector, deputy chief and inspector of the civil and administration inspection department, chief of the civil and administration inspection department and deputy chief inspector. From July 2009 to November 2015, he served successively as deputy officer, chief officer and chief officer of the road administration department (Division I) of the office of the Highways Bureau of Transportation Department of Shandong province. From November 2015 to June 2019, he successively served as senior director and deputy director of the office of the board of directors of Qilu Transportation Development Group Co., Ltd. (齊魯交通發展集團有限公司). Mr. Zhang joined the Company in June 2019, and has served as secretary of the disciplinary committee and a member of the party committee.

Mr. Zhang graduated from Northwest College of Politics and Law (西北政法學院) (now known as Northwest University of Political Science and Law (西北政法大學), located in Xi'an city, the PRC) in July 2001 with a bachelor's degree in law majoring in law. Mr. Zhang obtained the legal professional qualification granted by the Ministry of Justice of the People's Republic of China in March 2004.

Mr. Lian Shengguo, aged 41, currently serves as chairman of the labor union, member of the party committee, member of the disciplinary committee, joint company secretary and the head of the office of the Board.

Mr. Lian served in the Jining Highway Management Bureau (濟寧市公路管理局) from February 1999 to January 2008, deputy officer of the management office of Jiexiang branch, deputy manager of infrastructure office, manager of human resource department, deputy secretary of branch of the party committee of general affairs office, vice chairman of the labour union, manager of administration department and secretary of branch of the party committee of general affairs office from January 2008 to October 2016. He has served as a member of the disciplinary committee of the Company since December 2014 and served as our employee Supervisor from October 2016 to October 2019. Mr. Lian has also acted as the officer of the office of the Board since June 2017. He has been joint company secretary of the Company since June 2018. He has served as chairman of the labor union and member of the party committee of the Company since June 2019.

Mr. Lian graduated from Chang'an University (長安大學) in Xi'an, the PRC, in June 2004 and obtained a bachelor's degree majoring in civil engineering from a distance learning programme, and graduated from Central Party School (中共中央黨校) in Beijing, the PRC, in July 2014 with a master's degree majoring in sociology.

Profiles of Directors, Supervisors and Senior Management (Continued)

JOINT COMPANY SECRETARIES

Mr. Lian Shengguo, aged 41, currently serves as chairman of the labor union, member of the party committee, member of the disciplinary committee, joint company secretary and the head of the office of the Board.

For further details of the profile of Mr. Lian, please refer to the section headed "Senior Management".

Ms. So Shuk Yi Betty (蘇淑儀), currently serves as a joint company secretary. She is the vice president of SWCS Corporate Services Group (Hong Kong) Limited, a company providing company secretarial service.

Ms. So has over 20 years of experience in the corporate secretarial field. During the period, Ms. So was employed in the company secretarial role of several companies listed on the Stock Exchange and accounting firms.

Ms. So obtained a master's degree in business administration from the Faculty of the Social Sciences in the University of Leicester (located in the United Kingdom) in July 1999, and obtained a master's degree in law from the City University of Hong Kong (Hong Kong) in November 2004. Ms. So is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators since 1997.

Report of the Board of Directors

The Board hereby presents the report of the Board of Directors and the audited consolidated financial statements of the Group for the Year.

PRINCIPAL BUSINESSES

The Company is principally engaged in the construction, maintenance, operation and management of the Jihe Expressway in Shandong Province, the PRC, and is entitled to toll collection from vehicles passing through the Jihe Expressway. Our Concession Rights are valid for 30 years from 26 September 2004 to 25 September 2034. Subsidiaries of the Company is engaged in the business of outdoor advertising production and distribution along the Jihe Expressway in Shandong Province. The Group principally carried out business in Shandong Province, the PRC.

There is no material change in the nature of the principal businesses of the Group during the Year.

FINANCIAL POSITION AND RESULTS

The financial position as at 31 December 2019 and profit for the Year of the Group are set out in pages 122, 123 and 121 respectively of this report.

During the Year, the revenue from our Continuing Operations was approximately RMB1,183.339 million, representing an increase of approximately 28.38% as compared to approximately RMB921,735,000 for the corresponding period of last year. The cost and gross profit from our Continuing Operations were approximately RMB427.891 million and RMB755.448 million, respectively, as compared to those of approximately RMB299,208,000 and RMB622,527,000 for the corresponding period of last year, representing an increase of approximately 43.01% and of approximately 21.35% as compared to that of corresponding period of last year, respectively. Net profit from Continuing Operations amounted to RMB516.421 million, representing an increase of RMB107.916 million or 26.42% as compared to that of 2018 (RMB408,505,000).

The earnings per Share from the Group's Continuing Operations for the Year was RMB0.26, representing an increase of 8.33% as compared to that of 2018 (RMB0.24).

As at 31 December 2019, the debt asset ratio (calculated by dividing total liabilities by total assets) of our Group was 13.64%, representing a decrease of 5.23 percentage points, as compared to 18.87% as at 31 December 2018. Such decrease was mainly attributable to: (i) The Company has increased its equity amount after accumulating certain operations; and (ii) the decrease in liabilities due to the repayment of certain bank borrowings.

CLOSURES OF REGISTER OF MEMBERS

2019 AGM

The 2019 AGM will be held on Thursday, 11 June 2020. For the purpose of determining our Shareholders' entitlement to attend the 2019 AGM, the register of members of the Company will be closed from Tuesday, 12 May 2020 to Thursday, 11 June 2020 (both days inclusive), during which no transfer of Shares will be registered. In order to qualify to attend and vote at the 2019 AGM, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with 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, 11 May 2020.

Report of the Board of Directors (Continued)

Proposed Distribution of 2019 Final Dividend

The Board has proposed the payment of a cash dividend of RMB0.1630 (tax inclusive) per Share to all Shareholders in an aggregate amount of RMB326,000,000 (tax inclusive) as the 2019 Final Dividend for the year ended 31 December 2019. The payment of such dividend is subject to consideration and approval by Shareholders at the 2019 AGM, and, if approved, such dividend will be paid to the Domestic Shareholders and H Shareholders whose names appeared on the register of members of the Company on Monday, 22 June 2020. Such dividend will be denominated and declared in Renminbi, and paid to the Domestic Shareholders and H Shareholders in Renminbi and Hong Kong dollars, respectively. The exchange rate for dividend paid in Hong Kong dollars shall be the average middle rate for the five business days preceding the date of declaration of such dividend at the 2019 AGM (i.e., Thursday, 11 June 2020) as announced by the People's Bank of China. The share register of the Company will be closed from Wednesday, 17 June 2020 to Monday, 22 June 2020 (both days inclusive). In order to be entitled to the 2019 Final Dividend distribution, Shareholders who have not registered are required to deposit the transfer documents together with relevant share certificates at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders), or the head office of 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, 16 June 2020.

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

Tax on Dividends

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

Report of the Board of Directors (Continued)

In accordance with the “Circular on Certain Issues Concerning the Policies of Individual Income Tax” (Cai Shui Zi [1994]No.020) (《關於個人所得稅若干政策問題的通知》(財稅字[1994]020號)) promulgated by the Ministry of Finance and the State Administration of Taxation on 13 May 1994, overseas individuals are, temporarily, exempted from the PRC individual income tax for dividend or bonuses received from foreign invested enterprises. As the Company is a foreign-invested enterprise, the Company will not withhold and pay the individual income tax on behalf of individual shareholders when the Company distributes the dividends to overseas individual shareholders whose names appear on the register of members of H shares of the Company. In accordance with the “Individual Income Tax Law of the People’s Republic of China” (2018 Revised) took effect on 1 January 2019 and its implementation regulations, individuals have no domicile in China but have resided in the PRC for a total of 183 days or more in a tax year are individual residents (“Individual Residents”). The Company will withhold and pay 20% of the individual income tax on behalf of individual shareholders when the Company distributes the dividends to Individual Residents Shareholders whose names appear on the register of members of H shares of the Company.

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

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

Dividend policy

The Company may declare and pay dividends by way of cash or by shares (or by both means). The proposal for dividend distribution will be formulated by our Board at their discretion and shall be subject to approval at the Shareholders’ general meeting. Nonetheless, the Company will pay dividends out of net profit only after it has made the following allocations:

- write-off of accumulated losses, if any;
- transfer to the statutory common reserve fund an amount equivalent to 10% of our net profit, as determined under PRC GAAP; and
- transfer, if any, to a discretionary common reserve fund an amount approved by the Shareholders in a Shareholders’ general meeting.

Report of the Board of Directors (Continued)

The minimum allocation to the statutory common reserve fund shall be 10% of our net profit according to the PRC GAAP. When the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocation to the statutory common reserve fund will be required. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years.

The Company expects to distribute dividends of approximately 60.0% to 70.0% of its annual distributable profits. Where there is significant investment or acquisition plans in such year, the Company will decrease its dividend payment ratio accordingly. However, there is no assurance that the Company will be able to distribute such dividends of such amount or any amount in each year or any year in the future. The dividend policy of the Company in the future will be determined by the Board based on operating results, cash flow, financial position, business prospects, statutory and regulatory restrictions relating to dividend distribution of the Company and such other factors that the Board may consider relevant.

FIXED ASSETS AND CONSTRUCTION-IN-PROGRESS

Details on the Group's fixed assets and construction-in-progress for the Year are set out in Note 13 to the consolidated financial statements of this annual report.

UNDISTRIBUTED PROFITS AT THE END OF THE YEAR

Details on the undistributed profits of the Group for the Year are set out in "Consolidated Statement of Changes in Equity" in this annual report. As at 31 December 2019, undistributed profits at the end of the Year distributable to Shareholders amounted to approximately RMB721.461 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, income of the Group principally includes the toll revenue from expressways, all of which were walk-in customers, with relatively higher randomness involved as there were no major customers. Therefore, given the nature of the Group's Expressway Business, we did not have any single customer that contributed more than 5% to the revenue from our Continuing Operations, or that was otherwise material to our business, during the Reporting Period. Accordingly, none of our major customers is also a major supplier.

During the Year, the purchases made by the Group from the five largest suppliers of goods or services (i.e. its suppliers of non-capital goods) accounted for 8.72% of cost of sales of the Group, among which, the purchases made from the largest supplier of non-capital goods accounted for 4.96% of cost of sales; the purchases made by the Group from the five largest suppliers of equipment and construction services (i.e. its suppliers of capital goods) amounted to RMB113.508 million, among which, the purchases made from the largest supplier of equipment and construction services amounted to RMB48.910 million. Therefore, during the Reporting Period, purchases from the Group's top five suppliers collectively accounted for less than 30% of our cost of sales.

ENVIRONMENTAL POLICY AND PERFORMANCE

For the policies and performance of the Group on environmental protection during the Reporting Period, please refer to the environmental, social and governance report of the Company 2019.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company understands the importance to comply with laws and regulations, and the failure in complying with such requirements may result in the termination of business license. The Company has deployed systems and human resources to ensure compliance with rules and regulations on ongoing basis, and has maintained stable relationship with regulatory authorities through effective communication. As stated in the announcement of the Company dated 15 February 2019, the Company has not disclosed the subscription of the wealth management products issued by the Bank of China amounting to RMB200 million in accordance with the Listing Rules in a timely manner. Save as above mentioned, for the year ended 31 December 2019, to the knowledge of Directors, the Company has complied with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies of the People's Republic of China, the Highway Law of the People's Republic of China, the SFO, the Listing Rules, and other relevant laws and regulations.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

For details on the Group's relationships with employees, customers and suppliers during the Reporting Period, please refer to the environmental, social and governance report of the Company 2019, which forms the part of the report of the Board of Directors.

CAPITAL COMMITMENT

Details on the capital commitment of the Group for the Year are set out in Note 31 to the consolidated financial statements in this report.

SUBSIDIARIES, JOINT VENTURES UNDER COMMON CONTROL AND ASSOCIATES

As at 31 December 2019, the Company has two subsidiaries which are set out in Note 1 to the consolidated financial statements in this annual report.

DONATION

The charity and other donations of the Group made during the Year amounted to approximately RMB37,000.

CONNECTED TRANSACTIONS

Non-exempt continuing connected transactions

Qilu Transportation holds more than 10% of the issued share capital of the Company, and is therefore a substantial shareholder of the Company as defined in the Listing Rules. Accordingly, Qilu Transportation is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the ongoing transactions carried out between the Company and Qilu Transportation are continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules.

(1) Land Use Right Lease Agreement

The Company and Qilu Transportation entered into the land use right lease agreement (the “**Land Use Right Lease Agreement**”) on 12 December 2017, pursuant to which Qilu Transportation agreed to lease to the Company the land use rights of the 29 parcels of land of the Jihe Expressway with an aggregate GFA of 10,181,936.30 sq.m. in nine districts and counties of Shandong Province (collectively the “**Leased Lands**”) for a term commencing from 1 January 2017 until 25 September 2034 (i.e. the expiry date of the Concession Period) to ensure the Group’s exclusive and unrestricted right to use the lands of the Jihe Expressway during the remaining term of the Concession Period and the smooth and stable operation thereof, which is in the interests of our Group and our Shareholders as a whole. In accordance with the Land Use Right Lease Agreement, the Company may use the Leased Lands from 1 January 2017 to the execution date of the Land Use Right Lease Agreement at nil cost. The total rent for the land use right of the Leased Lands from the execution date of the Land Use Right Lease Agreement to 25 September 2034 is RMB40.956 million. The Company shall pay RMB2.310 million to Qilu Transportation within 15 days from the date on which the Land Use Right Lease Agreement is executed and the rest of the rent shall be paid by the Company to Qilu Transportation in 17 instalments from 2018 to 2034. The Company shall pay RMB2.310 million to Qilu Transportation by 31 March of each of the years from 2018 to 2033 and shall pay RMB1.686 million to Qilu Transportation by 31 March 2034.

Pricing policies:

The rent payable under the Land Use Right Lease Agreement was determined by both parties to the agreement through arm’s length negotiation with reference to (i) the cost of application for the immovable property right certificates of the lands of the Jihe Expressway by Qilu Transportation; (ii) the area leased, geographic location and condition of surrounding area, and the prevailing market rent in respect of the land parcels of the same or similar nature in the same region, and (iii) the estimated changes in the prevailing market rent in the future.

Report of the Board of Directors (Continued)

Annual caps:

According to the above pricing policies and based on the terms of the Land Use Right Lease Agreement, it is estimated that the maximum annual rental payment to be paid by the Company under the Land Use Right Lease Agreement for the year ending 31 December 2019 to the year ending 31 December 2034 (i.e. until 25 September 2034, being the expiry date of the Concession Period) shall not exceed the annual caps set out below:

Year	Proposed annual caps for the year ending 31 December (RMB million)
2019	2.310
2020	2.310
2021	2.310
2022	2.310
2023	2.310
2024	2.310
2025	2.310
2026	2.310
2027	2.310
2028	2.310
2029	2.310
2030	2.310
2031	2.310
2032	2.310
2033	2.310
2034 (until 25 September 2034, i.e. the expiry date of the Concession Period)	1.686

The amount payable to Qilu Transportation in the sum of RMB2.310 million under the Land Use Right Lease Agreement for the year ended 31 December 2019 has been paid in January 2019.

(2) Property Lease Agreement

The Company and Qilu Transportation entered into the property lease agreement on (the “**Property Lease Agreement**”) 12 December 2017, pursuant to which Qilu Transportation agreed to lease 45 properties used as seven management centres and one maintenance and emergency response centre (collectively, the “**45 Leased Properties**”) with an aggregate GFA of 26,427.59 sq.m. to the Company. The lease term is approximately 17.4 years commencing from 1 May 2017 to 25 September 2034 (i.e. being the expiry date of the Concession Period) to ensure that the Group has the exclusive and unrestricted right to use the 45 Leased Properties as the staff of the management centre as offices and residence and for the storage of maintenance and emergency during the remaining term of the Concession Period and the smooth and stable operation thereof, which is in the interests of our Group and our Shareholders as a whole. In accordance with the Property Lease Agreement, the total rent payable during the lease term is RMB65.65 million. The Company shall pay RMB58.00 million to Qilu Transportation within 15 days from the date on which the Property Lease Agreement is executed and the rest of the rent shall be paid by the Company to Qilu Transportation in 17 equal instalments of RMB0.45 million each by 31 March from 2018 to 2034.

Report of the Board of Directors (Continued)

Pricing policies:

The rent payable under the Property Lease Agreement was determined by both parties to the agreement through arm's length negotiation with reference to (i) the area leased, geographic location and condition of surrounding area; (ii) the prevailing market rent in respect of the properties of the same or similar nature in the same region; (iii) the appraised value of such leased properties; and (iv) the estimated changes in the prevailing market rent in the future.

Annual caps:

According to the above pricing policies and based upon the term of the Property Lease Agreement, it is estimated that the maximum annual rental payment to be paid by the Company under the Property Lease Agreement for the year ending 31 December 2019 to the year ending 31 December 2034 (i.e. until 25 September 2034, being the expiry date of the Concession Period) shall not exceed the annual caps set out below:

Year	Proposed annual caps for the year ending 31 December (RMB)
2019	450,000
2020	450,000
2021	450,000
2022	450,000
2023	450,000
2024	450,000
2025	450,000
2026	450,000
2027	450,000
2028	450,000
2029	450,000
2030	450,000
2031	450,000
2032	450,000
2033	450,000
2034 (until 25 September 2034, i.e. the expiry date of the Concession Period)	450,000

The amount payable to Qilu Transportation in the sum of RMB450,000 under the Property Lease Agreement for the year ended 31 December 2019 has been paid in January 2019.

The Company's independent non-executive Directors have reviewed the aforementioned continuing connected transactions and confirmed that these transactions have been entered into:

- (1) in the ordinary and usual course of business of the Company;
- (2) on normal commercial terms or better; and
- (3) in accordance with the terms of the relevant agreements governing the transactions and on terms that are fair and reasonable and in interests of the Company and the Shareholders as a whole.

Report of the Board of Directors (Continued)

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Board of Directors confirmed that Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules.

The significant related party transactions set out in Note 32 to the consolidated financial statements (except for the income collection arrangement in relation to the toll income related trade receivables from Shandong Transport Department) which also constitute connected transactions/continuing connected transactions under Chapter 14A of the Listing Rules are in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

Save as disclosed in this annual report, during the Reporting Period, none of the connected transactions or continuing connected transactions of the Company shall be disclosed pursuant to the provisions in respect of connected transaction disclosure requirements under Chapter 14A of the Listing Rules.

COMPLIANCE WITH THE NON-COMPETITION AGREEMENTS

The Company has entered into with each of Qilu Transportation and COSCO SHIPPING (Hong Kong), the Non-Competition Agreement, under which each of Qilu Transportation and COSCO SHIPPING (Hong Kong), as our Controlling Shareholder, has undertaken that, save for the existing business of Qilu Transportation and COSCO SHIPPING (Hong Kong), it would not, in any way, directly or indirectly, procure a third party to engage in or otherwise participate in, any business that competes, or is likely to compete with the existing and future business which is engaged in or intended to be engaged in by the Company and its subsidiaries according to our business development (the "**Principal Businesses of the Company and its Subsidiaries**").

The foregoing restrictions shall not apply to the following circumstances:

- (i) the acquisition or holding by Qilu Transportation or COSCO SHIPPING (Hong Kong) or their subsidiaries for investment purpose of non-convertible bonds, or convertible bonds in relation to not more than 5.00% equity interests of other listed or non-listed companies which competes or is likely to compete with the Principal Businesses of the Company and its Subsidiaries;
- (ii) according to the Non-Competition Agreements, in the event that the Company decides not to take up the New Business Opportunity (as defined below), and Qilu Transportation or COSCO SHIPPING (Hong Kong) or their subsidiaries take up the New Business Opportunity;

Report of the Board of Directors (Continued)

- (iii) the engagement or participation by Qilu Transportation or COSCO SHIPPING (Hong Kong) in the investment, development, maintenance, operation and management of expressways running within/through Shandong Province of the PRC, the establishment and operation of the advertisement billboards along the expressways under its operation and/or management, and the operation of other businesses in relation to toll roads in accordance with specific written approvals or instructions from the competent provincial government departments. However, Qilu Transportation or COSCO SHIPPING (Hong Kong) shall communicate with the Company before the issuance of such approval or instruction in order to minimise the impact of relevant projects on the Company. However, (i) if Qilu Transportation or COSCO SHIPPING (Hong Kong) has the autonomous right to select the execution entity of such projects covered by the written approvals or instructions, such projects are still subject to the requirements under the Non-Competition Agreement; or (ii) if the projects covered by such approvals and instructions cause actual competition with or bring impact to the Principal Businesses of the Company and its subsidiaries, Qilu Transportation or COSCO SHIPPING (Hong Kong) and the Company shall use the best efforts to procure the competent government authorities to fully consider the relevant factors before issuing such written approvals or instructions; and
- (iv) additional capital injection by Qilu Transportation or COSCO SHIPPING (Hong Kong) to their respective subsidiaries being involved in such businesses in accordance with the prevailing business development needs. However, if the additional capital will be used for business that competes or is likely to compete with the Principal Businesses of the Company and its subsidiaries, such business shall be subject to the Non-Competition Agreements.

OPTIONS FOR NEW BUSINESS OPPORTUNITIES

Each of Qilu Transportation and COSCO SHIPPING (Hong Kong) has undertaken in the Non-Competition Agreements that during the term of the Non-Competition Agreements, if Qilu Transportation or COSCO SHIPPING (Hong Kong) or their respective subsidiaries becomes aware of any new business opportunity which will directly or indirectly compete or is likely to compete with the Principal Businesses of the Company and its subsidiaries ("**New Business Opportunity**"), Qilu Transportation or COSCO SHIPPING (Hong Kong) shall notify us in writing of the New Business Opportunity within ten working days after it becomes aware of the New Business Opportunity (the "**Offer Notice**") and provide with us all required information about the New Business Opportunity, and use its best efforts to procure the New Business Opportunity to us or our subsidiaries on fair and reasonable terms and conditions. Our Group is entitled to decide whether or not to take up such New Business Opportunity in writing within ten working days or within a time period as otherwise agreed by the parties from receiving the Offer Notice. If so, Qilu Transportation or COSCO SHIPPING (Hong Kong) or their respective subsidiaries must pass on the New Business Opportunity to us or our subsidiaries under the same terms and conditions.

OPTIONS FOR ACQUISITIONS

In relation to any New Business Opportunity referred to us by Qilu Transportation or COSCO SHIPPING (Hong Kong) or their subsidiaries under the Non-Competition Agreements, if we decide not to take up such New Business Opportunity, Qilu Transportation or COSCO SHIPPING (Hong Kong) or their respective subsidiaries may, subsequently take up such New Business Opportunity on its own.

PRE-EMPTIVE RIGHTS UNDER NON-COMPETITION AGREEMENTS

In relation to any New Business Opportunity referred to us by Qilu Transportation or COSCO SHIPPING (Hong Kong) or their respective subsidiaries under the Non-Competition Agreements, if the Company decides not to take up such New Business Opportunity, Qilu Transportation or COSCO SHIPPING (Hong Kong) or their respective subsidiaries may, subsequently take up such New Business Opportunity on its own.

Each of Qilu Transportation and COSCO SHIPPING (Hong Kong) has undertaken that, during the term of the Non-Competition Agreements, if they or any of their respective subsidiaries intend to transfer, sell, lease, license or otherwise transfer or permit to use (i) businesses or assets in the existing businesses of Qilu Transportation or COSCO SHIPPING (Hong Kong) which are the same as or similar to the Principal Businesses of the Company; or (ii) the above new business to a third party, it shall notify the Company by a written notice in advance.

For more details of the Non-Competition Agreements, please refer to the section headed “Relationship with Our Controlling Shareholders” in the Prospectus.

The Company has received confirmation notices issued by each of Qilu Transportation and COSCO SHIPPING (Hong Kong), confirming that they have complied with the Non-Competition Agreements for the year ended 31 December 2019, and made disclosure in this annual report. Independent non-executive directors have also reviewed the compliance and execution of the Non-Competition Agreements of Qilu Transportation and COSCO SHIPPING (Hong Kong) in accordance with such confirmation notices, and confirmed that they were not aware of any non-compliance of Qilu Transportation and COSCO SHIPPING (Hong Kong) on the commitments made in the Non-Competition Agreements for the year ended 31 December 2019. For the year ended 31 December 2019, the Company has not been offered any new business opportunities.

EMPLOYEES, REMUNERATION POLICY AND PENSION SCHEME

Staff costs of the Group during the Year amounted to RMB81.538 million. The remuneration for the Group’s 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 coverage. In general, the Group determines the remuneration of our employees based on their performance, qualifications, positions and seniority within our Group. The Group also provides our employees with continuing education and regular on-the-job training based on their job duties. As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement scheme for its employee in the PRC (i.e. pension). 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 contributed 18% of such relevant income from January to April 2019, and has contributed 16% of such relevant income since May 2019, subject to certain ceiling. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees. In addition, the Group also operates an additional employee pension plan (i.e. corporate annuity). All the employees are entitled to an additional pension each year aggregating to 8% of the previous year’s salaries. Contributions made from the Company to the above retirement schemes are recognized as expenses when incurred and will not be reduced by contributions forfeited by employees who leave the schemes prior to vesting fully in the contributions.

The Company offers the executive Directors, employee representative Supervisors and senior management, who are also employees of the Company, emolument in the form of salaries, performance bonus, annuity and other benefits. The non-executive Directors, independent non-executive Directors and shareholder representative Supervisors receive emolument, if any, based on their respective duties and responsibilities (including being members or chairman of Board committees).

Report of the Board of Directors (Continued)

WAIVER OF EMOLUMENTS

Mr. Wu Yuxiang, former independent non-executive Director, agreed to waive his director's emolument since his appointment. His entitled emolument accrued during the Year amounted to RMB116,000.

SHARE CAPITAL

As at 31 December 2019, the total issued shares of the Company amounted to RMB2,000,000,000, which was divided into 2,000,000,000 Shares (comprising 1,100,000,000 H Shares and 900,000,000 Domestic Shares), with a nominal value of RMB1.00 each.

Share capital as at 31 December 2019 was as follows:

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

Details on changes in share capital of the Company during the Year are set out in Note 27 to the consolidated financial statements in this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association and the laws of the PRC which would require the Company to offer new Shares to existing Shareholders on a pro-rata basis.

Report of the Board of Directors (Continued)

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

As at 31 December 2019, so far as the Directors and Supervisors are aware, other than the Directors, Supervisors and the senior management of the Company, the following persons had or 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 to 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 (Note 1)	600,000,000	Interest in controlled corporation	H Shares	54.55%	30.00%	Long position
COSCO SHIPPING (Note 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 (Note 2)	121,500,000	Interest in controlled corporation	Domestic Shares	13.50%	6.08%	Long position
China Energy Investment Corporation Limited (Note 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 (Note 3)	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
Prudential Holdings Limited (Note 3)	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
Prudential Corporation Asia Limited (Note 3)	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position

Report of the Board of Directors (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 to total issued share capital of the Company	Long position/ short position
Prudential plc <i>(Note 3)</i>	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
CITIC Corporation Limited <i>(Note 4)</i>	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
CITIC Limited <i>(Note 4)</i>	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
CITIC Glory Limited <i>(Note 4)</i>	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
CITIC Polaris Limited <i>(Note 4)</i>	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position
CITIC Group Corporation <i>(Note 4)</i>	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. <i>(Note 5)</i>	103,750,000	Interest in controlled corporation	H Shares	9.43%	5.19%	Long position

Notes:

- 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) Co., Limited under the SFO.
- 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.

Report of the Board of Directors (Continued)

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. 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.

Save as disclosed above, as of 31 December 2019, to the best knowledge of our Directors and Supervisors, none of other persons (other than Directors, Supervisors and senior management of the Company) had, or was deemed to have, any interest or short position in Shares, underlying Shares and debentures of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

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

To the best knowledge of our Directors, as at 31 December 2019, none of our Directors, Supervisors or chief executives and their respective associates had, or was deemed to have, any interest or short position in Shares, underlying Shares and debentures of the Company and 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, SALES AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

PUBLIC FLOAT

From the listing date of the Company's H Shares to the date of this report, according to the information obtained by the Company and the knowledge of the Directors, the public shareholding of the Company's Shares is no less than 25%, which is in compliance with the relevant regulations of Rule 8.08 and Rule 13.32 of the Listing Rules.

Report of the Board of Directors (Continued)

DIRECTORS AND SUPERVISORS

During the Year and as of the date of this report, the Directors and Supervisors of the Company include:

Executive Directors

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

Mr. Peng Hui

Mr. Liu Qiang (Appointed as the executive Director on 19 November 2019)

Non-executive Directors

Mr. Chen Dalong

Mr. Wang Shaochen

Mr. Zhou Cenyu (Appointed on 19 November 2019)

Mr. Su Xiaodong

Ms. Kong Xia (Appointed on 19 November 2019)

Mr. Yuan Ruizheng

Mr. Tang Haolai

Mr. Wu Dengyi (Retired on 19 November 2019)

Mr. Li Jie (Retired on 19 November 2019)

Mr. Wang Long (Retired on 19 November 2019)

Independent Non-executive Directors

Mr. Cheng Xuezhao

Mr. Li Hua

Mr. Wang Lingfang

Mr. He Jiale

Mr. Han Ping (Appointed on 19 November 2019)

Mr. Wu Yuxiang (Retired on 19 November 2019)

Shareholder Representative Supervisors

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

Mr. Wu Yongfu

Mr. Zhang Yin (Appointed on 19 November 2019)

Mr. Liu Ligang (Retired on 19 November 2019)

Employee Supervisors

Mr. Hao Dehong

Ms. Hou Qinghong

Mr. Wang Shun (Appointed on 18 October 2019)

Mr. Lian Shengguo (Retired on 18 October 2019)

Independent Supervisors

Mr. Li Ruzhi

Mr. Meng Qinghui (Appointed on 19 November 2019)

Ms. Jiang Xiaoyun (Retired on 19 November 2019)

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THEIR INFORMATION

Changes in Directors, Supervisors and Senior Management during the Year

Mr. Liu Qiang was appointed as the executive Director of the Company at the extraordinary general meeting of the Company held on 19 November 2019, with effect from the same date. He served as the chairman of Shandong Gangtong Construction Co., Ltd., a wholly-owned subsidiary of the Company, since 19 March 2020.

Mr. Zhou Cenyu and Ms. Kong Xia were appointed as the non-executive Directors of the Company at the EGM of the Company held on 19 November 2019, with effect from the same date. Mr. Wu Dengyi, Mr. Li Jie and Mr. Wang Long have retired as the non-executive Directors on 19 November 2019.

Mr. Han Ping was appointed as the independent non-executive Director of the Company at the extraordinary general meeting of the Company held on 19 November 2019, with effect from the same date. Mr. Wu Yuxiang has retired as the independent non-executive Director on 19 November 2019.

Mr. Zhang Yin was appointed as the shareholder representative Supervisor of the Company at the extraordinary general meeting of the Company held on 19 November 2019, with effect from the same date. Mr. Liu Ligang has retired as the shareholder representative Supervisor on 19 November 2019.

Mr. Wang Shun was appointed as the employee Supervisor at the employee representative meeting of the Company held on 18 October 2019, with effect from the same date. Mr. Lian Shengguo has retired as the employee Supervisor of the Company on 18 October 2019.

Mr. Meng Qinghui was appointed the independent Supervisor of the Company at the extraordinary general meeting of the Company held on 19 November 2019, with effect from the same date. Ms. Jiang Xiaoyun has retired as the independent Supervisor on 19 November 2019.

Mr. Zhang Bo resigned as the standing deputy general manager of the Company due to work arrangement on 24 June 2019. Mr. Liu Qiang has been appointed as the deputy general manager of the Company, with effect from the same date. Meanwhile, Mr. Liu Qiang no longer served as the chief economist, secretary of the disciplinary committee and chairman of the labour union of the Company. For details, please refer to the announcement of the Company dated 24 June 2019.

Mr. Zhang Junfeng has served as secretary of the disciplinary committee of the Company since 3 June 2019.

Mr. Lian Shengguo has served as chairman of the labour union and head of office of the Board of the Company since 21 June 2019.

Report of the Board of Directors (Continued)

Changes in Directors, Supervisors and Senior Management after the Year and up to the date of this report

Saved as disclosed in this report, during the Year, there was no information of Directors which shall be disclosed under Paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules and there was no change in any disclosed information.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

All current Directors have entered into service contracts with the Company for a term of three years commencing from the date of the approval on appointment by Shareholders and shall be terminated pursuant to relevant terms of respective contracts.

As at the date of this annual report, other than statutory compensation, none of the Directors and Supervisors of the Company had entered into any service contract with the Company or any of its subsidiaries which was not determinable by the Company within one year without payment of compensation.

INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE OF DIRECTORS AND SUPERVISORS

During the relevant period, none of the Directors and Supervisors or their related entities (if any) was materially interested, directly or indirectly, in any transactions, arrangements or contracts of significance entered into with the Company or its controlling companies or its subsidiaries or subsidiaries of its controlling companies subsisting as at the end of the Year.

Report of the Board of Directors (Continued)

INTERESTS OF DIRECTORS IN BUSINESSES COMPETING WITH THE COMPANY

The table below summarised the positions concurrently held by the Directors and Supervisors in road operation companies of the Controlling Shareholders and/or their associates (other than the Company):

Name/Positions held with the Company	Directorship, supervisorship, senior management or other positions held with road operation companies of the Controlling Shareholders and/or their associates (other than the Company) as at the date of the annual report
Chen Dalong (陳大龍)/Vice chairman of the Board, Non-executive Director	Director and general manager of COSCO SHIPPING (Hong Kong) Industry & Trade Limited (中遠海運(香港)工貿有限公司) held by the COSCO SHIPPING (Hong Kong) as to 100%, director of Smart Watch Assets Limited, Freetech Intelligent Road Regeneration Engineering Investment Co., Ltd. (英達智能道路再生工程投資有限公司) (held by COSCO SHIPPING Industry & Trade as to 49.00%) and Tianjin Expressway Maintenance Company Limited (天津市高速公路養護有限公司) (held by Freetech Intelligent Road Regeneration Engineering Investment Co., Ltd. as to 55.00%), as well as chairman of the board of directors of the following companies: (i) Hebei Jixing Expressway Co., Ltd. (河北冀星高速公路有限公司); (ii) Tianjin Tianyu Expressway Co., Ltd. (天津天預高速公路有限公司); (iii) Tianjin Tian'ang Expressway Co., Ltd. (天津天昂高速公路有限公司); (iv) Tianjin Tianxu Expressway Co., Ltd. (天津天旭高速公路有限公司); (v) Tianjin Tianda Expressway Co., Ltd. (天津天達高速公路有限公司); (vi) Tianjin Tianwei Expressway Co., Ltd. (天津天偉高速公路有限公司); (vii) Tianjin Tianduo Expressway Co., Ltd. (天津天奪高速公路有限公司); (viii) Tianjin Tianfu Expressway Co., Ltd. (天津天富高速公路有限公司); (ix) Tianjin Tianyong Expressway Co., Ltd. (天津天永高速公路有限公司); and (x) Tianjin Tianxian Expressway Co., Ltd. (天津天顯高速公路有限公司) (Smart Watch Assets Limited is a wholly-owned subsidiary of COSCO SHIPPING (Hong Kong) and the parent company of companies (i) to (x))
Su Xiaodong (蘇曉東)/ Non-executive Director	Investment director and general manager of the capital and investment department of COSCO SHIPPING (Hong Kong); as well as director of the following companies: (i) Hebei Jingshi Expressway Development Co., Ltd. (河北京石高速公路開發有限公司); (ii) COSCO H.K. (Beijing) Investment Co., Limited (香遠(北京)投資有限公司); (iii) Hebei Jixing Expressway Co. Ltd. (河北冀星高速公路有限公司); (iv) Tianjin Tianyu Expressway Co., Ltd. (天津天預高速公路有限公司); (v) Tianjin Tian'ang Expressway Co., Ltd. (天津天昂高速公路有限公司); (vi) Tianjin Tianxu Expressway Co., Ltd. (天津天旭高速公路有限公司); (vii) Tianjin Tianda Expressway Co., Ltd. (天津天達高速公路有限公司); (viii) Tianjin Tianwei Expressway Co., Ltd. (天津天偉高速公路有限公司); (ix) Tianjin Tianduo Expressway Co., Ltd. (天津天奪高速公路有限公司); (x) Tianjin Tianfu Expressway Co., Ltd. (天津天富高速公路有限公司); (xi) Tianjin Tianyong Expressway Co., Ltd. (天津天永高速公路有限公司); and (xii) Tianjin Tianxian Expressway Co., Ltd. (天津天顯高速公路有限公司) (Smart Watch Assets Limited is the parent company of companies (i) to (xii))
Zhou Cenyu (周岑昱)/ Non-executive Director	Member of party committee and director of office of the board of directors of Qilu Transportation

Report of the Board of Directors (Continued)

Name/Positions held with the Company	Directorship, supervisorship, senior management or other positions held with road operation companies of the Controlling Shareholders and/or their associates (other than the Company) as at the date of the annual report
Kong Xia (孔霞)/ Non-executive Director	Head of Human Resources Department of Qilu Transportation and member of party committee of the headquarters
Meng Xin (孟昕)/Chairman of the Supervisory Committee	General manager of the finance department of COSCO SHIPPING (Hong Kong); director of COSCO SHIPPING (Hong Kong) Industry & Trade Limited; director of COSCO Treasury Company Limited, held as to 100% by COSCO SHIPPING; director of Great Victory Holdings Ltd., held as to 100% by COSCO SHIPPING; director of Peaktrade Investments Limited, held as to 100% by COSCO SHIPPING; director of Smart Watch Assets and the following companies: (i) Hebei Jixing Expressway Co. Ltd. (河北冀星高速公路有限公司); (ii) Tianjin Tianyu Expressway Co., Ltd. (天津天預高速公路有限公司); (iii) Tianjin Tian'ang Expressway Co., Ltd. (天津天昂高速公路有限公司); (iv) Tianjin Tianxu Expressway Co., Ltd. (天津天旭高速公路有限公司); (v) Tianjin Tianda Expressway Co., Ltd. (天津天達高速公路有限公司); (vi) Tianjin Tianwei Expressway Co., Ltd. (天津天偉高速公路有限公司); (vii) Tianjin Tianduo Expressway Co., Ltd. (天津天奪高速公路有限公司); (ix) Tianjin Tianfu Expressway Co., Ltd. (天津天富高速公路有限公司); (x) Tianjin Tianyong Expressway Co., Ltd. (天津天永高速公路有限公司); and (xi) Tianjin Tianxian Expressway Co., Ltd. (天津天顯高速公路有限公司)
Zhang Yin (張引)/Shareholder Representative Supervisor	Deputy director of Financial Management Department of Qilu Transportation

Mr. Su Xiaodong ceased to serve as the general manager of planning department of COSCO SHIPPING (Hong Kong) in January 2019. He was transferred to be the investment director and general manager of the capital and investment department of COSCO SHIPPING (Hong Kong).

Save as disclosed above, as at the date of this report none of the Directors or Supervisors of the Company holds any interest in business other than the businesses of the Group which directly or indirectly competes or is likely to compete with the business of the Group.

REMUNERATION OF DIRECTORS AND SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Remuneration of the Directors and Supervisors is determined by the Remuneration and Appraisal Committee by making reference to the remuneration paid by comparable companies and time commitments and duties of the Directors and Supervisors.

Details on remuneration of Directors, Supervisors and the five highest paid individuals of the Company during the Year are set out in Notes 8 and 9 to the consolidated financial statements in this annual report.

MANAGEMENT CONTRACTS

During the Year, the Company did not enter into any contract with respect to the management or administration of all or any substantial part of our businesses.

PERMITTED INDEMNITY PROVISION

During the Year, the Company has purchased liability insurance valid for the Year for Directors, Supervisors and senior management of the Company, of which the permitted indemnity provision is in effective.

THE BOARD AND BOARD COMMITTEES

Details on the Board and Board committees are set out in the section headed “Corporate Governance Report” in this report.

MATERIAL LITIGATION AND ARBITRATION

So far as the Directors of the Company are aware, save as the litigation as disclosed in the Prospectus and the abovementioned litigation, the Company was not engaged in any material litigation, arbitration or claim, and no litigation or claim of material importance was pending or threatened against the Company during the Year.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in accordance with the provisions of the Corporate Governance Code.

Details on the convening of meetings of the Audit Committee are set out in the section headed “Corporate Governance Report” in this report.

AUDITORS

The consolidated financial statements for the year ended 31 December 2019 have been audited by Ernst & Young. The domestic and international auditors Ernst & Young Hua Ming LLP and Ernst & Young will retire at the 2019 AGM of the Company. After obtaining the recommendation from the Audit Committee, the Board has resolved the proposed appointment of Ernst & Young Hua Ming LLP and Ernst & Young as the domestic auditor and international auditor of the Company for 2020, respectively. The proposed appointment is subject to shareholders’ approval at the general meeting. The term of service of Ernst & Young Hua Ming LLP and Ernst & Young is proposed to commence from the date of shareholders’ approval at the 2019 AGM up to the date of next annual general meeting of the Company.

The domestic and international auditors PricewaterhouseCoopers Zhong Tian and PricewaterhouseCoopers have retired at the conclusion of the 2018 annual general meeting of the Company held on 10 June 2019; Ernst & Young Hua Ming LLP and Ernst & Young were appointed as the domestic and international auditors at the general meeting on the same day. For further details, please refer to the announcement and circular dated 21 March 2019 and 24 April 2019, respectively.

Save as the disclosed above, the auditors of the Company have not been changed in the last three years.

Report of the Board of Directors (Continued)

BUSINESS REVIEW

Details on the business review, principal risks faced by the Group, analysis using financial key performance indicators, material events affecting the Group after the end of the year and future development of the Group's business are set out in the section headed "Management Analysis and Discussion" in this annual report, which forms part of the report of the Board of Directors.

In the coming year, the Group will continue to follow the business strategy disclosed in the Articles of Association. The Group will, by income from global offering, pay close attention to the high-quality assets related to the road, make strategic acquisition or integration of road resources in Shandong Province, expand the business scope, revenue sources and market share. At the same time, the Group will do a good job in the maintenance of the highway, continue to strengthen the application of information technology, and improve the operation efficiency. The Company will publish relevant information in accordance with applicable laws and regulations (including Listing Rules).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT 2019

The Company has included the full text of the environmental, social and governance report 2019 in this annual report in accordance with the requirements of Appendix 27 of the Listing Rules.

By order of the Board

Li Gang

Chairman

Shandong, the People's Republic of China

24 March 2020

Environmental, Social and Governance Report

1 ABOUT THIS REPORT

This is the second Environmental, Social and Governance Report issued by Qilu Expressway Company Limited. This report mainly introduces the Company's efforts and contributions regarding environmental, social and governance issues and is meant to strengthen communication and engagement with stakeholders.

The Board of the Company and its individual members guarantee that this report contains no false or misleading statements or material omissions, and that they are jointly and severally responsible for the truthfulness, accuracy, and completeness of its content.

Reference of Names

To facilitate presentation and reading, "Qilu Expressway Company Limited" in this report is referred to as "Qilu Expressway", the "Company" and "we". "Qilu Transportation Development Group Company Limited" is referred to as "Group Company".

Scope of the Report

Unless otherwise indicated, qualitative and quantitative information disclosed in this report covers Qilu Expressway and two of its wholly owned subsidiaries.

Timeframe

The Environmental, Social and Governance Report of the Company is an annual report; the reporting period was from 1 January 2019 to 31 December 2019.

Basis for Preparation

The report is in accordance with the requirements of Appendix 27 "Environmental, Social and Governance Reporting Guide" (the "ESG Reporting Guidelines") issued by the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Access to this Report

The Chinese and English versions of this Report are available on the website of the Stock Exchange at <http://www.hkexnews.hk>. This report is published in both Chinese and English; should there be any discrepancies between the two versions, the Chinese version shall prevail.

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2 ENVIRONMENTAL AND SOCIAL RESPONSIBILITY CONCEPT AND MANAGEMENT

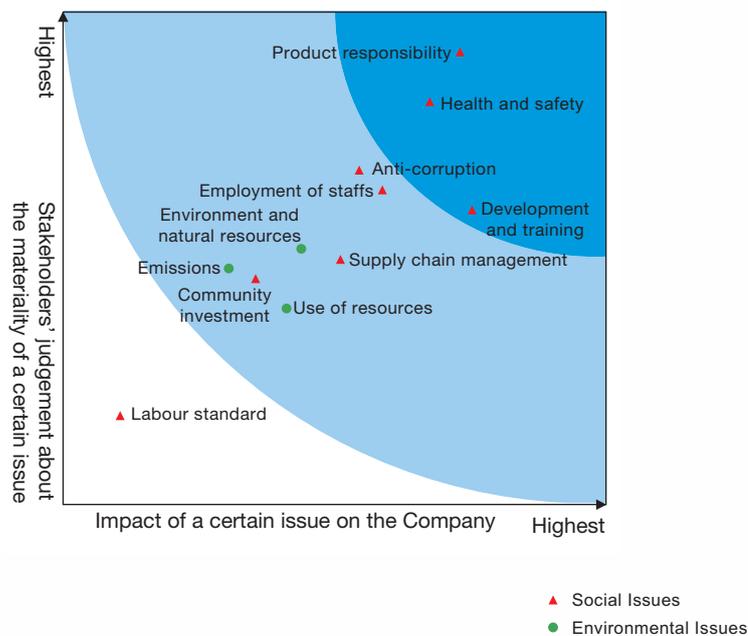
The Company is principally engaged in the operation of expressways, which not only meets the needs of society for rapid transportation, but also effectively facilitates the regional economic and social development. As such, providing safe, rapid, economical and comfortable transportation services and enhancing economic and social development o have been the basic social responsibility of the Company.

While focusing on economic benefits, the Company also pays attention to the environmental and social impact in the course of operation, as well as acknowledges and respects the interests of external and internal stakeholders.

The Company upholds corporate social responsibility, identifies potential environmental and social impact in the course of operation, and proactively adopts measures in response in the hope of achieving harmony of corporate operations with the society and the environment.

3 IDENTIFICATION OF MATERIAL ISSUES

Pursuant to the ESG Reporting Guidelines issued by the Stock Exchange, and with reference to relevant procedures for materiality analysis issued by Global Reporting Initiative (the "GRI"), the Company collects and records issues concerned by the stakeholders and materiality assessment results about each issue by way of questionnaires and interviews, conducts materiality analysis and prioritize such issues by materiality to finalise the material (important) ones in the environmental, social and governance aspects and make disclosure thereof in the Report. (See the chart below)



4 CONSISTENT SERVICE, MUTUAL SUPPORT FOR MUTUAL BENEFITS

Directly showcasing the image of a company, quality and safety of products and services are the profitmaking entities on which sustainable and significant development are based and also the requisite to improve brand reputation. The Company attaches great importance to the safe operation and customer evaluation of expressways under its management.

4.1 Safe Operation

“Smooth, Safe, Comfortable and Beautiful” is the management target for safe operation of expressways and services at toll stations. The Company has strictly complied with relevant laws, regulations and provisions, including the Law of the People’s Republic of China on Work Safety (《中華人民共和國安全生產法》), the Law of the People’s Republic of China on Road Traffic Safety (《中華人民共和國道路交通安全法》) and the Regulations on Main Responsibilities of Production and Business Units of Shandong Province (《生產經營單位主體責任制規定》). The Company has revised the Administrative Measures on Coordination for Operations (《運營調度管理辦法》), the Assessment Measures on Coordination for Operations (《運營調度考核辦法》), Administrative Measures on Production Safety (《安全生產管理辦法》), Administrative Measures on Toll Fees (《收費管理辦法》) and other measures, amended 10 targeted contingency plans including the Comprehensive Emergency Plan (《綜合應急預案》), the Targeted Contingency Plan for Traffic Accidents in relation to Hazardous Chemicals Carriers on Expressways (《高速公路危化品運輸車輛交通事故處置專項應急預案》) and the Targeted Contingency Plan for Unanticipated Social Events (《社會安全突發事件專項應急預案》), etc.. Each of the management offices has formulated several on-site contingency plans, such as the Contingency Plan for Return Persuasion at Entrances (《入口勸返應急預案》). Contents of the plans are more concise, effective, practical and more manoeuvrable, while the plan system will be introduced into the OA office system which will greatly enhance their time-effectiveness.

In accordance with the system requirements of the Assessment Measures for Safe Production Responsibility System (《安全生產責任制考核辦法》), the Company has signed the Letter of Responsibility on Safe Production Management (《安全生產管理責任書》) with various departments, management centres, maintenance emergency departments and holding companies (hereinafter referred to as the “Various Entities”) and the Safe Production Committee is responsible for relevant assessment. In addition, the Various Entities have signed Letter of Responsibility on Safe Production Target (《安全生產目標責任書》) with employees and are responsible for assessment and report assessment results to the Safe Production Committee for approval. The Company announces rewards and punishment about safe production assessment on a monthly and annual basis.

The safe production management system of the Company is explicit with clear classification and is implemented in a strict manner. During the year 2019, there was no violation of production and service responsibility which had material impact on the Company. In respect of safe production, we follow the principle that “prepare one report for one event, and each event must be reported” and the system of “Zero Report”. In addition, Monthly Report on Safe Production Accidents (《安全生產事故月報表》) is prepared each month as required by the higher-level department. Similarly, we require the Various Entities of the Company to submit monthly reports, and impose penalties for late filings and omissions. According to the inspection and the monthly reports on safety production accidents, there were no such incidents during the year.

Environmental, Social and Governance Report (Continued)

4.1.1 Improvement of Safe Production Awareness of Staff

The Company has developed the Administrative Measures on Safe Production of Qilu Expressway Company Limited (《齊魯高速公路股份有限公司安全生產管理辦法》) in light of the actual conditions of the Company and in accordance with the Regulations on Safety Training of Production and Business Entities (《生產經營單位安全培訓規定》) of the State and the Regulations on Main Responsibilities of Production and Business Entities (《生產經營單位安全生產主體責任規定》) of Shandong Province. The Measures provides that participants of safe training should include entity leaders, safety managers, special operation personnel and other employees. Contents of training covers national regulations and policies, lessons learned from accidents, basic safety knowledge, regulations and systems on safe production and safe operation specification. Training work has a 100% coverage and a 100% pass rate. During the year, the Company invited experts from Jinan Administration of Work Safety to organize the 2019 Management Qualification Training Activities on Production Safety, 63 mid-rank managers and full-time and part-time safety officers participated in the training, all trainees passed the closed-book examination and were awarded the Certificate of Safety Education and Training (《安全培訓合格證書》) issued by the Production Safety Administration Bureau of Shandong Province, which qualified them to engage in safe production management in the province. In addition, a series of training programs, including Basic Standards for Production Risk Identification, Assessment and Control on the Safety of Highway and Waterway Industry (《公路水路行業安全生產風險辨識評估管控基本規範》), On “Production Safety Month” (《談“安全生產月”》), Fire Safety Knowledge Training (《消防安全知識培訓》), “Union of Theory and Practice” for Safety Management (《安全管理“知行合一”》) and Preventing Risks, Eliminating Hidden Dangers and Reducing Accidents (《防風險、除隱患、遏事故》) were launched.



Safe production education and training programs organized by the Company

Environmental, Social and Governance Report (Continued)

In 2019, the Company vigorously carried out production safety activities, in order to further improve employees' knowledge and skills in production safety, prevent and reduce accidents in relation to production safety, and to ensure safe and stable operation of the Company. The Company invited experts from the Safety Science and Technology Center of Jinan City to organize fire safety training and emergency drills in the Company's headquarters, the Management Office of Xiaoli and the Management Office of Dongping, respectively. About 200 employees from toll collection, vehicle driving, mechanical operation to plumber and electrical maintenance undergone intensive trainings on laws and regulations of fire prevention, common knowledge for fire escape and operation skills for common fire extinguishing equipment. Upon completion of the trainings, the examination shall be conducted in the form of closed-book examination, and passing the examination shall be regarded as qualified employees, while those who failed the examination will be sent to re-education until they qualify. At the same time, with the investigation, protection, promotion and other activities as the carrier, combined with the contingency plans drills for the "Production Safety Month" and "Fire Safety Month", the Company conducted on 25 June and 28 June, fire drills and firefighting skills competition for more than 40 front-line staff at the Management Office of Xiaoli and the Management Office of Liangshan, respectively. Through ways that intrigued the employees, the Company enabled them to fully understand relevant safety hazards at work by entertaining means, so as to effectively improve their self-protection awareness and ability and further enhance the operability of contingency plans.



Firefighting Drills and Safety Knowledge Competition

4.1.2 Improvement of the Safety and Operation Level of Expressways

In respect of the daily operation of the highways, in accordance with the requirements in the Notice on Printing and Issuing the Implementation Plan for the Adjustment Work on the Numbering and Naming of the National Highway Network (《關於印發國家公路網命名編號調整工作實施方案的通知》) issued by the Provincial Transportation Department, the Company has updated all signage of all highways to ensure that they are clear and accurate to provide service to drivers and passengers. At the same time, the Company adds vertical delineators in all highways to improve the safety of driving at night.

In order to enhance the contingency response capability to cope with emergencies caused by severe weather conditions, and to minimise the social and property damage caused by bad weather, as well as to ensure the safety and smooth flow of the expressways, the Company formulated the Technical Guidelines for Snow Removal and Anti-skid on Expressways (《高速公路除雪防滑技術指南》), the Targeted Work Plan for Snow Removal and Anti-skid on Expressways (《高速公路除雪防滑專項工作預案》), as well as the Targeted Work Plan for Flood Prevention and Rescue on Expressways (《高速公路防汛搶險專項工作預案》), so as to strengthen road inspections in the middle and late stages of adverse weather conditions as well as the inspections of key road sections, and promptly eliminate traffic jams and unsafe driving factors caused by natural disasters, abnormal weather, discards or debris, etc. to maintain smooth traffic.

In order to reduce the frequency of abnormal events on the expressways of the Company, augment the Company's efficiency in handling abnormal events on the expressways, the Company has introduced "Early Warning System for Abnormal Event on Expressways based on Video Analysis Technology" during the year.



The purpose of the Early Warning System is to use the relevant equipment and system software to analyse the existing high-definition videos on the expressways, to automatically pop up the video on the computer of the Control Center once abnormal events were discovered, to utilise roadside equipment to remind passing vehicles of accidents ahead to reduce the occurrence of secondary accidents, and to improve the ability to detect, alert and quickly respond to abnormal road incidents, so as to provide high-quality road access services for the passing drivers and passengers. The system embodies the Company's excellent sense of social responsibility and has enhanced the economical and social effectiveness of the Company.

Environmental, Social and Governance Report (Continued)

At the same time of strengthening its Early Warning System, the Company has increased the monitoring coverage of its road network to further improve the management efficiency and level of road service, the Company has also added some road surveillance cameras this year. The newly added surveillance cameras are equipped with infrared high-definition dome cameras for a wider target coverage and improved monitoring performance.

In 2019, as required by the Notice on Issuing the Implementation Plan for Deepening Institutional Reform of Toll Roads and Removing Tollgates at Provincial Boundaries on Expressways (Guo Fa Ban [2019] No.23) (《關於印發深化收費公路制度改革取消高速公路省界收費站實施方案的通知》(國辦發[2019]23號)) and the Notice on Issuing the Implementation Plan of Shandong Province for Deepening Institutional Reform of Toll Roads and Removing Tollgates at Provincial Boundaries on Expressways (Lu Zheng Ban Fa [2019] No.17) (《關於印發山東省深化收費公路制度改革取消高速公路省界收費站實施方案的通知》(魯政辦發[2019]17號)), the Company sped up the construction of Electronic Toll Collection (ETC) system, and completed installation and online stand-alone debugging of devices for all equipment for 28 sets of ETC gantry system, reconstruction of 46 ETC lanes, 1 sub-center and 10 entrance control lanes along the Jinhe Expressway before 31 October, and met the requirements of the competent transportation department for network debugging at the end of October. Beginning on 1 November 2019, the Company cooperated with competent transportation department to carry out the nationwide network debugging work, and successfully completed the switch of the new charging system on 1 January 2020. In accordance with the overall arrangement of Shandong Province, all of the tollgates operated by the Company are available for weighing at entrance. From 1 December 2019, oversized and overloaded vehicles are advised to return at the entrance by weighing.

In terms of maintenance of roads, the Company adhered to people-oriented and user first principles, and has fulfilled the “serving the public better” and “safer, smoother, more efficient and more harmonious” requirements, strengthened the management of refined maintenance and management, strengthened management of road safety maintenance, the Company has formulated the Administrative Measures on the Safety Maintenance of Expressways (《高速公路養護安全管理辦法》), the Administrative Measures for Maintenance Areas of Expressways (《公路養護作業區管理辦法》) and the Examination and Approval System for the Maintenance of Expressways (《高速公路養護作業施工審批制度》).

In respect of the maintenance work of expressways under the management of the Company, routine maintenance, preventive maintenance, reparative maintenance and special maintenance were conducted to the road, bridges and culverts, traffic safety facilities, slope protection and ancillary facilities of the Jihe Expressway under its management in accordance with national industry standards, including the Technical Specification for Highway Maintenance (《公路養護技術規範》), the Technical Specification for Maintenance of Bridges and Culverts of Highway (《公路橋涵養護規範》), the Administrative Measures for Highway Maintenance Engineering (《公路養護工程管理辦法》) of the Ministry of Transport of the PRC and various maintenance management systems developed by the Company, including the Administrative Measures on Maintenance of Expressways (《高速公路養護管理辦法》), the Administrative Measures for Overhaul, Medium Repair and Special Project Maintenance of Expressways (《高速公路大中修及專項工程管理辦法》) and the Administrative Measures on Maintenance of Bridges and Tunnels of Expressways (《高速公路橋隧養護管理辦法》). Pursuant to the Measures for Completion/Delivery Acceptance of Highway Engineering (《公路工程竣(交)工驗收辦法》) of the Ministry of Transport of the People's Republic of China, 100% maintenance engineering were determined as excellent; pursuant to the national

Environmental, Social and Governance Report (Continued)

industry standard, the Evaluation Standards for Technical Condition of Highway (《公路技術狀況評定標準》), 100% of expressways were determined as superior level in MQI (i.e. Highway Technical Condition Index, which is divided into five grades: excellent, good, medium, fair and poor), with a road performance index above 93.

Routine Maintenance

The Company carried out sweeping and cleaning to expressways every day and conducted centralized treatment of the garbage from the central median along the expressway before each holiday. The Company required routine maintenance department and construction department to place traffic signs in accordance with the Safety Work Rules for Highway Maintenance (《公路養護安全作業規程》) in construction and maintenance on road and to arrange construction works in strict accordance with the construction organization design approved by traffic police department and road administration department. The Company or management offices are responsible for conducting safety inspections in this respect.

Preventive Maintenance and Reparative Maintenance

In order to guarantee road safety and driving comfortability, the Company conducted preventive and reparative maintenance construction to safety hazards such as longitudinal joints and bumps at bridge head in accordance with the Standards for Evaluating Highway Technical Condition (《公路技術狀況評定標準》).

In order to ensure safe and smooth traffic on the road, the road repair project this year adopted the construction process of on-site thermal regeneration on the 26.9km of pavement rutting of Jihe Expressway, which utilizes the original pavement materials on-site without generation of waste materials and is low-carbon and environmentally friendly; and which also ensures driving comfort and safety.

The Company strictly complies with the requirements of the Safety Procedures for Road Maintenance (《公路養護安全作業規程》) (JTG H30-2015), the Technical Specifications for Construction Safety of Highway Engineering (《公路工程施工安全技術規範》) (JTG F90-2015) and Implementation Rules for Highway Safety Project in Shandong Province (《山東省公路安全保障工程實施細則》), before the commencement of construction, the construction entity shall be required to formulate plans for the design of construction organization and transportation organization, and make relevant preparations in terms of personnel, machinery equipment and materials. During the course of construction, the Company requires the construction unit to ensure the safety of the construction and the traffic, so as to ensure smooth, continuous, efficient and safe construction, and to achieve “notice in advance, key diversion, step-by-step security, on-site response”. Coordinators and strengthen communication and coordination with high-speed traffic police and road administration departments to ensure the safety of on-site construction personnel. Full-time safety co-management personnel were arranged on site, communication and coordination with traffic police on expressways and highway administration departments were strengthened to ensure the safety of construction personnel on site.

Environmental, Social and Governance Report (Continued)

4.1.3 Joint Actions with Traffic Police to Guarantee Safe Traffic

In order to guarantee road safety, the Company has joined hands with traffic police, road administration department and fire department along the expressway to carry out several joint actions.



Cracking down on barb-wire fence vandals



Promoting expressway safety in neighbouring villages with traffic police and the highway administration



Rehearsing emergency drills



Conducting safety education in neighbouring schools with traffic police and the highway administration

In 2019, the Company and the Linked Entities held a joint-linkup meeting which was organized not less than once every quarter, and on 22 November 2019, the Dongping Management Office carried out a drill for leakage of dangerous chemical products on the Jihe Expressway.

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A warm reminder to save two lives

At 10 a.m. on 29 April 2019, Ms. Wang's call was received at the control hall, thanks to a warm reminder from an officer, she and her child had made a hairbreadth escaped, an experience which still haunts her.

Ms. Wang claimed that at 20:55 on 28 April 2019, the vehicle she was driving has broken down in the vicinity of Dongping section (k134 in the direction to Heze). In need of a trailer for her vehicle, Ms Wang stopped in the driveway and made a call for rescue. With years in the profession, the operator comrade Zhang Fengyang, was able to put Ms. Wang on guard and recommended her to turn on the four-corner lights and put a tripod 150 meters behind her vehicle, he also urged all passengers to evacuate to the outside of the guardrail and wait for rescue. Ms. Wang recalled, as soon as she and her child got out and moved to the outside of the guardrail, a large truck came crashing into her vehicle, thanks to the timely advice from the operator, both lives of the mother and daughter were saved that day.

The control hall receives dozens of rescue calls each day, and the staff always adheres to the principle of life first and safety first, giving their earnest advice to every caller to ensure safety of the caller before everything else and eliminate all potential dangers. It is this level of commitment and the attitude towards life of each operator on duty in the monitoring hall that enable them to deal with all kinds of emergencies in a timely and standardized manner, eliminate hidden hazards, avoid vicious accidents and create a safe and smooth Qilu Expressway!

4.2 Customer Feedback

The Company set up a 24-hour complaint hotline at the Operation and Dispatch Command Hall of Safe Operation Department, to provide customers with a complaint channel and solutions. Toll collection at all toll stations of the Company, dispatching for accident rescue and safety management were also under supervision of the Command Hall.

The Company strictly required that customer service personnel should be earnest and sincere to vehicle owners who made a complaint in face, by letter, telephone, fax and e-mail or any other means, and should not pass the buck and rebuff for any reason, and they should make detailed registration, execute investigation and verification and maintain a record. Safe Operation Department classify complaint cases by department and management centre and report such cases for further procedures. The person responsible for handling the complaint should provide the complainant with the progress of the complaint within the prescribed time (general complaints should be dealt with in a timely manner, material complaints should be processed within 3 working days in principle) and a record of handling results should be keep.

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In 2019, the Company optimized the complaint handling process, so as to enhance the quality of the complaint service and better serve the society. The Company has added OA process to the process of handling complaints and demanded the complaint handling process to be initiated through OA at the earliest time upon receiving the complaints, and that the responsible implementation department and personnel shall be designated directly through the OA process upon receiving instruction and approval from the officer on duty. The designated personnel will be required to verify the incidents involved in the complaints while the personnel on duty will be required to accept the complaint first hand and follow up until case closed. Explanation and comforting should be made properly for complaint caused by objective reasons; for complaint caused by subjective reasons, the complained department should extend its sincere apology to the complainant and take effective measures to minimise the adverse impact, thereby earning appreciation from the complainant.

4.3 Advertisement and Trademark Management

The Company has strictly complied with relevant laws and regulations, including the Advertisement Law of the People's Republic of China (《中華人民共和國廣告法》), the Contract Law of the People's Republic of China (《中華人民共和國合同法》) and the Highway Law of the People's Republic of China (《中華人民共和國公路法》). The Company and the Group Company have entered into Trademark Licensing Agreement (《商標使用許可協議》), to legally use the trademarks of Group Company registered in Hong Kong as stipulated in the agreement.

Shandong Shunguang Culture Media Company Limited (“Shunguang Culture Media”), a subsidiary of the Company, has formulated relevant management systems, including the Rules and Regulations of Shandong Shunguang Culture Media Company Limited (《山東舜廣文化傳媒有限公司規章制度》) and the Advertisement Management System of Shandong Shunguang Culture Media Company Limited (《山東舜廣文化傳媒有限公司廣告管理制度》). A majority of advertising media business of Shunguang Culture Media were contracted to an advertising company, which was responsible for communicating with customers directly.

In order to promote the sustainable development of the Company's advertising business, and in response to the relevant policy calling for the cancellation of the “Single Column Billboard” in Shandong Province, the Company has built an LED panel at the Pingyin Toll Station, which enjoys advantages for being high-definition and energy saving, and can be used in publicity promotion for public welfare. The Company plans to build more LED advertising equipment in the future to reduce investment in traditional billboards. And the Company has cooperated with the highway management authorities in the use of LED advertising equipment for the release of traffic information and the promotion of new expressway regulations.

In 2019, there was no incident of material impact on the Company arising from the violation of relevant laws and regulations due to advertisements, trademarks, etc.

5 AN INTEGRATION OF TALENTS, MAKING BEST USE OF THE TALENTS

5.1 Employment of Staff

5.1.1 Employment Equality

Employees are the core competitiveness of enterprises, and adhering to the people-oriented development philosophy is the prerequisite to ensuring sustainability of the Company. A mature employment system, harmonious employee relations, favourable working environment, reasonable incentives and protected employee rights are the key factors to strong cohesion within the enterprise.

The Company strictly complies with laws and regulations such as the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) and Tentative Provisions for Payment of Wages (《工資支付暫行規定》). With reference to its own conditions, the Company formulates and improves systems and measures, including the "Human Resources Management System" (《人力資源管理制度》), "Wages Management Practices", (《薪酬管理辦法》) and "Attendance Management Practices (《考勤管理辦法》), to accommodate business development demands, establish a sound incentive mechanism, devise a scientifically reasonable distribution system, protect legal rights of the staffs, mobilize the enthusiasm and creativity of staffs, and boost the efficiency of work and business benefits of the Company.

The Company adheres to the principles of fairness, impartiality and openness, to recruit law-abiding talents who are suitable for the position by means of internal or social recruitment. For employees in severe violations of labour discipline or regulations of the Company, with gross negligence and malpractice, causing significant damages to the Company, or held criminally liable, the Company will take measures to dismiss them. There was no dismissal of employees by the Company for the above-mentioned behaviours in 2019.

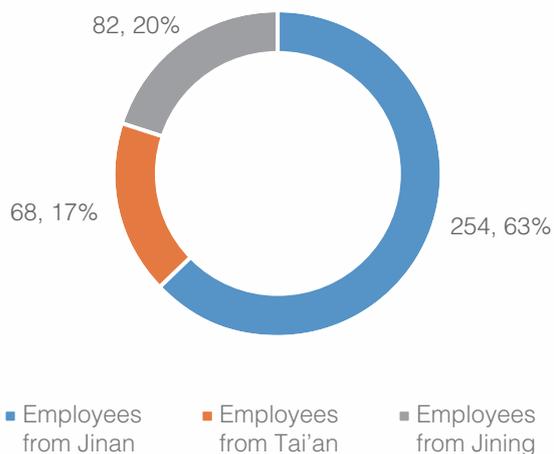
The Company adheres to the principles of gender equality and equal pay for equal work, enters into labour contract with all employees according to law, and strictly executes various labour protection policies. It treats all employees equally regardless of the differences in ethnicity, race, gender and religion.

As of 31 December 2019, the Company has a total of 404 employees, 151 of them are female, representing approximately 37% of the total number of employees. (The above information is in line with the annual report, including 8 persons from the subsidiaries¹, excluding 5 Independent Directors, 2 Independent Supervisors, 12 despatched staffs who all receive remuneration from the Company).

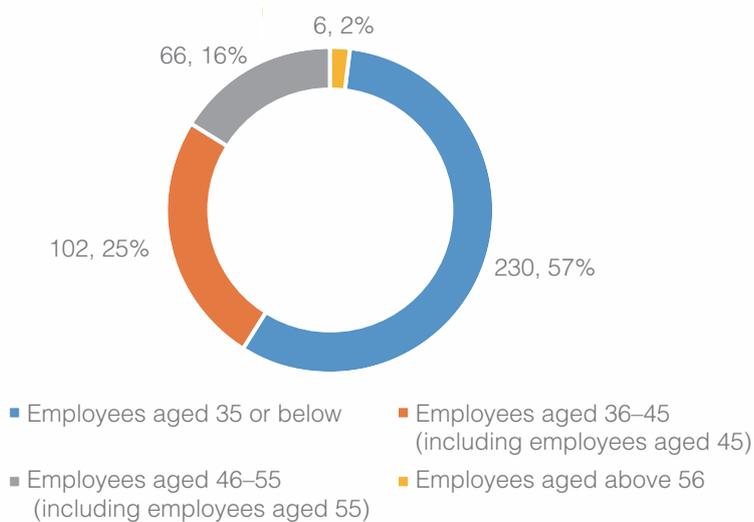
¹ Including 7 persons from Shunguang Media and 1 person from Hong Kong company

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Total Number of Employees by Region

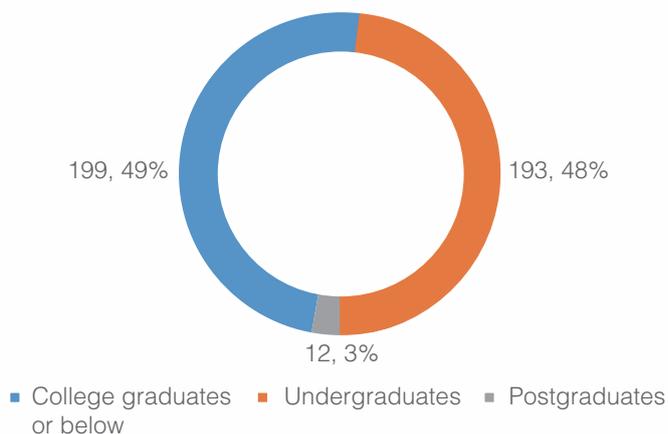


Total Number of Employees by Age

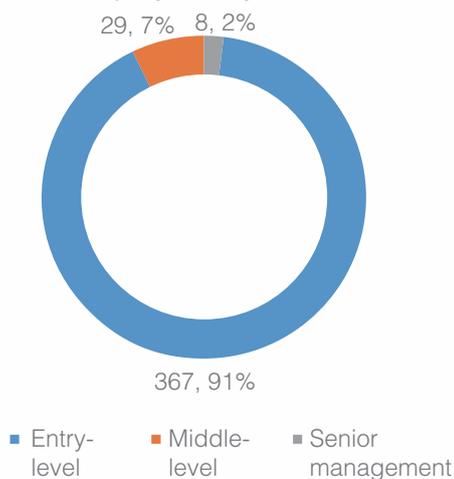


Environmental, Social and Governance Report (Continued)

Total Number of Employees by Education



Total Number of Employees by Level



In 2019, the Company had a total turnover of 5 employees, the employee turnover rate was 1.23%. In particular, there were 4 turnovers of male employees and 1 turnover of female employees; there were 3 turnovers of employees aged 35 and below, 1 turnover from employees aged 46–55 (including aged 55) and another 1 turnover from employees aged 56 and above; there were 3 turnovers from employees of entry-level, 1 from middle-level and another 1 from senior management.

Classification of employee turnovers

Category	Gender		Region		Age			Level		
	Male	Female	Jinan	Jining	aged 35 and below	aged 46–55	aged 55	entry-level	middle-level	senior management
Number of employees	4	1	3	2	3	1	1	3	1	1

Environmental, Social and Governance Report (Continued)

The Company strictly executes the laws and regulations set by governmental authorities of all levels regarding employees' working hours and holidays, reasonable work schedules, and paid annual leave, maternity leave, and leave for marriage and funeral which employees are entitled to.

During the year of 2019, there were no breaches of relevant laws and regulations on promotion, recruitment and dismissal, equal opportunities, anti-discrimination which had a material impact to the Company.

5.1.2 Remuneration and Benefits

The Company insists on the principles of making distribution according to performance, responsibility and contribution, and setting position-based remuneration that is subject to adjustment according to position change and the same standard for the same position, establishes dynamic remuneration distribution and management systems with reference to both the position and performance. According to the regulations of the system of the Company, salaries of the employees expect growth annually, including passing the three-year performance assessment, general adjustments for outstanding performance, basic salary adjustment in line with corporate salary guidelines published by the provincial government and other factors. Monthly salary is verified and paid according to the attendance provided by each department. In 2019, the Company has not committed any irregularities in remuneration packages.

The Company complies with the requirements in national and local laws and regulations, and pays basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing provident fund in full and on schedule each month for all employees. In the meantime, to ensure and improve the salary standard for retired employees to keep the employees healthy, to mobilize employees' enthusiasm for work and to promote healthy and sustainable development for the Company, the Company regularly pays enterprise annuities and supplementary medical insurance for all employees who have passed probation period.

The Company has arranged within working hours each day a 1 hour breastfeed-time for female employees who are breastfeeding a less than 1-year-old infant; for female employees who have given birth to more than one infant, breastfeed-time would be increased by 1 hour for one more infant. For those who are unable to work, they are entitled to an extended breastfeeding leave of less than 6 months after submitting written application and obtaining approval in accordance with relevant procedures (if the nature of work allows so). The Company launches the Women's Rights Protection Month in March every year, determinedly supervising and ensuring the realization of female employees' rights.

5.2 Health and Safety of Staff

The Company has earnestly implemented the Law of the People's Republic of China on Work Safety, and has developed provisions on safeguarding the health and safety of staff in the Human Resources Management System. In addition, hazard sources and environmental factors are identified on a regular basis in accordance with the standardization document of "Quality, Environment and Occupational Health and Safety Management" of the Company, and hazardous factors have been controlled. Factors that may jeopardize the health and safety of staff include pollutants, such as automobile exhaust, dust and light at toll stations, working at high temperature outdoor and decoration pollution in offices. The Company has deployed safety equipment such as self-illuminating vests, hand-held loudspeakers, walkie-talkies and glow sticks in each management office.

In respect of physical health of staff of the Company, the Company organized medical examinations every year for all staff members, provide allowances for heatstroke prevention and winter heating are granted to staff; In order to reduce the detrimental impact of smog on health, the Company equipped all its employees with anti-smog masks; in July, the Company's operation faces the summer heat, the labour union launched the "Cool off" campaign to send various food and medicine to the our staff for relieving the heat, so as to reduce the influence of high-temperature weather. Measures for heat relieve and medical assistance is offered to staff members suffering from sickness from exposure to high-temperature. For impoverished staff members who have difficulties due to severe illness, we provide consolation assistance according to their actual conditions, and the Company has procured medical insurance for injuries from accidents for all employees to reduce their losses.



Various materials were issued to staff for relieving summer heat in 2019

Environmental, Social and Governance Report (Continued)

For the safety of office building, office premises of management centres and canteens, the Company has set up a record book for the identification of hidden danger, and has formulated a Safety Management System for the Canteen. Pursuant to the hidden danger identification system, the Company requires safety officers of departments, management centres and media company to carry out safety inspection in office premises and canteen once a week. Scope of inspection covers electrical equipment, firefighting equipment, hazardous chemicals, architectural decorations and evacuation passages. During the year, the Company also engaged experts from a third-party organization for a thorough safety inspection to canteens of the Company.



Safety inspection in the canteen

In order to unify command in case of fire accidents, integrate manpower, material resources, information and other resources in a timely and effective manner, quickly implement organised fire control and firefighting, avoid panic and disorder at the fire scene, prevent delay, minimise casualties and property losses, and effectively conduct fire prevention and firefighting, the Company has organised and carried out emergency evacuation drills in Pingyin Management Office on 15 September 2019.



Firefighting Drills

Safety Inspection

During the year of 2019, the Company had no violation in respect of providing safe working environment and protecting employees from occupational hazards. Throughout the year, both number and rate of work-related fatalities were recorded at zero. Lost days due to work injury were recorded at 12 days.

5.3 Development and Training of Staff

Companies respect talent, care for talent, rely on talent, and help shape talent, “making the best use of talents” has always been the philosophy of the Company’s talent-based employment system. Therefore, the Company strives to create a good career development space for our employees. Pursuant to the evaluation section of the Human Resources Management System (《人力資源管理制度》) and the Wages Management Practices (《薪酬管理辦法》), the Company conducts staff assessment based on the principle of objectiveness, fairness, openness and standardization, and determine staff promotion according to assessment results. Procedures for annual staff assessment include: grading by the leaders of the Company, grading by immediate superiors and grading among employees. Assessment results are divided into four grades, namely, Excellent, Passed, Basically Qualified and Failed. Employees can be promoted by one level if they have been graded as Passed for three consecutive years. Through assessment procedures, a total of 214 employees were qualified for promotion by one level on their position grades in 2019.

In order to improve the work competence, quality, and mobility of staff, establish a superior team and promote the mutual development between the Company and staff, the Company organizes staff training on a regular or irregular basis and encourages staff to participate in professional studies and skills training. As required by the training section in the Human Resources Management System (《人力資源管理制度》), departments and management centres should propose training needs and budget at the end of each year. After approval, Human Resources Department should uniformly develop the training plan for the next year and arrange and supervise over specific implementation.

Staff trainings of the Company include: induction training of new staff members, regular training and irregular training. Induction training of new staff members covers corporate culture, personnel system and safety education; regular training includes safety education and training, toll collection exchange meeting, as well as participating in the regular lecture organized by Group companies, etc; irregular training covers new business update and new policy introduction in accordance with national policies, market development and business of the Company.

Trainings on Safety Operation

In 2019, the Company conducted unified training for safety management personnel, and obtained the Certificate of Safety Education and Training (《安全教育培訓合格證書》) issued by the Jinan Municipal Safety Science and Technology Center; At the same time, the Company also established the Basic Standards for Production Risk Identification, Assessment and Control on the Safety of Highway and Waterway Industry (《公路水路行業安全生產風險辨識評估管控基本規範》), organized events including the On “Production Safety Month” (《談“安全生產月”》), Fire Safety Knowledge Training (《消防安全知識培訓》), “Union of Theory and Practice” for Safety Management (《安全管理“知行合一”》), Preventing Risks, Eliminating Hidden Dangers and Reducing Accident (《防風險、除隱患、遏事故》) and Safety Knowledge and Skills for Drivers (《駕駛員安全知識技能》), etc..



Trainings for the Enhancement of Maintenance Operations

In order to enhance the operation capability of road maintenance personnel and improve the maintenance level of the Jihe Expressway, the Company has conducted trainings for the enhancement of emergency response of traffic accidents and management level of maintenance personnel.



Environmental, Social and Governance Report (Continued)

Trainings on the Enhancement of Comprehensive Capabilities

In order to cultivate modern management talents, comprehensively improve the comprehensive quality of cadres, adapt to the rapid development requirements of the Company, and strive to build and cultivate an excellent and efficient management team, the Company organized trainings on comprehensive capabilities, including: Forging Outstanding Team with First-Class Execution Capabilities (《打造卓越的高績效團隊與一流執行力》), Enhancement of Management Capabilities and Leadership(《管理素養與領導力提升》), Interpretation and Fraud Identification of Financial Statement (《財務報表解讀與舞弊識別》), Company Merger and Acquisition (《公司並購》), Practical Operations of Corporate Capital (《企業資本運作實務》), as well as Internal Control and Risk Management (《內部控制與風險管理》).



Operation Trainings for the Removal of Provincial Tolling Station and Fees Charging Staff

In order to ensure smooth implementation of the removal of provincial highway toll stations and the smooth completion of various works after the removal of the stations, as well as the normal functioning of the network toll collection system, the Company held trainings on the removal of operations at provincial toll collection stations. The Company made in-depth explanations on the background of the removal of the provincial toll collection stations, the charging model, the operation rules for tolling, the special handling of toll collection and the auditing of the toll collection operations, so as to make various preparations before switching between the old and new toll collection systems in advance.



Legal Education and Legal Knowledge Competition

In order to thoroughly implement the relevant layout of the Central Committee in relation to the strengthening of the study and promotion of legal system education, and to conscientiously affirm the spirit of the such documents as the Plan for the Campaign of Promotion and Education on the Rule of Law in Shandong Province in 2019 (《2019年山東省法治宣傳教育月活動方案》), pursuant to the requirements of the Ministry of Transportation of Shandong Province, Shandong SASAC, Department of Justice of Shandong Province and the Group, the Company has carried out the “Legal Promotion and Education cum Legal Knowledge Competition”. The campaign promoted constitutional knowledge in a variety of ways, including collective viewing of excellent constitutional video, broadcasting constitutional propaganda slogans with electronic display, participate in the constitutional knowledge contest organized by the WeChat official account of “Law Popularization in China” (中國普法) and issue the “Qilu Expressway Law Class – Constitution” manual, etc., these activities have enriched the content of legal popularization activities and increased the flexibility of legal popularisation.



In the future, the Company's training will continue to be based on the joint development of enterprises and employees, so as to enhance the coherence and cohesiveness of the enterprise, improve the comprehensive qualities of the employees, improve production efficiency and service level, establish a good image for the Company, enhance the Company's profitability and competitive advantages.

5.4 Labour Standards

In strict accordance with relevant national laws and regulations, including the Provisions on Prohibition of Child Labour (《禁止使用童工規定》) and the Provisions of the State Council on Employees' Working Hours (《國務院關於職工工作時間的規定》), the Company has no child labour and all employees of the Company are over 18 years old. Working hours and holidays are executed in strict accordance with national and local laws and regulations. Staffs have reasonable working schedule and enough rest, and there is no forced labour or any relevant violations of laws.

6 HAVING INTEGRITY, WORKING FOR PUBLIC INTEREST, AND OPERATING LAWFULLY

Honest business will ensure the long-term and sound development of an enterprise. Therefore, the Company is committed to creating an honest corporate production and operation environment by improving the awareness of honest business from the management to ordinary staff.

The Company, in strict accordance with laws and rules including the Supervision Law (《監察法》) of the People's Republic of China, the Supervision and Enforcement Rules of Discipline Inspection Authorities of the Chinese Communist Party (《中國共產黨紀律檢查機關監督執紀工作規則》), and the Work Rules on Supervision and Law Enforcement of Procuratorate (《監察機關監督執法工作規定》), regulated disposal of clues and improved effects of discipline enforcement. In strict accordance with the Measures for Implementation of Honest Conversations (《廉潔談話實施辦法》), Secretary of Commission for Discipline Inspection implemented honest conversations with members of Commission for Discipline Inspection, heads of departments and divisions and secretaries of Party branches in March 2019, in addition to daily honest conversations. During each public holiday, the Company dispatched notices on enhancing the development of discipline style, and maintained information channels such as reporting hotline, e-mail, company address and postcode, to receive petitions and reports from employees according to law. Further, the Company implemented stringent access control, enhanced supervision and administration on staff education, and earnestly executed, among others, evasion and confidentiality rules, in order to safeguard the legitimate rights and interests of informants. In April 2019, the Company issued the Work Priorities on Discipline Inspection Supervision (《紀檢監察工作要點》), Work Rules on Communication between Members of Commission for Discipline Inspection and Grass-roots Party Organisations (《紀委委員聯繫基層黨組織工作制度》), and the Measures for Administration of Integrity Files of Middle Management (《中層管理人員廉潔檔案管理辦法》), organised singing of Letter of Responsibility for Strict Rule over the Party and Letter of Responsibility for Business Work and Other Management. All staff members have signed Letter of Undertaking for Honest Business. At the end of November 2019, the Company reviewed execution of letter of responsibility by Party branches.

Based on amendments to rules in April 2019, the Company organised all departments, divisions and entities to make further amendments to and improvement of integrity risk prevention and control system in May 2019, and examined establishment of system at entities at the grass-root level whilst examining establishment of system at key departments and divisions at the headquarters at the end of November 2019.

In the year, the Company organised employees to watch warning education films such as Deterrent Always (《震懾常在》), organised study and test on basic knowledge that employees should be aware of and should know well, organised month of warning education on integrity, and organised warning education on prevention of crime by taking advantage of duty at the People's Procuratorate of Jinan and Jinan Prison of Shandong Province. In addition, the Company also organised study and training sessions on supervision and discipline enforcement rules, and study and test on disciplinary sanction regulations. Through warning education and visit to integrity education bases such as prison and procuratorate, the Company kept increasing employees' awareness of honesty and self-discipline. The Company promptly conveyed new situations, new requirements and new tasks to staff members through activities and created clean and honest work atmosphere.

In the future, the Company will intensively examine accountability, implement more daily honest conversations and more stringent supervision on work discipline, make amendments to corporate rules according to actual development of the Company, improve honesty risk prevention and control system, and properly oversee execution, oversee rigorous performance of tendering and procurement monitoring group of the Company, in order to secure the development of Company in terms of discipline.

In 2019, there was no violation in respect of anti-corruption imposing material impact on the Company.

7 INTEGRATE RESOURCES FOR COLLABORATIVE DEVELOPMENT

The Company cooperated with three categories of suppliers, including engineering construction; equipment, goods and materials; and service consultation.

In cooperation with suppliers, the Company has strictly complied with the relevant provisions of the Tendering and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), the Implementing Rules for the Tendering and Bidding Law of the People's Republic of China (《中華人民共和國招標投標法實施條例》) and the Administrative Measures for Tendering and Bidding of the Company (《招標投標管理辦法》). For procurement projects falling within relevant scope and meeting relevant criteria, suppliers were determined through open tendering, negotiation and consultation based on the principle of openness, fairness, impartiality and good faith.

In the bidding process for procurement of engineering construction projects, specific requirements for the safety, quality and environmental protection of suppliers were set out in tendering documents.

- About salaries of migrant workers: contractors were required to separate labour cost from project cost, open a special account for salaries of migrant workers (labour cost) at a bank in local, file with the human resources and social security department and competent transport department and entrust the bank for daily supervision, to ensure these funds are used for its specified purpose only.
- About construction safety and security: contractors were required to strictly execute laws, regulations and rules on construction safety management of the State and local government, as well as the rules and regulations on safe production management, safety inspection procedures and construction safety management requirements developed by the Company for the project, and instructions given by the supervisor on safety work. Contractors were required to develop technical measures for construction safety, including construction safety guarantee system, safe production responsibility system, rules and regulations on safe production management and construction scheme for safety protection. Such measures should be implemented under the supervision of designated safe production manager after they have been signed by chief project engineer of contractors and submitted to and approved by the supervisor and the Company.
- Environmental protection: contractors were required to strictly comply with national laws and regulations on environmental protection and relevant industry standards, which set clear provisions on construction noise reduction, dust control, elimination of water pollution and other aspects.

The Company has established a supplier performance evaluation mechanism and conducted assessment and inspection on performance of suppliers. Assessment on performance of suppliers started from the date of signing the contract for the tendering project till the end of performance of the contract (including warranty period). Meanwhile, the Company has formed tendering and procurement monitoring group. Tendering and bidding work was jointly monitored and guided by relevant departments. The office of the monitoring group is responsible for monitoring routine work of the group. The office is at Audit and Legal Department, and is principally responsible for overseeing the implementation of national, provincial and industrial laws, rules and policies and regulations of the Company on tendering and procurement by the Company

8 PROTECT ENVIRONMENT FOR GREEN DEVELOPMENT

Environmental protection and resources conservation are the premises for enterprises to achieve green development and operation, and it is an incumbent social responsibility. The Company puts strong emphasis on environmental protection work and strictly complies with laws and regulations such as the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》).

During the year of 2019, there were no breaches of relevant environmental laws and regulations which had a material impact on the Company.

8.1 Efficient use of resources

Energy and other resources mainly consumed by the Company in the course of operation include: petrol, diesel, natural gas, electricity, water and paper. Petrol and diesel are mainly used for driving, and a small quantity of diesel is used to generate electricity. Natural gas is used at canteens; electricity was mainly used for office and equipment operation; water resources mainly include water of domestic use and drinking water. In addition, the Company consumes office supplies such as paper in the course of business.

In 2019, the Company consumed 36.51 tons of petrol, 45.42 tons of diesel, 3,861 standard cubic metres of natural gas, 4,509,246 kWh of electricity, 37,282 cubic metres of water resources, 4,442.6 kilograms of paper in the course of business. The integrated energy consumption was equivalent to 613,042.3 kilograms of standard coal; the integrated energy consumption intensity amounted to 5.18 kilograms of standard coal per RMB10,000 operating income², and the water resource consumption intensity was 92.28 cubic metres/person².

In order to reduce petrol and diesel consumption, as well as fully implement the guiding principles of the 19th National Congress of the Communist Party of China (CPC), and the Requirements for the Rules of the Communist Party and the Government of China on Strict Saving and Prohibition of Waste (《黨政機關厲行節約反對浪費條例的要求》), the Company has carried out reforms on vehicle systems, formulated the Administrative Measures on Vehicle Usage (《車輛使用管理辦法》), abolished general urban official business vehicles and advocated car-pooling, green travel or public transportation for employees pursuant to regulations and requirements in the "Notice of the Central Leading Group for Official Business Vehicle System Reform on Issuing the 'Implementing Opinions about Official Business Vehicle System Reform in Central State-owned Enterprises'" (《中央公務用車制度改革領導小組關於印發〈中央企業公務用車制度改革實施意見〉的通知》) and the "Notice of the State-owned Assets Supervision and Administration Commission of Shandong Provincial Government on Issuing the 'Provisional Opinions Regarding Expanded Regulation on the Management of Duty-related Spending for Persons-in-charge of Provincial Enterprises'" Lu Guo Zi Ban [2013] No.2 (《山東省國資委印發〈關於進一步規範省管企業負責人職務消費管理的試行意見〉的通知》). For staffs who head for other cities except Jinan for business purposes and have absolute requirement for official business vehicles, those from different departments but sent to tasks geographically adjacent shall share the official business vehicles according to their routes and tasks and take the same cars to return to the office after finishing the tasks, therefore maximising the utilisation of official business vehicles and minimising waste in this aspect. In addition, the Company convenes weekly emission reduction and safety meetings with drivers to constantly remind drivers to keep good driving habits, including maintaining the speed when driving at high speed, avoiding sudden acceleration or deceleration in urban areas, using air conditioning systems reasonable and avoiding long idling, thereby ensuring less fuel consumption, energy waste and exhaust gas emissions.

² As the company optimized its statistical process this year, the data did not involve traffic police, road administration and maintenance, therefore the data were lower than that in 2018.

Environmental, Social and Governance Report (Continued)

The Company administers 7 management offices, which are all far away from the Company's headquarters; therefore, the Company adopts video conferencing to reduce petrol consumption from travelling between each of the management offices and the Company. Each video conference can save approximately 1,700 kilometres of mileage and approximately 0.12 tons of petrol. Assuming that 70 video conferences are held each year, the Company is able to reduce petrol consumption by approximately 8.63 tons via such a way, which is equivalent to a reduction of 222.22 tCO₂e of greenhouse gas emissions, 0.17 kilograms of sulphur dioxide, 1.50 kilograms of nitrogen oxide and 0.14 kilograms of particulates.

In order to better perform energy conservation and waste reduction, we have replaced inefficient electrical appliances at canteens, as well as high gas consumption stoves with appliances using clean energies including gas and electricity, to raise work efficiency, from which we have conserved approximately 10% of combustible gas as compared with 2018.

In order to reduce electricity consumption by the Company in the course of operation, the Company used energy-conserving electric appliance such as LED and proactively promotes electricity conservation. We request employees to shut down idle computers or computers that are not used within two hours, so as to ensure that "the computer is shut down with its power off when you leave". Turn off electrical appliances such as lights, water dispensers, printers and air-conditioners at the close of business, and disconnect power from them; execute a strict standard that air-conditioners are set at 26°C, and turn off air-conditioners when leaving for more than half an hour; avoid switching on all lights at corridors, appoint a specific staff to inspect and turn off lights on all floors every day after office hours. Ice in refrigerator should be timely removed to prevent high power consumption of refrigerator.

In order to reduce paper use, the Company adopts the OA system to build a paperless office, thereby reducing paper consumption. When printing paper materials, prefer double-sided printing over single-sided printing, unless there is a compulsory requirement to do so. Collect single-sided printed paper for reuse on the blank side or re-cutting as memo or scratch paper; reduce chances of using disposable cups, and prepare sterilized ceramic cups for visitors and meetings.

The Company is not a manufacturing enterprise so its water resource consumption is relatively lower. Nonetheless, the Company proactively promotes water conservation, and requires that penstock on kitchen hearth at canteen must be timely closed when it is not in use, and should not be open all the time. In addition, the Company posted the slogan "Saving Water" at places where water is supplied, to remind employees of cherishing and reasonably using water. When cleaning dining areas, employees are required not to wash the floor with water directly but use wet mop instead. The Company uses water supplied from the municipal pipe network; as a result, the Company had no violation in sourcing water in the year 2019.

Consumption of water, gasoline and paper by the Company in 2019 has shown no sign of violation. In the future, the Company will make persistent efforts in saving energy and reducing consumption, striving for consistent reduction in energy consumption year by year.

8.2 Reduce in pollutant emission

Exhaust gas emissions by the Company are mainly from the petrol and diesel consumption of official business vehicles and construction vehicles, direct emissions of greenhouse gases, sulphur dioxide, nitrogen oxide and particulates from burning natural gas by canteens. In the meantime, electricity consumption of the Company in the course of business, equipment operation and heat supply have indirectly emitted greenhouse gases. The Company, in strict accordance with the Measures for Administration of Provision and Use of Official Vehicles of Qilu Expressway Company Limited (《齊魯高速公路股份有限公司公務用車配備使用管理辦法》), reduced consumption of fuel and electricity by virtue of official vehicle administration method, and hence reduced direct emission of greenhouse gas and exhaust gas.

In 2019, the Company emitted 0.001 tons of sulphur dioxide, 0.039 tons of nitrogen oxides and 0.003 tons of particulates in the course of business. The total greenhouse gas emissions are 2,871.34 tCO₂e, of which, direct greenhouse gas emission was 120.25 tCO₂e, and indirect greenhouse gas emission was 2,751.09 tCO₂e. Greenhouse gas emission intensity was 0.02 tCO₂e per RMB10,000 operating income. The total waste water discharge of management offices of the Company was approximately 25,974 cubic metres, and the intensity was 64.29 cubic metres per person². Upon treatment at the treatment facility, waste water discharge of the Company's management offices met the standard required.

Emissions of hazardous waste by the Company included: waste toner cartridges, waste ink cartridges, waste light bulbs and tubes and waste batteries generated in the course of business; non-hazardous waste refers mainly to domestic garbage. In 2019, the Company generated 155 kilograms of waste toner cartridges, 32 kilograms of waste ink cartridges, 87.5 kilograms of waste light bulbs and tubes, 28.5 kilograms of waste batteries, and approximately 45,450 kilograms of domestic garbage. A total of 303 kilograms of hazardous waste and 49,892.6 kilograms of non-hazardous waste were generated, and the generation intensities were 2.56 grams and 0.42 thousand grams per RMB10,000 operating income² respectively. For domestic garbage, the Company hands it over without exception to the environmental department for centralized treatment. In addition, the Company also built sewage treatment facilities at all management offices, and sewage was discharged after treatment and attaining standard.

The Company determines the construction entity for highway maintenance projects through bidding. The construction entity is responsible for waste disposal while the Company is responsible for supervision and inspection, allowing no waste generated in the construction to be left in highway sections under the management of the Company. Garbage cleared from the central median and side ditches of the expressways are all transferred to the sanitation department for centralized treatment.

The Company will strengthen management of hazardous waste in the future and plans to transfer the hazardous waste treatment to enterprises with hazardous waste treatment qualifications.

8.3 Environment and Natural Resources

As required by the Rules on Design of Highway Safety Facilities (《公路交通安全設施設計規範》) (JTG D81-2017) and the Specification for Design of Highway Safety Facilities (《公路交通安全設施設計細則》) (JTG/T D81-2017), guardrails along certain bridges over sensitive waters such as rivers and south-to-north water diversion project failed to meet safety requirement. Accordingly, the Company upgraded guardrails along bridges over water resources including Daqing River Bridge and Liangji Canal Bridge and installed falling object protection net outside and in the median of the two bridges, to prevent falling objects and pollutants from highways entering into rivers.



9 PERFORM CORPORATE RESPONSIBILITY AND MAKE CONTRIBUTIONS TO SOCIETY

The Company attached great importance to making contributions to the society and building a harmonious society with local community, and efforts have been made in such areas as caring for the elderly, providing financial aid to poor students and traffic safety. In 2019, the Company organized a series of volunteer service activities in nursing home, including “Love • Bon Voyage” and “Respect, Love and Care for the Elderly”; and a series of activities to provide financial aid to poor students, including “Donations” and “Extend Our Love • Walk Hand in Hand•Support Education”. In 2019, the Company was engaged in a total of approximately 120 hours of social activities.

Support for Education

Education is a cause of fundamental importance for the future of our nation. “Support for Education” activity, as a project for public welfare launched since the service of Jihe Expressway in 2007, aims to help impoverished students to realize their dreams of life, and also to allow the cause of expressway to influence and help more people by providing primary schools with school supplies, books and other materials, assisting in the construction of “Expressway Space Station to Support Education” and improving teaching environment in schools and other means. This education supporting activity has made an input of approximately RMB200,000 to related pupils and impoverished students since its launch in 2007.

To further perform social responsibility, extend our love and make contributions to society, increase all Party members’ awareness of partisanship, and give play to Party branches, in September 2019, Xiaoli management office organised a Party organisation activity themed on “Support for Education” at Hulin Primary School, and donated schoolbags and pencil boxes to students. At a Party organisation activity themed on “Extending Our Love • Walking Hand in Hand • Supporting Education” organised at Shanzhangcheng Primary School in November 2019, Dongping management office donated stationeries including schoolbags and pencil boxes.



Volunteer service activities

In March 2019, Pingyin management office organised Party organisation activities themed on “Love • Bon Voyage” and “Month of Lei Feng Activities”. In order to carry forward the volunteer service spirit of “devotion, friendship, mutual support and improvement”, focusing on “care about society, care about people and care about nature”, the Company proactively organised volunteer service activities. The management office has donated edible oil, flour and rice, and set a volunteer service section of “Love • Bon Voyage” at toll plaza and provided drivers and passengers with convenient traffic information, boiled water, repair tools, etc., which were highly appraised by drivers and passengers. The Company put in a lot of effort to promote Lei Feng activities in daily life, which reflected the beauty of civilisation, harmony and the era, and made Lei Feng Spirit a prevailing practice of the era to improve civilisation.



On 5 March 2019, Changqing management office together with young volunteers set “convenient service desk” and volunteer service posts at toll plazas. By providing convenient services to drivers and passengers, including hot water, map, repair tools and first aid kit and helping them out, Changqing management office carried out Lei Feng Spirit in practice and established a good image of young employees of being industrious and hard-working and making contribution to society.



Environmental, Social and Governance Report (Continued)

On 12 March 2019, Liangshan management office organised March 12th National Tree-planting Day activity themed on “Embrace Spring and Build a Green World” at the courtyard of the management office. Volunteers were very excited and enthusiastically engaged in this tree-planting activity. This March 12th National Tree-planting Day activity, under the theme of “Embrace Spring and Build a Green World”, increased cadres’ and employees’ awareness of ecological civilisation that we should plant trees, cherish trees, protect trees and care about nature, activated their enthusiasm, increased cohesive force and centripetal force among them, and further improved their sense of responsibility and mission to build a greener, better and more beautiful home.



Environmental, Social and Governance Report (Continued)

In March 2019, the Xiaoli management office carried out a "Learning from Lei Feng, Smooth Traveling with Love" Xiaoli nursing home visiting, and sent, among others, milk, rice and fruit to the elderly.



Independent Auditor's Report



To the shareholders of Qilu Expressway Company Limited

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

OPINION

We have audited the consolidated financial statements of Qilu Expressway Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 121 to 196, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (CONTINUED)

Key audit matter

How our audit addressed the key audit matter

Provision for maintenance and resurfacing obligations

The Group has contractual obligations to maintain and restore the infrastructure under the service concession arrangements to maintain the toll road infrastructure to a specified performance of serviceability.

The Group's provision for maintenance and resurfacing obligations amounted to approximately RMB148,363 thousand as at 31 December 2019, with maintenance and resurfacing costs of approximately RMB117,902 thousand charged to the profit or loss for the year then ended.

In determining such provision, management has estimated the relevant maintenance and resurfacing costs based on the physical condition of the toll road infrastructure as at the reporting period end, with reference to the evaluation performed by external technicians.

Relevant disclosures are included in notes 2.4, 3 and 25 to the financial statements.

The following procedures were performed to address the identified key audit matter:

- We assessed the competency, capability and objectivity of the external technicians;
- We obtained the evaluation reports and understood the methodologies adopted by the external technicians and compared to methodologies adopted by other technicians in the industry for similar activities;
- We compared the nature of the proposed maintenance activities as set out in the evaluation reports, on a sample basis, to the relevant technical specifications of toll road maintenance issued by the regulator, and assessed the reasonableness of the estimated maintenance and resurfacing costs by comparing with the historical data of comparable maintenance activities; and
- We checked the calculation of provisions for maintenance and resurfacing obligations to ensure mathematical accuracy.

Independent Auditor's Report (Continued)

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report (Continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report (Continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yee Chung Man.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

24 March 2020

Consolidated Statement of Profit and Loss and Other Comprehensive Income

Year ended 31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i>
REVENUE	5	1,183,339	921,735
Cost of sales		(427,891)	(299,208)
Gross profit		755,448	622,527
Other income and gains	5	46,988	33,826
Administrative expenses		(62,809)	(77,382)
Other expenses		(29,636)	(465)
Finance costs	7	(20,486)	(33,989)
PROFIT BEFORE TAX	6	689,505	544,517
Income tax expense	10	(173,084)	(136,012)
PROFIT FOR THE YEAR		516,421	408,505
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		516,421	408,505
Attributable to:			
Owners of the parent		516,421	408,505
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	12	RMB0.26	RMB0.24
Diluted			
– For profit for the year	12	RMB0.26	RMB0.24

Consolidated Statement of Financial Position

31 December 2019

	<i>Notes</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	13	137,135	120,015
Investment properties	14	21,445	10,532
Intangible assets	16	2,600,144	2,703,529
Prepayments and other receivables	19	26	33,526
Total non-current assets		2,758,750	2,867,602
CURRENT ASSETS			
Inventories	17	2,429	1,426
Trade and bills receivables	18	20,236	170,468
Other current assets		99	99
Prepayments and other receivables	19	12,323	6,811
Other financial assets at amortised cost	19	–	200,000
Financial assets at fair value through profit or loss	20	200,000	100,000
Cash and cash equivalents	21	1,396,168	1,006,860
Total current assets		1,631,255	1,485,664
CURRENT LIABILITIES			
Trade payables	22	25,274	21,458
Other payables and accruals	23	79,628	87,672
Interest-bearing bank borrowings	24	175,000	265,000
Tax payable		61,199	30,997
Provisions	25	148,420	113,490
Total current liabilities		489,521	518,617

Consolidated Statement of Financial Position (Continued)

31 December 2019

	<i>Notes</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
NET CURRENT ASSETS		1,141,734	967,047
TOTAL ASSETS LESS CURRENT LIABILITIES		3,900,484	3,834,649
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	70,000	245,000
Other payables	23	25,643	27,076
Deferred tax liabilities	26	13,646	30,883
Total non-current liabilities		109,289	302,959
Net assets		3,791,195	3,531,690
EQUITY			
Equity attributable to owners of the parent			
Share capital	27	2,000,000	2,000,000
Capital reserves	28	887,209	886,725
Other reserves	28	182,525	130,802
Retained earnings		721,461	514,163
Total equity		3,791,195	3,531,690

Li Gang
Director

Peng Hui
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Note	Attributable to owners of the parent			Total	
		Share capital	Capital reserves	Other reserves		Retained earnings
		RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2018		1,500,000	361,316	89,939	525,730	2,476,985
Profit for the year		-	-	-	408,505	408,505
Total comprehensive income for the year		-	-	-	408,505	408,505
Proceeds from H shares issued		500,000	577,347	-	-	1,077,347
Capitalisation of share issuance costs		-	(51,938)	-	-	(51,938)
Transfer from retained earnings		-	-	40,863	(40,863)	-
Final 2017 dividend declared	11	-	-	-	(379,209)	(379,209)
At 31 December 2018 and 1 January 2019		2,000,000	886,725	130,802	514,163	3,531,690
Profit for the year		-	-	-	516,421	516,421
Total comprehensive income for the year		-	-	-	516,421	516,421
Transfer from retained earnings		-	-	51,723	(51,723)	-
Reversal of share issue expenses		-	484	-	-	484
Final 2018 dividend declared	11	-	-	-	(257,400)	(257,400)
At 31 December 2019		2,000,000	887,209	182,525	721,461	3,791,195

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		689,505	544,517
Adjustments for:			
Finance costs	7	20,486	33,989
Interest income from financial assets at fair value through profit or loss	5,6	(3,880)	–
Fair value gains from financial assets at fair value through profit or loss	5,6	(769)	(146)
Interest income from financial assets measured at amortised cost	5,6	(1,688)	(260)
Bank interest income	5,6	(19,221)	(9,088)
Loss on disposal of items of property, plant and equipment and intangible assets	6	28,290	15
Depreciation of property, plant and equipment	6,13	8,761	11,043
Depreciation of investment properties	6,14	652	262
Amortisation of intangible assets	6,16	167,136	175,051
Impairment of property, plant and equipment	13	1,084	–
Foreign exchange differences, net		(1,611)	(15,299)
		888,745	740,084
(Increase)/decrease in inventories		(1,003)	127
Decrease in trade and bills receivables		150,232	10,879
(Increase)/decrease in prepayments and other receivables		(4,012)	3,847
Decrease in trade payables		(12,217)	(11,391)
Increase in other payables and accruals		32,521	25,185
Increase in provisions		34,930	16,260
Cash generated from operations		1,089,196	784,991
Interest received		20,085	9,089
Income tax paid		(160,119)	(126,244)
Net cash flows from operating activities		949,162	667,836

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		(91,802)	(48,595)
Proceeds from disposal of items of property, plant and equipment and intangible assets		445	2
Purchases of financial assets at fair value through profit or loss		(500,000)	(100,000)
Purchases of financial assets at amortised cost		–	(200,000)
Proceeds from maturity of financial assets at fair value through profit or loss		400,000	–
Proceeds from maturity of financial assets at amortised cost		200,000	–
Interest received from financial assets at fair value through profit or loss		4,025	–
Interest received from financial assets at amortised cost		1,948	–
Payments for other investing activities		(2,760)	(63,070)
Net cash flows from/(used in) investing activities		11,856	(411,663)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of H shares	27	–	1,077,347
Repayment of interest-bearing bank borrowings		(265,000)	(315,000)
Interest paid		(19,159)	(32,466)
Dividends paid	11	(257,400)	(379,209)
Listing costs paid		(31,762)	(31,119)
Net cash flows (used in)/from financing activities		(573,321)	319,553
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		1,006,860	415,835
Effect of foreign exchange rate changes, net		1,611	15,299
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,396,168	1,006,860
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	1,392,663	673,309
Time deposits	21	3,505	333,551
Cash and cash equivalents as stated in the consolidated statement of financial position	21	1,396,168	1,006,860
Cash and cash equivalents as stated in the consolidated statement of cash flows		1,396,168	1,006,860

Notes to Financial Statements

31 December 2019

1. CORPORATE AND GROUP INFORMATION

Qilu Expressway Company Limited (the “Company”) was incorporated in the People’s Republic of China (the “PRC”) on 6 January 2004 as a limited liability company. On 6 December 2016, the Company was converted into a joint stock company with limited liability under the Company Law of the PRC. The address of the Company’s registered office is Room 2301, Block 4, Zone 3, Hanyu Financial & Business Center, No.7000, Jingshi East Road, High-tech Zone, Jinan City, Shandong Province, the PRC. The Company’s shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (“HKEX”) on 19 July 2018.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the construction, maintenance, operation and management of the Jihe Expressway in the PRC and the outdoor advertising production and distribution along the Jihe Expressway in Shandong Province.

Pursuant to a concession agreement (the “Concession Agreement”) entered into between the Company and Shandong Provincial Traffic Transport Department (山東省交通運輸廳) (“Shandong Transport Department”) on 26 September 2004, the Company engaged in the construction, maintenance, operation and management of the Jihe Expressway in Shandong Province in the PRC, and is entitled to toll collection from vehicles passing through the Jihe Expressway for a period of 30 years, from 26 September 2004 to 25 September 2034.

In the opinion of the directors, the ultimate holding company of the Company is Qilu Transportation Development Group Company Limited (“Qilu Transportation”), which is established in Jinan, Shandong Province, the PRC and owned by the State-owned Assets Supervision and Administration Commission of Shandong Provincial Government.

Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Principal activities
Shandong Shunguang Culture Media Company Limited* (山東舜廣文化傳媒有限公司) (“Shunguang Culture Media”)	PRC/ Mainland China	RMB8,008,000	100	Outdoor advertising production and distribution
Qilu Expressway (Hong Kong) Company Limited (齊魯高速(香港)有限公司) (“Qilu Hong Kong”)	Hong Kong	HKD10,000,000	100	Construction, maintenance, operation of expressways

* The English name of the entity represents the best effort made by the directors of the Company in translating the Chinese name as it does not have an English name, and is for reference only.

Notes to Financial Statements (Continued)

31 December 2019

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

The financial statements 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.

2.1 BASIS OF PREPARATION (CONTINUED)

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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

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

Notes to Financial Statements (Continued)

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

New definition of a lease

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

Nature of the effect of adoption of HKFRS 16

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

Impact on transition

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

³ No mandatory effective date yet determined but available for adoption

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

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

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

Notes to Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its financial assets at fair value through profit or loss at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or paid to transfer a liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in these financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in these financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Notes to Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life as follows:

Buildings	20 – 40 years
Ancillary equipment	5 – 20 years
Machinery	5 – 20 years
Motor vehicles	6 years
Office and other equipment	5 – 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the straight-line method to write off the cost of each investment property over its estimated useful life from 27 to 40 years.

A transfer should be made from property, plant and equipment to investment properties when owner-occupation ceases. A transfer should be made from investment properties to property, plant and equipment at the commencement of owner-occupation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Service concession arrangements

Service concession arrangements represent the rights to charge users of the public service, that the Group obtained under the service concession arrangements. The Group has entered into a contractual service arrangement with local government authorities (“the Grantor”) for its participation in the construction, development, financing, operation and maintenance of various toll road infrastructures. Under the arrangement, the Group carries out the construction or upgrade work of the toll road for the Grantor and receives in exchange of a right to operate the toll road concerned and entitlement to the toll collection from users of the toll road services (the “Service Concessions”). The Group recorded the assets under the Service Concessions, including toll road and relevant various infrastructures on it, as “concession intangible assets” on the consolidated statement of financial position, to the extent that it received a right to charge users of the public service. Service concession arrangements are stated at cost, that is, the fair value of the consideration received or receivable in exchange for the construction and upgrade services provided under the service concession arrangements, less accumulated amortisation and any impairment losses.

During the construction phase of the arrangement, the operator’s contract asset (representing its accumulating right to be paid for providing construction services) is presented as an intangible asset.

Subsequent expenditures such as repairs and maintenance are charged to profit or loss in the period in which they are incurred. In situations where the recognition criteria are satisfied, the expenditures are capitalised as an additional cost of service concession arrangements.

The amortisation of concession intangible assets is calculated using the straight-line method to allocate cost over the period from the official opening of the toll road to traffic on 28 September 2007 to the concession period ending on 25 September 2034.

Where the carrying amount of the concession intangible assets is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The concession periods are approved by the Grantor therefore the Group does not have renewal or termination option for the concession periods granted. During the concession periods, the Group is required by the respective Service Concessions to maintain the concession intangible assets at specific conditions. At the end of the concession period, the Group is required to return the concession intangible assets to the Grantor. The Group does not have rights to receive any assets at the end of the concession period.

Notes to Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (Continued)

Software

Software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 3 to 5 years.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee, are accounted for as finance leases.

Notes to Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

Notes to Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primary derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

General approach (Continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- | | | |
|---------|---|--|
| Stage 1 | – | Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs |
| Stage 2 | – | Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs |
| Stage 3 | – | Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs |

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, and interest-bearing bank borrowings.

Notes to Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (Continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value and have a short maturity when acquired and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

As part of its obligations under the respective service concession arrangements, the Group assumes responsibility for the maintenance and resurfacing of the toll roads it operates during the concession periods. Provisions for maintenance and resurfacing are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

Provision for maintenance and resurfacing obligations is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, if any, are taken into account as a whole in reaching the best estimate of the provision.

The carrying amount of provisions is reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) *Provision of road operation services*

Revenue from the provision of road operation services is recognised when the vehicles pass the expressway and the Group received the payment or has the right to receive payment.

(b) *Provision of construction and upgrade services*

Revenue from construction and upgrade services provided under the service concession arrangements is measured at fair value of the consideration received or receivable. The consideration represents the rights to attain an intangible asset. The revenue is recognised over time, using an input method to measure progress towards completion satisfaction of the service. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Notes to Financial Statements (Continued)

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Employee benefits

Defined contribution pension schemes

Each company of the Group contributes on a monthly basis to defined contribution pension schemes in the PRC based on a percentage of the relevant employee's monthly salaries. The Group's contributions to defined contributions pension schemes are charged to profit or loss as they become payable to the schemes. The Group has no legal or constructive obligations to pay further contributions even if the schemes do not hold sufficient assets to pay all employees the benefits relating to employee in the current and prior periods.

As stipulated by the laws and regulations in the PRC, the Group contributes to the state-sponsored retirement scheme for its employee in the PRC (i.e. pension insurance). The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries and bonuses), while the Group contributes 18% of such relevant income from January to April 2019, and 16% of such relevant income since May 2019, subject to certain ceiling. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

In addition to the government-sponsored defined contribution pension scheme, the Group operates an additional employee pension scheme. All employees are entitled to an additional pension each year aggregating to 8% of the previous year's salaries.

Housing fund

According to the relevant rules and regulations of the Shandong Province, the Group and its employees are each required to make contributions, which are in proportion to the employees' salaries or wages of the prior year, to a housing fund. Contributions to a housing fund administered by the Public Accumulation Funds Administration Centre are charged to profit or loss as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

Notes to Financial Statements (Continued)

31 December 2019

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for maintenance obligations

The Group has contractual obligations under service concession arrangements to maintain the toll road infrastructures to a specified performance of serviceability during the concession periods and at the end of the concession periods. These obligations to maintain or restore the infrastructures, except for upgrade services, are to be recognised and measured as a provision.

In determining such provision, management has estimated the expected costs to maintain and resurface the infrastructure to a specified performance of serviceability by reference to the evaluation performed by external technicians.

The external technicians based on their factual findings on the physical condition of the toll road infrastructure as at the reporting period end, performed their evaluation according to the relevant government or industry specifications as set out in the standards issued by the regulator, to derive the proposed maintenance activities. Management has estimated the relevant maintenance and resurfacing costs according to the proposed maintenance activities, with reference by management's maintenance plan and the Group's historical costs incurred for similar activities.

Measuring progress of construction and upgrade services provided under service concession arrangements

The Group recognises revenue from construction and upgrade services provided under service concession arrangements in accordance with HKFRS 15 *Revenue from Contracts with Customers*. The Group recognises construction and upgrade revenue under service concession arrangements on the basis of the costs incurred to satisfy the performance obligation relative to the total expected costs incurred to the satisfaction of that performance obligation of construction and upgrade service work, which requires estimation to be made by management. The total expected costs and the corresponding contract revenue are estimated by management.

3. SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Useful lives of items of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. The estimation is based on the historical experience of the actual useful lives.

Management will revise the depreciation charges where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategy assets that have been abandoned or sold.

Deferred tax assets and income tax

The Group's management determines the deferred tax assets based on the enacted or substantially enacted tax rates and laws and the best knowledge of profit projections of the Group for the coming years during which the deferred tax assets are expected to be utilised. Management revisits the assumptions and profit projections at the end of the reporting period. If the final assumptions and profit were to be different from management's current estimates, the Group would account for the change prospectively.

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the year in which such determination is made.

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

Notes to Financial Statements (Continued)

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

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

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

Revenue from contracts with customers

(i) Disaggregated revenue information

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Type of revenue		
Expressway business	1,090,536	917,795
Construction business	87,967	–
Other service businesses	858	510
Total revenue from contracts with customers	1,179,361	918,305
Timing of revenue recognition		
At a point in time	1,091,394	918,305
Over time	87,967	–
Total revenue from contracts with customers	1,179,361	918,305

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(ii) Performance obligations

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

Expressway business

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

Construction business

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

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

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

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

Notes to Financial Statements (Continued)

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	<i>Note</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Other income and gains			
Interest income from financial assets at fair value through profit or loss	6	3,880	–
Fair value gains from financial assets at fair value through profit or loss	6	769	146
Interest income from financial assets measured at amortised cost	6	1,688	260
Bank interest income	6	19,221	9,088
Compensation income for road damages		1,238	2,910
Government grants**		17,100	5,000
Foreign exchange differences, net	6	1,611	15,299
Others		1,481	1,123
Other income and gains		46,988	33,826

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

Notes to Financial Statements (Continued)

31 December 2019

6. PROFIT BEFORE TAX

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

	<i>Notes</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Construction costs in respect of service concession arrangements*		87,967	–
Maintenance and resurfacing costs and provisions*	25	117,902	72,298
Employee benefit expense** (including directors' and chief executive's remuneration (<i>note 8</i>)):			
Wages, salaries and allowances, social security and benefits		69,213	60,431
Defined contribution pension schemes		9,681	8,370
Other staff benefits		2,644	4,715
		81,538	73,516
Depreciation in respect of**:			
– property, plant and equipment	13	8,761	11,043
– investment properties	14	652	262
Amortisation of intangible assets in respect of**:			
– service concession arrangements	16	166,322	174,619
– software	16	814	432
Listing expenses		–	24,611
Loss on disposal of items of property, plant and equipment		230	15
Loss on disposal of items of intangible assets		28,060	–
Impairment of financial assets included in prepayments and other receivables	19	45	(375)
Impairment of property, plant and equipment	13	1,084	–
Auditor's remuneration		1,320	1,520
Foreign exchange differences, net	5	(1,611)	(15,299)
Interest income from financial assets at fair value through profit or loss	5	(3,880)	–
Fair value gains from financial assets at fair value through profit or loss	5	(769)	(146)
Interest income from financial assets measured at amortised cost	5	(1,688)	(260)
Bank Interest income	5	(19,221)	(9,088)

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

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

Notes to Financial Statements (Continued)

31 December 2019

7. FINANCE COSTS

An analysis of finance costs is as follows:

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

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Fees	485	165
Other emoluments:		
Salaries, allowances and benefits in kind	2,470	1,632
Performance-related bonuses	1,433	961
Defined contribution pension schemes	404	282
	4,792	3,040

Notes to Financial Statements (Continued)

31 December 2019

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

The names of the directors and supervisors and their remuneration during the year are as follows:

Notes	Performance				Total RMB'000	
	Fees RMB'000	Wages and salaries RMB'000	-related bonuses RMB'000	Welfare expenses RMB'000		
2019						
<i>Chairman of the board:</i>						
Mr. Gang Li	-	217	347	43	607	
<i>Executive directors:</i>						
Mr. Hui Peng	-	213	347	43	603	
Mr. Qiang Liu	i	184	269	37	490	
<i>Non-executive directors:</i>						
Mr. Dalong Chen	-	-	-	-	-	
Mr. Shaochen Wang	-	-	-	-	-	
Mr. Dengyi Wu	ii	-	-	-	-	
Mr. Jie Li	ii	-	-	-	-	
Mr. Long Wang	ii	-	-	-	-	
Mr. Xiaodong Su	-	-	-	-	-	
Mr. Ruizheng Yuan	iii	-	-	-	-	
Mr. Haolai Tang	iii	-	-	-	-	
Mr. Cenyu Zhou	iv	-	-	-	-	
Ms. Xia Kong	iv	-	-	-	-	
<i>Chairman of the board of supervisors:</i>						
Ms. Xin Meng	-	-	-	-	-	
<i>Supervisors:</i>						
Mr. Ligang Liu	v	-	-	-	-	
Mr. Yongfu Wu	-	-	-	-	-	
Mr. Yin Zhang	vi	-	-	-	-	
Mr. Shun Wang	vii	-	126	117	24	267
Mr. Dehong Hao	-	-	109	117	23	249
Ms. Qinghong Hou	-	-	103	118	23	244
Mr. Shengguo Lian	viii	-	163	118	26	307
Mr. Ruzhi Li	ix	-	111	-	-	111
Ms. Xiaoyun Jiang	x	-	116	-	-	116
Mr. Qinghui Meng	xi	-	14	-	-	14

Notes to Financial Statements (Continued)

31 December 2019

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

				Performance		
		Fees	Wages and	-related	Welfare	Total
	Notes	RMB'000	salaries	bonuses	expenses	RMB'000
			RMB'000	RMB'000	RMB'000	
<i>Independent non-executive directors:</i>						
Mr. Xuezhao Cheng	xii	120	-	-	-	120
Mr. Hua Li	xii	120	-	-	-	120
Mr. Lingfang Wang	xii	120	-	-	-	120
Mr. Jiale He	iii	111	-	-	-	111
Mr. Ping Han	xiii	14	-	-	-	14
Mr. Yuxiang Wu	xii	-	-	-	-	-
Total		485	1,356	1,433	219	3,493

Notes to Financial Statements (Continued)

31 December 2019

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

	Notes	Fees RMB'000	Wages and salaries RMB'000	Performance -related bonuses RMB'000	Welfare expenses RMB'000	Total RMB'000
2018						
<i>Chairman of the board:</i>						
Mr. Gang Li		–	217	320	41	578
<i>Executive director:</i>						
Mr. Hui Peng		–	207	320	41	568
<i>Non-executive directors:</i>						
Mr. Dalong Chen		–	–	–	–	–
Mr. Shaochen Wang		–	–	–	–	–
Mr. Dengyi Wu	ii	–	–	–	–	–
Mr. Jie Li	ii	–	–	–	–	–
Mr. Long Wang	ii	–	–	–	–	–
Mr. Xiaodong Su		–	–	–	–	–
Mr. Ruizheng Yuan	iii	–	–	–	–	–
Mr. Haolai Tang	iii	–	–	–	–	–
<i>Chairman of the board of supervisors:</i>						
Ms. Xin Meng		–	–	–	–	–
<i>Supervisors:</i>						
Mr. Ligang Liu	v	–	–	–	–	–
Mr. Yongfu Wu		–	–	–	–	–
Mr. Dehong Hao		–	106	110	22	238
Ms. Qinghong Hou		–	108	101	21	230
Mr. Shengguo Lian	viii	–	129	110	22	261
Mr. Zhihai Wei	xiv	–	55	–	–	55
Ms. Xiaoyun Jiang	x	–	55	–	–	55
Mr. Ruzhi Li	ix	–	–	–	–	–
<i>Independent non-executive directors:</i>						
Mr. Xuezhao Cheng	xii	55	–	–	–	55
Mr. Hua Li	xii	55	–	–	–	55
Mr. Lingfang Wang	xii	55	–	–	–	55
Mr. Yuxiang Wu	xii	–	–	–	–	–
Mr. Jiale He	iii	–	–	–	–	–
Total		165	877	961	147	2,150

Notes to Financial Statements (Continued)

31 December 2019

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

	Notes	Social security, housing fund and trade union fee contributed by staff RMB'000	Social security and housing fund contributed by Company RMB'000	Defined contribution pension schemes RMB'000	Total RMB'000
2019					
<i>Chairman of the board:</i>					
Mr. Gang Li		66	84	71	221
<i>Executive directors:</i>					
Mr. Hui Peng		66	84	71	221
Mr. Qiang Liu	i	65	81	65	211
<i>Non-executive directors:</i>					
Mr. Dalong Chen		-	-	-	-
Mr. Shaochen Wang		-	-	-	-
Mr. Dengyi Wu	ii	-	-	-	-
Mr. Jie Li	ii	-	-	-	-
Mr. Long Wang	ii	-	-	-	-
Mr. Xiaodong Su		-	-	-	-
Mr. Ruizheng Yuan	iii	-	-	-	-
Mr. Haolai Tang	iii	-	-	-	-
Mr. Cenyu Zhou	iv	-	-	-	-
Ms. Xia Kong	iv	-	-	-	-
<i>Chairman of the board of supervisors:</i>					
Ms. Xin Meng		-	-	-	-

Notes to Financial Statements (Continued)

31 December 2019

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

	Notes	Social security, housing fund and trade union fee contributed by staff RMB'000	Social security and housing fund contributed by Company RMB'000	Defined contribution pension schemes RMB'000	Total RMB'000
<i>Supervisors:</i>					
Mr. Ligang Liu	v	-	-	-	-
Mr. Yongfu Wu		-	-	-	-
Mr. Yin Zhang	vi	-	-	-	-
Mr. Shun Wang	vii	53	63	49	165
Mr. Dehong Hao		50	60	47	157
Ms. Qinghong Hou		48	59	45	152
Mr. Shengguo Lian	viii	53	63	56	172
Mr. Ruzhi Li	ix	-	-	-	-
Ms. Xiaoyun Jiang	x	-	-	-	-
Mr. Qinghui Meng	xi	-	-	-	-
<i>Independent non-executive directors:</i>					
Mr. Xuezhao Cheng	xii	-	-	-	-
Mr. Hua Li	xii	-	-	-	-
Mr. Lingfang Wang	xii	-	-	-	-
Mr. Jiale He	iii	-	-	-	-
Mr. Ping Han	xiii	-	-	-	-
Mr. Yuxiang Wu	xii	-	-	-	-
Total		401	494	404	1,299

Notes to Financial Statements (Continued)

31 December 2019

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

	Notes	Social security, housing fund and trade union fee contributed by staff RMB'000	Social security and housing fund contributed by Company RMB'000	Defined contribution pension schemes RMB'000	Total RMB'000
2018					
<i>Chairman of the board:</i>					
Mr. Gang Li		63	82	72	217
<i>Executive director:</i>					
Mr. Hui Peng		72	82	72	226
<i>Non-executive directors:</i>					
Mr. Dalong Chen		-	-	-	-
Mr. Shaochen Wang		-	-	-	-
Mr. Dengyi Wu	ii	-	-	-	-
Mr. Jie Li	ii	-	-	-	-
Mr. Long Wang	ii	-	-	-	-
Mr. Xiaodong Su		-	-	-	-
Mr. Ruizheng Yuan	iii	-	-	-	-
Mr. Haolai Tang	iii	-	-	-	-
<i>Chairman of the board of supervisors:</i>					
Ms. Xin Meng		-	-	-	-
<i>Supervisors:</i>					
Mr. Ligang Liu	v	-	-	-	-
Mr. Yongfu Wu		-	-	-	-
Mr. Dehong Hao		47	57	45	149
Ms. Qinghong Hou		43	54	45	142
Mr. Shengguo Lian	viii	49	59	48	156
Mr. Zhihai Wei	xiv	-	-	-	-
Ms. Xiaoyun Jiang	x	-	-	-	-
Mr. Ruzhi Li	ix	-	-	-	-
<i>Independent non-executive directors:</i>					
Mr. Xuezhao Cheng	xii	-	-	-	-
Mr. Hua Li	xii	-	-	-	-
Mr. Lingfang Wang	xii	-	-	-	-
Mr. Yuxiang Wu	xii	-	-	-	-
Mr. Jiale He	iii	-	-	-	-
Total		274	334	282	890

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

Notes:

- (i) Mr. Qiang Liu was appointed as an executive director of the Company in November 2019.
- (ii) Mr. Dengyi Wu, Mr. Jie Li and Mr. Long Wang retired as non-executive directors of the Company in November 2019.
- (iii) Mr. Jiale He was appointed as an independent non-executive director of the Company in December 2018, and Mr. Ruizheng Yuan and Mr. Haolai Tang were appointed as non-executive directors of the Company in December 2018.
- (iv) Mr. Cenyu Zhou and Ms. Xia Kong were appointed as non-executive directors of the Company in November 2019.
- (v) Mr. Ligang Liu retired as a shareholder representative supervisor of the Company in November 2019.
- (vi) Mr. Yin Zhang was appointed as a shareholder representative supervisor of the Company in November 2019.
- (vii) Mr. Shun Wang was appointed as an employee supervisor of the Company in October 2019.
- (viii) Mr. Shengguo Lian retired an employee supervisor of the Company in October 2019.
- (ix) Mr. Ruzhi Li was appointed as a supervisor of the Company in December 2018.
- (x) Ms. Xiaoyun Jiang was appointed as a supervisor of the Company in June 2018 and retired in November 2019.
- (xi) Mr. Qinghui Meng was appointed as a supervisor of the Company in November 2019.
- (xii) Mr. Xuezhao Cheng, Mr. Hua Li, Mr. Lingfang Wang and Mr. Yuxiang Wu were appointed as independent non-executive directors of the Company in June 2018. Mr. Yuxiang Wu retired in November 2019.
- (xiii) Mr. Ping Han was appointed as an independent non-executive director of the Company in November 2019.
- (xiv) Mr. Zhihai Wei was appointed as a supervisor of the Company in June 2018 and retired in December 2018.

Mr. Yuxiang Wu, former independent non-executive director, agreed to waive his director's emolument since his appointment. His entitled emolument during the year ended 31 December 2019 was RMB116,000 (2018: RMB55,000). No emoluments were paid by the Group to any of the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to Financial Statements (Continued)

31 December 2019

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2018: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2018: three) highest paid employees who are neither a director nor supervisor of the Company are as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Salaries, allowances and benefits in kind	748	1,118
Performance related bonuses	538	739
Defined contribution pension scheme	131	203
	1,417	2,060

The number of non-director and non-supervisor highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
Nil to HKD1,000,000	2	3

No emoluments were paid by the Group to any of the above non-director or non-supervisor highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX EXPENSE

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

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

Notes to Financial Statements (Continued)

31 December 2019

10. INCOME TAX EXPENSE (CONTINUED)

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current – Mainland China		
Charge for the year	190,014	136,403
Underprovision/(overprovision) in prior years	307	(416)
Deferred (<i>note 26</i>)	(17,237)	25
Total tax charge for the year	173,084	136,012

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

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

11. DIVIDENDS

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

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

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

Notes to Financial Statements (Continued)

31 December 2019

11. DIVIDENDS (CONTINUED)

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

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

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

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

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Ancillary equipment RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office and other equipment RMB'000	Total RMB'000
31 December 2019:						
At 1 January 2019:						
Cost	105,145	5,764	19,882	11,820	24,582	167,193
Accumulated depreciation	(4,589)	(2,426)	(11,367)	(10,728)	(18,068)	(47,178)
Net carrying amount	100,556	3,338	8,515	1,092	6,514	120,015
At 1 January 2019, net of accumulated depreciation	100,556	3,338	8,515	1,092	6,514	120,015
Additions	403	1,052	9,693	–	28,859	40,007
Disposals	–	(303)	(181)	(62)	(90)	(636)
Depreciation provided during the year	(3,904)	(716)	(2,088)	(422)	(1,631)	(8,761)
Impairment	–	–	(27)	–	(1,057)	(1,084)
Transfers (notes 14, 16)	(11,565)	–	–	–	(841)	(12,406)
At 31 December 2019, net of accumulated depreciation and impairment	85,490	3,371	15,912	608	31,754	137,135
At 31 December 2019:						
Cost	92,970	6,221	29,189	10,612	50,158	189,150
Accumulated depreciation and impairment	(7,480)	(2,850)	(13,277)	(10,004)	(18,404)	(52,015)
Net carrying amount	85,490	3,371	15,912	608	31,754	137,135

Notes to Financial Statements (Continued)

31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Ancillary equipment RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office and other equipment RMB'000	Total RMB'000
31 December 2018:						
At 1 January 2018:						
Cost	114,593	5,764	19,782	12,169	23,437	175,745
Accumulated depreciation	(768)	(1,509)	(8,796)	(10,437)	(15,413)	(36,923)
Net carrying amount	113,825	4,255	10,986	1,732	8,024	138,822
At 1 January 2018, net of accumulated depreciation	113,825	4,255	10,986	1,732	8,024	138,822
Additions	1,781	-	100	-	1,166	3,047
Disposals	-	-	-	(17)	-	(17)
Depreciation provided during the year	(4,256)	(917)	(2,571)	(623)	(2,676)	(11,043)
Transfers (note 14)	(10,794)	-	-	-	-	(10,794)
At 31 December 2018, net of accumulated depreciation	100,556	3,338	8,515	1,092	6,514	120,015
At 31 December 2018:						
Cost	105,145	5,764	19,882	11,820	24,582	167,193
Accumulated depreciation	(4,589)	(2,426)	(11,367)	(10,728)	(18,068)	(47,178)
Net carrying amount	100,556	3,338	8,515	1,092	6,514	120,015

As at 31 December 2019, the aggregate carrying value of the buildings without ownership certificates was RMB10,851,000 (2018: RMB23,098,000). In the opinion of the directors, the Group is entitled to lawfully and validly occupy and/or use the buildings for its daily operations, notwithstanding the fact that the related building ownership certificates have not yet been obtained.

Certain machinery, office and other equipment with net carrying amount of RMB1,084,000 (2018: nil) were considered obsolete and an impairment of RMB1,084,000 (2018: nil) was recognised in profit or loss during the year ended 31 December 2019.

Notes to Financial Statements (Continued)

31 December 2019

14. INVESTMENT PROPERTIES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Cost at 1 January, net of accumulated depreciation	10,532	–
Transfer in from property, plant and equipment	11,565	10,794
Depreciation provided during the year	(652)	(262)
Cost at 31 December, net of accumulated depreciation	21,445	10,532
At 31 December:		
Cost	23,806	11,228
Accumulated depreciation	(2,361)	(696)
Net carrying amount	21,445	10,532
Fair value at the end of the year	21,468	19,827

The Group's investment properties consist of fourteen (2018:ten) commercial properties in Mainland China. The fair value of the Group's investment properties as at 31 December 2019 of RMB21,468,000 (2018: RMB19,827,000) was estimated based on valuations performed by an external independent valuer.

The fair value measurements of the Group's investment properties are categorised within Level 3. The valuation techniques are the market approach and the discounted cash flow method and the significant inputs used in the fair value measurement are the estimated rental value, rent growth and discount rate.

The Group has determined that the current use of properties is the highest and best use at the measurement date.

As at 31 December 2019, the aggregate carrying value of the buildings without ownership certificates was RMB21,445,000 (2018: RMB10,532,000). In the opinion of the directors, the Group is entitled to lawfully and validly occupy and/or use the buildings for its daily operations, notwithstanding the fact that the related building ownership certificates have not yet been obtained.

Notes to Financial Statements (Continued)

31 December 2019

15. LEASES

The Group as a lessor

The Group leases its investment properties (note 14) consisting of fourteen (2018: ten) 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 RMB3,978,000 (2018: RMB3,430,000), details of which are included in note 5 to the financial statements.

At 31 December 2019, undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within one year	2,191	902
After one year but within two years	2,146	787
After two years but within three years	1,575	786
After three years but within four years	1,100	786
After four years but within five years	650	786
After five years	1,424	5,361
	9,086	9,408

Notes to Financial Statements (Continued)

31 December 2019

16. INTANGIBLE ASSETS

	Service concession arrangements <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	2,701,820	1,709	2,703,529
Additions	87,967	3,042	91,009
Disposals	(28,081)	(18)	(28,099)
Amortisation provided during the year	(166,322)	(814)	(167,136)
Transfers (<i>note 13</i>)	–	841	841
At 31 December 2019	2,595,384	4,760	2,600,144
At 31 December 2019:			
Cost	4,620,611	6,302	4,626,913
Accumulated amortisation	(2,025,227)	(1,542)	(2,026,769)
Net carrying amount	2,595,384	4,760	2,600,144
31 December 2018			
At 1 January 2018:			
Cost	4,577,484	796	4,578,280
Accumulated amortisation	(1,704,224)	(356)	(1,704,580)
Net carrying amount	2,873,260	440	2,873,700
Cost at 1 January 2018, net of accumulated amortisation			
	2,873,260	440	2,873,700
Additions	3,179	1,701	4,880
Amortisation provided during the year	(174,619)	(432)	(175,051)
At 31 December 2018	2,701,820	1,709	2,703,529
At 31 December 2018 and at 1 January 2019:			
Cost	4,580,662	2,498	4,583,160
Accumulated amortisation	(1,878,842)	(789)	(1,879,631)
Net carrying amount	2,701,820	1,709	2,703,529

Notes to Financial Statements (Continued)

31 December 2019

16. INTANGIBLE ASSETS (CONTINUED)

The details of the toll road Jihe Expressway under the Service Concession are disclosed in note 1.

During the year, the Group was in the construction progress of the upgrade project of Jihe Expressway. Total construction costs of RMB87,967,000 were incurred (2018: nil). All construction works were sub-contracted to third party subcontractors.

In addition, construction revenue of RMB87,967,000 (2018: nil) was recognised in respect of the construction service provided by the Group for the upgrade project of Jihe Expressway using the input method during the year. Construction revenue was included in the additions to service concession arrangements which should be amortised upon the completion of the expansion projects and commencement of operation.

17. INVENTORIES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Materials and spare parts for toll road repair and maintenance	2,359	1,426
Low-value consumption goods	70	–
	2,429	1,426

18. TRADE AND BILLS RECEIVABLES

Trade receivables are analysed by category as follows:

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

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

Notes to Financial Statements (Continued)

31 December 2019

18. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

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

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

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.

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

Notes to Financial Statements (Continued)

31 December 2019

19. PREPAYMENTS AND OTHER RECEIVABLES

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

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
At 1 January	299	674
Impairment losses, net (<i>note 6</i>)	45	(375)
At 31 December	344	299

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

Notes to Financial Statements (Continued)

31 December 2019

19. PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

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

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

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

21. CASH AND CASH EQUIVALENTS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Cash and bank balances	1,392,663	673,309
Time deposits	3,505	333,551
Cash and cash equivalents	1,396,168	1,006,860

At the end of the reporting period, cash and bank balances are denominated in RMB and HKD.

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the deposit rates of the respective periods. The bank balances are deposited with creditworthy banks with no recent history of default. The Group expects no significant credit risk associated and that there would not be any significant losses due to non-performance by these counterparties.

Notes to Financial Statements (Continued)

31 December 2019

22. TRADE PAYABLES

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

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

Included in the trade payables are amounts totalling RMB60,000 (2018: RMB912,000) due to the Group's related parties, which are repayable on credit terms similar to those offered by other similar suppliers of the Group. Further details of the purchases from these related parties are set out in note 32 to the financial statements.

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.

23. OTHER PAYABLES AND ACCRUALS

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

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

Notes to Financial Statements (Continued)

31 December 2019

24. INTEREST-BEARING BANK BORROWINGS

	2019			2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current:						
Bank loans – unsecured	4.41	2020	175,000	4.275-4.41	2019	265,000
Non-current:						
Bank loans – unsecured	4.41	2021	70,000	4.41	2020-2021	245,000
			245,000			510,000
Analysed into:						
Bank loans repayable:						
Within one year			175,000			265,000
In the second year			70,000			175,000
In the third to fifth years, inclusive			–			70,000
			245,000			510,000

At the end of the reporting period, all interest-bearing bank borrowings were loans on credit and denominated in RMB.

Notes to Financial Statements (Continued)

31 December 2019

25. PROVISIONS

31 December 2019

	Maintenance and resurfacing provision <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019	113,490	–	113,490
Additional provisions	117,902	57	117,959
Amounts utilised during the year	(83,029)	–	(83,029)
At 31 December 2019	148,363	57	148,420

31 December 2018

	Maintenance and resurfacing provision <i>RMB'000</i>
At 1 January 2018	97,230
Additional provisions	72,298
Amounts utilised during the year	(56,038)
At 31 December 2018	113,490

Notes to Financial Statements (Continued)

31 December 2019

26. DEFERRED TAX

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

Deferred tax assets

	Provision for maintenance and resurfacing obligations <i>RMB'000</i>	Impairment of property, plant and equipment <i>RMB'000</i>	Replacement of intangible assets <i>RMB'000</i>	Accrued expenses <i>RMB'000</i>	Bad debt provisions <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018	24,307	-	-	238	169	299	25,013
Deferred tax credited/(charged) to profit or loss during the year (<i>note 10</i>)	4,065	-	-	(1)	(94)	(299)	3,671
Gross deferred tax assets at 31 December 2018 and 1 January 2019	28,372	-	-	237	75	-	28,684
Deferred tax credited/(charged) to profit or loss during the year (<i>note 10</i>)	8,719	271	6,942	(223)	11	-	15,720
Gross deferred tax assets at 31 December 2019	37,091	271	6,942	14	86	-	44,404

Deferred tax liabilities

	Intangible assets amortisation differences between accounting and tax regulations <i>RMB'000</i>	Property, plant and equipment depreciation differences between accounting and tax regulations <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018	55,591	280	55,871
Deferred tax credited/(charged) to profit or loss during the year (<i>note 10</i>)	3,909	(213)	3,696
Gross deferred tax liabilities at 31 December 2018 and 1 January 2019	59,500	67	59,567
Deferred tax credited to profit or loss during the year (<i>note 10</i>)	(1,485)	(32)	(1,517)
Gross deferred tax liabilities at 31 December 2019	58,015	35	58,050

Notes to Financial Statements (Continued)

31 December 2019

26. 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:

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

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

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

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

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

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

Notes to Financial Statements (Continued)

31 December 2019

27. SHARE CAPITAL

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Issued and fully paid	2,000,000	2,000,000

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue <i>(thousands)</i>	Share capital <i>RMB'000</i>
At 1 January 2018	1,500,000	1,500,000
Issuance of H shares <i>(note)</i>	500,000	500,000
At 31 December 2018, 1 January 2019 and 31 December 2019	2,000,000	2,000,000

Note:

On 19 July 2018, the Company's shares were listed on the HKEX and 500,000,000 H shares with par value of RMB1.00 each at an offer price of HKD2.5 per share were issued on that date. Gross proceeds from the IPO amounted to of HKD1,250,000,000 (equivalent to RMB1,077,347,000). Share premium (net of share issuance costs) in the amount of RMB525,409,000 was recorded in capital reserves. Immediately after the listing, the Company had a total of 2,000,000,000 issued ordinary shares with a nominal value of RMB1.00 each. All issued shares were fully paid.

Notes to Financial Statements (Continued)

31 December 2019

28. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity in the financial statements.

(a) Capital reserves

On 31 March 2016, capital reserves of RMB361,316,000 was recognised which represented the amount of the Company's net asset value as of 31 March 2016 in excess of the Company's share capital upon the transformation from a limited company to a joint stock company.

On 19 July 2018, the Company issued 500,000,000 new H shares with par value of RMB1.00 each at HKD2.5 per share in connection with the IPO of the H shares of the Company on the HKEX, and raised gross proceeds of approximately HKD1,250,000,000 (equivalent to RMB1,077,347,000). Share premium (net of share issuance costs) in the amount of RMB525,409,000 was recorded in capital reserves. Share issue expenses of RMB484,000 were subsequently reversed and debited to the capital reserves.

(b) Other reserves

All amount of other reserves of the Group was statutory reserves. In accordance with the PRC Company Law and the articles of association of the PRC companies of the Group (the "PRC Companies"), the PRC Companies are required to allocate 10% of their profits attributable to the respective owners of the PRC Companies as set out in their statutory financial statements, to the statutory reserves until such reserves reach 50% of the registered capital of the respective PRC Companies. The appropriation to the reserve must be made before any distribution of dividends to the respective owners of the PRC Companies. The statutory reserve can be used to offset previous year's losses, if any, and part of the statutory reserve can be capitalised as the share capital of the respective PRC Companies provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the respective PRC Companies.

29. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings	Other payables and accruals
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2018	825,000	–
Changes from financing cash flows	(315,000)	(32,466)
Interest expenses on interest-bearing bank borrowings	–	32,466
At 31 December 2018 and 1 January 2019	510,000	–
Changes from financing cash flows	(265,000)	(19,159)
Interest expenses on interest-bearing bank borrowings	–	19,159
At 31 December 2019	245,000	–

Notes to Financial Statements (Continued)

31 December 2019

30. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

31. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Contracted, but not provided for:		
Upgrade project of the Jihe Expressway	36,711	76,997

32. RELATED PARTY TRANSACTIONS

The shareholders of the Company are Qilu Transportation, COSCO SHIPPING (Hong Kong) Co., Limited (中遠海運(香港)有限公司) and 神華國能山東建設集團有限公司 (Shenhua National Power Shandong Construction Group Limited, formerly known as 國網能源山東建設集團有限公司 (Guowang Resources Shandong Construction Group Limited)), after the IPO of the Company's H shares, which held approximately of 38.93%, 30.00% and 6.08% of the equity interests in the Company, respectively. The Group is a state-owned enterprise controlled by the PRC Government.

In accordance with HKAS 24 (Revised) "Related Party Disclosures", government related entities (e.g. state-owned enterprises) and their subsidiaries directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are also defined as related parties of the Group. A portion of the Group's business activities is conducted with other government related entities in the PRC (primarily with respect to sales of finished products, purchases of finished products and maintenance services and transactions with state-owned banks). The Group believes that these transactions are carried out on terms that are similarly and consistently applied to all other customers or suppliers.

For the purpose of related party transaction disclosure, the Group has identified, to the extent practicable, its customers and suppliers as to whether they are government related entities. The Company's directors believe that it is meaningful to disclose any significant related party transactions with these government related entities for the interest of the financial statement users, although these transactions are exempted from the disclosure requirements as set out in HKAS24 (Revised). The Company's directors believe that information in respect of related party transactions has been adequately disclosed in the consolidated financial statements.

Notes to Financial Statements (Continued)

31 December 2019

32. RELATED PARTY TRANSACTIONS (CONTINUED)

The directors are of the view that the following companies are related parties that had material transactions or balances with the Group during the year.

(a) Information about related parties

Name	Relationships with the Group
Qilu Transportation	Ultimate holding company
Shandong Transport Department	Parent office of Shandong Highway Bureau
Shandong Transportation Engineering Supervision Consulting Co., Ltd.	Subsidiary of Qilu Transportation
Shandong Qilu Guang Qi Transportation Technology Co., Ltd.	Subsidiary of Qilu Transportation
Shandong Provincial Communications Planning and Design Institute	Subsidiary of Qilu Transportation
Qilu Transportation Information Group Company Limited	Subsidiary of Qilu Transportation
Qilu International Transportation Development Company Limited	Subsidiary of Qilu Transportation

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

	Note	2019 RMB'000	2018 RMB'000
Design expenses:			
Shandong Provincial Communications Planning and Design Institute	(i)	2,091	364
Maintenance services:			
Shandong Qilu Guang Qi Transportation Technology Co., Ltd.	(i)	–	912
Purchases of equipment:			
Qilu Transportation Information Group Company Limited	(i)	91	–
Supervision services:			
Shandong Transportation Engineering Supervision Consulting Co., Ltd.	(i)	60	–
Software update services:			
Qilu Transportation Information Group Company Limited	(i)	45	–
Purchases of goods:			
Qilu International Transportation Development Company Limited	(i)	37	–
		2,324	1,276

(i) During the year, the transactions were carried out in accordance with the terms and conditions similar to those offered by third parties in the ordinary course of business.

Notes to Financial Statements (Continued)

31 December 2019

32. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Outstanding balances with related parties

	<i>Note</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables			
Shandong Transport Department		19,113	169,700
Other receivables			
Qilu Transportation		–	47
Trade payables			
Shandong Qilu Guang Qi Transportation Technology Co., Ltd.		–	912
Shandong Transportation Engineering Supervision Consulting Co., Ltd.		60	–
		60	912
Other payables			
Qilu Transportation Information Group Company Limited		91	–
Qilu Transportation	(i)	28,403	29,836
		28,494	29,836

- (i) Amount represented payable for land and property lease in respect of the concession arrangement with annual payment of RMB2.76 million for the years from 2018 to 2034. Amount was measured at the present value of lease payments to be made over the lease term.

The amount of RMB2.76 million in relation to the land and property lease for the year ended 31 December 2019 were paid in January 2019.

Notes to Financial Statements (Continued)

31 December 2019

32. RELATED PARTY TRANSACTIONS (CONTINUED)

- (d) During the year ended 31 December 2019, the Group's significant transactions with Jinan Jinyue Expressway Project Limited Company (“濟南金日公路工程有限公司”, a state-controlled entity) and China Construction Road and Bridge Group Co., Ltd. (“中建設路橋集團有限公司”, a state-controlled entity) primarily include project payments of approximately RMB21,225,000 and RMB48,910,000 (2018: RMB19,446,000 and nil), respectively.

Save as disclosed in this report, the transactions with other state-owned enterprises are individually and collectively immaterial to the Group.

In addition, during the year ended 31 December 2019, the Group's bank balances and borrowings are deposited/arranged with state-owned banks of approximately RMB1,150,232,000 and RMB160,000,000 (2018: approximately RMB934,815,000 and RMB250,000,000), respectively.

(e) **Compensation of key management personnel of the Group:**

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Salaries, allowances and benefits in kind	4,149	3,588
Performance-related bonuses	2,288	2,193
Defined contribution pension schemes	600	552
Total compensation paid to key management personnel	7,037	6,333

Further details of director's and supervisors' emoluments are included in note 8 to the financial statements.

Notes to Financial Statements (Continued)

31 December 2019

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019

Financial assets

	Financial assets at fair value through profit or loss – mandatorily measured as such <i>RMB'000</i>	Financial assets at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and bills receivables	–	20,236	20,236
Financial assets included in prepayments and other receivables	–	5,152	5,152
Financial assets at fair value through profit or loss	200,000	–	200,000
Cash and cash equivalents	–	1,396,168	1,396,168
	200,000	1,421,556	1,621,556

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>
Trade payables	25,274
Financial liabilities included in other payables and accruals	66,606
Interest-bearing bank borrowings	245,000
	336,880

Notes to Financial Statements (Continued)

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33. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2018

Financial assets

	Financial assets at fair value through profit or loss – mandatorily measured as such <i>RMB'000</i>	Financial assets at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and bills receivables	–	170,468	170,468
Financial assets included in prepayments and other receivables	–	8,375	8,375
Financial assets measured at amortised cost	–	200,000	200,000
Financial assets at fair value through profit or loss	100,000	–	100,000
Cash and cash equivalents	–	1,006,860	1,006,860
	100,000	1,385,703	1,485,703

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>
Trade payables	21,458
Financial liabilities included in other payables and accruals	78,721
Interest-bearing bank borrowings	510,000
	610,179

Notes to Financial Statements (Continued)

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34. 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	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Financial assets				
Other receivables – non-current	–	2,000	–	2,000
Financial liabilities				
Interest-bearing bank borrowings	245,000	510,000	244,410	505,266
Other payables – non-current	25,643	27,076	25,643	27,076
	270,643	537,076	270,053	532,342

Management has determined that the carrying amounts of cash and cash equivalents, trade and bills receivables, financial assets included in prepayments and other receivables, other financial assets at amortised cost, trade payables and financial liabilities included in 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 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 non-current portion of other receivables, interest-bearing bank borrowings and 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 31 December 2019 and 31 December 2018 were assessed to be insignificant.

Notes to Financial Statements (Continued)

31 December 2019

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

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 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable input (Level 2) RMB'000	Significant unobservable input (Level 3) RMB'000	
Financial assets at fair value through profit or loss	–	200,000	–	200,000

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable input (Level 2) RMB'000	Significant unobservable input (Level 3) RMB'000	
Financial assets at fair value through profit or loss	–	–	100,000	100,000

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

	2019 RMB'000
Financial assets at fair value through profit or loss:	
At 1 January	100,000
Disposal	(100,000)
At 31 December	–

Notes to Financial Statements (Continued)

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34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

The Group did not have any financial liabilities measured at fair value as at 31 December 2018.

During the year, 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 (2018: nil).

Liabilities for which fair values are disclosed:

As at 31 December 2019

	Fair value measurement using			Total <i>RMB'000</i>
	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable input (Level 2) <i>RMB'000</i>	Significant unobservable input (Level 3) <i>RMB'000</i>	
Interest-bearing bank borrowings	–	244,410	–	244,410
Other payables – non-current	–	25,643	–	25,643
	–	270,053	–	270,053

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group principally operates in the PRC and RMB is the currency of the primary economic environment in which the Group operates. However, upon the initial listing of H shares, proceeds from the IPO are in HKD. The Group has a significant foreign currency balance of cash and cash equivalents denominated in HKD. Foreign exchange risk arises from cash and cash equivalents denominated in a currency other than the functional currency of the Group.

The Group currently does not have a foreign currency hedging policy and manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

As at 31 December 2019, if HKD strengthened/weakened by 10% against RMB with all other variables held constant, the Group's post-tax profit would have been approximately RMB157,000 higher/lower which is because the cash and cash equivalents are denominated in HKD (2018: RMB24,622,000).

Credit risk

The Group's credit risk mainly arises from receivables. The carrying amounts of trade and other receivables represented the Group's maximum exposure in relation to financial assets.

Toll income from toll road operations is settled in cash and bank cards, which is partially collected by Shandong Transport Department on behalf of the Group. Since the toll income receivables are expected to be received within one month, the Company's management does not expect any loss from those receivables. Please refer to note 18 for details.

Except for the receivables as mentioned above, the Group does not have any other significant concentration of credit risk exposure associated with a particular single counterparty or a particular group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial information, grossed up for any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Notes to Financial Statements (Continued)

31 December 2019

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade and bills receivables*	600	–	–	19,636	20,236
Financial assets included in prepayments and other receivables					
– Normal**	5,496	–	–	–	5,496
Cash and cash equivalents	1,396,168	–	–	–	1,396,168
	1,402,264	–	–	19,636	1,421,900

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	–	–	–	170,468	170,468
Financial assets included in prepayments and other receivables					
– Normal**	8,674	–	–	–	8,674
Financial assets measured at amortised cost	200,000	–	–	–	200,000
Cash and cash equivalents	1,006,860	–	–	–	1,006,860
	1,215,534	–	–	170,468	1,386,002

Notes to Financial Statements (Continued)

31 December 2019

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

- * For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 18 to the financial statements, respectively.
- ** The credit quality of the financial assets included in prepayments and other receivables is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Further details about credit risks on trade and other receivables are disclosed in notes 18 and 19.

Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash flows from operations to meet its debt obligations as they fall due.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Weighted average interest rate	2019				Total RMB'000
		Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank borrowings		175,000	70,000	–	–	245,000
Interest payables on borrowings	4.41%	10,179	2,673	–	–	12,852
Trade payables		25,274	–	–	–	25,274
Other payables and accruals		40,963	1,362	4,498	19,783	66,606
Interest payables on other payables	4.90%	–	1,398	3,782	7,193	12,373
		251,416	75,433	8,280	26,976	362,105

Notes to Financial Statements (Continued)

31 December 2019

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

	Weighted average interest rate	2018				Total RMB'000
		Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	
		RMB'000	RMB'000	RMB'000	RMB'000	
Interest-bearing bank borrowings		265,000	175,000	70,000	–	510,000
Interest payables on borrowings	4.38%	18,691	10,179	2,664	–	31,534
Trade payables		21,458	–	–	–	21,458
Other payables and accruals		51,645	1,298	4,288	21,490	78,721
Interest payables on other payables	4.90%	–	1,462	3,992	8,246	13,700
		356,794	187,939	80,944	29,736	655,413

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Similar to the others in the industry, the Group monitors capital using the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

Notes to Financial Statements (Continued)

31 December 2019

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (Continued)

The gearing ratios as at the end of the reporting periods were as follows:

	2019 RMB'000	2018 RMB'000
Interest-bearing bank borrowings (note 24)	245,000	510,000
Less: Cash and cash equivalents (note 21)	(1,396,168)	(1,006,860)
Net debt	(1,151,168)	(496,860)
Total equity	3,791,195	3,531,690
Total capital	2,640,027	3,034,830
Gearing ratio	N/A	N/A

36. EVENTS AFTER THE REPORTING PERIOD

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

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

Notes to Financial Statements (Continued)

31 December 2019

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	133,763	116,675
Investment properties	21,445	10,532
Intangible assets	2,600,144	2,703,529
Prepayments	–	31,526
Other receivables	–	2,000
Investments in subsidiaries	11,245	8,008
Total non-current assets	2,766,597	2,872,270
CURRENT ASSETS		
Inventories	2,359	1,426
Trade receivables	19,113	169,700
Amount due from a subsidiary	–	379
Prepayments and other receivables	12,282	6,789
Other financial assets at amortised cost	–	200,000
Financial assets at fair value through profit or loss	200,000	100,000
Cash and cash equivalents	1,389,739	1,002,305
Total current assets	1,623,493	1,480,599
CURRENT LIABILITIES		
Trade payables	25,273	21,458
Other payables and accruals	77,828	86,202
Interest-bearing bank borrowings	175,000	265,000
Tax payable	61,199	30,997
Provisions	148,420	113,490
Total current liabilities	487,720	517,147

Notes to Financial Statements (Continued)

31 December 2019

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
NET CURRENT ASSETS	1,135,773	963,452
TOTAL ASSETS LESS CURRENT LIABILITIES	3,902,370	3,835,722
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	70,000	245,000
Other payables	25,643	27,076
Deferred tax liabilities	13,646	30,883
Total non-current liabilities	109,289	302,959
Net assets	3,793,081	3,532,763
EQUITY		
Equity attributable to owners of the parent		
Share capital	2,000,000	2,000,000
Capital reserves	887,209	886,725
Other reserves	182,525	130,802
Retained earnings	723,347	515,236
Total equity	3,793,081	3,532,763

Notes to Financial Statements (Continued)

31 December 2019

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share capital <i>RMB'000</i>	Attributable to owners of the parent			Total <i>RMB'000</i>
		Capital reserves <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	
At 1 January 2018	1,500,000	361,316	89,939	526,678	2,477,933
Profit for the year	–	–	–	408,630	408,630
Total comprehensive income for the year	–	–	–	408,630	408,630
Proceeds from H shares issued	500,000	577,347	–	–	1,077,347
Capitalisation of share issuance costs	–	(51,938)	–	–	(51,938)
Transfer from retained earnings	–	–	40,863	(40,863)	–
Final 2017 dividend declared	–	–	–	(379,209)	(379,209)
At 31 December 2018 and 1 January 2019	2,000,000	886,725	130,802	515,236	3,532,763
Profit for the year	–	–	–	517,234	517,234
Total comprehensive income for the year	–	–	–	517,234	517,234
Reversal of share issue expenses	–	484	–	–	484
Transfer from retained earnings	–	–	51,723	(51,723)	–
Final 2018 dividend declared	–	–	–	(257,400)	(257,400)
At 31 December 2019	2,000,000	887,209	182,525	723,347	3,793,081

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board on 24 March 2020.