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Chengdu Expressway Co., Ltd.
成都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: 01785)

CONTINUING CONNECTED TRANSACTION
ENTERING INTO THE QIONGMING EXPRESSWAY ENTRUSTED
OPERATION AND MANAGEMENT CONTRACT

ENTERING INTO THE QIONGMING EXPRESSWAY ENTRUSTED OPERATION AND MANAGEMENT CONTRACT

Reference is made to the announcement of the Company dated 29 April 2020 in relation to the establishment of Chengdu Expressway Operation Management Co., Ltd.. The Board hereby announces that, at the Board meeting held on 20 May 2020, the Board considered and passed relevant resolutions, approving the Operation Company, a wholly-owned subsidiary of the Company, to enter into the Entrusted Operation and Management Contract with Chengming Company on 20 May 2020, pursuant to which, Chengming Company shall entrust the Operation Company with full authority to take over the operation and management of the business of Qiongming Expressway invested in and operated by Chengming Company.

IMPLICATIONS OF THE LISTING RULES

As of the date of this announcement, the Operation Company is a wholly-owned subsidiary of the Company, Chengdu Expressway Construction is a controlling shareholder of the Company and Chengming Company is held as to 51% and 49% by the Company and Chengdu Expressway Construction, respectively. Accordingly, Chengming Company is a connected subsidiary of the Company and the transactions contemplated under the Entrusted Operation and Management Contract constitute continuing connected transactions of the Company. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) thereof exceeds 0.1% but is less than 5%, the transactions are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules, but are exempted from circular and independent shareholders' approval requirements.

BACKGROUND

The Company established the Operation Company on 29 April 2020, which integrates operation and management, maintenance and construction as well as asset management of expressways. The Operation Company was established with an aim to take over the management of, among others, toll collection, maintenance, asset operation and development business of the Group's Chengguan Expressway, Chengpeng Expressway, Chengwenqiong Expressway, Qiongming Expressway and Chengdu Airport Expressway, and gradually expand management services to external expressways. The Entrusted Operation and Management Contract is entered into for the purpose of taking over business management of Qiongming Expressway by the Operation Company.

ENTRUSTED OPERATION AND MANAGEMENT CONTRACT

The principal terms of the Entrusted Operation and Management Contract are set out below:

Date	20 May 2020
Parties	(1) Chengming Company (as the principal); (2) the Operation Company (as the trustee)
Scope of entrusted operation and management	The Operation Company is entrusted by Chengming Company to take in charge of the management of Qiongming Expressway and all of the operation and management of its supporting facilities, primarily including toll collection, mechanical and electrical system operation management and maintenance, road inspection and road property maintenance, daily road maintenance, road overhaul and medium repair and bidding, implementation and acceptance of special engineering construction, fixed asset management, development and exploitation of inefficient and ineffective assets, accident wrecker and rescue, safety production matters, public information services, operation and financial management, performance appraisal and personnel management.

Mode of entrustment

- (1) Chengming Company shall entrust the Operation Company with full authority to be responsible for the overall operation and management of Qiongming Expressway, and to, within the scope entrusted, independently formulate operating policies and management process in line with laws, regulations and government industry management requirements, and adopt advanced management philosophies and methods, so as to enhance the overall brand image and industry position of Qiongming Expressway, contribute to the long-term steady development and boom of Chengming Company. Personnel from Chengming Company who are involved in the work within the scope entrusted will be managed and assigned by the Operation Company.
- (2) Chengming Company will authorise the Operation Company to go through daily work exchange and business negotiations on behalf of Chengming Company with its superiors, including but not limited to attending meetings, business engagements and accepting inspections from relevant departments. During the term of entrusted operation and management, unless as otherwise agreed between the two parties, Chengming Company shall follow and cooperate with the Operation Company in centralised operation and management of Qiongming Expressway.
- (3) Resolution and approval procedures of matters and plans falling within the annual budget and final accounts of Chengming Company shall be implemented according to the policies and regulations of the Operation Company without the need to obtain separate authorisation or approval from Chengming Company, and such procedures performed by the Operation Company shall be deemed as resolved and approved by Chengming Company. Where cooperation from Chengming Company is required, it shall provide assistance based on the relevant procedures of the Operation Company. Resolution and approval procedures of matters and plans not covered in the annual budget and final accounts of Chengming Company shall be implemented according to the policies and regulations of the Operation Company after approval from Chengming Company is obtained, and such procedures performed by the Operation Company shall be deemed as resolved and approved by Chengming Company.

- (4) Chengming Company shall recognise business operations conducted by the Operation Company in its own name or in the name of Chengming Company within the scope entrusted and bear legal responsibilities thereof. Where Chengming Company suffers losses caused by the Operation Company, the Operation Company shall assume full responsibility and compensate. Acts conducted by the Operation Company beyond the entrusted scope are not related with Chengming Company and the Operation Company alone shall be held accountable in this regard.

Term of entrusted operation and management

From 1 May 2020 to 31 December 2022, which may be early terminated upon agreement by both parties due to change of controlling shareholder or de facto controller of Chengming Company and may be extended upon agreement by both parties after expiration, provided that requirements of the then applicable Listing Rules are complied with.

Entrusted operation and management service fee and payment method

The Operation Company shall charge a certain percentage of entrusted operation and management service fee based on the toll income achieved after it is entrusted to take over relevant business of Chengming Company. Set out below is the detailed settlement and payment method:

- (1) 3% of the annual total toll income (exclusive of tax) shall be charged as the annual entrusted operation and management service fee;
- (2) Payment method: on a monthly basis, Chengming Company shall pay the Operation Company entrusted operation and management service fee of the previous month within three business days based on the cleared revenue (exclusive of tax) of Chengming Company as stated in the monthly “Toll Income Clearing Statement” (《通行費收入清分報表》) issued by the Highway Monitoring Settlement Center of Department of Transportation of Sichuan Province (四川省交通運輸廳高速公路監控結算中心); and
- (3) Final settlement method: on an annual basis, Chengming Company shall, within 10 business days from completion of annual audit, pay the Operation Company entrusted operation and management service fee outstanding of the previous year (if any) based on the annual toll income (exclusive of tax) as set out in the audited financial statements and subject to the charge standard agreed in the Entrusted Operation and Management Contract on a “make-even” basis.

Pricing policy

The entrusted operation and management service fee is determined after arm's-length negotiations between the two parties with reference to the Group's operation and management experience of toll expressways and estimation of potential revenue, cost and expenses arising from operation and management of Qiongming Expressway, which is on the same standards applied to operation and management by the Operation Company of the Group's other expressways.

ANNUAL CAPS

In accordance with the charge rate and corresponding basis of price determination of the entrusted operation and management service fee as agreed in the Entrusted Operation and Management Contract, the annual entrusted operation and management service fee payable to the Operation Company by Chengming Company for the years ending 31 December 2020, 2021 and 2022 shall not exceed the following amount:

	Annual cap for the year ending 31 December 2020 <i>(RMB million)</i>	Annual cap for the year ending 31 December 2021 <i>(RMB million)</i>	Annual cap for the year ending 31 December 2022 <i>(RMB million)</i>
Annual entrusted operation and management service fee payable to the Operation Company by Chengming Company	6.05	6.91	7.92

In estimating the above annual caps, the Company has primarily taken into account of the following factors: (i) the Group's operation and management experience of toll expressways and estimation of potential revenue arising from operation and management of Qiongming Expressway; (ii) charge rate of entrusted operation and management service fee of Operation Company in relation to entrusted operation and management of other expressways of the Group; (iii) the revenue forecast of Qiongming Expressway from 2020 to 2022 as stated in the Traffic Volume Forecast Study Report on Sichuan Qiongming Expressway issued by Master Alliance (China) Limited, an independent third party, on 23 October 2019 to the Company and (iv) the revenue of Chengming Company from 2017 to 2019.

REASONS FOR AND BENEFITS OF ENTERING INTO THE ENTRUSTED OPERATION AND MANAGEMENT CONTRACT

As stated above, the Company established the Operation Company on 29 April 2020, which is a wholly-owned subsidiary of the Company and is intended to take over the management of, among others, toll collection, maintenance, asset operation and development business of Chengguan Expressway, Chengpeng Expressway, Chengwenqiong Expressway, Qiongming Expressway and Chengdu Airport Expressway, and proposes to gradually expand management services to external expressways. Leveraging on its professional operation and management model, clear market positioning, resource advantages and advanced expressway service and management philosophies, the Operation Company will bring into full play of the scale advantages of centralised operation, management and maintenance, and is able to constantly boost operation and profitability of Qiongming Expressway and ensure its healthy development following entrusted operation and management.

Entering into the Entrusted Operation and Management Contract will facilitate the Company to pool its resources for professional management, which is conducive to centralised resource allocation, management cost reduction, performance enhancement and competitiveness improvement of the Company in the expressway management and maintenance market.

The Directors (including independent non-executive Directors) are of the opinion that, the Entrusted Operation and Management Contract is entered into in the usual and ordinary course of business of the Group on normal commercial terms, the terms of which are fair and reasonable and in the interests of the Company and its shareholders as a whole.

GENERAL INFORMATION OF THE PARTIES

The Operation Company, a wholly-owned subsidiary of the Company, is an expressway operation and management company which integrates operation and management, maintenance and construction as well as asset management of expressways.

Chengming Company is a controlling subsidiary of the Company, which is held as to 51% and 49% by the Company and Chengdu Expressway Construction, a controlling shareholder of the Company, respectively. Chengdu Expressway Construction is wholly owned by Chengdu Communications Investment Group Co., Ltd. (成都交通投資集團有限公司) which is ultimately owned by the State-owned Assets Supervision and Administration Commission of Chengdu Municipal Government (成都市國有資產監督管理委員會). Chengming Company is entitled to the service concession rights of Qiongming Expressway and is primarily engaged in management and operation of Qiongming Expressway.

IMPLICATIONS OF THE LISTING RULES

As of the date of this announcement, the Operation Company is a wholly-owned subsidiary of the Company, Chengdu Expressway Construction is a controlling shareholder of the Company and Chengming Company is held as to 51% and 49% by the Company and Chengdu Expressway Construction, respectively. Accordingly, Chengming Company is a connected subsidiary of the Company and the transactions contemplated under the Entrusted Operation and Management Contract constitute continuing connected transactions of the Company. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) thereof exceeds 0.1% but is less than 5%, the transactions are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules, but are exempted from circular and independent shareholders' approval requirements.

As Mr. Zhang Dongmin, an executive Director, is also the chairman of Chengming Company and Mr. Luo Dan, an executive Director, is also a director and the financial controller of Chengming Company, they are deemed to be materially interested in the transactions contemplated under the Entrusted Operation and Management Contract. They have accordingly abstained from voting on relevant resolution at the Board meeting. Save as disclosed above, no other Director has a material interest in the transactions contemplated under the Entrusted Operation and Management Contract.

DEFINITIONS

In this announcement, unless otherwise indicated, the following terms shall have the meanings set out below:

“Board”	the board of Directors
“Chengdu Expressway Construction”	Chengdu Expressway Construction and Development Co., Ltd. (成都高速公路建設開發有限公司), a company established in the PRC with limited liability, which is one of the controlling shareholders of the Company
“Chengming Company”	Sichuan Chengming Expressway Co., Ltd. (四川成名高速公路有限公司), a company incorporated in the PRC with limited liability and a subsidiary of the Company, which is held as to 51% and 49% by the Company and Chengdu Expressway Construction, one of the controlling shareholders of the Company, respectively
“Company”	Chengdu Expressway Co., Ltd. (成都高速公路股份有限公司)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Entrusted Operation and Management Contract”	the Qiongming Expressway Entrusted Operation and Management Contract entered into between the Operation Company and Chengming Company on 20 May 2020
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Operation Company”	Chengdu Expressway Operation Management Co., Ltd. (成都高速運營管理有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company

“Qiongming Expressway”

the section from Qionglai (邛 崃) to Mingshan (名 山) on the 318 national expressway

“RMB”

Renminbi, the lawful currency of the PRC

On behalf of the Board
Chengdu Expressway Co., Ltd.
Xiao Jun
Chairman

Chengdu, the PRC, 20 May 2020

As at the date of this announcement, the Board comprises Mr. Zhang Dongmin, Ms. Wang Xiao and Mr. Luo Dan as executive Directors, Mr. Xiao Jun and Mr. Yang Bin as non-executive Directors, and Mr. Shu Wa Tung, Laurence, Mr. Ye Yong and Mr. Li Yuanfu as independent non-executive Directors.