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

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1576)

**CONTINUING CONNECTED TRANSACTION –
THE 2023 DESHANG AND SHENNAN EXPRESSWAYS
SERVICE AGREEMENT**

References are made to (i) the announcement of the Company dated 2 June 2020 and the Acquisition Circular in relation to, among others, the Original Service Agreement entered into between the Company and Qilu Transportation on 2 June 2020 for the secondment of the Public-Sector Employees of Qilu Transportation Liaocheng Branch to provide the Company with services such as toll collection and maintenance of the Deshang and Shennan Expressways; and (ii) the notification of the Company as at 26 November 2020, pursuant to which it was disclosed that upon completion of the Joint Restructuring, all the assets, liabilities, business, employees, contracts and qualifications together with all other rights and obligations of Qilu Transportation, and the subordinating branch entities and equity interest or other interest in the subordinating companies held by Qilu Transportation were assumed by Shandong Hi-Speed Group as the surviving company upon completion of the Joint Restructuring.

The Original Service Agreement will expire on 31 December 2022. In view of the abovementioned secondment of the Public-Sector Employees of Shandong Hi-Speed Group Liaocheng Branch (formerly known as Qilu Transportation Liaocheng Branch) to the Group is still in progress, in order to facilitate the daily operation of the Deshang and Shennan Expressways during the personnel transfer process, upon discussions among the Company, Shandong Hi-Speed Group and Shandong Hi-Speed Group Liaocheng Branch, the parties entered into the 2023 Deshang and Shennan Expressways Service Agreement on 30 December 2022 for the continuation of the provision of services under the Original Service Agreement for the period from 1 January 2023 to 31 December 2023. The transaction contemplated under the 2023 Deshang and Shennan Expressways Service Agreement will constitute a continuing connected transaction between the Company and Shandong Hi-Speed Group (and its branch company).

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Shandong Hi-Speed Group indirectly held approximately 38.93% of the issued Shares of the Company through its subsidiary, Shandong Hi-Speed. The Shandong Hi-Speed Group is a controlling Shareholder of the Company, while Shandong Hi-Speed Group Liaocheng Branch is a branch company of Shandong Hi-Speed Group and thus a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules. Therefore, the transaction contemplated under the 2023 Deshang and Shennan Expressways Service Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios (other than the profits ratio) in respect of the annual cap are more than 0.1% but less than 5%, the 2023 Deshang and Shennan Expressways Service Agreement and the transaction contemplated thereunder (including its annual cap) are subject to the reporting, announcement and annual review requirements but are exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

References are made to (i) the announcement of the Company dated 2 June 2020 and the Acquisition Circular in relation to, among others, the Original Service Agreement entered into between the Company and Qilu Transportation on 2 June 2020 for the secondment of the Public-Sector Employees of Qilu Transportation Liaocheng Branch to provide the Company with services such as toll collection and maintenance of the Deshang and Shennan Expressways; and (ii) the notification of the Company as at 26 November 2020, pursuant to which it was disclosed that upon completion of the Joint Restructuring, all the assets, liabilities, business, employees, contracts and qualifications together with all other rights and obligations of Qilu Transportation, and the subordinating branch entities and equity interest or other interest in the subordinating companies held by Qilu Transportation were assumed by Shandong Hi-Speed Group as the surviving company upon completion of the Joint Restructuring.

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THE 2023 DESHANG AND SHENNAN EXPRESSWAYS SERVICE AGREEMENT

The principal terms of the 2023 Deshang and Shennan Expressways Service Agreement are set out as follows:

Date	:	30 December 2022
Parties	:	(i) Shandong Hi-Speed Group; (ii) Shandong Hi-Speed Group Liaocheng Branch; and (iii) the Company
Term of services	:	From 1 January 2023 to 31 December 2023

Before the expiration of the term of services, the parties to the agreement may negotiate for early termination of the term of services, upon which the parties shall enter into a separate termination agreement.

Nature of transaction : Shandong Hi-Speed Group Liaocheng Branch agrees to second 165 Public-Sector Employees to provide services such as toll collection and maintenance for the Deshang and Shennan Expressways, including:

- (i) **toll collection services:** the collection of toll fees from the vehicles passing through the Deshang and Shennan Expressways, including: strictly implementing relevant toll collection rules and regulations by the government authorities of the PRC and Shandong Province, as well as toll collection procedures and toll standards, and handing over toll fees in full on a timely basis; strictly implementing the rules for issuing and collecting pass cards, verifying vehicle information, and timely detecting and reporting vehicles with irregular acts, toll evasion and signs of hit-and-run; responsible for the protection and cleaning of toll facilities; preparing statements of toll operations and managing ticketing affairs; cooperating with and assisting in conducting toll inspection activities; and responsible for dealing with any major problem, emergency or unexpected situation in the course of toll collection and reporting the same in a timely manner; and
- (ii) **maintenance services:** the daily preventive maintenance and repairs of the Deshang and Shennan Expressways and related facilities, including: responsible for organising the maintenance and management of roads, bridges, traffic safety facilities, housing construction works and the greenery along the main lines and in the interchange areas; responsible for organising the daily maintenance of facilities and equipment for communication, toll collection, surveillance and power supply and distribution systems; responsible for organising supplies for road emergency rescue, and efforts for rescue and relief works on road and bridge, and organising repair works for road damages in a timely manner; and responsible for daily road inspections.

Pursuant to the 2023 Deshang and Shennan Expressways Service Agreement, each of the seconded Public-Sector Employees will be entitled to terminate his or her employment with Shandong Hi-Speed Group Liaocheng Branch and directly establish labour relationships with the Company by signing a labour contract or employment agreement if he or she so opts. Shandong Hi-Speed Group Liaocheng Branch and the Group are obliged to facilitate the process of transferring labour relationships. As a result, the number of employees under the 2023 Deshang and Shennan Expressways Service Agreement shall be reduced accordingly.

Pricing basis

- : Service fees include staff costs and management fees, among which, the management fees will be determined on a cost-plus basis, that is, based on relevant staff costs plus 6.57%.

As the employees providing the services under the 2023 Deshang and Shennan Expressways Service Agreement are Public-Sector Employees, their wages are subject to the relevant PRC laws, regulations and requirements concerning the remuneration packages for employees in public institutions. The Board confirms that the aforesaid management fee encompasses the expenses to be borne by Shandong Hi-Speed Group Liaocheng Branch incurred from, among others, administration of remuneration and benefits, making social security and insurance contributions, management of staff files and records, labour union expenditures, arranging for physical examination, handling staff retirement, and tax expenses arising from the aforesaid activities. The above management fee is determined by the parties upon arm's length negotiations after taking into account a number of factors including operating costs, technical levels and the expertise of such staff performing the services, and the average management fee of relevant industry peers for provision of similar services.

The Board confirms that the Company has conducted market research by way of seeking quotations from Independent Third Party providers in respect of labour supply services for comparable works on the expressway based on the scope, quality standards, covered industries and regions of the designated human resources management services that such Independent Third Party providers can provide to meet the Company's needs. In view of the niche nature of expressway operations, in particular of the specific works to be performed by the seconded labour (that is, toll collection and daily maintenance works), and to ensure the fairness and reasonableness of management fee, the Company has obtained quotations from two and two Independent Third Party comparable service providers for toll collection outsourcing services and back-office labour outsourcing services, respectively; whereas in respect of the quotations obtained for toll collection outsourcing services, such service providers are charging management fees in the range of approximately 9% to 10% which are higher than the management fee of 6.57% under the 2023 Deshang and Shennan Expressways Service Agreement, while those for back-office labour outsourcing are charging management fees of approximately 6% which are approximate to the management fee thereof. The Board is of the view that the terms of the 2023 Deshang and Shennan Expressways Service Agreement (including the pricing basis) are reached upon arm's length negotiations among the parties, and the management fees are fair and reasonable and on normal commercial terms or better.

Payment method : The service fees payable by the Group under the 2023 Deshang and Shennan Expressways Service Agreement shall be billed and settled in cash in RMB on a quarterly basis, and shall be funded by the internal resources of the Group.

Historical transaction amounts

From the Acquisition Completion Date to the year ended 31 December 2020, for the year ended 31 December 2021 and for the ten-month period ended 31 October 2022, the actual transaction amounts under the Original Service Agreement were approximately RMB11,678,000, RMB31,228,000 and RMB27,018,744 respectively. The Directors have been monitoring the transaction amounts under the Original Service Agreement and such actual transaction amounts did not exceed the annual caps for the years ended 31 December 2020 and 31 December 2021, respectively. As at the date of this announcement, the actual transaction amount incurred during 2022 has not exceeded the annual cap for 2022.

Annual cap amount

According to the 2023 Deshang and Shennan Expressways Service Agreement, the annual service fees (including staff costs and management fees) to be paid by the Company shall not exceed RMB43,050,000 for the year ended 31 December 2023.

In arriving at the above annual cap, the Directors have considered a number of factors, including, among others, (i) the expected traffic flow of the Deshang and Shennan Expressways, particularly the expected increase in local traffic flow and trips of the general public after the pandemic subsides in mid-2023 will lead to an adjustment to the workload of on-site operation and coordination and the manpower required for the expressways to ensure smooth traffic and maintain a good travel experience; (ii) the maintenance and repair schedules for the Deshang and Shennan Expressways in the coming years and the adjustment in types and numbers of daily preventive maintenances and minor repair works on the Deshang and Shennan Expressways required as a result of the increase in traffic flow; (iii) the estimated increase in relevant service fees due to the expected increase in labour cost and technical cost; and (iv) the increase in welfare provided by Company to the staff under the service agreement to improve their work morale in the post-pandemic stage and attract them to transfer their labour contracts to the Company at the same time.

Regarding the expected increase in labour cost, the Company has taken into account various factors and analyses, including (i) the inflation-based price risings, particularly the prices of many products (including those of raw materials and daily necessities) have seen a relatively large increase over the year due to the impact of the pandemic; (ii) the salary levels of enterprises and the year-on-year increases released by the relevant national and local government departments, including the 2021 Enterprise Guiding Salary Increment Baseline (《2021 年企業工資增長基準線》) issued by the Shandong Provincial Department of Human Resources and Social Security (山東省人力資源和社會保障廳), the notice on raising the minimum wages across the province published by the Shandong Provincial People's Government in September 2021, the annual national average wages of employees in enterprises of designated scale of above (規模以上企業) in 2021 and relevant data analyses issued by the National Bureau of Statistics in May 2022, and the Notice on the Publication of Salary Levels in the Human Resources Market in 2021 (《關於發佈 2021 年人力資源市場工資價位的通知》) issued by the Shandong Provincial Department of Human Resources and Social Security in November 2022; and (iii) the average increase in the salary level of the Company and Shandong Hi-Speed Group in recent years.

Furthermore, regarding the increase of welfare of relevant service staff, it conforms to the Guideline of the 14th Five-year Plan (“十四五”規劃) issued by the Company for its staff, pursuant to which the Company aims not only to be a leading expressways operator in the province but also a model enterprise with the mission to “create a bright future with smart travel (智行美好未來)”. In particular, the Company is committed to constantly improving the service quality of expressway operation on one hand and to providing personnel support on the other, especially in the post-pandemic era, including by way of a more comprehensive welfare plan for staff serving the expressways operated by the Company. Specifically, in addition to the basic social insurance benefits, the Company also provides relevant subsidies, food allowances, physical examination expenses, medical benefits and relevant treatment and rehabilitation expenses for those working outdoors during winter and summer, and arranges for them to participate in various trainings, employee competitions, trade union activities, etc., which fully demonstrate the care of the Company for its service personnel.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2023 DESHANG AND SHENNAN EXPRESSWAYS SERVICE AGREEMENT

As disclosed in the Acquisition Circular, upon Acquisition Completion, the contractual employees with Qilu Transportation (or its branches) will be transferred to the Company according to the principle of “personnel moves with the assets (人隨資產走)” and will be reassigned and managed by the Company. However, due to historical reasons, some of the employees currently responsible for the toll collection, maintenance and other operation works of the Deshang and Shennan Expressways are still Public-Sector Employees. When Shandong Provincial People’s Government and its relevant authorities established Qilu Transportation in 2015, certain highway-related assets (including the Deshang and Shennan Expressways which were still under construction at that time) were transferred and injected into Qilu Transportation. According to the relevant approval for the establishment of Qilu Transportation, the employees engaged in operation and management of the expressways were also transferred from the Shandong Highway Bureau to the Qilu Transportation together with the assets, but some of these employees also retained their entitlement pursuant to the public-institution staffing standards. For the differences between the packages of the Public-Sector Employees and the contractual employees, please refer to the section headed “Other Transactions in Connection with the Acquisition and the Target Expressways – Target Expressways Service Agreement – Reasons for and benefits of entering into the Target Expressways Service Agreement” as set out in the letter from the Board contained in the Acquisition Circular.

Upon Acquisition Completion, the Company has been actively engaging in discussions with the Public-Sector Employees responsible for the toll collection and maintenance works of the Deshang and Shennan Expressways, in order to invite them to join the Company and enter into employment contracts with the Company. As at the date of this announcement, while the process of transferring the employment relationship of the relevant Public-Sector Employees to the Company is still undergoing, it has been severely challenged by the COVID-19 pandemic. During the pandemic, the Company has insisted on responding to the national and local pandemic prevention policies, focusing on ensuring smooth highway operation, maintaining high-quality travel experience, and ensuring various grains, vegetables, fruits, medicines and emergency transportation, so that the transportation of daily necessities and the travel of the public will not be affected to the permissible extent. Furthermore, as disclosed in the Acquisition Circular, the process of transferring the Public-Sector Employees requires the support and cooperation of the relevant government authorities. During the period of the Original Service Agreement, the Shandong Provincial People's Government and local government authorities resolutely followed the instructions of the State, focusing on pandemic prevention and protecting the health of the social public. Therefore, the transfer of the Public-Sector Employees of the Deshang and Shennan Expressways had been inevitably postponed. The persuasion and transfer of no more than 165 Public-Sector Employees involved based on the current operation scale of the Deshang and Shennan Expressways requires certain voluminous accompanying documentation works and administrative procedures with Shandong Hi-Speed Group Liaocheng Branch and relevant government authorities. As a result, the parties to the 2023 Deshang and Shennan Expressways Service Agreement agree that a renewal on the basis of the Original Service Agreement is required, so that they can continue to deal with the transfer of relevant personnel and employment relationships in the coming year without affecting the daily operations of the Deshang and Shennan Expressways. Upon completion of such transfer, the parties to the 2023 Deshang and Shennan Expressways Service Agreement will negotiate and arrange for early termination of relevant services according to the terms of the agreement.

Further, the Shandong Hi-Speed Group is one of the leading expressway operators and road transportation-related infrastructure service providers in Shandong Province. It is renowned in Shandong Province and provides high-level highway operation, management and planning analysis and other related services. The employees seconded by the Shandong Hi-Speed Group under the 2023 Deshang and Shennan Expressways Service Agreement have been engaged in the operation and management and onsite traffic coordination of the Deshang and Shennan Expressways, are familiar with the relevant work, have relevant professional knowledge and practical experience, and have been continuously trained and assessed by the Shandong Hi-Speed Group for the relevant work. Meanwhile, given the 24-hour round-the-clock nature of the operation of expressways, a large workforce is required to maintain the operation and management of the Deshang and Shennan Expressways. These Public-Sector Employees are skilled and are familiar with the day-to-day operations of the Deshang and Shennan Expressways due to their work experience on the expressways. They also have the relevant professional knowledge and practical experience to tackle the assigned tasks. The Board is of the view that continuing to have such Public-Sector Employees to be seconded to the Company for the performance of the toll collection and maintenance tasks would ensure the smooth and stable operations of the Deshang and Shennan Expressways during the period from the expiration of the Original Service Agreement to the completion of the transfer of the Public-Sector Employees.

Taking into account of all of the above, and considered against the impact on personnel transition and the continuous operation of the Deshang and Shennan Expressways, the Board does not consider that the costs to be incurred by the Company under the 2023 Deshang and Shennan Expressways Service Agreement to be particularly high. Therefore, considering that the additional staff costs incur a margin of less than 1% under the public-institution staffing standard as compared to the contractual employment system and the management fee of 6.57% to be charged by the Shandong Hi-Speed Group under the Deshang and Shennan Expressways Service Agreement as mentioned above, the Board is of the view that continuing to engage Shandong Hi-Speed Group Liaocheng Branch for the staff secondment services under the 2023 Deshang and Shennan Expressways Service Agreement to facilitate the personnel transfer process without interruption to the daily operations of the Deshang and Shennan Expressways during the year ending 31 December 2023 is fair and reasonable and in the interest of the Company and the Shareholders as a whole. Taking into account factors such as service quality, price, understanding of the Group's business needs and operational requirements, familiarity with the Deshang and Shennan Expressways and the value-adding contributions that can be offered, and these services are in compliance with the applicable industry requirements of road safety and maintenance in general, the Board (excluding Mr. Zhou Cenyu and Ms. Kong Xia who are required to abstain from voting on the relevant Board resolution but including the independent non-executive Directors) considers that the terms of the 2023 Deshang and Shennan Expressways Service Agreement (including its annual cap) and the transaction contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Group and the Shareholders as a whole.

NO RELIANCE ON THE SHANDONG HI-SPEED GROUP OR SHANDONG HI-SPEED GROUP LIAOCHENG BRANCH

The Board is of the view that there is no reliance issue with the Shandong Hi-Speed Group and Shandong Hi-Speed Group Liaocheng Branch in respect of the transaction contemplated under the 2023 Deshang and Shennan Expressways Service Agreement on the basis as follows:

- (i) Shandong Hi-Speed Group, its subsidiaries and its branch company have been the reliable and stable service provider in Shandong province related to highway operations with high quality services performed by skilled technical staff with expertise. The Board believes that the Group can benefit from practicable need for labour supply to meet the level of highway operations during the handover period in the coming year. Further, as described above, the Group can benefit from the lower level of management fee under the 2023 Deshang and Shennan Expressways Service Agreement than those charged by comparable companies. In addition, the Board considers that there will be synergies arising from the 2023 Deshang and Shennan Expressways Service Agreement, alongside with the day-to-day operations carried out by the Group's employees and the Public-Sector Employees, the information exchange and knowledge sharing among the employees of the two companies, and allow the employees to mutually grow and enhance their respective professional knowledge and skills to better facilitate the management and operations of expressways. The relationship, whilst that it is beneficial to the Group and on a mutually beneficial basis between the Group and Shandong Hi-Speed Group (and its branch company), is in the interest of the Group and its Shareholders as a whole;

- (ii) the Company retains a high degree of control over the seconded Public-Sector Employees. Under the 2023 Deshang and Shennan Expressways Service Agreement, the Company has the right to the overall supervision and coordination of the seconded Public-Sector Employees, and they are required to adhere to the Company's internal policies and rules. Additionally, in specified circumstances, such as when a seconded Public-Sector Employee fails to adhere to the Company's internal policies, the Company is entitled to request the removal or replacement of such seconded employee and be compensated by the Shandong Hi-Speed Group Liaocheng Branch where it suffers damages as a result;
- (iii) the Group has always maintained a list of qualified suppliers such that it can have readily available alternative suppliers in the market who offer similar services with comparable terms to replace existing service suppliers when necessary. Under the 2023 Deshang and Shennan Expressways Service Agreement, there is no exclusivity provision whereby the Company is obliged to source the labour supply services only from the Shandong Hi-Speed Group (or its branch company) in respect of the toll collection and daily maintenance works on the Deshang and Shennan Expressways. As such, the Company retains control over the selection of its labour supply service provider, and can recruit its own employees or to source labour supply services from other comparable service providers in the market under the terms of the 2023 Deshang and Shennan Expressways Service Agreement. Also, the toll collection and daily maintenance works which the Public-Sector Employees perform do not require advanced or complicated techniques and the Company is able to easily procure labour supply services to perform such works from Independent Third Party service providers in the market at comparable terms and similar quality; and
- (iv) as mentioned above, the pricing basis of the 2023 Deshang and Shennan Expressways Service Agreement has taken into account a number of factors pertaining to the labour supply services. Also, the terms of the 2023 Deshang and Shennan Expressways Service Agreement, including the service fees to be charged therefrom, are (a) determined after arms' length negotiations; (b) fair and reasonable; (c) on normal, if not better, commercial terms; and (d) in the interest of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES IN RELATION TO THE CONTINUING CONNECTED TRANSACTION

The Group has established a comprehensive internal control system to ensure that the continuing connected transaction under the 2023 Deshang and Shennan Expressways Service Agreement is fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Relevant internal control measures include the following:

- (i) the Company has completed the approval of the 2023 Deshang and Shennan Expressways Service Agreement in accordance with the connected transaction management measures and internal control system;
- (ii) the Group has designated a team comprising the management, the securities investment department, the planning and finance department, the human resources department, the corporate management department and the audit and legal department of the Company to continuously monitor the continuing connected transactions and report to the Board on a regular basis;

- (iii) the Company will regularly monitor the subject matter of the continuing connected transaction under the 2023 Deshang and Shennan Expressways Service Agreement to ensure that the relevant service fees are fair and reasonable and in accordance with the relevant pricing basis;
- (iv) the management team of the Group will, together with the strategic finance department, regularly review the actual transaction amounts to ensure that the relevant annual caps will not be exceeded;
- (v) the management team of the Group organises and conducts internal control tests on a regular basis to assess the integrity and effectiveness of the internal control measures in relation to the continuing connected transactions;
- (vi) the Board reviews the implementation of the 2023 Deshang and Shennan Expressways Service Agreement on an annual basis and the financial statements on a semi-annual basis. The review mainly covers whether the Group and the connected persons have fulfilled the terms under the 2023 Deshang and Shennan Expressways Service Agreement during the relevant year, and whether the actual transaction amounts incurred between the Group and the connected persons are within the annual caps;
- (vii) the independent non-executive Directors review the continuing connected transactions on an annual basis and make annual confirmation in the annual report of the Company in respect of whether the continuing connected transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better and on terms that are fair and reasonable; (c) in accordance with the terms of the relevant agreements; and (d) are in the interests of the Company and the Shareholders as a whole; and
- (viii) to assist the Company in complying with the applicable rules set out in Chapter 14A of the Listing Rules, the auditor of the Company has performed work on the continuing connected transactions of the Company in accordance with the requirements of “Hong Kong Standard on Assurance Engagements 3000 – 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 and issued a letter on the continuing connected transactions disclosed in the annual report of the Company in accordance with the applicable accounting standards and the Listing Rules.

INFORMATION OF THE PARTIES

The Company

The Company is a joint stock company incorporated and validly existing under the laws of the PRC with limited liability and the H Shares of which are listed on the Main Board of the Stock Exchange. The Company is principally engaged in (i) the construction, maintenance, operation and management of expressways, including the Jihe Expressway, the Deshang and Shennan Expressways; (ii) highway engineering construction, expressway maintenance, municipal greening and other construction projects; and (iii) sales of industrial products and other business, in Shandong Province, the PRC.

Shandong Hi-Speed Group

Shandong Hi-Speed Group is a limited liability company incorporated and validly existing under the laws of the PRC. 90% of the equity interest in Shandong Hi-Speed Group is held by the Shandong Provincial State-owned Assets Supervision and Administration Commission, directly and indirectly, while the remaining 10% of the equity interest in Shandong Hi-Speed Group is held by the Shandong Provincial Council for Social Security Fund. Shandong Hi-Speed Group is a state-owned capital investment company in infrastructure sector in Shandong Province. It is principally engaged in expressway operation and management, carrying out the construction of major transportation projects designated by the Shandong Provincial People's Government, and revitalising, integrating, operating and managing other authorised non-expressway transportation assets. It is an investment and financing platform for the transportation industry development of the Shandong Provincial People's Government and the investment and financing entity of major transportation projects in Shandong Province.

Shandong Hi-Speed Group Liaocheng Branch

Shandong Hi-Speed Group Liaocheng Branch is a branch company of Shandong Hi-Speed Group. It was established and registered with the Liaocheng Administration for Industry and Commerce on 3 February 2016 and was authorised to undertake toll collection, maintenance, emergency rescue and other works of the expressways under its administration. Shandong Hi-Speed Group Liaocheng Branch currently undertakes the operation and management of three expressways, namely the Jiliao Expressway, the Gaoxing Expressway and the Qinglan Expressway, with a total length of 236.161 km. In particular, it is responsible for the toll collection and management of expressways (including electronic toll collection services); maintenance of expressways, protection of road assets and ownerships, emergency rescue, command and dispatch; maintenance of information, monitoring, communication and electromechanical auxiliary systems of expressways; providing road conditions and traffic information services to the public; the preliminary preparation and construction management of special projects included in the Infrastructure Procedures; development of highway related industries; coordinating and cooperating with expressway administrations, traffic polices and other departments as well as authorities relating to comprehensive improvement of road environment.

DIRECTORS' INTEREST IN THE ABOVE TRANSACTION

As (i) Mr. Zhou Cenyu, a non-executive Director, is the secretary of the party general branch and the chairman of the board of directors, who is also the legal representative, of Shandong Hi-Speed Supply Chain Management Co., Ltd. (山東高速供應鏈管理有限公司), a wholly-owned subsidiary of Shandong Hi-Speed Group, and the secretary of the party branch and chairman of the board of directors of Shandong Expressway Minsheng Group Co., Ltd. (山東高速民生集團有限公司), an indirect subsidiary of Shandong Hi-Speed Group, and a director of Shangao Quanyin Supply Chain Management Co., Ltd. (山高荃銀供應鏈管理有限公司), a subsidiary of Shandong Hi-Speed Supply Chain Management Co., Ltd. and thus a subsidiary of Shandong Hi-Speed Group; and (ii) Ms. Kong Xia, also a non-executive director, is the deputy head of the organisation department of the party committee (that is, the party committee of the head office) of Shandong Hi-Speed Group, whereas Shandong Hi-Speed Group is a controlling Shareholder and thus a connected person of the Company. Both Mr. Zhou and Ms. Kong are deemed to have a material interest in the transaction contemplated under the 2023 Deshang and Shennan Expressways Service Agreement and therefore have abstained from voting on the relevant Board resolution. Save for the above, none of the Directors has or is deemed to have a material interest in the above transaction and is required to abstain from voting on the relevant Board resolution.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Shandong Hi-Speed Group indirectly held approximately 38.93% of the issued Shares of the Company through its subsidiary, Shandong Hi-Speed. The Shandong Hi-Speed Group is a controlling Shareholder of the Company, while Shandong Hi-Speed Group Liaocheng Branch is a branch company of Shandong Hi-Speed Group and thus a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules. Therefore, the transaction contemplated under the 2023 Deshang and Shennan Expressways Service Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios (other than the profits ratio) under Rule 14.07 of the Listing Rules in respect of the annual cap are more than 0.1% but less than 5%, the 2023 Deshang and Shennan Expressways Service Agreement and the transaction contemplated thereunder (including its annual cap) are subject to the reporting, announcement and annual review requirements but are exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“2023 Deshang and Shennan Expressways Service Agreement”	the service agreement dated 30 December 2022 and entered into between the Company and Shandong Hi-Speed Group and Shandong Hi-Speed Group Liaocheng Branch in relation to, among others, the secondment of the Public-Sector Employees to provide the Company with services such as toll collection and maintenance of the Deshang and Shennan Expressways for the year ended 31 December 2023
“Acquisition Circular”	the circular of the Company dated 26 June 2020 in relation to, among others, the acquisition of the Deshang and Shennan Expressways toll collection rights by the Company from Qilu Transportation
“Acquisition Completion”	the completion of the acquisition of the Deshang and Shennan Expressways toll collection rights by the Company from Qilu Transportation pursuant to the agreement dated 2 June 2020 and entered into between the Company and Qilu Transportation
“Acquisition Completion Date”	the date of the Acquisition Completion, that is, 14 September 2022, details of which are set out in the announcement of the Company dated 14 September 2022
“Board”	the board of Directors

“Company”	Qilu Expressway Company Limited (齊魯高速公路股份有限公司), a joint stock company incorporated in the PRC with limited liability on 6 December 2016, the H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1576)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Deshang and Shennan Expressways”	collectively, the Deshang Expressway (Liaocheng – Fan County section) and the Shennan Expressway
“Deshang Expressway (Liaocheng – Fan County section)”	an expressway running from West Ring Expressway of Liaocheng City, Shandong Province to the intersection of Gucheng Town of Shen County and Yancunpu Town of Fan County (Shandong-Henan boundary), and connecting to the Fan County section of the Deshang Expressway in Henan Province, with a total length of approximately 68.942 kilometers
“Director(s)”	the 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
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign invested ordinary Share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which was listed and traded on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	third party(ies) independent of and not connected with the Company and its connected persons
“Joint Restructuring”	the joint restructuring of Shandong Hi-Speed Group and Qilu Transportation by way of merger by absorption of Qilu Transportation by Shandong Hi-Speed Group pursuant to the Merger Agreement
“km”	kilometres
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Merger Agreement”	the merger agreement dated 23 September 2020 and entered into between Shandong Hi-Speed Group and Qilu Transportation in relation to the Joint Restructuring

“Original Service Agreement”	the agreement dated 2 June 2020 and entered into among the Company, Qilu Transportation and Qilu Transportation Liaocheng Branch in relation to, among others, the secondment of the Public-Sector Employees to provide the Company with services such as toll collection and maintenance of the Deshang and Shennan Expressways during the period from the Acquisition Completion Date to 31 December 2022, details of which are set out in the Acquisition Circular
“PRC” or “State”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“Public-Sector Employees”	the employees of Shandong Hi-Speed Group Liaocheng Branch recruited under the public-institution staffing standards
“Qilu Transportation”	Qilu Transportation Development Group Company Limited (齊魯交通發展集團有限公司), a limited liability company incorporated in the PRC on 30 June 2015 and deregistered by the competent authorities of the PRC upon the completion of the Joint Restructuring on 16 November 2020, and a then controlling Shareholder prior to the completion of the Joint Restructuring
“Qilu Transportation Liaocheng Branch”	Qilu Transportation Development Group Company Limited Liaocheng Branch, a branch company of Qilu Transportation incorporated in the PRC on 3 February 2016, and changed to Shandong Hi-Speed Group Liaocheng Branch after the completion of the Joint Restructuring
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Hi-Speed”	Shandong Hi-Speed Company Limited (山東高速股份有限公司), a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600350.SH), directly holding approximately 38.93% of the total issued Shares of the Company as at the date of this announcement, and an existing controlling shareholder
“Shandong Hi-Speed Group”	Shandong Hi-Speed Group Company Limited (山東高速集團有限公司), a limited liability company incorporated in the PRC, indirectly holding approximately 38.93% of the total issued Shares of the Company through its subsidiary Shandong Hi-Speed as at the latest practicable date, and an existing controlling shareholder

“Shandong Hi-Speed Group Liaocheng Branch”	Shandong Hi-Speed Group Company Limited Liaocheng Branch (山東高速集團有限公司聊城分公司), a branch company of Shandong Hi-Speed Group and known as Qilu Transportation Liaocheng Branch prior to the Joint Restructuring
“Share(s)”	ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, including Domestic Shares and H Shares
“Shareholder (s)”	holder(s) of the Shares
“Shennan Expressway”	a highway running from the K150+400 point of Deshang Expressway at the south of Beixuzhuang Village, Shen County, Shandong Province, the PRC, and connecting to the Henan-Shandong Boundary-Nanle section of Nanlin Expressway in Henan Province at the east bank of the Tuhai River in the south of Xiduantun Village, with a total length of approximately 18.267 kilometers
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning to it under the Listing Rules
“%”	percentage

By Order of the Board
Qilu Expressway Company Limited
Wang Zhenjiang
Chairman

Shandong, the PRC
30 December 2022

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