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浙江滬杭甬高速公路股份有限公司

ZHEJIANG EXPRESSWAY CO., LTD.

(A joint stock limited company established in the People's Republic of China with limited liability)

(Stock code: 0576)

CONTINUING CONNECTED TRANSACTION PROVISION OF CONSTRUCTION SERVICE IN CONNECTION WITH THE PPP PROJECT

Reference is made to the announcement of the Company dated February 8, 2018 (the “**Announcement**”) regarding, among other things, establishment of a joint venture, namely De’an Construction, for the PPP Project. Unless otherwise defined herein, terms used in this announcement shall have the same meanings as those defined in the Announcement.

On June 21, 2019, De’an Construction entered into the Construction Service Agreement in relation to the provision of construction service in connection with the PPP Project with Zhejiang Hongtu, pursuant to which De’an Construction will be the Employer and Zhejiang Hongtu will be the Contractor for the construction of the PPP Project for a total consideration of RMB809,315,640 (equivalent to approximately HK\$922,980,715).

De’an Construction is a subsidiary of the Company. Communications Group is a controlling shareholder of the Company and Zhejiang Hongtu is an indirect non-wholly owned subsidiary of Communications Group. Therefore, Zhejiang Hongtu is a connected person of the Company and as a result, the transactions contemplated under the Construction Service Agreement constitutes continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios are more than 0.1% but less than 5%, the Construction Service Agreement is subject to the reporting, announcement and annual review requirements but exempt from the independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

The Directors are pleased to announce that on June 21, 2019, Deqing County De'an Highway Construction Co., Ltd.* (德清縣德安公路建設有限責任公司), a subsidiary of the Company (“**De'an Construction**”) and Zhejiang Hongtu entered into a construction service agreement and its supplemental agreement (collectively, the “**Construction Service Agreement**”) pursuant to which Zhejiang Hongtu, as the contractor (the “**Contractor**”), shall be responsible for providing construction service in connection with the PPP Project, and De'an Construction, as the employer (the “**Employer**”), shall be responsible for the examination of the PPP Project and payment of the total consideration of RMB809,315,640 (equivalent to approximately HK\$922,980,715) (the “**Total Consideration**”).

THE CONSTRUCTION SERVICE AGREEMENT

Date

June 21, 2019

Parties

- (1) De'an Construction (as the Employer); and
- (2) Zhejiang Hongtu (as the Contractor)

Location

Deqing County, Huzhou City, Zhejiang Province, the PRC

Term

The construction period is 36 months.

Maintenance Period

24 months from the date of delivery of the PPP Project

Services to be provided

Pursuant to the Construction Service Agreement, the Contractor will be engaged in providing construction services in connection with the PPP Project for bridges, tunnels and public service station in Deqing County. The total route length is approximately 14.62 km and consists of constructing four-lane two-way driving general national and provincial highways, three large-sized bridges (1,104m), nine medium-sized bridges (623m), 4.5 tunnels (3,496m) and one public service station.

Salient Terms of the Total Consideration and Payment

The Total Consideration under the Construction Service Agreement shall be, subject to adjustment in accordance with the laws and regulations, an aggregate sum of RMB809,315,640 (equivalent to approximately HK\$922,980,715). The salient terms of the Total Consideration and payment are summarised as follows:

- (a) the Contractor shall receive 10% of the Total Consideration as the prepayment of the PPP Project (the “**Prepayment**”). After signing of the Construction Service Agreement, the first monthly payment to the contractor shall be the amount of 70% of the Prepayment; and 30% of the Prepayment shall be payable upon (i) the arrival of the major parties and equipment of the PPP Project to the construction site and (ii) the completion of the construction site of project department of the Contractor, being confirmed by the supervisor of the PPP Project;
- (b) based on the actual progress of the service provided by the Contractor, the Employer shall pay the rest of the Total Consideration to the Contractor on a monthly, installment basis;
- (c) in case of any adjustment of the construction work of the PPP Project required by the Deqing County Department of Transportation, the additional costs shall be determined in accordance with the Ministry of Transport’s Highway Engineering Budget (2007 Edition)* (交通運輸部《公路工程預算定額》(2007年版)) and the relevant monthly material information price of the Zhejiang Highway Engineering Budget Supplementary Quota and Regulations* (浙江省公路工程預算補充定額及規定和材料資訊價(變更發生當月)) (the “**Additional Cost**”). Upon approval by the Deqing County Department of Transportation and with reference to the amount of the Additional Cost, the Employer shall pay the Contractor additional contractual payment;
- (d) 2.5% of the Total Consideration shall be retained as the quality guarantee fund of the PPP Project. Upon the expiry of the maintenance period which is 24 months from the date of delivery of the PPP Project, if the Contractor causes an incomplete final account of the PPP Project that affects the completion acceptance of the PPP Project, the Employer has the right to detain the amount of the quality guarantee fund corresponding to the value of the outstanding work until the Contractor fulfils its responsibility; and
- (e) in the event that the Contractor fails to complete the PPP Project within the planned construction period of 36 months, the Contractor shall pay the Employer a sum of RMB50,000 per day as liquidated damages up to a total sum of 10% of the Total Consideration.
- (f) notwithstanding all of the abovementioned salient terms, the actual payment by De’an Construction to Zhejiang Hongtu each year shall not exceed annual cap of RMB300,000,000 (equivalent to HKD342,133,774) (the “**Annual Cap**”).

The Total Consideration was determined after arm's length negotiation between the parties and after taking into account of the scope of work to be carried out by the Contractor under the Construction Service Agreement and the estimated costs to be incurred by the Contractor thereunder and with reference to the market value of similar projects rendered.

Examination and Acceptance

The acceptance assessment of project quality shall be carried out in accordance with the technical specifications and the Quality Inspection and Evaluation Standards for Highway Engineering* (《公路工程品質檢驗評定標準》). The quality objectives for the assessment of the delivery and the completion of the PPP project shall be 90 points and above; and

During the execution of the Construction Service Agreement, the Contractor shall implement the project quality management measures and relevant rules formulated by the Employer in accordance with the construction management needs of the PPP Project.

Effective Date

The Construction Service Agreement shall take effect upon its signing by the legal representatives or authorised representatives of both parties thereto with company chop affixed.

Annual Cap for the Construction Service Agreement

For the purpose of complying with Chapter 14A of the Listing Rules, the Company has set a cap in respect of the aggregate fees payable by the De'an Construction to Zhejiang Hongtu during the terms of the Construction Service Agreement, which shall not exceed RMB300,000,000 (equivalent to approximately HK\$342,133,774).

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

One of the major businesses of the Company is expressway infrastructure investment and construction. The Company has always been actively looking for opportunities in expanding its existing network of expressways. The Construction Service Agreement is also consistent with the Company's core business goals and development strategies.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Construction Service Agreement is on normal commercial terms, in the ordinary and usual course of business of the Company and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

* *For identification purposes only*

INFORMATION ON THE PARTIES

Zhejiang Hongtu is an indirect non-wholly owned subsidiary of Communications Group which is established under the laws of the PRC on October 31, 2001. Communications Group is a controlling shareholder of the Company and as a result, Zhejiang Hongtu is a connected person of the Company. Zhejiang Hongtu is principally engaged in the business of providing construction and technical services for road, bridge and tunnel works, marketing and sale of construction materials, irrigating works, industrial and civil construction, repairing, maintaining and rent service for construction equipment, and investment in transportation construction.

De'an Construction is a company established under the laws of the PRC with limited liability on April 12, 2018 for the purpose of the provision of construction service in connection with the PPP Project, the equity interest of which is held by the Company as to 80.1% and by Zhejiang Hongtu as to 19.9%.

The Company is a joint stock company established under the laws of the PRC with limited liability on March 1, 1997, the H Shares of which are listed on the Main Board of the Stock Exchange. It is principally engaged in investing in, developing and operating high-grade roads in the PRC. The Group also carries on certain other businesses such as securities brokerage, investment banking, asset management, margin financing and securities lending through Zhejiang Zheshang Securities Co., Ltd.

LISTING RULES IMPLICATIONS

Communications Group is a controlling shareholder of the Company. Zhejiang Hongtu is an indirect non-wholly owned subsidiary of Communications Group. Therefore, Zhejiang Hongtu is a connected person of the Company and as a result, the transactions under the Construction Service Agreement constitutes continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the transactions contemplated under the Construction Service Agreement is more than 0.1% but less than 5%, the Construction Service Agreement is subject to the reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

In this announcement, the translation of RMB into HK\$ is based on the exchange rate of HK\$1 to RMB0.87685. Such conversion shall not be construed as a representation that amounts in RMB were or may have been converted into HK\$ using such exchange rate or any other exchange rate or at all.

On behalf of the Board
Zhejiang Expressway Co., Ltd.
YU Zhihong
Chairman

Hangzhou, the PRC, June 21, 2019

As at the date of this announcement, the Chairman of the Company is Mr. YU Zhihong; the executive Directors of the Company are: Mr. CHENG Tao and Ms. LUO Jianhu; the non-executive Directors of the Company are: Mr. DAI Benmeng, Mr. YU Qunli and Mr. YU Ji; and the independent non-executive Directors of the Company are: Mr. PEI Ker-Wei, Ms. LEE Wai Tsang, Rosa and Mr. CHEN Bin.