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(A joint stock limited company established in the People's Republic of China with limited liability)
(Stock code: 0576)

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

Reference is made to the announcement of Zhejiang Expressway Co., Ltd. (the “**Company**”) dated 21 June 2019 (the “**Announcement**”) in relation to the Construction Service Agreement, pursuant to which De’an Construction will be the Employer and Zhejiang Hongtu will be the Contractor for the construction of the PPP Project. Unless otherwise defined, terms used in this announcement have the same meanings as defined in the Announcement.

As disclosed in the Announcement, the Total Consideration and the Annual Cap for the Construction Service Agreement are RMB809,315,640 (equivalent to approximately HK\$922,980,715) and RMB300,000,000 (equivalent to approximately HK\$342,133,774), respectively. In addition to the information disclosed in the Announcement, the Company wishes to provide its shareholders and investors with additional information regarding detailed basis and background in determining the Total Consideration and the Annual Cap, respectively, and the internal control measures of the Company for supervising and monitoring the compliance of the Construction Service Agreement.

DETAILED BASIS AND BACKGROUND OF THE TOTAL CONSIDERATION

The Total Consideration for the Construction Service Agreement is determined mainly based on the following considerations:

Guided by the Government Guided-Price

As disclosed in the announcement of the Company dated 8 February 2018 in respect of the establishment of a joint venture for the PPP Project (the “**2018 Announcement**”), the Company and Zhejiang Hongtu received a notification of award regarding a tender by Deqing County Department of Transportation (“**DOT**”) on 8 February 2018 to engage in the construction of bridges, tunnels and public service station in the PPP Project and

therefore decided to form a joint venture in order to carry out the PPP Project. Before that, a letter dated 30 September 2017 issued by the Development and Reform Commission of Zhejiang Province in respect of the PPP Project (the “**DRC Letter**”) indicates that the approved estimated construction cost for the PPP Project is approximately RMB966,924,300 (the “**Approved Estimated Construction Cost**”). In the bidding invitation document issued in December 2017 by DOT (the “**Bidding Invitation Document**”), DOT set the highest bidding price for the construction of the PPP Project, which is 90% of the Approved Estimated Construction Cost (i.e. approximately RMB870,231,870). As such, RMB870,231,870 was treated by the Company and Zhejiang Hongtu as the government guided-price for the construction of the PPP Project (the “**Government Guided-Price**”).

Selection of Zhejiang Hongtu as partner

The Bidding Invitation Document further provides that the bidders or joint bidders need to meet certain qualification requirements, including having net assets of at least RMB1,500,000,000 as at 31 December 2016 and possessing class one and above qualification for General Contracting in Highway Construction. As Zhejiang Hongtu is specialised in construction project and possessing the required qualification, the Company and Zhejiang Hongtu decided that it served mutual interest for them to jointly bid for the PPP Project. The 2018 Announcement also disclosed that Zhejiang Hongtu will be responsible for construction and maintenance work of the PPP Project. The Company and Zhejiang Hongtu successfully won the bid at the Government Guided-Price for the construction of the PPP Project on 8 February 2018. As a result, De’an Construction was established as a joint venture between the Company and Zhejiang Hongtu to carry out the PPP Project.

To determine the estimated construction costs and compare with similar projects

To assess whether the Government Guided-Price is reasonable, both the Company and Zhejiang Hongtu considered the estimated construction costs of the PPP Project, including direct costs (such as labour, materials and machinery related costs), indirect costs (such as the project management fee and salary expenses of the management personnel) and tax expenses to be incurred, and also compared with the average construction costs of RMB50,000,000 to RMB60,000,000 per kilometre in other similar construction projects in the same region. To the best of their knowledge and based on the information collected by the Company, the Company also made their own assessment of Zhejiang Hongtu’s analysis by comparing with the construction costs in other similar construction projects.

To consider profit return to De’an Construction

After extensive negotiations between the Company and Zhejiang Hongtu and taking into account the targeted profit return to be reserved to De’an Construction, Zhejiang Hongtu agreed to enter into the Construction Service Agreement at the Total Consideration of RMB809,315,640, which is lower than the Government Guided-Price to ensure the profit return for De’an Construction from the PPP Project.

Since the Total Consideration has deducted the targeted profit return to be reserved to De'an Construction and is lower than the Government Guided-Price, the directors of the Company are satisfied that the transactions conducted on terms more favourable than terms available to independent parties (i.e. based on the Government Guided-Price) and not prejudicial to the interests of the Company and its minority shareholders.

DETAILED BASIS OF THE ANNUAL CAP

The DRC Letter requires that the construction of PPP Project to be completed in 36 months (the “**Construction Period**”). Zhejiang Hongtu plans to complete 35%, 70% and 100% of the construction of the PPP Project for the first, second and third year of the Construction Period, respectively. As such, the estimated cost payable by De'an Construction to Zhejiang Hongtu during the Construction Period is approximately RMB283,000,000, RMB283,000,000 and RMB242,000,000, respectively. Taking into account any possible fluctuations or deviations from the actual construction process of the PPP Project, the Company and Zhejiang Hongtu agreed on the Annual Cap of RMB300,000,000.

INTERNAL CONTROL MEASURES FOR THE CONSTRUCTION SERVICE AGREEMENT

To ensure the compliance with the Construction Service Agreement, during the Construction Period, Zhejiang Hongtu must prepare the overall construction plan, annual construction plan and monthly construction plan (the “**Construction Plans**”) in accordance with the Annual Cap and pricing terms as stated in the Construction Service Agreement and submit the Construction Plans to De'an Construction and the project supervisor for approval. De'an Construction and the project supervisor will supervise and control over the actual construction process in accordance with the approved Construction Plans to ensure the actual construction progress is in line with the Construction Plans. Each payment under the Total Consideration will be calculated and monitored based on the construction progress. Such payment will be first reviewed by the project supervisor and then approved by De'an Construction.

The transactions under the Construction Service Agreement, including but not limited to the pricing terms and the Annual Cap, will also be subject to the annual review requirements in accordance with the Listing Rules.

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

Hangzhou, the PRC, 2 July 2019

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