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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 incorporated in the People's Republic of China with limited liability)*

**(Stock code: 0576)**

## **CONTINUING CONNECTED TRANSACTIONS**

### **(1) EXCEEDING ANNUAL CAP IN RESPECT OF THE CONSTRUCTION SERVICE AGREEMENT FOR THE YEAR ENDED 31 DECEMBER 2019**

**AND**

### **(2) REVISED ANNUAL CAPS IN RESPECT OF THE CONSTRUCTION SERVICE AGREEMENT FOR THE TWO YEARS ENDING 31 DECEMBER 2021**

## **BACKGROUND**

Reference is made to (i) the announcement of the Company dated February 8, 2018 regarding the establishment of a joint venture, namely De'an Construction, for the PPP Project; (ii) the announcement of the Company dated June 21, 2019 in relation to the Construction Service Agreement entered into by De'an Construction and Zhejiang Hongtu which sets out the annual caps for the continuing connected transactions for the three years of the Construction Period contemplated under the Construction Service Agreement; and (iii) the supplemental announcement of the Company dated July 2, 2019 (collectively, the "**Announcements**"). Unless otherwise defined herein, terms used in this announcement shall have the same meanings as those defined in the Announcements.

Pursuant to the Construction Service Agreement, Zhejiang Hongtu, as the contractor, shall be responsible for providing construction service in connection with the PPP Project, and De'an Construction, as the employer, shall be responsible for the examination of the PPP Project and payment of the Total Consideration (the "**Continuing Connected Transactions**").

The term of the Construction Service Agreement, which is the Construction Period, is 36 months, followed by a maintenance period of 24 months from the date of delivery of the PPP Project. The actual payment by De'an Construction to Zhejiang Hongtu each year shall not exceed the Annual Caps of RMB300 million (equivalent to HKD300,250,991) for the three years of the Construction Period. For details in relation to the terms and conditions of the Construction Service Agreement, please refer to the Announcements.

### **2019 ANNUAL CAP FOR THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE CONSTRUCTION SERVICE AGREEMENT EXCEEDED**

In March 2020, in the course of finalising the annual results of the Group for the year ended 31 December 2019, the Directors noted that the annual amount of the Continuing Connected Transactions for the year ended 31 December 2019 amounted to RMB361,255,790 (equivalent to HKD397,683,608) (the “**Exceeded Amount**”), which exceeded the 2019 Annual Cap.

Pursuant to Rule 14A.54(1) of the Listing Rules, the Company must re-comply with the announcement and shareholders' approval requirements (where applicable) under Chapter 14A of the Listing Rules before the Annual Caps for the Continuing Connected Transactions in any financial year is exceeded.

The continuance of the Continuing Connected Transactions during the year ended 31 December 2019 after exceeding the 2019 Annual Cap without re-complying with the announcement requirement under Chapter 14A of the Listing Rules constituted a failure to comply with the relevant Listing Rules. The Company discovered such non-compliance in March 2020 during the course of finalising the annual results of the Group for the year ended 31 December 2019, as well as carrying out regular review on the status as to the Continuing Connected Transactions, and has forthwith notified the Stock Exchange and taken proactive steps to rectify the non-compliance as soon as practicable by way of this announcement.

### **REASONS FOR EXCEEDING THE 2019 ANNUAL CAP**

The 2019 Annual Cap was exceeded mainly due to the accelerated progress of the actual construction progress under the PPP Project where 46.21% of the construction of the PPP Project has been completed as at 31 December 2019. The Exceeded Amount reconciles with the actual construction process which is in advance of the scheduled Construction Plans.

As set out in the internal control measures for all continuing connected transactions of the Group including the transactions contemplated under the Construction Service Agreement, each payment under the Total Consideration has been calculated and monitored based on the construction progress, which would be first reviewed by the project supervisor and then approved by De'an Construction. Due to an inadvertent oversight, De'an Construction omitted to report the payment relating to the Exceeded Amount to the Company in late 2019. The collection and review of the historic

transaction information of the Continuing Connected Transaction between the Company and De'an Construction took time. The recent outbreak of the novel coronavirus (COVID-19) pandemic caused a delay in the review and monitor of compliance procedures by the Company. As a result, this inadvertent oversight was not discovered until during the course of finalising the annual results of the Group for the year ended 31 December 2019 as well as carrying out regular review on the status as to Continuing Connected Transactions.

**REVISE ANNUAL CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE CONSTRUCTION SERVICE AGREEMENT FOR THE TWO YEARS ENDING 31 DECEMBER 2021**

As stated in the Announcements, the previously annual caps for the Continuing Connected Transactions were determined with reference to the term of the construction of PPP Project, the estimated construction progress, taking into account of possible fluctuations or deviations from actual construction process of the PPP Project.

Whilst the Total Consideration remains unchanged, it is currently anticipated that the construction under the PPP Project to be completed earlier during the expected Construction Period and the Annual Caps for the two financial years ending 31 December 2021 will be insufficient to cater for the now expected increase in the construction costs resulting from the expedited construction progress. The construction of PPP Project is expected to complete in 2021.

On March 27, the Company thus entered into a supplemental agreement to revise the Annual Caps for the Continuing Connected Transactions at the amount of RMB380,000,000 (HKD418,317,922) for the two years ending 31 December 2021 (the “**Revised Annual Caps**”). In determining the Revised Annual Caps, the Company has considered the Exceeded Amount, the actual construction progress, the estimated costs and the expected completion of PPP Project construction in 2021.

Set out below are the (i) actual transaction amount (audited) for the year ended 31 December 2019; (ii) original annual caps for each of the three years ended/ending 31 December 2021; and (iii) Revised Annual Caps:

	Original Annual Caps			Actual transaction amount	Revised Annual Caps	
	for the year ended/ending 31 December			for the year ended/ending 31 December		
<i>RMB'000</i>	2019	2020	2021	2019	2020	2021
Amount of actual payment by De'an Construction to Zhejiang Hongtu	300,000	300,000	300,000	361,256	380,000	380,000

The Company will tighten its supervision over the transaction amounts in respect of the Revised Annual Caps going forward with a view to ensuring that necessary measures and appropriate actions will be promptly taken in order to comply with the applicable requirements under the Listing Rules.

#### **MEASURES ADOPTED BY THE COMPANY TO ENSURE FUTURE COMPLIANCE**

The Company will take the following steps to strengthen its internal control to prevent such event from re-occurring and to ensure the applicable Listing Rules requirements will be complied with going forward:

- (a) 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. Payments under the Total Consideration, which is reviewed by the project supervisor and approved by De'an Construction, is subject to the Company's review on monthly basis and random internal testing to ensure that the internal control measures in respect of the Continuing Connected Transactions remain complete and effective. The Board would also consider taking appropriate measures, including, but not limited to, publish announcement for an increase annual cap amount, if applicable;
- (b) the Company will provide additional training on connected transactions to the Directors, senior management and accounting staff of De'an Construction on a regular basis; and
- (c) the Company's internal audit team will focus on the above strengthened internal control measures as part of their ongoing work plan and will report to the audit committee of the Company quarterly.

#### **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.

## **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**

As at the date of this announcement, 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 actual amount of the Continuing Connected Transactions for the year ended 31 December 2019 exceeded the 2019 Annual Cap under the Construction Service Agreement, according to Rule 14A.54 of the Hong Kong Listing Rules, the Company must re-comply with the reporting and announcement requirements under Chapter 14A of the Hong Kong Listing Rules. As the applicable percentage ratios in respect of the Revised Annual Caps are more than 0.1% but less than 5%, the Revised Annual Caps for the Continuing Connected Transactions shall only be subject to the reporting, annual review, and announcement requirements under Chapter 14A of the Hong Kong Listing Rules but shall be exempt from the independent Shareholders' approval requirement thereunder.

The Directors (including the independent non-executive Directors) consider that the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board (including the independent non-executive Directors) are also of the view that the Revised Annual Caps are fair and reasonable.

Mr. Yu Zhihong, Mr. Dai Benmeng, Mr. Yuan Yingjie and Mr. Yu Ji, being Directors, are deemed to have material interests in the Agreement as they are currently also employed by the Communications Group and have abstained from voting on the relevant Board resolutions. Other than those Directors mentioned above, none of the Directors have a material interest in the transactions contemplated under the Agreement, and none are required to abstain from voting on the relevant Board resolutions.

\* *For identification purposes only*

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

Hangzhou, the PRC, March 27, 2020

*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 other non-executive Directors of the Company are: Mr. DAI Benmeng, Mr. YUAN Yingjie 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.*

*For the purpose of this announcement, unless otherwise indicated, amounts denominated in RMB have been converted, for the purpose of illustration only, into HK\$ at the exchange rate of HK\$1=RMB0.9084. The exchange rate does not constitute a representation that any amount has been, could have been or may be exchanged at such a rate or at any other rates.*