



齐鲁高速
Qilu Expressway

Qilu Expressway Company Limited
齐鲁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

2019
INTERIM REPORT

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Definitions

In this interim report, unless the context otherwise requires, the following expressions shall have the following meanings :

| | |
|---|--|
| “Audit Committee” | the audit committee of the Board |
| “Board” or “Board of Directors” | the board of Directors of our Company |
| “Changqing University Science Park Interchange Project” | the improvement project of the Company for the construction of a near interchange or the Jihe Expressway with a ramp connecting to the Changqing University Science Park. Please refer to the section headed “Business – Upgrade of the Jihe Expressway” in the Prospectus for details |
| “Company” or “our 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 pursuant to the reorganisation of the Jihe Expressway Company |
| “Company Law” or “PRC Company Law” | Company Law of the People’s Republic of China (《中華人民共和國公司法》) |
| “Corporate Governance Code” | the Corporate Governance Code as set out in Appendix 14 to the Listing Rules |
| “CSRC” | China Securities Regulatory Commission (中國證券監督管理委員會) |
| “Director(s)” | director(s) of our 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 |
| “Global Offering” | the offer of the Company’s H Shares for subscription by the public in Hong Kong and outside the United States in offshore transactions, details of which can be found in the Prospectus |
| “Group”, “our Group”, “us” or “we” | the Company and, except where the context otherwise requires, all of its subsidiaries |
| “H Share(s)” | the overseas listed foreign invested ordinary Share(s) in the share capital of our Company, with a nominal value of RMB1.00 each, which was listed and traded on the Stock Exchange |
| “HK\$” or “Hong Kong dollars” or “HKD” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Jihe Expressway” | Jinan to Heze Expressway, the approximately 153.6 km expressway running through nine districts/counties under four cities from Jinan City to Heze City in Shandong Province |

Definitions (Continued)

| | |
|--|---|
| “Listing” | the listing of the H Shares on the Stock Exchange pursuant to the Global Offering |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time |
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules |
| “Nomination Committee” | the Nomination Committee of the Board |
| “PRC” | the People’s Republic of China, which for the purpose of this report exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| “Prospectus” | the prospectus of the Company dated 29 June 2018 in connection with the Global Offering |
| “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 |
| “Remuneration and Appraisal Committee” | the Remuneration and Appraisal Committee of the Board |
| “Reporting Period” | six months ended 30 June 2019 |
| “RMB” or “Renminbi” | Renminbi, the lawful currency of the PRC |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time |
| “Share(s)” | Domestic Shares and/or H shares (as the case may be) |
| “Shareholder(s)” | holder(s) of our Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subsidiary” | Shandong Shunguang Culture Media Company Limited* (山東舜廣文化傳媒有限公司), a company incorporated in the PRC with limited liability on 15 January 2015 |
| “Strategy Committee” | the Strategy Committee of the Board |
| “Supervisor(s)” | the member(s) of the Supervisory Committee |
| “Supervisory Committee” | our supervisory committee established pursuant to the Company Law |

* For identification purposes only

Corporate Information

REGISTERED NAME OF THE COMPANY

In Chinese: 齊魯高速公路股份有限公司

In English: Qilu Expressway Company Limited

LEGAL REPRESENTATIVE

Mr. Li Gang

BOARD OF DIRECTORS

(1) Executive Directors

Mr. Li Gang (*Chairman of the Board*)

Mr. Peng Hui

(2) Non-Executive Directors

Mr. Chen Dalong

Mr. Wang Shaochen

Mr. Wu Dengyi

Mr. Li Jie

Mr. Wang Long

Mr. Su Xiaodong

Mr. Yuan Ruizheng

Mr. Tang Haolai

(3) Independent Non-Executive Directors

Mr. Wu Yuxiang

Mr. Cheng Xuezhao

Mr. Li Hua

Mr. Wang Lingfang

Mr. He Jiale

BOARD COMMITTEES

(1) Audit Committee

Mr. Wu Yuxiang (*Chairman*)

Mr. Wang Shaochen

Mr. Li Hua

(2) Remuneration and Appraisal Committee

Mr. Li Hua (*Chairman*)

Mr. Cheng Xuezhao

Mr. Wang Lingfang

(3) Nomination Committee

Mr. Li Gang (*Chairman*)

Mr. Li Hua

Mr. Wang Lingfang

Mr. Wu Yuxiang

(4) Strategy Committee

Mr. Li Gang (*Chairman*)

Mr. Peng Hui

Mr. Wang Shaochen

Mr. Wu Yuxiang

Mr. Li Hua

SUPERVISORY COMMITTEE

(1) Shareholder Representative Supervisors

Ms. Meng Xin (*Chairperson of the Supervisory Committee*)

Mr. Liu Ligang

Mr. Wu Yongfu

(2) Employee Supervisors

Mr. Lian Shengguo

Mr. Hao Dehong

Ms. Hou Qinghong

(3) Independent Supervisors

Mr. Li Ruzhi

Ms. Jiang Xiaoyun

JOINT COMPANY SECRETARIES

Mr. Lian Shengguo
Ms. So Shuk Yi Betty (*ACIS, ACS*)

AUTHORISED REPRESENTATIVES

Mr. Li Gang
Ms. So Shuk Yi Betty (*ACIS, ACS*)

AUDITOR

Ernst & Young
Certified Public Accountants
22/F CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

LEGAL ADVISER AS TO PRC LAW

DeHeng Law Offices (Jinan)
6/F, Building 5, Yulan Square,
No.8 Long'ao Road North, Lixia District,
Jinan City, PRC

LEGAL ADVISER AS TO HONG KONG LAW

Li & Partners
22/F, World-Wide House,
19 Des Voeux Road Central,
Central, Hong Kong

COMPLIANCE ADVISER

Zhongtai International Capital Limited
19/F, Li Po Chun Chambers,
189 Des Voeux Road Central,
Central, Hong Kong

REGISTERED ADDRESS

Room 2301, Block 4,
Zone 3, Hanyu Financial & Business Centre,
No. 7000, Jingshi East Road,
High-tech Zone, Jinan City,
Shandong Province, PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Room 2301, Block 4,
Zone 3, Hanyu Financial & Business Centre,
No. 7000, Jingshi East Road,
High-tech Zone, Jinan City,
Shandong Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower,
No. 248 Queen's Road East,
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Construction Bank Corporation, Changqing Sub-branch
Industrial and Commercial Bank of China Limited, Jinan
Jing'er Road Sub-branch
China Merchants Bank Co. Ltd., Jinan Kaiyuan Sub-branch
Bank of China, Jinan Shungeng Sub-branch
Bank of China (Hong Kong) Limited

H SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investor Services Limited
Shops 1712-1716,
17th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

COMPANY WEBSITE

www.qlecl.com

STOCK CODE

1576

Management Discussion and Analysis

FINANCIAL REVIEW

Operations

Our principal operations comprise our expressway business for the construction, maintenance, operation and management of the Jihe Expressway. During the Reporting Period, our revenue comprised primarily the toll income from the Jihe Expressway.

Owing to the commencement of the construction activities of the Changqing University Science Park Interchange Project which forms our construction business, we recognised construction service income from such activities during the Reporting Period. We also derived certain service income from our advertisement business for the leasing of advertisement billboards along the Jihe Expressway and provision of advertisement publication services on the billboards.

Revenue

During the Reporting Period, the revenue from our operations was approximately RMB484,034,000, representing an increase of approximately 7.88% as compared to approximately RMB448,685,000 in the corresponding period of last year. During the Reporting Period, toll income from the Jihe Expressway was approximately RMB463,697,000, representing an increase of 3.92% as compared to approximately RMB446,225,000 in the corresponding period of last year. During the Reporting Period, the traffic flow of Jihe Expressway slightly increased from approximately 51,400 vehicles per day during the six months ended 30 June 2018 to approximately 55,600 vehicles per day during the Reporting Period. The growth of economy, the increase in the number of passenger vehicles, and the convenience brought about by and service from the expressway encourages more people choose to travel through the expressway, thus resulting in an increase in traffic and the amount of toll collection. The road maintenance of the adjacent provincial highways and national highways along the Jihe Expressway diverted part of the vehicles to the Jihe Expressway, thus resulting in an increase in traffic flow and the amount of toll collection.

During the Reporting Period, our rental income amounted to approximately RMB1,960,000, among which service income from leasing the advertising board on both sides of the Jihe Expressway was approximately RMB1,513,000, representing an increase of approximately 7.53% from approximately RMB1,407,000 in the corresponding period of last year. Such increase was mainly due to the increase in rental income from newly-signed lease contracts as compared with the same period last year. In addition, service income arising from rental income of leasing the telecommunication signal transmission pipes along Jihe Expressway and investment properties amounted to approximately RMB447,000.

During the Reporting Period, other services businesses amounted to RMB457,000, representing a decrease of approximately 32.79% as compared to approximately RMB680,000 of the same period of last year, mainly due to the service income from road clearance services for traffic accidents.

In addition, during the Reporting Period, the Company recognised a construction service income of RMB17,920,000 (for the six months ended 30 June 2018: nil) from the Changqing University Science Park Interchange Project of the Company as of 30 June 2019. For more details of the project, please refer to the section headed "Business – Upgrade of the Jihe Expressway" in the Prospectus.

Management Discussion and Analysis (Continued)

Cost of Sales and Gross Profit

During the Reporting Period, the cost of sales and gross profit from our operations were approximately RMB145,737,000 and RMB338,297,000, respectively, as compared to approximately RMB146,088,000 and RMB302,597,000 for the corresponding period of last year, representing a year-on-year decrease of approximately 0.24% and increase of approximately 11.80%, respectively. The gross profit margin of the Group was approximately 69.89% for the Reporting Period, representing a year-on-year increase of approximately 2.45 percentage points as compared with approximately 67.44% in the corresponding period of last year. Costs of the Group mainly included amortisation of intangible assets, staff costs, maintenance costs and provisions of the Jihe Expressway. The increase in gross profit margin was mainly due to the increase in the toll income mentioned above.

Other Income and Gains

During the Reporting Period, the other income and gains were approximately RMB27,464,000 (the corresponding period of 2018: approximately RMB4,411,000), which mainly comprised the income from bank interests and income from the government incentives. Increase in other income and gains was mainly due to the government grants of RMB15,800,000 received.

Administrative Expenses

During the Reporting Period, the administrative expenses from our operations were approximately RMB25,236,000, representing an increase of approximately 14.77% as compared to approximately 21,988,000 for the corresponding period of last year. Increase in administrative expenses was mainly due to the increase in intermediary expenses and staff cost upon the Listing. Administrative expenses of the Group were mainly expended on salaries and wages, depreciation of property, plant and equipment and transportation expenses.

Other Expenses

During the Reporting Period, our other expenses were approximately RMB28,360,000, representing an increase of approximately 7,911.30% as compared to approximately RMB354,000 for the corresponding period of last year, which was mainly attributable to the losses from disposal of property, plant and equipment and intangible assets. Increase in other expenses was mainly due to the losses arising from information system, the ETC infrastructure upgrade and renovation of scrap equipment.

Finance Costs

During the Reporting Period, our finance costs were approximately RMB11,001,000, representing a decrease of approximately 38.44% as compared to approximately RMB17,871,000 for the corresponding period of last year. During the Reporting Period, the finance costs decreased due to the repayment of certain bank loans.

Profit for the Period

During the Reporting Period, profit attributable to owners of the parent was approximately RMB226,028,000, representing an increase of approximately 13.04% as compared to approximately RMB199,960,000 of profit attributable to owners of the parent for the corresponding period of last year. The increase in the profit during the period was primarily due to the increase in toll income collected by Jihe Expressway during the Reporting Period.

Management Discussion and Analysis (Continued)

Liquidity and Financial Resources

During the Reporting Period, the Group financed its operation and capital expenditures with the Company's internal resources, long-term bank loans at floating interest rate and proceeds from the Global Offering. As at 30 June 2019, total bank loans of the Group amounted to approximately RMB460,000,000 (31 December 2018: approximately RMB510,000,000) (which are all RMB-denominated), and total cash and cash equivalents (including bank deposits and cash) were approximately RMB1,615,524,000 (31 December 2018: approximately RMB1,006,860,000).

The Group has always pursued a prudent capital management policy and actively managed its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital in future development. As at 30 June 2019, the gearing ratio of the Group's total outstanding bank loans to total equity was approximately 13.14% (31 December 2018: approximately 14.44%).

Pledge of Assets and Contingent Liabilities

As at 30 June 2019, the Group did not pledge any of its assets and had no material contingent liabilities.

Employees, Remuneration Policy and Pension Plans

As at 30 June 2019, the Group employed a total of 405 (as at 30 June 2018: 412) employees in the PRC, including management staff, engineers, technicians, etc. During the Reporting Period, the Group's total expense on the remuneration of employees was approximately RMB36,555,000 (for the six months ended on 30 June 2018: approximately RMB31,039,000).

The remuneration of the Group's employees includes basic salaries, bonuses and other staff benefits, such as social insurance, housing funds, corporate annuity, supplementary medical insurance and group life accident insurance coverage, etc.. In general, the Group determines the remuneration of our employees based on their performance, qualifications, positions and seniority within the Group. We also provide our employees with continuing education and regular on-the-job training based on their job duties. As stipulated by the laws and regulations in the PRC, the Group contributes to the State-sponsored retirement scheme for its employee in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries and bonuses), while the Group contributes 18% of such relevant income from January to April 2019, and 16% of such relevant income since May 2019, subject to certain ceiling. The State-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees. In addition, our Group also operates an additional employee pension plan. All our employees are entitled to an additional pension each year aggregating to 8% of the previous year's salaries.

Foreign Exchange Risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi.

As at 30 June 2019, the Group did not enter into any hedging arrangements to hedge against exposure in foreign currency risk. The foreign currency held by the Group is mainly the unused foreign currency fund obtained upon the Global Offering. Any substantial exchange rate fluctuation of foreign currencies against Renminbi, may cause financial impacts on the Group. The management of the Group will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arises.

Management Discussion and Analysis (Continued)

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no significant investments, material acquisitions or disposal of subsidiaries and associated companies by the Company for the six months ended 30 June 2019.

BUSINESS REVIEW

During the Reporting Period, the Group recorded a total revenue of approximately RMB484,034,000, representing a year-on-year increase of approximately 7.88%, among which, toll income was approximately RMB463,697,000, representing a year-on-year increase of approximately 3.92%; revenue from construction business, rental income and other services businesses was approximately RMB20,337,000, representing a year-on-year increase of approximately 726.71%. During the Reporting Period, the Group achieved operating profit of approximately RMB304,818,000, representing a year-on-year increase of approximately 7.89%. Profit for the period was approximately RMB226,028,000, and earnings per share was approximately RMB0.11.

Expressway Business

In the first half of 2019, the Company continuously strengthened the operation and management of the Jihe Expressway project, and strived to reduce the negative impact caused by the construction works of the Jinan-Qingdao Expressway. In light of the continuous impact of macroeconomic development and the expressway network systems in areas along the Jihe Expressway, the traffic flow of the Jihe Expressway increased slightly from approximately 51,400 vehicles per day during the six months ended 30 June 2018 to approximately 55,600 vehicles per day during the Reporting Period. With the change of vehicle structures and travel distance of traffic flow, total toll income increased by approximately 3.92% to approximately RMB463,697,000 for the Reporting Period.

| Items | During the Reporting Period | | During the same period last year | | Year-on-year increase |
|------------------------------------|---|----------------|---|----------------|-----------------------|
| | Traffic flow (ten thousand vehicles/day) | Percentage (%) | Traffic flow (ten thousand vehicles/day) | Percentage (%) | |
| Trucks | 1.70 | 30.55 | 1.70 | 33.09 | (0.19)% |
| Passenger vehicles | 3.86 | 69.45 | 3.44 | 66.91 | 12.22% |
| Total traffic flow | 5.56 | 100.00 | 5.14 | 100.00 | 8.11% |
| Average daily income (RMB'000/day) | 2,638.72 | | 2,539.29 | | 3.92% |

Management Discussion and Analysis (Continued)

However, the toll income contributed by trucks using the Jihe Expressway was significantly higher than that by passenger vehicles. The decrease in the average toll income of each vehicle during the Reporting Period was mainly due to the following factors: continuously affected by the construction of the Jinan-Qingdao Expressway; the number of trucks using the whole Jihe Expressway remaining low; and that the new traffic flow of the Jihe Expressway was mainly derived from passenger vehicles, the toll of which were lower than that of trucks. The average toll income per vehicle fell from approximately RMB49.41 for the six months ended 30 June 2018 to approximately RMB47.49 for the Reporting Period. The restriction on trucks with five axles or above will be lifted when the construction of the Jinan-Qingdao Expressway is completed. It is expected that there will be heavy traffic flow diverted from the Jinan-Qingdao Expressway to the Jihe Expressway. Despite the foregoing, in view of the relatively stable traffic flow of the Jihe Expressway, the management is confident about the future prospects of the Jihe Expressway.

Our traffic flow for the first half of 2019 recorded a year-on-year increase of 8.11%, with a 12.22% increase in the passenger vehicle traffic and a 0.19% decrease in truck traffic volume.

The analysis of the major reasons is as follows:

1. the growth of economy, the increase in the number of passenger vehicles, and the convenience brought about by and service from the expressway encourages more people choose to travel through the expressways, thus resulting in an increase in traffic and the amount of toll collection; and
2. the road maintenance of the adjacent provincial highways and national highways along the Jinhe Expressway diverted part of the vehicles to the Jihe Expressway, thus resulting in an increase in traffic and the amount of toll collection.

Rental Income

During the Reporting Period, rental income was mainly revenue from advertisement business according to the relevant requirements of the local government authorities and the needs of expressway construction, certain billboards along the Jihe Expressway were demolished. As at the end of the Reporting Period, there were 48 billboards operating normally along the Jihe Expressway. As the rental income only accounted for a small proportion to revenue from operation during the Reporting Period, the Directors believe that the implementation of demolition of billboards according to the relevant requirements of the local government authorities and the needs of expressway construction will have no material adverse impact on our principal business. At the same time, the Group was also actively cultivating new revenue growth points for our advertisement business. For instance, a new LED advertising new media was built and put into use in April 2019.

Construction Business

Changqing University Science Park Interchange Project

During the Reporting Period, the Changqing University Science Park Interchange Project was progressing smoothly. As at the end of the Reporting Period, the construction road hardening, spray dust reduction facilities, steel processing plant and other temporary construction facilities have all been completed. In terms of subgrade engineering, the road clearing works had progressed for 32,000 square meters while the roadbed filling works had progressed for 102,000 cubic meters, and the accumulated excavation amounted to 18,000 cubic meters. The accumulated amount of construction of the transfer tunnel amounted to 51,300 cubic meters. In terms of bridge and culvert engineering, the C-channel bridge completed the pouring of beam plate, the beam body of widened university viaduct was under construction, and the remaining bridge and culverts were being constructed as planned. The tendering procedure of the property construction work has also been initiated.

PROSPECTS

In the Reporting Period, the overall macroeconomic situation was complicated and severe. As the state's first comprehensive experimental zone for old-to-new energy conversion, Shandong Province has been deepening the supply-side structural reform. Judging from the operation in the Reporting Period, the traffic flow performance of the Jihe Expressway showed a good and stable trend. Although the downward pressure on the economy has increased in the second half of 2019, with the continuous optimization of the economic structure in Shandong Province and the promotion of old-to-new kinetic energy conversion, the traffic flow of the Jihe Expressway is expected to maintain positive growth in 2019.

The Company will actively promote the construction of ETC lanes, accelerate the promotion and application of electronic non-stop toll collection systems, increase the popularity of smart payment, and make innovations in toll payment models. With "Internet+" technology and the development of electronic finance, we will actively develop new methods for toll payment. With reference to other expressway company's pilot experience of using Alipay and WeChat Pay for toll payment at the toll stations, we will conduct a research on the diversification of payment methods in toll stations of our Company to facilitate public travel and effectively improve the service capacity of the expressway. We will optimize the function of the toll system, carry out accurate allocation of tolls and governance on toll evasion, proactively increase channels for revenue growth, and ensure that the mission indicators for tolls are achieved. The Company will comprehensively improve the level of software and hardware adopted by toll stations, and gradually realise quantification of operation and management, smart tolling facilities, and efficient field duty. We will improve the service quality in an all-round manner, create the service brand of "Qilu Expressway", and continuously improve the corporate image.

Looking forward to the second half of 2019, the Company will maintain the positioning strategies on focused development and transformation, emphasise reform and innovation, capital operation and equity diversification, nurture new driving forces, with core works on enhancement of economic efficiency and optimisation of capital operation, in order to improve overall development quality and efficiency, lay a solid foundation for the establishment of a leading listed company in the industry and further increase the asset scale of its principal business and future profitability.

Management Discussion and Analysis (Continued)

EVENTS AFTER THE REPORTING PERIOD

The Company has no material events after the Reporting Period required to be disclosed as at the date of the interim report.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The H Shares of the Company has been listed and traded on the Stock Exchange since 19 July 2018. After deducting related expenses, the net proceeds of the Company from the Global Offering amounted to approximately HK\$1,177 million. During the Reporting Period, the use of proceeds from the Global Offering was in line with the usage disclosed in the Prospectus.

Use of Proceeds

The Group's business objectives and intended use of proceeds as stated in the prospectus were based on the best estimation on future market conditions made by the Group in the preparation of the Prospectus. The actual use of proceeds was based on actual market development. The net proceeds from the Global Offering was approximately HK\$1,177 million. During the period from the listing date of the Company to the end of the Reporting Period, the net proceeds from the Global Offering had been applied as follows:

| Business strategy as stated in the Prospectus | Actual net proceeds allocated for such strategy HK\$'000 | Amount utilised up to 30 June 2019 HK\$'000 | Balance as at 30 June 2019 HK\$'000 | Expected time for the use of unutilised proceeds (Note) |
|--|---|--|--|--|
| Acquiring operative toll roads, bridges and relevant road-related infrastructure projects or interests | 588,504 | 0 | 588,504 | Before 31 December 2019 |
| Road maintenance of the Jihe Expressway | 294,252 | 0 | 294,252 | Before 31 December 2019 |
| Full or partial repayment of short-term bank loans | 117,701 | 98,459 | 19,242 | Before 31 December 2019 |
| Working capital and other general corporate purposes | 117,701 | 1,618 | 116,083 | Before 31 December 2019 |
| Optimising the Company's information management systems | 58,850 | 0 | 58,850 | Before 31 December 2019 |

Note: The expected timeline for utilising the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

Management Discussion and Analysis (Continued)

Proceeds from the Global Offering amounted to HK\$1.25 billion with the net proceeds of approximately HK\$1.177 billion. As at 30 June 2019, approximately 82.84% of net proceeds from the Global Offering (approximately HK\$975 million) has been deposited in the state; approximately 0.14% of overseas funds (approximately HK\$1.6 million) were used in accordance with the use of proceeds disclosed in the Prospectus; the remaining approximately 17.02% of net proceeds from the Global Offering (approximately HK\$200 million) was retained overseas, and is intended to be used by way of use of proceeds disclosed in the Prospectus.

As stated in the Prospectus, to the extent that the net proceeds are not immediately applied to the above purposes, the Group intends to place the funds into short-term deposits with banks or other financial institutions in Hong Kong or the PRC, or money-market instruments or other forms of banking deposits as permitted by the relevant laws and regulations.

PUBLICATION AND DISPATCH OF INTERIM REPORT

This report is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.qlecl.com), and the 2019 interim report of the Group containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Company and the Stock Exchange in due course.

Other Information

SHARE CAPITAL

As at 30 June 2019, the total issued share capital of the Company amounted to RMB2,000,000,000, which was divided into 2,000,000,000 Shares with a nominal value of RMB1.00 each, including:

Share capital of the Company as at 30 June 2019 was as follows:

| Class of Shares | Number of Shares | Approximate percentage to the total issued share capital of the Company |
|------------------------|-------------------------|--|
| Domestic Shares | 900,000,000 | 45.00% |
| H Shares | 1,100,000,000 | 55.00% |
| Total | 2,000,000,000 | 100% |

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES OF THE COMPANY

On 30 June 2019, so far as the Directors and Supervisors are aware, other than the Directors, Supervisors and the senior management of the Company and their respective associates, the following persons had or were deemed to have an interest or short position in the Shares, underlying Shares and debentures which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

| Name of Shareholders | Number of Shares held | Capacity | Class of Shares | Approximate percentage to the total number of relevant class of issued share capital of the Company | Approximate percentage to the total issued share capital of the Company | Long position/ short position |
|---|------------------------------|------------------------------------|------------------------|--|--|--------------------------------------|
| Qilu Transportation | 778,500,000 | Beneficial interest | Domestic Shares | 86.50% | 38.93% | Long position |
| COSCO SHIPPING (Hong Kong) Co., Limited | 600,000,000 | Beneficial interest | H Shares | 54.55% | 30.00% | Long position |
| China Ocean Shipping Company Limited ⁽¹⁾ | 600,000,000 | Interest in controlled corporation | H Shares | 54.55% | 30.00% | Long position |
| China COSCO Shipping Corporation Limited ⁽¹⁾ | 600,000,000 | Interest in controlled corporation | H Shares | 54.55% | 30.00% | Long position |

Other Information (Continued)

| Name of Shareholders | Number of Shares held | Capacity | Class of Shares | Approximate percentage to the total number of relevant class of issued share capital of the Company | Approximate percentage to the total issued share capital of the Company | Long position/ short position |
|---|-----------------------|------------------------------------|-----------------|---|---|-------------------------------|
| Shenhua National Power Shandong Construction Group Limited* | 121,500,000 | Beneficial interest | Domestic Shares | 13.50% | 6.08% | Long position |
| Shenhua National Power Group Company Limited ⁽²⁾ | 121,500,000 | Interest in controlled corporation | Domestic Shares | 13.50% | 6.08% | Long position |
| China Energy Investment Corporation Limited ⁽²⁾ | 121,500,000 | Interest in controlled corporation | Domestic Shares | 13.50% | 6.08% | Long position |
| CITIC-Prudential Life Insurance Company Ltd. | 103,750,000 | Beneficial interest | H Shares | 9.43% | 5.19% | Long position |
| Prudential Corporation Holdings Limited ⁽³⁾ | 103,750,000 | Interest in controlled corporation | H Shares | 9.43% | 5.19% | Long position |
| Prudential Holdings Limited ⁽³⁾ | 103,750,000 | Interest in controlled corporation | H Shares | 9.43% | 5.19% | Long position |
| Prudential Corporation Asia Limited ⁽³⁾ | 103,750,000 | Interest in controlled corporation | H Shares | 9.43% | 5.19% | Long position |
| Prudential plc ⁽³⁾ | 103,750,000 | Interest in controlled corporation | H Shares | 9.43% | 5.19% | Long position |
| CITIC Corporation Limited ⁽⁴⁾ | 103,750,000 | Interest in controlled corporation | H Shares | 9.43% | 5.19% | Long position |
| CITIC Limited ⁽⁴⁾ | 103,750,000 | Interest in controlled corporation | H Shares | 9.43% | 5.19% | Long position |
| CITIC Glory Limited ⁽⁴⁾ | 103,750,000 | Interest in controlled corporation | H Shares | 9.43% | 5.19% | Long position |
| CITIC Polaris Limited ⁽⁴⁾ | 103,750,000 | Interest in controlled corporation | H Shares | 9.43% | 5.19% | Long position |
| CITIC Group Corporation ⁽⁴⁾ | 103,750,000 | Interest in controlled corporation | H Shares | 9.43% | 5.19% | Long position |

Other Information (Continued)

| Name of Shareholders | Number of Shares held | Capacity | Class of Shares | Approximate percentage to the total number of relevant class of issued share capital of the Company | Approximate percentage to the total issued share capital of the Company | Long position/ short position |
|--|-----------------------|------------------------------------|-----------------|---|---|-------------------------------|
| Shandong Hi-Speed Investment Holdings Co., Ltd. | 103,750,000 | Beneficial interest | H Shares | 9.43% | 5.19% | Long position |
| Shandong Hi-Speed Group Co., Ltd. ⁽⁶⁾ | 103,750,000 | Interest in controlled corporation | H Shares | 9.43% | 5.19% | Long position |

Notes:

- (1) COSCO SHIPPING (Hong Kong) Co., Limited is wholly owned by China Ocean Shipping Company Limited*. China Ocean Shipping Company Limited* is wholly owned by China COSCO Shipping Corporation Limited*. Therefore, China Ocean Shipping Company Limited* and China COSCO Shipping Corporation Limited* are deemed to be interested in the H shares held by COSCO SHIPPING (Hong Kong) Co., Limited under the SFO.
- (2) Shenhua National Power Shandong Construction Group Limited* is wholly owned by Shenhua National Power Group Company Limited*. Shenhua National Power Group Company Limited* is wholly owned by China Energy Investment Corporation Limited. Therefore, Shenhua National Power Group Company Limited* and China Energy Investment Corporation Limited are deemed to be interested in the Domestic Shares held by Shenhua National Power Shandong Construction Group Limited* under the SFO.
- (3) 50% shares of CITIC-Prudential Life Insurance Company Ltd. are owned by Prudential Corporation Holdings Limited. Prudential Corporation Holdings Limited is wholly owned by Prudential Holdings Limited. Prudential Holdings Limited is wholly owned by Prudential Corporation Asia Limited. Prudential Corporation Asia Limited is wholly owned by Prudential plc. Therefore, Prudential Corporation Holdings Limited, Prudential Holdings Limited, Prudential Corporation Asia Limited and Prudential plc are deemed to be interested in the H Shares held by CITIC-Prudential Life Insurance Company Ltd. under the SFO.
- (4) Remaining 50% shares of CITIC-Prudential Life Insurance Company Ltd. are owned by CITIC Corporation Limited*. CITIC Corporation Limited* is wholly owned by CITIC Limited. Shares of CITIC Limited are owned by CITIC Glory Limited and CITIC Polaris Limited as to 23.38% and 29.58%, respectively. CITIC Glory Limited is wholly owned by CITIC Group Corporation and CITIC Polaris Limited is wholly owned by CITIC Group Corporation. Therefore, CITIC Corporation Limited*, CITIC Limited, CITIC Glory Limited, CITIC Polaris Limited and CITIC Group Corporation are deemed to be interested in the H Shares held by CITIC-Prudential Life Insurance Company Ltd. under the SFO.
- (5) Shandong Hi-Speed Investment Holdings Co., Ltd is wholly owned by Shandong Hi-Speed Group Co., Ltd. Therefore, Shandong Hi-Speed Group Co., Ltd. is deemed to be interested in the H Shares held by Shandong Hi-Speed Investment Holdings Co., Ltd.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

On 30 June 2019, none of our Directors, Supervisors or chief executives and their respective associates had, or was deemed to have, any interest or short position in Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

REPURCHASE, SALES AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, the Company or its subsidiaries did not repurchase, sell or redeem any of the Company's listed securities.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Changes in Directors, Supervisors and Senior Management during the Reporting Period

Mr. Zhang Bo resigned as the Executive Deputy General Manager of the Company on 24 June 2019 due to work rearrangement. Mr. Liu Qiang has been appointed as the Deputy General Manager of the Company on the same day with immediate effect. Meanwhile, Mr. Liu Qiang ceased to serve as our chief economist, secretary of disciplinary commission and chairman of labour union. For details, please refer to the announcement of the Company dated 24 June 2019.

Mr. Zhang Junfeng began to serve as secretary of disciplinary commission of the Company from 3 June 2019.

Mr. Lian Shengguo serves as chairman of labour union of the Company and the head of the office of the Board from 21 June 2019.

Save as disclosed above, there were no other changes in the Directors, Supervisors and senior management of the Group during the Reporting Period.

Changes in Directors, Supervisors and Senior Management after the Reporting Period and up to the Date of this Report

There is no change in Directors, Supervisors and senior management of the Company after the Reporting Period and up to the date of this report.

CHANGES IN THE INFORMATION OF DIRECTORS AND SUPERVISORS

Mr. He Jiale, the independent non-executive Director, began to serve as an independent director/independent non-executive director of China International Marine Containers (Group) Co., Ltd (listed on the Shenzhen Stock Exchange, stock code: 000039; and the Stock Exchange, stock code: 02039) from 3 June 2019.

Mr. Lian Shengguo, the employee Supervisor, served as chairman of labour union since 21 June 2019 and the head of the office of the Board.

Saved as disclosed in this report, during the Reporting Period, there was no information of the Directors and the Supervisors which shall be disclosed under Rule 13.51B(1) of the Listing Rules and there was no change in any disclosed information.

MATERIAL LITIGATION AND ARBITRATION

So far as the Directors of the Company are aware, the Group was not engaged in any material litigation, arbitration or claim, and no litigation or claim of material importance was pending or threatened against the Group during the Reporting Period.

CORPORATE GOVERNANCE

The Group is committed to maintaining high level of corporate governance. The Board is responsible for the implementation of corporate governance, including: (a) formulating, developing and reviewing the corporate governance policies and practices of the Company; (b) reviewing and supervising the training and continuous professional development of the Directors and senior management; (c) reviewing and supervising the policies and practices for the compliance of laws and regulatory requirements by the Company; (d) developing, reviewing and supervising the code of conduct and compliance manual, if any, for employees and the Directors; and (e) reviewing the compliance of the Corporate Governance Code by the Company and the disclosure in the corporate governance report. The Board believes that an effective corporate governance system can safeguard the best interests of the Shareholders and promote the value and accountability of the Company.

The Company has adopted and complied with all applicable code provisions of the Corporate Governance Code. During the Reporting Period, the Company has been in compliance with the applicable code provisions of the Corporate Governance Code.

The Board will continue to review and improve its corporate governance system to ensure the compliance of the Corporate Governance Code.

COMPLIANCE WITH THE MODEL CODE

Since the Listing, the Company had adopted a code of conduct regarding the Directors' and Supervisors' securities transactions on terms not less than the required standard set out in the Model Code. Having made specific enquiries with all the Directors and Supervisors, it was confirmed that the Directors and Supervisors have complied with the Model Code in relation to securities transactions by the Directors and its standards of code of conduct during the Reporting Period.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2019.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in accordance with the provisions of the Corporate Governance Code. The Audit Committee has reviewed the unaudited interim financial report of the Group for the six months ended 30 June 2019.

SHARE OPTION SCHEME

As of the date of this report, the Company has no share option scheme.

Report on Review of Interim Financial Information

TO THE BOARD OF DIRECTORS OF QILU EXPRESSWAY COMPANY LIMITED

(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 21 to 38, which comprises the condensed consolidated statement of financial position of Qilu Expressway Company Limited (the “Company”) and its subsidiary (the “Group”) as at 30 June 2019 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 Interim Financial Reporting (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong, 22 August 2019

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

| | Notes | 2019 (Unaudited) RMB'000 | 2018 (Unaudited) RMB'000 |
|---|-------|--------------------------------|--------------------------------|
| REVENUE | 5 | 484,034 | 448,685 |
| Cost of sales | | (145,737) | (146,088) |
| Gross profit | | 338,297 | 302,597 |
| Other income and gains | | 27,464 | 4,411 |
| Administrative expenses | | (25,236) | (21,988) |
| Other expenses | | (28,360) | (354) |
| Finance costs | | (11,001) | (17,871) |
| PROFIT BEFORE TAX | 6 | 301,164 | 266,795 |
| Income tax expense | 7 | (75,136) | (66,835) |
| PROFIT FOR THE PERIOD | | 226,028 | 199,960 |
| PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 226,028 | 199,960 |
| Attributable to: | | | |
| Owners of the parent | | 226,028 | 199,960 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic | | | |
| – For profit for the period | 9 | RMB0.11 | RMB0.13 |
| Diluted | | | |
| – For profit for the period | 9 | RMB0.11 | RMB0.13 |

Interim Condensed Consolidated Statement of Financial Position

30 June 2019

| | <i>Notes</i> | 30 June 2019 (Unaudited) RMB'000 | 31 December 2018 (Audited) RMB'000 |
|---|--------------|---|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | 115,273 | 120,015 |
| Investment properties | | 10,323 | 10,532 |
| Intangible assets | 11 | 2,613,739 | 2,703,529 |
| Prepayments | | 31,526 | 31,526 |
| Other receivables | | 2,026 | 2,000 |
| Total non-current assets | | 2,772,887 | 2,867,602 |
| CURRENT ASSETS | | | |
| Inventories | | 909 | 1,426 |
| Trade receivables | 12 | 15,649 | 170,468 |
| Other current assets | | 99 | 99 |
| Prepayments and other receivables | | 5,903 | 6,811 |
| Other financial assets at amortised cost | | – | 200,000 |
| Financial assets at fair value through profit or loss | | 100,000 | 100,000 |
| Cash and cash equivalents | | 1,615,524 | 1,006,860 |
| Total current assets | | 1,738,084 | 1,485,664 |
| CURRENT LIABILITIES | | | |
| Trade payables | 16 | 10,491 | 21,458 |
| Dividend payables | 8 | 257,400 | – |
| Other payables and accruals | | 60,536 | 87,672 |
| Interest-bearing bank borrowings | 14 | 215,000 | 265,000 |
| Tax payable | | 44,502 | 30,997 |
| Provision | 15 | 128,490 | 113,490 |
| Total current liabilities | | 716,419 | 518,617 |

Interim Condensed Consolidated Statement of Financial Position (Continued)

30 June 2019

| | <i>Notes</i> | 30 June 2019 (Unaudited) RMB'000 | 31 December 2018 (Audited) RMB'000 |
|--|--------------|---|--|
| NET CURRENT ASSETS | | 1,021,665 | 967,047 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 3,794,552 | 3,834,649 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | 14 | 245,000 | 245,000 |
| Other payables | | 24,979 | 27,076 |
| Deferred tax liabilities | | 23,771 | 30,883 |
| Total non-current liabilities | | 293,750 | 302,959 |
| Net assets | | 3,500,802 | 3,531,690 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 13 | 2,000,000 | 2,000,000 |
| Capital reserves | | 887,209 | 886,725 |
| Other reserves | | 130,802 | 130,802 |
| Retained earnings | | 482,791 | 514,163 |
| Total equity | | 3,500,802 | 3,531,690 |

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

| | Note | Attributable to owners of the parent | | | | Total RMB'000 |
|---|------|--------------------------------------|-----------------------------|---------------------------|------------------------------|------------------|
| | | Share capital RMB'000 | Capital reserves RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | |
| At 1 January 2019 (audited) | | 2,000,000 | 886,725 | 130,802 | 514,163 | 3,531,690 |
| Profit for the period | | – | – | – | 226,028 | 226,028 |
| Total comprehensive income for the period | | – | – | – | 226,028 | 226,028 |
| Reversal of share issue expenses | | – | 484 | – | – | 484 |
| Dividends declared | 8 | – | – | – | (257,400) | (257,400) |
| At 30 June 2019 (unaudited) | | 2,000,000 | 887,209 | 130,802 | 482,791 | 3,500,802 |

| | Note | Attributable to owners of the parent | | | | Total RMB'000 |
|---|------|--------------------------------------|-----------------------------|---------------------------|------------------------------|------------------|
| | | Share capital RMB'000 | Capital reserves RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | |
| At 1 January 2018 (audited) | | 1,500,000 | 361,316 | 89,939 | 525,730 | 2,476,985 |
| Profit for the period | | – | – | – | 199,960 | 199,960 |
| Total comprehensive income for the period | | – | – | – | 199,960 | 199,960 |
| Dividends declared | 8 | – | – | – | (379,209) | (379,209) |
| At 30 June 2018 (unaudited) | | 1,500,000 | 361,316 | 89,939 | 346,481 | 2,297,736 |

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

| | 2019 (Unaudited) RMB'000 | 2018 (Unaudited) RMB'000 |
|---|--------------------------------|--------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash generated from operations | 565,649 | 319,746 |
| Interest received | 8,905 | 2,139 |
| Income tax paid | (68,743) | (54,569) |
| Net cash flows from operating activities | 505,811 | 267,316 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from disposal of property, plant and equipment and intangible assets | 387 | 49 |
| Purchase of financial assets at fair value through profit or loss | (100,000) | – |
| Proceeds from disposal of financial assets at fair value through profit or loss | 100,000 | – |
| Proceeds from maturity of other financial assets at amortised cost | 200,000 | – |
| Dividends income from financial assets at fair value through profit or loss | 969 | – |
| Interests received from other financial assets at amortised cost | 1,945 | – |
| Purchase of property, plant and equipment and intangible assets | (8,051) | (7,503) |
| Net cash flows from/(used in) investing activities | 195,250 | (7,454) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of interest-bearing bank borrowings | (50,000) | (70,000) |
| Payment of interest expenses | (10,338) | (17,871) |
| Dividends paid to the Company's shareholders | – | (208,809) |
| Share issuance expenses | (32,169) | (9,557) |
| Net cash flows used in financing activities | (92,507) | (306,237) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents at beginning of period | 1,006,860 | 415,835 |
| Effect of foreign exchange rate changes, net | 110 | – |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 1,615,524 | 369,460 |

Notes to Interim Condensed Consolidated Financial Information

30 June 2019

1. GENERAL INFORMATION

Qilu Expressway Company Limited (the “Company”) is principally engaged in the construction, maintenance, operation and management of the Jihe Expressway in Shandong Province in the People’s Republic of China (the “PRC”), and was entitled to toll collection from vehicles passing through the Jihe Expressway for a period of 30 years, starting from 26 September 2004 to 25 September 2034, its subsidiary (together with the Company, the “Group”) engaged in the outdoor advertising production and distribution along the Jihe Expressway. The Group has operations mainly in Shandong province in the PRC.

The Company’s H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited since 19 July 2018.

This interim condensed consolidated financial information is presented in Renminbi (“RMB”), and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with HKAS 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) effective as of 1 January 2019.

| | |
|--|---|
| Amendments to HKFRS 9 | <i>Prepayment Features with Negative Compensation</i> |
| HKFRS 16 | <i>Leases</i> |
| Amendments to HKAS 19 | <i>Plan Amendment, Curtailment or Settlement</i> |
| Amendments to HKAS 28 | <i>Long-term Interests in Associates and Joint Ventures</i> |
| HK(IFRIC)-Int 23 | <i>Uncertainty over Income Tax Treatments</i> |
| <i>Annual Improvements 2015–2017 Cycle</i> | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

The adoption of HKFRS 16 has no significant impact to the financial position and opening balance of retained earnings as at the date of initial application of 1 January 2019.

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Adoption of HKFRS 16 (Continued)

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

4. OPERATING SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company that makes strategic decisions. Management has determined the operating segments based on these reports.

All of the Group's operations and assets are located in the PRC. Therefore, the chief operating decision-maker only considers the Group's business from a product perspective, rather from a geographic perspective.

In consideration that the revenue and profit from construction business, rental income and other services businesses is immaterial compared to the expressway business, the chief operating decision-maker reviews the performance of the Group as a whole.

Accordingly, the Group has only one single reportable operating segment and no discrete operating segment financial information is available.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2019

5. REVENUE

An analysis of revenue is as follows:

| | For the six months ended 30 June | |
|--|----------------------------------|--------------------------------|
| | 2019 RMB'000 (Unaudited) | 2018 RMB'000 (Unaudited) |
| Revenue from contracts with customers | | |
| Expressway business | 463,697 | 446,225 |
| Construction business | 17,920 | – |
| Other services businesses | 457 | 680 |
| Revenue from other sources | | |
| Rental income | 1,960 | 1,780 |
| | 484,034 | 448,685 |

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2019

| | Expressway business RMB'000 (Unaudited) | Construction business RMB'000 (Unaudited) | Other services businesses RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|---|--|--|--|---------------------------------|
| Timing of revenue recognition | | | | |
| Services transferred at a point in time | 463,697 | – | 457 | 464,154 |
| Services transferred over time | – | 17,920 | – | 17,920 |
| Total revenue from contracts with customers | 463,697 | 17,920 | 457 | 482,074 |

For the six months ended 30 June 2018

| | Expressway business RMB'000 (Unaudited) | Construction business RMB'000 (Unaudited) | Other services businesses RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|---|--|--|--|---------------------------------|
| Timing of revenue recognition | | | | |
| Services transferred at a point in time | 446,225 | – | 680 | 446,905 |
| Total revenue from contracts with customers | 446,225 | – | 680 | 446,905 |

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2019

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

| | For the six months ended 30 June | |
|---|----------------------------------|-------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Depreciation of property, plant and equipment | 4,177 | 5,672 |
| Depreciation of investment properties | 209 | 109 |
| Amortisation of intangible assets | 81,900 | 86,480 |
| Loss on disposal of items of property, plant and equipment, net | 214 | 15 |
| Loss on disposal of items of intangible assets, net | 28,080 | – |

7. INCOME TAX EXPENSE

During the period, the Group is subject to PRC enterprise income tax, which has been provided at the rate of 25% on the estimated assessable profit for the period.

| | For the six months ended 30 June | |
|---------------------------------|----------------------------------|-------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Current income tax | | |
| – PRC corporate income tax | 82,248 | 72,007 |
| Deferred income tax | | |
| – Credit for the period | (7,112) | (5,172) |
| Total tax charge for the period | 75,136 | 66,835 |

8. DIVIDENDS

The Company declared a dividend of approximately RMB0.1287 per ordinary share (six months ended 30 June 2018: RMB0.2530), amounting to a total dividend of RMB257,400,000 (six months ended 30 June 2018: RMB379,209,000), which was approved at the Company's Annual General Meeting on 10 June 2019.

As at 30 June 2019, none (30 June 2018: RMB208,809,000) of such dividend has been paid.

The board of the Company does not declare any interim dividend to shareholders for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2019

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic earnings per share is calculated by dividing the consolidated profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the period. The Company has no dilutive potential shares.

| | For the six months ended 30 June | |
|--|----------------------------------|--------------------------------|
| | 2019 RMB'000 (Unaudited) | 2018 RMB'000 (Unaudited) |
| Profit attributable to owners of the parent | 226,028 | 199,960 |
| Weighted average number of ordinary shares in issue (<i>thousands</i>) | 2,000,000 | 1,500,000 |
| Basic and diluted earnings per share (<i>expressed in RMB per share</i>) | 0.11 | 0.13 |

10. PROPERTY, PLANT AND EQUIPMENT

| | For the six months ended 30 June | |
|--|----------------------------------|--------------------------------|
| | 2019 RMB'000 (Unaudited) | 2018 RMB'000 (Unaudited) |
| Carrying amount at beginning of period | 120,015 | 138,822 |
| Additions | 1,136 | 1,604 |
| Depreciation charges | (4,177) | (5,672) |
| Transfer to investment properties | – | (5,728) |
| Disposals | (1,701) | (17) |
| Carrying amount at end of period | 115,273 | 129,009 |

11. INTANGIBLE ASSETS

| | For the six months ended 30 June | |
|--|----------------------------------|--------------------------------|
| | 2019 RMB'000 (Unaudited) | 2018 RMB'000 (Unaudited) |
| Carrying amount at beginning of period | 2,703,529 | 2,873,700 |
| Additions | 20,209 | 631 |
| Amortisation charges | (81,900) | (86,480) |
| Disposals | (28,099) | – |
| Carrying amount at end of period | 2,613,739 | 2,787,851 |

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2019

12. TRADE RECEIVABLES

| | 30 June 2019 <i>RMB'000</i> (Unaudited) | 31 December 2018 <i>RMB'000</i> (Audited) |
|-------------------|---|---|
| Trade receivables | 15,649 | 170,468 |
| Impairment | – | – |
| | 15,649 | 170,468 |

Trade receivables amounted to approximately RMB15,649,000 (31 December 2018: approximately RMB170,468,000) mainly consists of toll road income receivable from Shandong Provincial Traffic Transport Department (山東省交通運輸廳) (“Shandong Transport Department”) for uncollected expressway income as at relevant period end, of which is expected to be settled within one month (2018: within three months).

The aging analysis of the trade receivables was based on the transaction date and the trade receivables were aged within three months as at 30 June 2019 and 31 December 2018.

13. SHARE CAPITAL

Ordinary shares, issued and fully paid:

| | 30 June 2019 (Unaudited) | 31 December 2018 (Audited) |
|----------------------------------|---|-------------------------------|
| Number of shares | 2,000,000,000 | 2,000,000,000 |
| Share capital (<i>RMB'000</i>) | 2,000,000 | 2,000,000 |

14. INTEREST-BEARING BANK BORROWINGS

| | 30 June 2019 <i>RMB'000</i> (Unaudited) | 31 December 2018 <i>RMB'000</i> (Audited) |
|-------------|---|---|
| Unsecured | | |
| Non-current | 245,000 | 245,000 |
| Current | 215,000 | 265,000 |
| | 460,000 | 510,000 |

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2019

14. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

| | 30 June 2019 <i>RMB'000</i> (Unaudited) | 31 December 2018 <i>RMB'000</i> (Audited) |
|-----------------------|---|---|
| Within 1 year | 215,000 | 265,000 |
| Between 1 and 2 years | 175,000 | 175,000 |
| Between 2 and 5 years | 70,000 | 70,000 |
| | 460,000 | 510,000 |

15. PROVISION

| | Maintenance and resurfacing obligations | |
|--|---|---------------------------------------|
| | For the six months ended 30 June | |
| | 2019 <i>RMB'000</i> (Unaudited) | 2018 <i>RMB'000</i> (Unaudited) |
| Carrying amount at beginning of period | 113,490 | 97,230 |
| Additional provision | 21,484 | 35,679 |
| Utilisation of provision | (6,484) | (5,679) |
| Carrying amount at end of period | 128,490 | 127,230 |

16. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 30 June 2019 <i>RMB'000</i> (Unaudited) | 31 December 2018 <i>RMB'000</i> (Audited) |
|-----------------------|---|---|
| Within 1 year | 3,721 | 21,458 |
| Between 1 and 2 years | 6,770 | – |
| | 10,491 | 21,458 |

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2019

17. CONTINGENT LIABILITIES

As at the end of 30 June 2019 and 31 December 2018, the Group did not have any significant contingent liabilities.

18. COMMITMENTS

As at 30 June 2019, the capital expenditure contracted for but not recognized as liabilities was as follows:

| | 30 June 2019 <i>RMB'000</i> (Unaudited) | 31 Decemeber2018 <i>RMB'000</i> (Audited) |
|---|---|---|
| Upgrade project of the Ji-He Expressway | 59,077 | 76,997 |

19. RELATED PARTY TRANSACTIONS

In addition to the related party information and transactions disclosed elsewhere in the interim condensed consolidated financial information, the following is a summary of significant related party transactions entered into the ordinary course of business between the Group and its related parties.

(a) Information of related parties

| | Relationships with the Group |
|---|---|
| Qilu Transportation Development Group Company Limited ("Qilu Transportation") | Shareholder of the Company |
| COSCO SHIPPING (Hong Kong) Co., Limited ("COSCO SHIPPING (Hong Kong)") | Shareholder of the Company |
| Shenhua National Power Shandong Construction Group Limited ("Shandong Construction") | Shareholder of the Company |
| Shandong Provincial Traffic Transport Department | Parent office of Shandong Highway Bureau |
| Shandong Qilu Guang Qi Transportation Technology Co., Ltd | Subsidiary of Qilu Transportation |

(b) Transactions with related parties

The Group had no significant transactions with its related parties for the six months ended 30 June 2019 and 30 June 2018.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2019

19. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties

| <i>Note</i> | 30 June 2019 <i>RMB'000</i> (Unaudited) | 31 December 2018 <i>RMB'000</i> (Audited) |
|--|---|--|
| Trade and other receivables: | | |
| Trade receivables: | | |
| – Shandong Provincial Traffic Transport Department | 14,844 | 169,700 |
| Other receivables: | | |
| – Qilu Transportation | – | 47 |
| | 14,844 | 169,747 |
| Trade and other payables: | | |
| Trade payables: | | |
| – Shandong Qilu Guang Qi Transportation Technology Co.,Ltd | – | 912 |
| Other payables: | | |
| – Qilu Transportation (i) | 27,739 | 29,836 |
| | 27,739 | 30,748 |
| Dividend payables: | | |
| – Qilu Transportation | 100,206 | – |
| – COSCO SHIPPING (Hong Kong) | 77,220 | – |
| – Shandong Construction | 15,624 | – |
| | 193,050 | – |

Note:

- (i) Amount represented payable for land and property lease in respect of the concession arrangement with annual payment of RMB2.76 million for the years from 2018 to 2034. Amount was measured at the present value of lease payments to be made over the lease term.

The amount of RMB2.76 million in relation to the land and property lease for the period ended 30 June 2019 have been paid in March 2019.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2019

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | Fair values | |
|----------------------------------|--|--|--|--|
| | 30 June 2019 <i>RMB'000</i> (Unaudited) | 31 December 2018 <i>RMB'000</i> (Audited) | 30 June 2019 <i>RMB'000</i> (Unaudited) | 31 December 2018 <i>RMB'000</i> (Audited) |
| Financial assets | | | | |
| Other receivables-non current | 2,026 | 2,000 | 2,026 | 2,000 |
| Financial liabilities | | | | |
| Interest-bearing bank borrowings | 460,000 | 510,000 | 457,146 | 505,266 |
| Other payables-non current | 24,979 | 27,076 | 24,979 | 27,076 |
| | 484,979 | 537,076 | 482,125 | 532,342 |

Management has determined that the carrying amounts of cash and cash equivalents, trade receivables, other current assets, financial assets included in prepayments and other receivables, other financial assets at amortised cost, trade payables, dividend payables and financial liabilities included in other payables and accruals based on their notional amounts, reasonably approximate to their fair values because these financial instruments are mostly short term in nature.

The Group invests in an unlisted investment, which represents a financial product issued by a bank in Mainland China. The Group has estimated the fair value of the unlisted investment by using a discounted cash flow valuation model based on the market interest rate of instruments with similar terms and risks.

The fair values of other receivables, interest-bearing bank borrowings and other payables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own-performance risk for interest-bearing borrowings as at 30 June 2019 and 31 December 2018 was assessed to be insignificant.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2019

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2019

| | Fair value measurement using | | | Total RMB'000 (Unaudited) |
|---|--|--|--|---------------------------------|
| | Quoted prices in active markets (Level 1) RMB'000 (Unaudited) | Significant Observable Inputs (Level 2) RMB'000 (Unaudited) | Significant unobservable Inputs (Level 3) RMB'000 (Unaudited) | |
| Financial assets at fair value through profit or loss: | | | | |
| Investments in financial products | – | 100,000 | – | 100,000 |

As at 31 December 2018

| | Fair value measurement using | | | Total RMB'000 (Audited) |
|---|--|--|--|-------------------------------|
| | Quoted prices in active markets (Level 1) RMB'000 (Audited) | Significant Observable Inputs (Level 2) RMB'000 (Audited) | Significant unobservable Inputs (Level 3) RMB'000 (Audited) | |
| Financial assets at fair value through profit or loss: | | | | |
| Investments in financial products | – | – | 100,000 | 100,000 |

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2019

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The movement in fair value measurement within Level 3 during the period are as follows:

| | 2019 RMB'000 (Unaudited) |
|--|---|
| Financial assets at fair value through profit or loss: | |
| At 1 January | 100,000 |
| Disposal | (100,000) |
| At 30 June | – |

The Group did not have any financial instruments measured at fair value during the six months ended 30 June 2018.

The Group did not have any financial liabilities measured at fair value as at 30 June 2019 and 31 December 2018.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

21. EVENTS AFTER THE REPORTING PERIOD

No significant subsequent events take place after the reporting period.