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Chengdu Expressway Co., Ltd.

成都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: 01785)

**CONTINUING CONNECTED TRANSACTION
ENTERING INTO THE HIGHWAY BUSINESS OPERATION SERVICES
FRAMEWORK AGREEMENT**

ENTERING INTO THE HIGHWAY BUSINESS OPERATION SERVICES FRAMEWORK AGREEMENT

The Board is pleased to announce that on 20 May 2022, the Company entered into the Highway Business Operation Services Framework Agreement with Chengdu Communications Investment, pursuant to which the Group agreed to purchase from Chengdu Communications Investment Group, and Chengdu Communications Investment Group agreed to provide the Group with comprehensive services in relation to highway business operation.

As of the date of this announcement, Chengdu Communications Investment is a controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. The transactions contemplated under the Highway Business Operation Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) of the transactions contemplated under the Highway Business Operation Services Framework Agreement exceeds 0.1% but all of such applicable percentage ratios are lower than 5%, the Highway Business Operation Services Framework Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules, but are exempt from the independent shareholders' approval requirement.

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HIGHWAY BUSINESS OPERATION SERVICES FRAMEWORK AGREEMENT

Date : 20 May 2022

Parties : (1) Chengdu Communications Investment; and
(2) the Company

Term : From the effective date of the agreement to 31 December 2024

Subject of transaction : Chengdu Communications Investment Group shall provide the Group with the following comprehensive services in relation to highway business operation: (1) regular maintenance services, including preventive maintenance and occasional repair of slightly damaged parts of highway roadbeds, road surfaces, bridges and culverts and facilities along the highway, cleaning of highway roadbeds, road surfaces, bridges and culverts and facilities along the highway, as well as the maintenance and cleaning of highway greenery and green space, etc.; (2) special construction ancillary services, including construction of highway roadbeds, road surfaces, bridges and culverts and other structures as well as toll collection, monitoring, communication systems, greenery, traffic engineering, housing and buildings and other ancillary facilities or the specific treatment, renovation and improvement and comprehensive management of their concentrated defects, prevalent problems and large-scale damage, as well as the restoration of their use functions and improvement of existing technical level and standards of the project; (3) surveying and design, phase design and budgeting of repair and maintenance works for highway roadbeds, road surfaces, bridges and culverts and other structures as well as toll collection, monitoring, communication systems, greenery, traffic engineering and other facilities along the highway and housing and buildings and other ancillary facilities based on specific conditions of each project; (4) inspection, i.e. conducting regular and frequent inspections of highway roadbeds, road surfaces, bridges and culverts and other structures, other facilities along the highway, and housing and buildings and other ancillary facilities, and carrying out various phases of inspections based on specific conditions of each project; and (5) providing other comprehensive services in relation to highway business operation as may be further agreed between the parties from time to time.

Principles of transaction	: For services or transaction items provided to the Group by the Chengdu Communications Investment Group, the Group shall prefer using the services of third parties if the services or transaction conditions provided by the third parties are more favourable than those from Chengdu Communications Investment Group. In accordance with the relevant laws and regulations, for items subject to public tender procedures, the counterparty must be determined through public tender procedures. Chengdu Communications Investment undertakes that all services or transaction items provided by Chengdu Communications Investment Group to the Group are guaranteed to be of good quality, at fair and reasonable prices and on normal commercial terms, and that the services or transaction terms provided by it to the Group are more favourable to the Group than the terms of the same or similar services or transactions provided by third parties to the Group.
Pricing principles	: The prices for each of the services under the Highway Business Operation Services Framework Agreement shall be determined in the following order: <ul style="list-style-type: none"> (i) Government pricing: where the fees for such services are subject to national or local government pricing regulations, the fees for the services shall be priced in accordance with the prescribed prices officially published by such governmental authority and the relevant official pricing documents; (ii) Government-guided prices: If the national or local government authority has set government-guided prices for the services, and the guided prices have been published on the official website of the government authority or through the relevant official pricing document, the prices shall be negotiated within the scope of the government-guided prices; (iii) Market prices: Where no above-mentioned pricing standards are available, but there are prices for the same or similar services provided by independent third parties in the ordinary course of business and on normal commercial terms, prices shall be determined with reference to prevailing market prices; in determining whether any of the service transactions under the Highway Business Operation Services Framework Agreement are priced at market prices, reference shall be made to at least two contemporaneous comparable transactions with independent third parties or quotations from independent third parties in the market;

- (iv) Agreed prices: Where no above-mentioned pricing standards are available, the fees shall be determined on the basis of reasonable costs for provision of services plus a reasonable profit. The prices shall be determined after arm's length negotiations between the two parties based on the basic cost, reasonable cost and reasonable profit for provisions of services as disclosed by one party to another party in good faith. The maximum reasonable profit (normally not more than 8% of cost) shall be determined with reference to previous transactions.
- (v) For services subject to tender procedures as required by applicable laws and regulations, the pricing shall be based on the prices finally determined through the tender process.

Validity : The agreement shall become effective on the date of signing by both parties.

ANNUAL CAPS

Historical Transaction Amounts

The transaction amounts incurred for comprehensive services in relation to highway business operation provided by Chengdu Communications Investment Group to the Group in the past are as follows:

	For the year ended 31 December 2021 (RMB million)	For the four months ended 30 April 2022 (RMB million)
Transaction amounts incurred for comprehensive services in relation to highway business operation provided by Chengdu Communications Investment Group to the Group	8.0	0.2

The above transaction amount for 2021 mainly represents the transaction amount of RMB7.89 million for project construction by Information Port Company as engaged by Operation Company under the construction contracts regarding the safe and intelligent expressway projects. For details, please refer to the Company's announcement dated 24 December 2021.

Annual Caps for Continuing Connected Transactions Contemplated under the Highway Business Operation Services Framework Agreement

The Directors expect the annual caps for the Highway Business Operation Services Framework Agreement and the continuing connected transactions contemplated thereunder for the three years ending 31 December 2022, 2023 and 2024 to be as follows:

	For the year ending 31 December		
	2022	2023	2024
	(RMB million)	(RMB million)	(RMB million)
Transaction amounts to be incurred for highway business operation comprehensive services provided by Chengdu Communications Investment Group to the Group under the Highway Business Operation Services Framework Agreement	76.5	61.0	81.5

Basis of Determining the Annual Caps

The above annual caps for the continuing connected transactions contemplated under the Highway Business Operation Services Framework Agreement were determined primarily with reference to the historical transaction amounts set out above and after taking into account the following factors:

1. The Group's demand for highway business operation comprehensive services is expected to increase in the next three years, as mainly reflected in the following:
 - (i) The expressways under management of the Company are located in the suburban area of Chengdu, and drivers and passengers passing by have increasing requirements for the quality of road environment and comfort of driving. In addition, the highways have been in operation for a long period of time and road defects are increasing, resulting in a gradual increase in the scope of regular maintenance and consequently an increase in regular maintenance costs;
 - (ii) In recent years, the State and relevant ministries and departments have promulgated various new standards and regulations on traffic safety facilities, which are updated at a relatively fast pace. In order to meet the driving guidelines and safety needs of drivers and passengers, the existing traffic safety facilities need to be replaced and upgraded in a timely manner, which will increase the scope of repair and replacement of traffic safety facilities and special maintenance costs accordingly;
 - (iii) In accordance with the Highway Bridges and Culverts Maintenance Guidelines (《公路橋涵養護規範》), the Highway Technical Condition Assessment Standards (《公路技術狀況評定標準》) and other prevailing standards and guidelines, regular examinations of small, medium and large bridges are required every three years, and structural safety inspections of facilities such as housing and buildings are required every two years. It is expected that such regular examinations and safety inspections will be carried out during the term of the agreement, thus leading to an increase in inspection costs; and

- (iv) It is expected that the service area construction project and the replacement and upgrading of certain electrical and mechanical systems of the roads under management will be carried out in the near future, thus leading to the increase in relevant costs.
- 2. The prices of highway business operation comprehensive services are expected to increase due to expected increases in labour, raw material and technical costs.

Taking into account items 1 and 2 above and the demand for highway business operation comprehensive services that may arise thereunder, the Company expects that the transaction amounts arising from the transactions under the Highway Business Operation Services Framework Agreement will not exceed approximately RMB72.9 million, RMB58.1 million and RMB77.6 million for the three years ending 31 December 2022, 2023 and 2024, respectively.

- 3. A buffer of approximately 5% has been provided for occasional business needs in each year on top of the above estimated transaction amounts.

REASONS FOR AND BENEFITS OF ENTERING INTO THE HIGHWAY BUSINESS OPERATION SERVICES FRAMEWORK AGREEMENT

- 1. The services available from Chengdu Communications Investment Group gradually cover the main contents of the highway business; compared with other suppliers in the market, it has a better understanding of the Group's business and operational needs and is more familiar with the project situation, which is conducive to providing better services to the Company and can better meet the safety and environmental requirements of highway business operation;
- 2. For temporary and urgent services, engaging Chengdu Communications Investment Group to provide such services can comparatively reduce the communication cost, and can facilitate the selection process in a more timely and quality-assured manner while complying with relevant laws, regulations and rules;
- 3. When the Group needs technical support, Chengdu Communications Investment Group can coordinate and solve the problem in a timely manner, thus reducing transaction costs, improving efficiency and facilitating more efficient and orderly implementation of projects;
- 4. Having considered the quality and price of its services, its understanding of the Group's business and operational needs and its familiarity with the project, the services provided by Chengdu Communications Investment Group to the Group are on terms no less favourable to the Group than those offered by independent third parties in the market.

As such, the Directors (including the independent non-executive Directors) consider that the Highway Business Operation Services Framework Agreement and the transactions contemplated thereunder are entered into by the Company in the ordinary and usual course of business and on normal commercial terms, are fair and reasonable and are in the interests of the Company and the shareholders as a whole.

INTERNAL CONTROL MEASURES

The Company has a comprehensive internal control system in place to ensure that the continuing connected transactions under the Highway Business Operation Services Framework Agreement are fair and reasonable and are conducted in the ordinary course of business of the Company in accordance with relevant transaction agreements and on normal commercial terms or better, and in the interests of the Company and its shareholders as a whole. The relevant internal control measures include the following:

1. The Company has completed the approval procedures for the Highway Business Operation Services Framework Agreement in accordance with the connected transaction management rules and the relevant internal control system;
2. The Company's audit and supervision department will regularly monitor the continuing connected transactions to ensure that the prices of the services are fair and reasonable and are executed in accordance with the pricing standards agreed in the framework agreement, and will report to the Board on a regular basis;
3. The Company's audit and supervision department, together with the finance management department, will regularly review the use of services and the actual transaction amounts incurred to ensure that such amounts will not exceed relevant annual caps;
4. The Company's management team will regularly organize and conduct internal control inspection to assess the completeness and effectiveness of internal control measures related to continuing connected transactions;
5. The audit and risk management committee under the Board will review the annual financial statements and express an opinion on the continuing connected transactions for the year, including whether the terms of the continuing connected transactions are fair and reasonable and whether the transaction amounts are within relevant annual caps;
6. The Board will review the implementation of the Highway Business Operation Services Framework Agreement on an annual basis and review the financial statements on a half-yearly basis. The review mainly covers whether the Company and the connected persons have fulfilled the terms of the said agreement in the relevant years and whether the actual transaction amounts incurred between the Company and the connected persons are within the annual caps;
7. The independent non-executive Directors will review the continuing connected transactions on an annual basis and provide annual confirmation in the Company's annual report as to whether the continuing connected transactions are (a) conducted in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; (c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company and the shareholders as a whole;

8. In order to assist the Company in complying with the applicable rules as set out in Chapter 14A of the Listing Rules, the Company's auditor will perform relevant work in each year to confirm and issue a letter as to whether the transactions have been approved by the Board, whether the transactions have been conducted in accordance with relevant transaction agreements in material respects and whether the caps have been exceeded.

LISTING RULES IMPLICATIONS

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As one or more of the applicable percentage ratios (as defined under the Listing Rules) of the transactions contemplated under the Highway Business Operation Services Framework Agreement exceeds 0.1% but all of such applicable percentage ratios are lower than 5%, the Highway Business Operation Services Framework Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules, but are exempt from the independent shareholders' approval requirement. As Mr. Xiao Jun, a non-executive Director, is also a director of Chengdu Communications Investment, he is therefore considered to have material interests in entering into the Highway Business Operation Services Framework Agreement and the transactions contemplated thereunder and has abstained from voting on relevant resolutions at the Board meeting. Save as disclosed above, none of the other Directors have any material interests in entering into the Highway Business Operation Services Framework Agreement and the transactions contemplated thereunder and therefore are required to abstain from voting on relevant resolutions at the Board meeting.

GENERAL INFORMATION OF THE PARTIES

The Company

The Company is primarily engaged in operating, managing and developing Chengguan Expressway. The Group is primarily engaged in operating, managing and developing expressways in Chengdu, Sichuan Province and its surrounding areas, and also carries out retail of refined oil and operation of natural gas.

Chengdu Communications Investment

Chengdu Communications Investment is a company incorporated in the PRC with limited liability, and is principally engaged in the investment, the financing of and the construction, development, operation and management of transportation infrastructure in Sichuan province. Chengdu Communications Investment is the ultimate controlling shareholder of the Company, and its ultimate beneficial owner is Chengdu Municipal State-owned Assets Supervision and Administration Commission (成都市國有資產監督管理委員會).

DEFINITIONS

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Chengdu Communications Investment”	Chengdu Communications Investment Group Co., Ltd. (成都交通投資集團有限公司), a limited liability company incorporated under the laws of the PRC
“Chengdu Communications Investment Group”	Chengdu Communications Investment and its associates, excluding the Group
“Company”	Chengdu Expressway Co., Ltd. (成都高速公路股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H shares of which are listed and traded on The Stock Exchange of Hong Kong Limited
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Highway Business Operation Services Framework Agreement”	the highway business operation comprehensive services framework agreement entered into between the Company and Chengdu Communications Investment on 20 May 2022
“Information Port Company”	Chengdu Communications Information Port Co., Ltd. (成都交通信息港有限責任公司), a company incorporated in the PRC with limited liability, which is a wholly-owned subsidiary of Chengdu Communications Investment
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Operation Company”	Chengdu Expressway Operation Management Co., Ltd. (成都高速運營管理有限公司), a company incorporated in the PRC with limited liability, which is a wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC

“third party(ies)”	legal entities (companies, enterprises, units) and natural persons other than Chengdu Communications Investment Group and the Group
“%”	per cent

On behalf of the Board
Chengdu Expressway Co., Ltd.
Xiao Jun
Chairman

Chengdu, the PRC, 20 May 2022

As at the date of this announcement, the Board of the Company comprises Mr. Yang Tan, Ms. Wang Xiao, Mr. Zhang Dongmin and Mr. Luo Dan as executive Directors, Mr. Xiao Jun and Mr. Yang Bin as non-executive Directors, and Mr. Shu Wa Tung, Laurence, Mr. Ye Yong and Mr. Li Yuanfu as independent non-executive Directors.