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If you have sold or transferred all your shares in **Qingdao Port International Co., Ltd.**, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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QINGDAO PORT INTERNATIONAL CO., LTD.*

青島港國際股份有限公司

(A joint stock company established in the People's Republic of China with limited liability)
(Stock Code: 06198)

(1) MAJOR AND CONNECTED TRANSACTIONS AND (2) MAJOR AND CONTINUING CONNECTED TRANSACTIONS

**Independent financial adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the Board is set out on pages 8 to 47 of this circular. A letter from the Independent Board Committee is set out on pages 48 to 49 of this circular. A letter from TC Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 50 to 76 of this circular.

A notice convening the EGM to be held at the Conference Room, Shandong Port Tower, No. 7 Gangji Road, City North District, Qingdao, Shandong Province, the PRC on Friday, 25 February 2022 at 10:00 a.m. together with the relevant proxy form has been despatched to the Shareholders of H Shares and has also been published on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.qingdao-port.com>) on 7 February 2022. If you intend to appoint a proxy to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be) (i.e., by 10:00 a.m. on Thursday, 24 February 2022). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

* For identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following terms and expressions have the following meanings set forth below:

“2022 SDP Financial Services Agreement”	the financial services framework agreement dated 25 January 2022 entered into between the Company and SDP in relation to the provision of financial services by SDP Group to the Group
“2022 SDP Goods and Services Agreement”	the goods and services framework agreement dated 25 January 2022 entered into between the Company and SDP in relation to, among other things, (i) the purchase of goods and services by the Group from SDP Group; (ii) the sales of goods and services by the Group to SDP Group; (iii) the provision of asset lease services by SDP Group to the Group; and (iv) the provision of asset lease services by the Group to SDP Group
“A Share(s)”	share(s) with a nominal value of RMB1.00 each issued by the Company which are listed on the Shanghai Stock Exchange and traded in RMB (stock code: 601298)
“Absorption and Merger Agreement”	the absorption and merger agreement entered into among SDP, the Company, QDP Financial, RZP and RZP Financial on 25 January 2022
“Board”	the board of directors of the Company
“Capital Increase Agreement”	the capital increase agreement entered into among SDP, the Company, RZP and SDP Financial Holdings on 25 January 2022
“CBIRC”	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“China United Assets Appraisal” or “Independent Valuer”	China United Assets Appraisal Group Co., Ltd. (中聯資產評估集團有限公司), an independent valuer
“Commercial Factoring Services”	the provision of commercial factoring services by SDP Group to the Group under the 2022 SDP Financial Services Agreement

DEFINITIONS

“Company”	Qingdao Port International Co., Ltd.* (青島港國際股份有限公司), a joint stock company incorporated in the PRC with limited liability on 15 November 2013
“COSCO SHIPPING Group”	China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司), a substantial shareholder of the Company
“Credit Services”	the provision of credit services by SDP Group to the Group under the 2022 SDP Financial Services Agreement from time to time
“Deposit Services”	the Group may from time to time deposit money with SDP Group under the 2022 SDP Financial Services Agreement
“Director(s)”	the director(s) of the Company
“Effective Date”	in respect of the Framework Agreements, the effective date of the Framework Agreements, being the respective date on which the operation mode of each of the Framework Agreements are fulfilled
“EGM”	the 2022 first extraordinary general meeting of the Company to be held at the Conference Room, Shandong Port Tower, No. 7 Gangji Road, City North District, Qingdao, Shandong Province, the PRC at 10:00 a.m., on Friday, 25 February 2022
“EUR”	Euro, the lawful currency of the member states of the European Union
“Finance Lease Services”	the provision of finance lease services by SDP Group to the Group under the 2022 SDP Financial Services Agreement
“Financing Guarantee Services”	the provision of financing guarantee services by SDP Group to the Group under the 2022 SDP Financial Services Agreement
“Framework Agreements”	the 2022 SDP Goods and Services Agreement and the 2022 SDP Financial Services Agreement

DEFINITIONS

“Gratuitous Transfer”	the gratuitous transfer of 51% equity interests in QDP by the QD SASAC to SDP
“Group”	the Company together with its branches and subsidiaries
“H Share(s)”	the overseas listed foreign share(s) with a nominal value of RMB1.00 each in the share capital of the Company which are listed on the Hong Kong Stock Exchange and are traded in Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the independent board committee of the Board comprising of Ms. LI Yan, Mr. JIANG Min and Mr. LAI Kwok Ho, all of whom are independent non-executive Directors to advise and provide recommendation to the Independent Shareholders in respect of (a)(i) the Absorption and Merger Agreement and the transaction contemplated thereunder; and (ii) the Capital Increase Agreement and the transaction contemplated thereunder; (b) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder

DEFINITIONS

“Independent Shareholders”	the Shareholders other than QDP (being a subsidiary of SDP) or its associates who will abstain from voting on the resolutions with respect to (a)(i) the Absorption and Merger Agreement and the transaction contemplated thereunder; and (ii) the Capital Increase Agreement and the transaction contemplated thereunder; (b) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder
“Independent Third Party(ies)”	third party independent of and not connected with the Company, any of the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined in the Hong Kong Listing Rules)
“Intermediary Services”	the provision of intermediary services (including, among others, transmittance, financial and financing consultation, credit verification and related consultation, agency services, receipt and settlement assistance in relation to payments and receipts of transactions, internal transfer settlement) by SDP Group to the Group under the 2022 SDP Financial Services Agreement
“Latest Practicable Date”	28 January 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Loan Services”	The provision of loan services, entrusted loan services, bills discounting, trade financing, issuance of letter of credit and other credit related services by SDP Group to the Group under the 2022 SDP Financial Services Agreement
“NDRC”	National Development and Reform Commission (國家發展和改革委員會)
“PBOC”	the People’s Bank of China (中國人民銀行)

DEFINITIONS

“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding the Hong Kong, the Macau Special Administrative Region and Taiwan
“Proposed Absorption and Merger”	the transaction contemplated under the Absorption and Merger Agreement, comprising of the acquisition of RZP Financial and disposal of QDP Financial
“Proposed Capital Increase”	the transaction contemplated under the Capital Increase Agreement
“QD SASAC”	State-owned Assets Supervision & Administration Commission of Qingdao Municipal Government* (青島市人民政府國有資產監督管理委員會)
“QDP”	Shandong Port Qingdao Port Group Co., Ltd.* (山東港口青島港集團有限公司), the controlling shareholder of the Company
“QDP Financial”	Qingdao Port Finance Co., Ltd.* (青島港財務有限責任公司), which is owned as to 70% equity interests by the Company and 30% equity interests by QDP, respectively as at the Latest Practicable Date
“QDP Financial Equity Transfer Agreement”	The equity transfer agreement dated 25 January 2022 entered into between QDP and SDP, pursuant to which QDP agreed to transfer its 30% equity interests in QDP Financial to SDP
“RMB”	Renminbi, the lawful currency of PRC
“RZP”	Rizhao Port Co., Ltd.* (日照港股份有限公司), a joint stock company established in the PRC with limited liability on 15 July 2002, A shares of which are listed on the Shanghai Stock Exchange with stock code 600017
“RZP Financial”	Rizhao Port Group Finance Co., Ltd.* (日照港集團財務有限公司), which is owned as to 60% equity interests by RZP Group and 40% equity interests by RZP, respectively as at the Latest Practicable Date
“RZP Financial Equity Transfer Agreement”	the equity transfer agreement dated 25 January 2022 entered into between RZP Group and SDP, pursuant to which RZP Group agreed to transfer its 60% equity interests in RZP Financial to SDP

DEFINITIONS

“RZP Group”	Shandong Port Rizhao Port Group Co., Ltd.* (山東港口日照港集團有限公司), a wholly-owned subsidiary of SDP
“SD SASAC”	State-owned Assets Supervision and Administration Commission of the People’s Government of Shandong Province* (山東省人民政府國有資產監督管理委員會)
“SDP”	Shandong Port Group Co., Ltd.* (山東省港口集團有限公司), an indirect controlling shareholder of the Company. The ultimate beneficial owner of SDP is SD SASAC
“SDP Financial Holdings”	Shandong Port Financial Holdings Limited (山東港口金融控股有限公司), a wholly-owned subsidiary of SDP
“SDP Group”	SDP together with its branches and subsidiaries
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	A Share(s) and H Share(s)
“Shareholder(s)”	the shareholder(s) of the Company
“Supervisor(s)”	the supervisor(s) of the Company
“TC Capital”	TC Capital International Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders on (a)(i) the Absorption and Merger Agreement and the transaction contemplated thereunder; and (ii) the Capital Increase Agreement and the transaction contemplated thereunder; (b) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder

DEFINITIONS

“USD” United States dollars, the lawful currency of the United States

“%” percent.

In addition, the terms “associate(s)”, “connected person(s)”, “connected transaction(s)”, “controlling shareholder(s)” and “subsidiary(ies)” shall have the meanings ascribed to them under the Hong Kong Listing Rules.

* The Chinese name(s) of the PRC entities have been translated into English in this circular for reference only. In the event of any discrepancies between the Chinese names of the PRC entities and their respective English translations, the Chinese version shall prevail.

LETTER FROM THE BOARD



QINGDAO PORT INTERNATIONAL CO., LTD.*

青島港國際股份有限公司

(A joint stock company established in the People's Republic of China with limited liability)
(Stock Code: 06198)

Executive Directors:

Mr. SU Jianguang (*Chairman*)
Mr. WANG Xinze (*General Manager*)

Non-executive Directors:

Mr. LI Wucheng (*Vice Chairman*)
Mr. FENG Boming
Mr. WANG Jun
Ms. WANG Fuling

Independent non-executive Directors:

Ms. LI Yan
Mr. JIANG Min
Mr. LAI Kwok Ho

Registered Office:

No. 12 Jingba Road
Huangdao District
Qingdao
Shandong Province
PRC

***Principal Place of Business in
Hong Kong:***

31/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

7 February 2022

To the Shareholders,

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTIONS AND (2) MAJOR AND CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to the announcement of the Company dated 23 January 2022, in relation to the Gratuitous Transfer. After the completion of the Gratuitous Transfer, QDP will be a wholly-owned subsidiary of SDP. QDP and SDP will be the controlling shareholders of the Company. Therefore, any transactions between the Group and SDP and/or its associates will constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

We also refer to the announcement of the Company dated 25 January 2022, in relation to, among other things, (i) the Absorption and Merger Agreement and the Capital Increase Agreement and the respective transactions contemplated thereunder; (ii) the 2022 SDP Goods and Services Agreement; and (iii) the 2022 SDP Financial Services Agreement.

The purpose of this circular is, among other matters:

- (1) to provide details in respect of the Absorption and Merger Agreement;
- (2) to provide details in respect of the Capital Increase Agreement;
- (3) to set out the recommendations from the Independent Board Committee in respect of the Absorption and Merger Agreement and the Capital Increase Agreement and the transactions contemplated thereunder;
- (4) to set out the advice from TC Capital in respect of the Absorption and Merger Agreement and the Capital Increase Agreement and the transactions contemplated thereunder;
- (5) to provide details in respect of the 2022 SDP Goods and Services Agreement and the proposed annual caps for the year ending 31 December 2022;
- (6) to provide details in respect of the 2022 SDP Financial Services Agreement and the proposed annual caps for the year ending 31 December 2022;
- (7) to set out the recommendations from the Independent Board Committee in respect of (i) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (ii) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder;
- (8) to set out the advice from TC Capital in respect of (i) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (ii) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder; and
- (9) to provide the Shareholders with other information required under the Hong Kong Listing Rules.

LETTER FROM THE BOARD

II. THE PROPOSED ABSORPTION AND MERGER

On 25 January 2022 (after trading hours), the Company entered into the Absorption and Merger Agreement with SDP, QDP Financial, RZP Financial and RZP, pursuant to which, RZP Financial will merge with QDP Financial by way of absorption and merger. After completion of the Proposed Absorption and Merger, QDP Financial (as the surviving merging party) shall remain subsisting and undertake and inherit all the assets, liabilities, personnel and businesses of RZP Financial, and RZP Financial (as the merged party) will be dissolved and deregistered.

The principal terms of the Absorption and Merger Agreement are summarized as below:

Date	25 January 2022 (after trading hours)
Parties	(1) SDP; (2) the Company; (3) QDP Financial; (4) RZP; and (5) RZP Financial
Registered capital of QDP Financial after the Proposed Absorption and Merger	After the Proposed Absorption and Merger, the registered capital of QDP Financial will be increased from RMB1,000 million to RMB2,000 million, being the total registered capital of QDP Financial and RZP Financial.
Scope of the Proposed Absorption and Merger	All rights and obligations of RZP Financial including its assets, liabilities, businesses and personnel shall be succeeded by QDP Financial upon the completion of the Proposed Absorption and Merger.

LETTER FROM THE BOARD

Conditions precedent

The Absorption and Merger Agreement shall become effective upon fulfillment of the followings:

- (1) having obtained approval from the Independent Shareholders at the EGM in relation to the Absorption and Merger Agreement and the transaction contemplated thereunder in accordance with the Hong Kong Listing Rules;
- (2) having obtained the approval from CBIRC; and
- (3) each of the QDP Financial Equity Transfer Agreement and RZP Financial Equity Transfer Agreement having become effective and the obligations thereunder having been fully performed.

The following table sets out the shareholding structure of QDP Financial prior to and upon completion of the Proposed Absorption and Merger:

Name of shareholders	Prior to the Proposed Absorption and Merger		Upon completion of the Proposed Absorption and Merger	
	Amount of capital contribution (RMB0'000)	Equity interest in QDP Financial (%)	Amount of capital contribution (RMB0'000)	Equity interest in QDP Financial (%)
the Company	70,000	70.00	88,929.10	44.47
SDP	30,000	30.00	81,887.53	40.94
RZP <i>(Note)</i>	—	—	29,183.37	14.59
Total	100,000	100.00	200,000.00	100.00

Note: After the completion of the Proposed Absorption and Merger, RZP will hold 14.59% equity interests in QDP Financial, which is determined with reference to the valuations of QDP Financial and RZP Financial and is calculated by the following formula:

The valuation of RZP Financial (i.e. RMB1,185,290,000) * 40%/(the total valuations of QDP Financial and RZP Financial (i.e. RMB3,249,220,000)).

LETTER FROM THE BOARD

III. THE PROPOSED CAPITAL INCREASE

On 25 January 2022 (after trading hours), the Company entered into the Capital Increase Agreement with SDP, RZP and SDP Financial Holdings to increase the registered capital of QDP Financial from RMB2,000 million to RMB2,567.6624 million. Pursuant to the Capital Increase Agreement, SDP and SDP Financial Holdings agreed to subscribe for RMB490.6325 million and RMB77.0299 million of the registered capital of QDP Financial at the considerations of RMB797.0865 million and RMB125.1435 million, respectively.

The principal terms of the Capital Increase Agreement are summarized as below:

Date	25 January 2022 (after trading hours)
Parties	(1) SDP; (2) the Company; (3) RZP; and (4) SDP Financial Holdings
Capital contribution	<p>The registered capital of QDP Financial will be increased from RMB2,000 million to RMB2,567.6624 million upon completion of the Proposed Capital Increase.</p> <p>SDP and SDP Financial Holdings agreed to subscribe for RMB490.6325 million and RMB77.0299 million of the registered capital of QDP Financial at the considerations of RMB797.0865 million (of which RMB490.6325 million will be included in the increased registered capital of QDP Financial and RMB306.4540 million will be included in the capital reserve of QDP Financial) and RMB125.1435 million (of which RMB77.0299 million will be included in the increased registered capital of QDP Financial and RMB48.1136 million will be included in the capital reserve of QDP Financial), respectively.</p>

LETTER FROM THE BOARD

Basis of consideration

The considerations paid by SDP and SDP Financial Holdings for subscription of the registered capital of QDP Financial were determined with reference to the valuations of QDP Financial and RZP Financial, and the excess capital contribution will be included as capital premium to QDP Financial.

Conditions precedent

The Capital Increase Agreement shall become effective upon fulfillment of the following:

- (1) having obtained approval from the Independent Shareholders at the EGM in relation to the Capital Increase Agreement and the transaction contemplated thereunder in accordance with the Hong Kong Listing Rules;
- (2) having obtained the approval from CBIRC;
- (3) each of the QDP Financial Equity Transfer Agreement and RZP Financial Equity Transfer Agreement having become effective and the obligations thereunder having been fully performed; and
- (4) the Absorption and Merger Agreement having become effective and the obligations thereunder having been fully performed.

Restrictions on transfer

The shareholders of QDP Financial are permitted to transfer all or any part of their respective equity interests in QDP Financial among themselves.

When a shareholder of QDP Financial intends to transfer its equity interest to a third party which is not an existing shareholder of QDP Financial, it must obtain consent from more than half of the other existing shareholders of QDP Financial.

LETTER FROM THE BOARD

Transitional period

The profit and loss of QDP Financial during the period commencing from the valuation assessment date (i.e. 30 September 2021) to the date of industrial and commercial registration of the Capital Increase Agreement shall be borne by SDP, the Company, RZP and SDP Financial Holdings *pro rata* to their respective shareholding in QDP Financial after the completion of the Proposed Capital Increase.

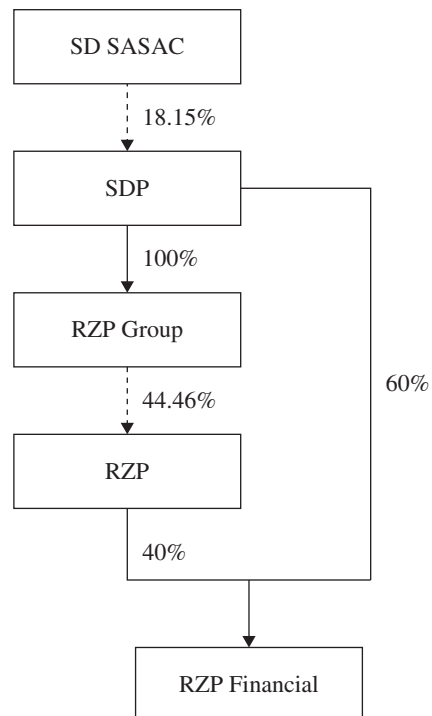
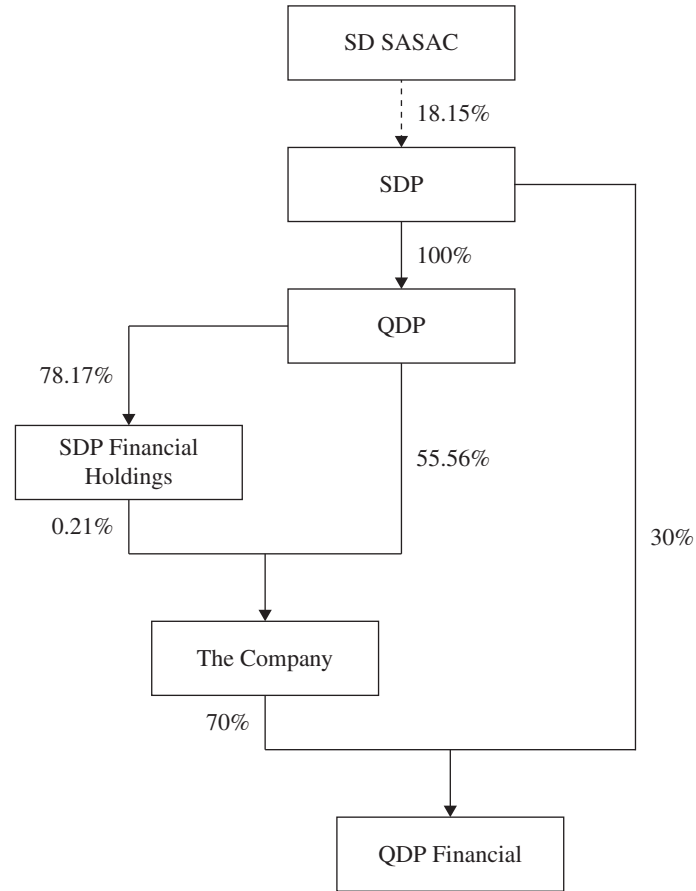
The following table sets out the shareholding structure of QDP Financial upon completion of the Proposed Absorption and Merger but prior to the Proposed Capital Increase and upon the completion of the Proposed Capital Increase:

Name of shareholders	Upon completion of the Proposed Absorption and Merger but prior to the Proposed Capital Increase		Upon completion of the Proposed Capital Increase	
	Amount of capital contribution (RMB0'000)	Equity interest in QDP Financial (%)	Amount of capital contribution (RMB0'000)	Equity interest in QDP Financial (%)
SDP	81,887.53	40.94	130,950.78	51.00
the Company	88,929.10	44.47	88,929.10	34.63
RZP	29,183.37	14.59	29,183.37	11.37
SDP Financial Holdings	—	—	7,702.99	3.00
Total	200,000.00	100.00	256,766.24	100.00

IV. ORGANIZATION CHART OF QDP FINANCIAL (I) PRIOR TO THE PROPOSED ABSORPTION AND MERGER; (II) UPON COMPLETION OF THE PROPOSED ABSORPTION AND MERGER BUT PRIOR TO THE PROPOSED CAPITAL INCREASE; AND (III) UPON COMPLETION OF THE PROPOSED CAPITAL INCREASE

LETTER FROM THE BOARD

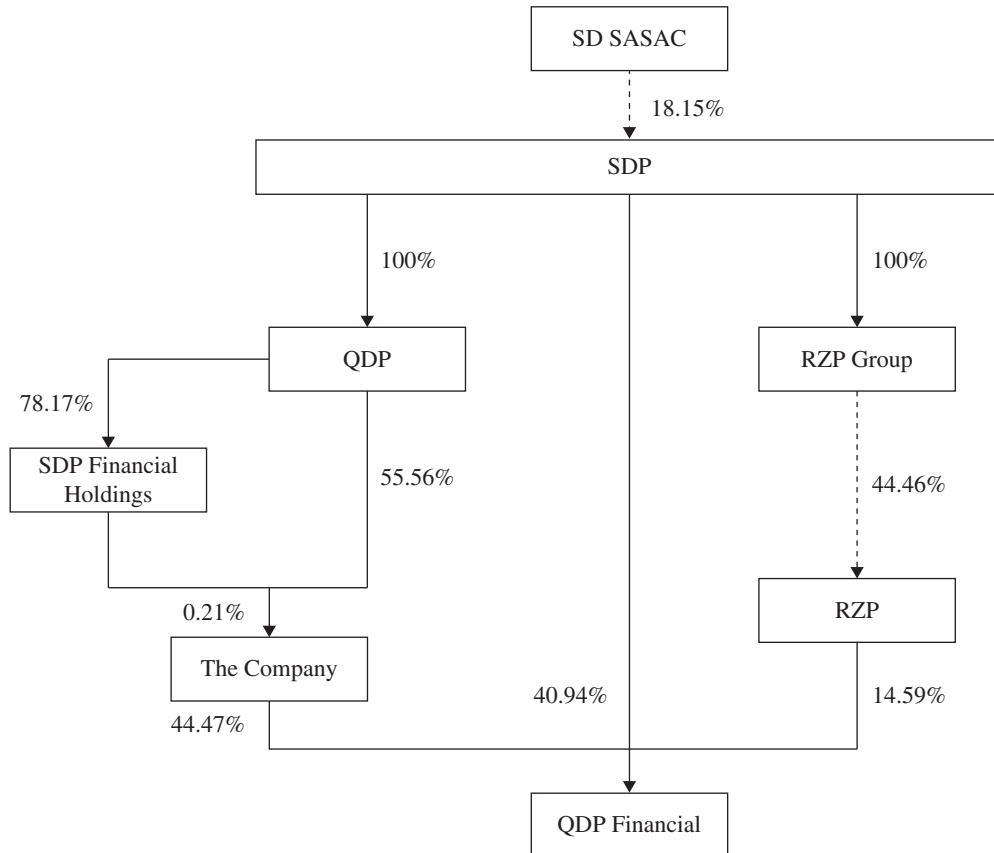
(I) Prior to the Proposed Absorption and Merger



LETTER FROM THE BOARD

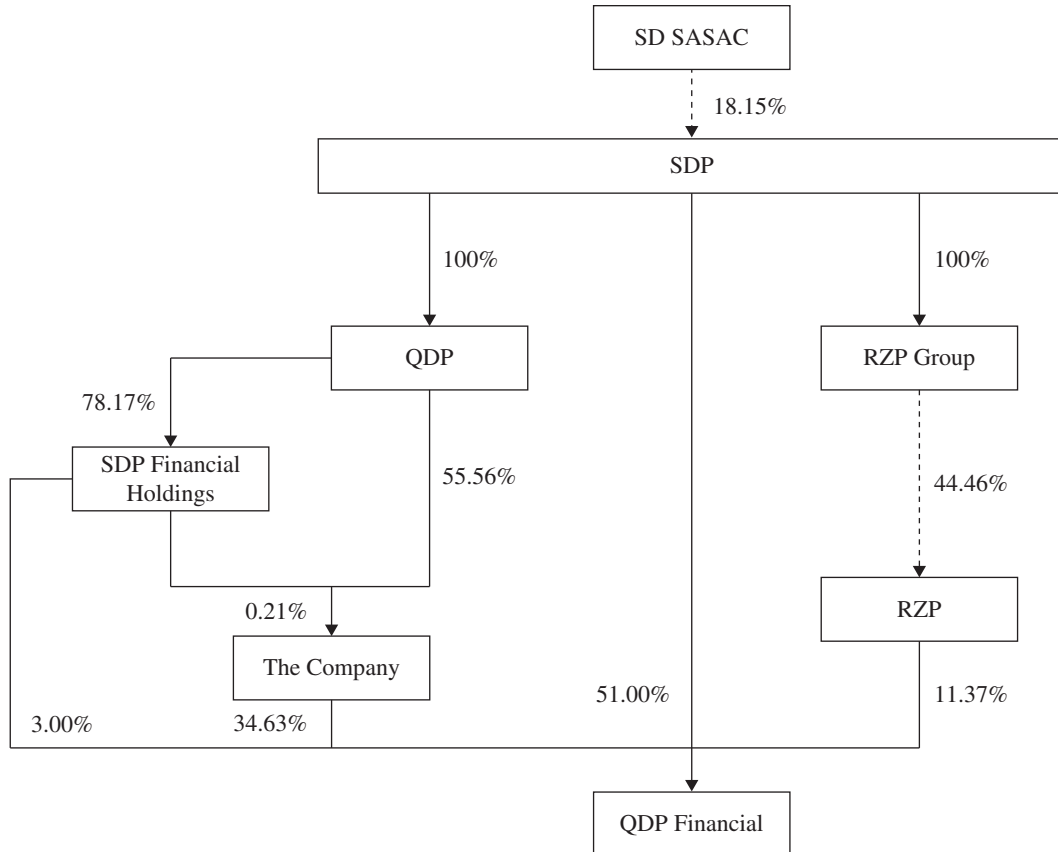
Note: Pursuant to the articles of association of SDP, the shareholders of SDP agreed to entrust SD SASAC to manage a total of 100% equity interests in SDP, including the 18.15% equity interests held by SD SASAC indirectly in SDP together with an aggregate of 81.85% equity interests held by other shareholders of SDP in SDP (“**Entrusted Arrangement**”). Save for the aforementioned, the Entrusted Arrangement also entrusted SD SASAC to formulate the dividend policy of SDP. In view of the Entrusted Arrangement, SD SASAC is regarded as the ultimate controller of SDP.

(II) Upon Completion of the Proposed Absorption and Merger but Prior to the Proposed Capital Increase



LETTER FROM THE BOARD

(III) Upon Completion of the Proposed Capital Increase



V. VALUATION ON QDP FINANCIAL

China United Assets Appraisal, an independent valuer, performed independent valuation in respect of 100% equity interests in QDP Financial. The appraised value for 100% equity interests in QDP Financial as at 30 September 2021 was RMB2,063.93 million, which was determined based on the income approach adopted in the valuation report which took into account the cash flow projection of the relevant businesses, and as such, the valuation under the valuation report on QDP Financial constitutes profit forecasts under Rule 14.61 of the Hong Kong Listing Rules. Summary of the valuation report is set out in Appendix III to this circular, including the reasons for adoption of the income approach in the valuation, methods and assumptions adopted by China United Assets Appraisal, valuation scope and results.

LETTER FROM THE BOARD

The assumptions contained in the valuation report on QDP Financial are as follows:

A. General Assumptions

1. Transaction Assumption

The transaction assumption is to assume that all assets to be appraised are in the process of transaction, and the asset appraiser conducts valuation in a simulated market based on the trading conditions of the assets to be appraised. Transaction assumption is the most fundamental assumption for the implementation of asset valuation.

2. Open Market Assumption

The open market assumption is to assume that assets traded in the market or to be traded in the market, the transactions parties are equal to each other in asset transactions, and each has the opportunity and time to obtain sufficient market information to make rational judgments on the function, use and transaction price of the assets. The open market assumption is based on the fact that assets can be bought and sold publicly in the market.

3. Asset Continuity Assumption

The asset continuity assumption refers to the assets to be evaluated should be used continuously in the course of assessment according to the current purpose, usage, scale, frequency and environment, or used on the basis of changes, and the evaluation methods, parameters and bases shall be determined accordingly.

B. Special Assumptions

1. The assessment assumes that the external economic environment remains unchanged on the valuation assessment date, and that the country's current macro economy does not change significantly;
2. The social and economic environment in which QDP Financial is located and the policies such as taxes and tax rates implemented do not change significantly;
3. All assets in this assessment are based on the actual stock on the valuation assessment date, and the current market prices of the relevant assets are based on the effective domestic prices on the valuation assessment date;
4. This assessment assumes that the basic information and financial information provided by the principal and QDP Financial are true, accurate and complete;

LETTER FROM THE BOARD

5. The scope of assessment is only based on the assessment declaration form provided by QDP Financial, without considering the contingent assets or contingent liabilities that may exist outside the list provided by QDP Financial;
6. The various operating permits required for production and operation of QDP Financial will be approved as scheduled, and can continue to be obtained through applications after the expiration of the future year;
7. The income generated from the main business of QDP Financial mainly comes from its current operating business income and investment income, but does not consider new business that may occur;
8. The future management team of QDP Financial will fulfil its duty and continue to maintain the existing management mode to operate continuously;
9. The assessment is only based on the current business strategy, operating capabilities and operating conditions on the valuation assessment date, and does not consider changes that may be caused by changes in management in the future;
10. The remaining profits of QDP Financial will all be distributed in accordance with the relevant regulatory standards for capital adequacy ratios;
11. The business scale of the QDP Financial is limited to its existing capital scale, and does not consider the impact of possible future restructuring on the development of the business scale of QDP Financial;
12. The industry in which the assessed unit has developed steadily without material changes; and
13. The valuer does not assume any responsibility for the changes in the market, nor is it obligated to revise the valuer's valuation report for events or circumstances that occur after the assessment benchmark date.

After reviewing on the valuation report and taking into account (i) that China United Assets Appraisal has prepared the valuation report based on procedures, standards, laws and regulations of the PRC on valuation; (ii) that China United Assets Appraisal has reviewed the financial data, operating data and other relevant data in relation to QDP Financial to understand such company comprehensively; and (iii) the reasons for adoption of the income approach in the valuation, methods and assumptions adopted by China United Assets Appraisal, valuation scope and valuation results, the Directors believe the valuation results reflect the value of QDP Financial and are fair and reasonable.

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PricewaterhouseCoopers Zhong Tian LLP, the reporting accountant of the Company, has reviewed the arithmetical accuracy of the calculations of the discounted cash flow forecast on which the valuation is based, not including the reasonability of the adopted accounting policies and assumptions. The Board has confirmed the profit forecast (including the assumptions) of QDP Financial set out in the valuation report on QDP Financial are made after due and careful enquiry. Letters from PricewaterhouseCoopers Zhong Tian LLP and the Board are set out in Appendix V and Appendix VI to this circular, respectively.

VI. VALUATION ON RZP FINANCIAL

China United Assets Appraisal, an independent valuer, performed independent valuation in respect of 100% equity interests in RZP Financial. The appraised value for 100% equity interests in RZP Financial as at 30 September 2021 was RMB1,185.29 million, which was determined based on the income approach adopted in the valuation report which took into account the cash flow projection of the relevant businesses. Summary of the valuation report is set out in Appendix IV to this circular, including the reasons for adoption of the income approach in the valuation, methods and assumptions adopted by China United Assets Appraisal, valuation scope and results.

The assumptions contained in the valuation report on RZP Financial are as follows:

A. General Assumptions

1. *Transaction assumption*

The transaction assumption is to assume that all assets to be appraised are in the process of transaction, and the asset appraiser conducts valuation in a simulated market based on the trading conditions of the assets to be appraised. Transaction assumption is the most fundamental assumption for the implementation of asset valuation.

2. *Open market assumption*

The open market assumption is to assume that assets traded in the market or to be traded in the market, the transactions parties are equal to each other in asset transactions, and each has the opportunity and time to obtain sufficient market information to make rational judgments on the function, use and transaction price of the assets. The open market assumption is based on the fact that assets can be bought and sold publicly in the market.

3. *Asset Continuity Assumption*

The asset continuity assumption refers to the assets to be evaluated should be used continuously in the course of assessment according to the current purpose, usage, scale, frequency and environment, or used on the basis of changes, and the evaluation methods, parameters and bases shall be determined accordingly.

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B. Special Assumptions

1. The assessment assumes that the external economic environment remains unchanged on the valuation assessment date, and that the country's current macro economy does not change significantly;
2. The social and economic environment in which RZP Financial is located and the policies such as taxes and tax rates implemented do not change significantly;
3. All assets in this assessment are based on the actual stock on the valuation assessment date, and the current market prices of the relevant assets are based on the effective domestic prices on the valuation assessment date;
4. This assessment assumes that the basic information and financial information provided by the principal and RZP Financial are true, accurate and complete;
5. The scope of assessment is only based on the assessment declaration form provided by RZP Financial, without considering the contingent assets or contingent liabilities that may exist outside the list provided by RZP Financial;
6. The various operating permits required for production and operation of RZP Financial will be approved as scheduled, and can continue to be obtained through applications after the expiration of the future year;
7. The income generated from the main businesses of RZP Financial mainly comes from its current operating business income and investment income, but does not consider new business that may occur;
8. The future management team of RZP Financial will fulfil its duty and continue to maintain the existing management mode to operate continuously;
9. The assessment is only based on the current business strategy, operating capabilities and operating conditions on the valuation assessment date, and does not consider changes that may be caused by changes in management in the future;
10. The remaining profits of RZP Financial will all be distributed in accordance with the relevant regulatory standards for capital adequacy ratios;
11. The business scale of the RZP Financial is limited to its existing capital scale, and does not consider the impact of possible future restructuring on the development of the business scale of RZP Financial;
12. The industry in which the assessed unit has developed steadily without material changes; and
13. The valuer does not assume any responsibility for the changes in the market, nor is it obligated to revise the valuer's valuation report for events or circumstances that occur after the valuation assessment date.

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VII. FINANCIAL IMPACT OF THE PROPOSED ABSORPTION AND MERGER AND THE PROPOSED CAPITAL INCREASE

Upon completion of the Proposed Absorption and Merger and the Proposed Capital Increase, QDP Financial will cease to be a subsidiary of the Company and its financial results will no longer be consolidated in the accounts of the Group. Assuming that the Proposed Absorption and Merger and Proposed Capital Increase are completed on 30 September 2021 (i.e. valuation assessment date), after which it is expected the total assets of the Group will decrease by approximately RMB3.5012 billion, representing approximately 5.99% of the total assets of the Group, and the total liabilities of the Group will decrease by approximately RMB2.8536 billion, representing approximately 14.00% of the total liabilities of the Group. It is expected that no material gains or losses will be recorded by the Company from the Proposed Absorption and Merger and the Proposed Capital Increase.

VIII. HONG KONG LISTING RULES IMPLICATIONS IN RELATION TO THE PROPOSED ABSORPTION AND MERGER AND THE PROPOSED CAPITAL INCREASE

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the disposal of QDP Financial under the Proposed Absorption and Merger exceeds 25%, the disposal of QDP Financial constitutes a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules. As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the acquisition of RZP Financial under the Proposed Absorption and Merger exceeds 5% but is less than 25%, the acquisition of RZP Financial constitutes a disclosable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules. Pursuant to Rule 14.24 of the Hong Kong Listing Rules, since the Proposed Absorption and Merger involves both acquisition and disposal, it will be classified by reference to the larger of the two and subject to the reporting, disclosure and/or shareholder's approval requirement applicable to that classification. Therefore, the Proposed Absorption and Merger constitutes a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules. Accordingly, the Proposed Absorption and Merger is subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

As SDP is an indirect controlling shareholder of the Company, and therefore a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. As (i) SDP Financial Holdings is a wholly-owned subsidiary of SDP; (ii) RZP is indirectly owned as to 44.46% equity interests by SDP; (iii) QDP Financial is a connected subsidiary of the Company; and (iv) RZP Financial is an indirect non wholly-owned subsidiary of SDP, therefore SDP Financial Holdings, RZP, QDP Financial and RZP Financial are associates of SDP and are connected persons of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Therefore, the transactions contemplated under the Absorption and Merger Agreement and the Capital Increase Agreement constitute connected transactions of the Company. Accordingly, as the highest of the applicable percentage ratio (as defined under the Hong Kong Listing Rules) in respect of the Proposed Absorption and Merger exceeds 25% while the highest of the

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applicable ratio (as defined under the Hong Kong Listing Rules) in respect of the Proposed Capital Increase exceeds 5% but less than 25%, each of the Proposed Absorption and Merger and the Proposed Capital Increase is subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to their voting on the resolutions relating to the Absorption and Merger Agreement and the Capital Increase Agreement and the transactions contemplated thereunder. The Company has appointed TC Capital to advise the Independent Board Committee and the Independent Shareholders in relation to the fairness and reasonableness of the Absorption and Merger Agreement and the Capital Increase Agreement and the transactions contemplated thereunder.

IX. REASONS FOR AND BENEFITS OF THE PROPOSED ABSORPTION AND MERGER AND THE PROPOSED CAPITAL INCREASE

The Proposed Absorption and Merger and the Proposed Capital Increase are inevitable requirements for the implementation of the regulatory policies by CBIRC, which provides that each group can only establish one financial company. The Proposed Absorption and Merger and the Proposed Capital Increase also benefit the functional positioning of “base on the group and serve the group” and enhance the quality of services of QDP Financial.

Upon completion of the Proposed Absorption and Merger and the Proposed Capital Increase, SDP will become the controlling shareholder of QDP Financial and the members which QDP Financial can provide services will be extended to cover SDP and its over 400 members units. Conducive to the revenue and profit forecast of QDP Financial will also create good returns for the Company and the Shareholders through increasing the scale of fund collection and scale of business significantly.

X. PROPOSED MAJOR AND CONTINUING CONNECTED TRANSACTIONS

On 25 January 2022, the Company entered into the 2022 SDP Goods and Services Agreement and the 2022 SDP Financial Services Agreement with SDP.

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1. 2022 SDP Goods and Services Agreement

A. *Principal terms*

Date: 25 January 2022

Parties: (1) the Company; and
(2) SDP

Terms: Without prejudice to the representations and warranties made by the parties and subject to the completion of relevant legal procedures, the 2022 SDP Goods and Services Agreement will come into effect from the Effective Date till 31 December 2022.

Transaction Type: *Purchase of goods and services by the Group from SDP Group*

The Group purchases goods and services from SDP Group, including but not limited to, products such as ports machinery and earthwork, and services such as construction engineering and integrated logistics. The Group has discretion to decide whether or not to purchase goods and services from SDP Group.

Sales of goods and services by the Group to SDP Group

The Group sells goods and services to SDP Group, including but not limited to, products such as fuel oil and electricity, and services such as stevedoring, warehousing and logistics.

Provision of asset lease services by the Group to SDP Group

The Group leases assets to SDP Group, including but not limited to houses, etc for a period not exceeding one year.

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Provision of asset lease services by SDP Group to the Group

The Group leases assets from SDP Group, including but not limited to, sea areas, terminals, stocking yards, warehouses and houses, etc. The Group has discretion to decide whether or not to lease assets from SDP Group for a period not exceeding one year.

Pricing policy:

The pricing policies for each of the goods and services under the 2022 SDP Goods and Services Agreement shall be negotiated on arm's length basis by both parties under the principle of fairness and reasonableness, and determined in accordance with the prevailing market prices of both parties being offered to Independent Third Parties in the ordinary and usual course of business for the sales or purchases of the same or similar type of goods or services, in particular:

- (1) if the state-prescribed price is available, the prices shall be determined at the state-prescribed price;
- (2) if no state-prescribed price is available but there exists government guided price, the prices shall be determined in accordance with the government guided price;
- (3) if no state-prescribed price or government guided price is available, the prices shall be determined at the market price (including prices determined through bidding process); or
- (4) if the prices in (1), (2) and (3) are not available or applicable, the prices shall be determined at the contract price following the principle of reasonable cost plus reasonable profits and arrived at by both parties after arm's length negotiation.

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B. Proposed annual caps

The table below sets out the historical transaction amounts for the year ended 31 December 2021, and the proposed annual caps for the year ending 31 December 2022 in respect of (i) the purchase of goods and services by the Group from SDP Group; (ii) the sales of goods and services by the Group to SDP Group; (iii) the provision of asset lease services by the Group to SDP Group; and (iv) the provision of asset lease services by SDP Group to the Group under the 2022 SDP Goods and Services Agreement.

Transaction type	Historical transaction amounts for the year ended 31 December 2021 (RMB million)	Proposed annual caps for the year ending 31 December 2022 (RMB million)
Purchase of goods and service by the Group from SDP Group	1,906	3,600
Sales of goods and services by the Group to SDP Group	1,317	1,800
Provision of asset lease services by the Group to SDP Group	5	20
Provision of asset lease services by SDP Group to the Group	162	300

In arriving at the proposed annual caps mentioned above, the following factors have been considered by the Directors:

Purchase of goods and service by the Group from SDP Group

- (1) the historical amount of similar transactions between the Group and SDP Group for the year ended 31 December 2021 was approximately RMB1,906 million; and
- (2) according to the Group's business development plan, the scale of the transaction that the Group is expected to purchase goods and services from SDP Group, including services such as construction engineering and integrated logistics, and products such as ports machinery and earthwork logistics, will increase significantly for the year ending 31 December 2022.

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Sales of goods and services by the Group to SDP Group

- (1) the historical amount of similar transactions between the Group and SDP Group for the year ended 31 December 2021 was approximately RMB1,317 million; and
- (2) according to the SDP Group's business development plan, the scale of the transaction that the Group is expected to sell goods and services to SDP Group, including services such as stevedoring, logistics and warehousing, and products such as fuel oil and electricity, will increase significantly for the year ending 31 December 2022.

Provision of asset lease services by the Group to SDP Group

- (1) the historical amount of such transaction for the year ended 31 December 2021 was approximately RMB5 million; and
- (2) the expected continuing of such asset lease services and increasing demand for other asset lease services by SDP Group from the Group for the year ending 31 December 2022 due to the continuous development of the business operation of SDP Group.

Provision of asset lease services by SDP Group to the Group

- (1) the estimated historical transaction amount of such transactions for the year ended 31 December 2021 was approximately RMB162 million; and
- (2) the expected continuing of such asset lease services and increasing demand for other asset lease services by the Group from SDP Group for the year ending 31 December 2022 due to the continuous development of the business operation of the Group.

C. Reasons for and benefits of entering into the 2022 SDP Goods and Services Agreement

The Company has entered into a goods and services framework agreement with QDP for the period from 1 January 2020 to 31 December 2022 (the “**2020 QDP Goods and Services Agreement**”). Please refer to the announcements of the Company dated 28 March 2019 and 29 October 2021 and the circular of the Company dated 23 April 2019 for details. After the completion of the Gratuitous Transfer, SDP becomes an indirect controlling shareholder of the Company and any transactions between the Group and SDP Group constitute connected transactions of the Company. Given the transactions between the Group and SDP Group will be continuing, the Company shall enter into the 2022 SDP Goods and Services Agreement with SDP to regulate the transactions in accordance with the requirements under the Hong Kong Listing Rules. The 2020 QDP Goods and Services Agreement will be superseded by the 2022 SDP Goods and Services Agreement upon the later coming into effect.

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The Group and SDP Group have extensive cooperation in the past in multiple business areas, with strong complementarity, mutual understanding, efficient communication, collaboration, good cooperation experience and also have natural cooperation advantages due to geographical reasons in some businesses, which enables both parties to provide high-quality and reliable products, convenient and efficient services, which are conducive to promoting mutual benefit and achieving high-quality development to each other.

The Directors (including the independent non-executive Directors) are of the view that the 2022 SDP Goods and Services Agreement is entered into on normal commercial terms and in the ordinary and usual course of business of the Group and its terms (including the proposed annual caps contemplated thereunder) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2. 2022 SDP Financial Services Agreement

A. *Principal terms*

Date: 25 January 2022

Parties: (1) the Company; and
(2) SDP

Terms: Without prejudice to the representations and warranties made by the parties and subject to the completion of relevant legal procedures, the 2022 SDP Financial Services Agreement will come into effect from the Effective Date till 31 December 2022.

Transaction Type: (1) Deposit Services
(2) Credit Services, including:
(i) *Loan Services*

The provision of loan services, entrusted loan services, bills discounting, trade financing, issuance of letter of credit and other credit related services by SDP Group to the Group.

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(ii) *Financing Guarantee Services*

The provision of financing guarantee services, including but not limited to loan guarantee, bill acceptance guarantee, trade financing guarantee, project financing guarantee, letter of credit guarantee, lawsuit preservation guarantee and performance guarantee, by SDP Group to the Group.

(iii) *Finance Lease Services*

Direct lease service: SDP Group shall, according to the Group's requirements and for the purpose of leasing equipment to the Group, finance and purchase leased equipment in accordance with the name, quality, specification, quantity and value of the leased equipment as stipulated under the specific agreement to be entered into with the Group for a period not exceeding one year and lease it to the Group afterwards. The Group shall rent such leased equipment and pay rental to SDP Group pursuant to the terms and conditions as stipulated under such specific agreement to be entered into and repurchase the leased equipment at nominal price upon expiration of the lease period, which is normally for a period not exceeding one year.

Leaseback service: SDP Group shall purchase equipment from the Group, which is legally owned by the Group and has no defects of title and SDP Group shall lease it back to the Group afterwards. The Group shall rent the leased equipment and pay the rental and other fees (if any) to the SDP Group pursuant to the terms and conditions as stipulated under the specific agreement to be entered into from time to time. In particular, (a) the Group shall be the only owner of the leased equipment and has the right to dispose before selling it to SDP Group.

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The leased equipment shall not have any pledges and/or other burden of rights, and there is no right or claim which may be raised by any third party. SDP Group shall pay the consideration of lease equipment based on the aforesaid and obtain the ownership of such equipment; (b) the Group shall, for the purpose of leaseback and financing, rent the leased equipment, the term of which is normally for a period not exceeding one year and pay the rental and other fees to SDP Group after selling the leased equipment to it in accordance with the terms and conditions as stipulated under the specific agreement to be entered into; and (c) the Group shall repurchase the leased equipment at nominal price upon expiration of the lease period after the payment of total rental pursuant to the terms and conditions as stipulated under the specific agreement to be entered into.

(iv) Commercial Factoring Services

The provision of commercial factoring services by SDP Group to the Group, including factoring financing, sales (sub-account) management, collection of accounts receivables, non-commercial bad debt guarantees, customer credit investigations and evaluations, and consultation services related to commercial factoring.

(3) Intermediary Services

The Group may from time to time request the members of the SDP Group to provide intermediary services (including, among others, financial and financing consultation, credit verification and related consultation, agency services, receipt and settlement assistance in relation to payments and receipts of transactions, internal transfer settlement and corresponding scheme design of settlement and clearing) to it.

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**Principles of Pricing
Mechanism:**

The pricing policies on provision of specific financial services by SDP Group to the Group shall be determined in accordance with the principles below.

Deposit Services

SDP Group provides deposit services to the Group at an interest rate (i) with reference to the deposit benchmark interest rate set by the PBOC from time to time for such types of deposit services; and (ii) not lower than the interest rate offered by the major independent PRC commercial banks in the service location or adjacent areas in the normal course of business for such types of deposit services.

Credit Services

SDP Group provides credit services to the Group at an interest rate or fee rate (i) with reference to the loan benchmark interest rate or the fee rate set by the PBOC from time to time for such types of credit services; and (ii) not higher than the interest rate or fee rate charged by Independent Third Parties in the service location or adjacent areas in the normal course of business for such types of credit services.

Intermediary Services

The fees charged by SDP Group for the provision of such intermediary services shall be (i) not higher than the standard fee rate set by the PBOC, CBIRC or NDRC from time to time for such types of intermediary services; and (ii) not higher than the fee rate charged by Independent Third Parties in the service location or adjacent areas in the normal course of business for such types of intermediary services.

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B. Proposed annual caps

The table below sets out the proposed annual caps for the year ending 31 December 2022 in respect of (i) the Deposit Services, (ii) the Credit Services, and (iii) the Intermediary Services provided by SDP Group to the Group under the 2022 SDP Financial Services Agreement.

Transaction Type	Maximum outstanding balance as at 31 December 2021/historical transaction volume for the year ended 31 December 2021 of each type of service (RMB million)	Proposed annual caps for the year ending 31 December 2022 (RMB million)
Deposit Services	12,000	20,000
Credit Services	9,400	16,000
<i>Loan Services</i>	6,900	11,500
<i>Finance Lease Services</i>	2,400	3,500
<i>Commercial Factoring Services</i>	96	500
<i>Financing Guarantee Services</i>	4	500
Intermediary Services	1	20

In arriving at the proposed annual caps, the following factors have been considered by the Directors:

Deposit Services

The proposed annual cap for Deposit Services was determined after considering the factors below:

- (1) the maximum outstanding balance of the deposits of the Group as at 31 December 2021 deposited with QDP Financial was approximately RMB12 billion, which is expected to remain to be deposited with QDP Financial, being the only entity within the SDP Group qualified to take deposit, in 2022;
- (2) the Group's deposits in external commercial banks as at 31 December 2021 amounted to approximately RMB1.2 billion, and such deposits may be deposited with QDP Financial in 2022;

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- (3) the cash generated from operating activities of the Group for the two years ended 31 December 2020 were approximately RMB3 billion and RMB3.6 billion, respectively. It is expected there will be an increase in cash generated from operating activities of the Group due to business growth of the Group in 2022 and such cash generated will be deposited with QDP Financial in 2022; and
- (4) there is an expected increase in scale of fund from the potential investors and such fund contributed by the potential investors is expected to be deposited with QDP Financial.

Credit Services

The proposed annual caps for Credit Services were determined by reference to the factors below:

- (1) the maximum outstanding balance of credit services as at 31 December 2021 was approximately RMB9.4 billion;
- (2) it is expected that crude oil depot, liquid chemical storage project, terminal construction projects and other infrastructure invested by the Group are expected to require large capital and credit services of approximately RMB2.4 billion in 2022;
- (3) it is expected that the number of subsidiaries of the Group will be increased, and the demand of loan services from SDP Group to replace the existing loan offered by external commercial banks will be approximately RMB3.5 billion; and
- (4) in order to increase capital gains and meet the demand for capital turnover, the Group has a continuous and stable demand of approximately RMB0.7 billion for credit services such as bill acceptance and working capital loans.

Intermediary Services

The annual cap for Intermediary Services was determined by reference to the factors below:

- (1) the historical transaction volume for the year ended 31 December 2021 was approximately RMB1 million; and
- (2) the further expansion of the business scale and extension of the business scope of the Group in the future.

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C. Reasons for and benefits of entering into the 2022 SDP Financial Services Agreement

Three financial services framework agreements have been entered into between (i) the Company and QDP (the “**2020 QDP Financial Services Agreement**”), (ii) the Company and QDP Financial (the “**2020 Financial Services Agreement I**”), and (iii) QDP Financial and QDP (the “**2020 Financial Services Agreement II**”) respectively, which are all valid from 1 January 2020 to 31 December 2022. Please refer to the announcements of the Company dated 28 March 2019 and 29 October 2021 and the circular of the Company dated 23 April 2019 for details. After the completion of the Gratuitous Transfer, SDP has become an indirect controlling shareholder of the Company and any transactions between the Group and SDP Group constitute connected transactions of the Company. Given the transactions between the Group and SDP Group will be continuing, the Company shall enter into the 2022 SDP Financial Services Agreement with SDP to regulate the transactions in accordance with the requirements under the Hong Kong Listing Rules. The 2020 QDP Financial Services Agreement, 2020 Financial Services Agreement I and the 2020 Financial Services Agreement II will be superseded, when the 2022 SDP Financial Services Agreement takes effect.

Compared with Independent Third Parties, related companies engaged in financial services of SDP Group have been providing financial services such as deposits, credit, and intermediary services to the Group for many years, and they have a good foundation with the Group for commercial mutual trust and cooperation, and are also familiar with the needs of the Group for relevant services.

With regard to the Deposit Services, since after the completion of the Proposed Absorption and Merger and the Proposed Capital Increase, the Company will still hold 34.63% equity interests in QDP Financial and be financially benefited from the financial performance of QDP Financial. In addition, the Group has adopted various measures and guidelines to monitor the risk of deposit services under the 2022 SDP Financial Services Agreement. As per the articles of association of QDP Financial, the shareholders of QDP Financial undertake to provide more funding to QDP Financial in light of its actual needs to address payment difficulties in the event that QDP Financial experiences any urgent payment difficulties. For more information, please refer to the paragraph headed “XI. Measures to ensure compliance with the Hong Kong Listing Rules and internal control measures” in this circular.

The Directors (including the independent non-executive Directors) are of the view that the 2022 SDP Financial Services Agreement is entered into on normal commercial terms and in the ordinary and usual course of business of the Group and its terms (including the proposed annual caps contemplated thereunder) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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XI. MEASURES TO ENSURE COMPLIANCE WITH THE HONG KONG LISTING RULES AND INTERNAL CONTROL MEASURES

Measures to ensure compliance with the Hong Kong Listing Rules

The Group has taken the following measures to ensure the continuing connected transactions under the Framework Agreements are conducted in compliance with the Hong Kong Listing Rules.

2022 SDP Goods and Services Agreement

The Company has established comprehensive internal control system and adopted various internal control rules, including management system on connected transactions and procurement and tender administration measures, to ensure that the continuing connected transactions under the 2022 SDP Goods and Services Agreement are conducted in accordance with its terms and conditions. Under the management system on connected transactions, the Board is responsible for conducting reviews on compliance with relevant laws, regulations, the Company's policies and the Hong Kong Listing Rules in respect of the connected transactions.

Before entering into each specific connected transaction agreement, departments in charge of the production business, financial management, legal and compliance, auditing and connected transactions of the Company will review and assess whether the rates and terms set out in the specific agreement are consistent with the 2022 SDP Goods and Services Agreement to ensure that the interests of the Shareholders as a whole are taken into account and protected.

Departments in charge of the production business, financial management, legal and compliance and auditing of the Company will also monitor the pricing procedures for the continuing connected transactions under the 2022 SDP Goods and Services Agreement to ensure prices to be determined are on normal commercial terms.

Departments in charge of the production business, financial management, legal and compliance and auditing of the Company involved in a specific transaction will work closely to ensure the continuing connected transactions are entered into: (i) in accordance with the review and evaluation procedure set out in this circular and the terms of the 2022 SDP Goods and Services Agreement; (ii) on normal commercial terms or better; (iii) no more favourable than terms offered to Independent Third Parties by the Company or no less favourable than terms offered by Independent Third Parties to the Company (if applicable); and (iv) in accordance with the 2022 SDP Goods and Services Agreement on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition, the Group will take the following specific measures in relation to the continuing connected transactions in respect of financial services contemplated under the 2022 SDP Financial Services Agreement.

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2022 SDP Financial Services Agreement

The Group will take the following review procedures and approval processes against the following assessment criteria when obtaining the financial services contemplated under the 2022 SDP Financial Services Agreement from SDP Group:

- (i) the designated department of the Group would obtain interests and rates for the Deposit Services and Intermediary Services (if applicable) and terms and conditions of the same services offered by no less than three comparable Independent Third Parties in the same financial industry to the Group for comparison against the assessment criteria referred to in paragraph (v) below for the same period;
- (ii) the designated department of the Group would obtain rates and terms for the Credit Services offered by no less than three comparable Independent Third Parties in the same financial industry to the Group for comparison against the assessment criteria referred to in paragraph (v) below for the same period;
- (iii) If after comparison, the designated department of the Group confirms that the rates and terms in respect of relevant services offered by SDP Group are in compliance with the criteria referred to in paragraph (v) below, the designated department would submit the application to the chief financial officer of the Company for review;
- (iv) the chief financial officer of the Company would approve the application, if assessed to be in compliance with the terms set out in 2022 SDP Financial Services Agreement and the assessment criteria referred to in paragraph (v) below; and
- (v) assessment criteria: the designated department of the Group would compare relevant interests and rates for the Deposit Services and Intermediary Services (if applicable) and rates and terms for the credit services offered by SDP Group with those offered by the comparable Independent Third Parties in similar financial industry for relevant financing services, and if the former is no less favourable than the interest, rates for the Deposit Services and Intermediary Services (if applicable) and rates and terms for the credit services offered by comparable Independent Third Parties in similar financial industry to the Group for the same type of service and period, the Group would obtain financing services from SDP Group.

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Internal control measures

The deposit placed with SDP Group is repayable on demand. Moreover, the Company has adopted the following internal control measures, arrangements and agreements to ensure the recoverability the deposits placed in QDP Financial:

- (i) as a shareholder of QDP Financial, the Company is entitled to understand the operation conditions and financial conditions of QDP Financial by having access to its financial accounting report, such that the Company may monitor the operation conditions and financial conditions of QDP Financial at any time and respond to possible barriers to the recovery in time;
- (ii) QDP Financial only provides financial related services to the internal member entities within the SDP Group. QDP Financial had stable operating conditions, good returns and low risks in operation over the years. Thus, there is no restriction to the possibility of recovery on the Company's deposits in QDP Financial.
- (iii) since the inception of QDP Financial, QDP Financial has not previously defaulted any repayment obligation;
- (iv) the corporate governance, internal control, risk management, economic functional support to its customers of QDP Financial is subject to be reviewed and assessment by CBIRC according to Measures for the Supervision and Rating of Financial Companies of Enterprise Groups (Yinbaojianbanfa [2019] No. 8) (《企業集團財務公司監管評級辦法》(銀保監辦發[2019]8號)) annually to ensure its good operation condition and strong risk management capabilities. Thus, with the supervision and regulation by CBIRC, the Directors are of the view that the interest of the Company can be safeguard;
- (v) the articles of association of QDP Financial requires that the shareholders of QDP Financial shall provide a written undertaking to provide more funding and assistance to QDP Financial in light of its actual needs to address payment difficulties in the event that QDP Financial experiences any urgent payment difficulties; and
- (vi) SDP, being the controlling shareholder of QDP Financial maintains strong financial condition (i.e., its total assets as at 31 December 2020 was approximately RMB152.5 billion, its net assets value as at 31 December 2020 was approximately RMB65.1 billion, total revenue generated by SDP for the year ended 31 December 2020 was approximately RMB35.0 billion and it recorded net profits for the year ended 31 December 2020 of approximately RMB1.57 billion. The Directors are of the view that SDP, being the controlling shareholder of QDP Financial, has good operation conditions and strong profitability, and will be able to honor its obligation under the written undertaking as mentioned in (v) to support the liquidity of QDP Financial.

LETTER FROM THE BOARD

Apart from the mechanism of the assessment criteria regarding the pricing of the financing services as disclosed above, the Group has also established the following internal control procedures to review such transactions:

(i) Collection Control

The Company requires all members of the Group to use one designated account to collect client payments in principle;

(ii) Payment Control

The use of online banking, USBKEY, is subject to at least two-level permission. Such keys should be maintained and used by certain authorized persons and the payment is subject to the internal approval of the Company;

(iii) Reconciliation Control

The Group could dynamically control its financial situation through the unified operating and management system. Besides, the Group requires all members of the Group to keep a monthly reconciliation with SDP Group and once any exceptional condition is discovered, reasons for the condition should be analyzed. Any significant exceptional conditions are required to report to the senior staff;

(iv) Borrowings Control

When the Group needs to borrow money, the Group should follow the internal approval procedures pursuant to the internal financing management measures and enter into a borrowing agreement with the lender which includes the withdrawal schedule and the repayment plan according to the Group's capital needs; and

(v) Fairness Control of Connected Transactions

The Group will compare and assess the provisions set out in the continuing connected transactions against the related market practice and the independent non-executive Directors will also provide their opinions on such matters.

The Company considers (i) the above methods and procedures comprise necessary components of an internal control system with designated departments and responsible officers (if applicable), clear approval processes and monitoring system and detailed and explicit assessment criteria; and (ii) the above-mentioned review procedures and approval process against the explicit assessment criteria can ensure that the transactions will be executed in compliance with the pricing principles stipulated in the 2022 SDP Goods and Services Agreement and the 2022 SDP Financial Services Agreement and explore the best price of services available to the Company. Therefore, the Company is of the view that there are appropriate measures in place to govern the conduct of the continuing connected transactions contemplated under the 2022 SDP Goods and Services Agreement and the 2022 SDP Financial Services Agreement and safeguard the interests of the Shareholders as a whole.

LETTER FROM THE BOARD

Since the Company has established adequate and appropriate internal control procedures to review the transactions, the Directors are of the view that such methods and procedures can ensure and safeguard that the transactions contemplated under the 2022 SDP Goods and Services Agreement and the 2022 SDP Financial Services Agreement will be conducted on normal commercial terms and in the interests of the Company and the Shareholders.

The independent non-executive Directors shall review and will continue to review the implementation of the specific agreements to ensure that they have been entered into on normal commercial terms or better, and according to the 2022 SDP Goods and Services Agreement and the 2022 SDP Financial Services Agreement on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and provide confirmation in the Company's annual report.

The Company has set up the auditing department comprising members with experience in accounting and finance and in port industries to monitor and assess the operation of the internal control management system of the Company and report to the audit committee of the Board and the Board in connection with the progress of the internal control of the Group (including the implementation progress of connected transactions) regularly.

The audit committee of the Board and the supervisory committee of the Company will also regularly conduct assessment on the internal control system of the Company and its subsidiaries in order to ensure the effectiveness of the internal control system of the Group, including internal control measures in respect of connected transactions management. Furthermore, the audit committee of the Board convenes meetings at least twice a year to discuss and assess the implementation of connected transactions. In addition, the Company's external auditors shall conduct a year-end audit on the Company's internal control measures, including connected transactions.

The Company believes that such measures can effectively safeguard the Company's interests in the transactions under the 2022 SDP Goods and Services Agreement and the 2022 SDP Financial Services Agreement and ensure that the terms of the specific agreements under the 2022 SDP Goods and Services Agreement and the 2022 SDP Financial Services Agreement would be fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

XII. HONG KONG LISTING RULES IMPLICATIONS IN RELATION TO THE FRAMEWORK AGREEMENTS

2022 SDP Goods and Services Agreement

As SDP is the indirect controlling shareholder of the Company, it is a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the 2022 SDP Goods and Services Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio (as defined under the Hong Kong Listing Rules) in respect of the proposed annual caps of each of (i) the purchase of goods and services by the Group from SDP Group; and (ii) the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement exceeds 5%, such transactions and their proposed annual caps contemplated thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio (as defined under the Hong Kong Listing Rules) in respect of each of the annual caps of each of (i) the provision of asset lease services by SDP Group to the Group; and (ii) the provision of asset lease services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement is higher than 0.1% and less than 5%, such transactions and their annual caps contemplated thereunder are subject to the reporting, annual review and announcement, and are exempt from circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

2022 SDP Financial Services Agreement

As SDP is the indirect controlling shareholder of the Company, it is a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules. Thus, the transactions contemplated under the 2022 SDP Financial Services Agreement constitute continuing connected transactions of the Company.

(i) Deposit Services

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the proposed annual cap of Deposit Services received by the Group from SDP Group as set out in the 2022 SDP Financial Services Agreement exceed 5%, the Deposit Services in respect of the 2022 SDP Financial Services Agreement and the proposed annual cap contemplated thereunder are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the proposed annual cap of Deposit Services received by the Group from SDP Group as set out in the 2022 SDP Financial Services Agreement exceed 25%, the Deposit Services in respect of the 2022 SDP Financial Services Agreement and the transactions contemplated thereunder also constitute a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

(ii) Credit Services

As the Loan Services and Financing Guarantee Services received by the Group from SDP Group under the 2022 SDP Financial Services Agreement are on normal commercial terms which are similar to or more favourable to the Group than those offered by Independent Third Parties for comparable services in the PRC, and that no security over the assets of the Group will be granted in respect of such credit services, the Loan Services and Financing Guarantee Services shall be fully exempt from Shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Hong Kong Listing Rules pursuant to Rule 14A.90 of the Hong Kong Listing Rules.

As the transactions in respect of the Finance Lease Services received by the Group from SDP Group contemplated under the 2022 SDP Financial Services Agreement constitute transactions under Rule 14.04(1)(c) of the Hong Kong Listing Rules and given the relevant highest applicable percentage ratios (as defined under the Hong Kong Listing Rules) exceed 25%, the transactions contemplated under the 2022 SDP Financial Services Agreement also constitute major transactions of the Company and are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the proposed annual caps of Commercial Factoring Services received by the Group from SDP Group as set out in the 2022 SDP Financial Services Agreement is higher than 0.1% and less than 5%, such transactions and its annual cap contemplated thereunder are subject to the reporting, annual review and announcement, and are exempt from circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(iii) Intermediary Services

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) of the annual cap of Intermediary Services received by the Group from SDP Group as set out in the 2022 SDP Financial Services Agreement is higher than 0.1% and less than 5%, such transactions and its annual cap contemplated thereunder are subject to the reporting, annual review and announcement, and are exempt from circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee (comprising all independent non-executive Directors) has been established to advise the Independent Shareholders in relation to their voting on the resolutions relating to (i) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (ii) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder.

The Company has appointed TC Capital to advise the Independent Board Committee and the Independent Shareholders in relation to the fairness and reasonableness of (i) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (ii) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder.

LETTER FROM THE BOARD

XIII. GENERAL INFORMATION

Information of the Company

The Company is a primary operator of the Port of Qingdao, one of the world's largest comprehensive ports. The Company, together with its subsidiaries and joint ventures, mainly provides container, iron ore, coal, crude oil and other goods handling and ancillary services, logistics and port value-added services and port ancillary services.

Information of SDP

SDP, an indirect controlling shareholder of the Company. It is principally engaged in ports operation management, ports industry investment, ports infrastructure construction, ports and shipping supporting services, coastline and land resources storage, development and utilization, ocean and coastal shipping. As at the Latest Practicable Date, the ultimate beneficial owner of SDP is SD SASAC.

Information of RZP

RZP is a joint stock company established in the PRC with limited liability on 15 July 2002. It is principally engaged in port loading and unloading, stockpiling and transit services for bulk cargo. As at the Latest Practicable Date, the ultimate beneficial owner of RZP is SD SASAC.

Information of SDP Financial Holdings

SDP Financial Holdings is a wholly-owned subsidiary of SDP. It is principally engaged in supply chain finance, commodity trading, equity investment, port and shipping services, and initially forms a comprehensive financial service system with distinctive port and shipping characteristics. As at the Latest Practicable Date, the ultimate beneficial owner of SDP Financial Holdings is SD SASAC.

Information of RZP Financial

RZP Financial is a finance company qualified under the CBIRC and principally engaged in absorbing deposit of member units, assisting member units to realize the receipt and payment of transaction funds, handling internal transfer and settlement between member units, self-operated loan business, entrusted loan business, letter of guarantee business, electronic bank acceptance bill business, discount business, inter-bank lending and other services. As at the Latest Practicable Date, the ultimate beneficial owner of RZP Financial is SD SASAC.

LETTER FROM THE BOARD

Set out below is the summary of the financial information of RZP Financial for the two years ended 31 December 2020:

	For the year ended 31 December 2019 (RMB0'000) (audited)	For the year ended 31 December 2020 (RMB0'000) (audited)
Net profit before taxation	11,634.95	15,138.17
Net profit after taxation	8,724.77	11,352.84

The net asset value of RZP Financial as at 30 September 2021 was RMB1,182.76 million.

Information of QDP Financial

QDP Financial is a finance company qualified under the CBIRC and principally engaged in absorbing the deposit of member units, assisting member units to realize the receipt and payment of transaction funds, handling internal transfer and settlement between member units, self-operated loan business, entrusted loan business, letter of guarantee business, foreign exchange settlement business, electronic bank acceptance bill business, discount business, factoring, buyer's credit as well as interbank deposits, interbank lending, financial product investment, and money market businesses, etc.. As at the Latest Practicable Date, the ultimate beneficial owner of QDP Financial is SD SASAC.

Set out below is the summary of the financial information of QDP Financial for the two years ended 31 December 2020:

	For the year ended 31 December 2019 (RMB0'000) (audited)	For the year ended 31 December 2020 (RMB0'000) (audited)
Net profit before taxation	32,811.38	33,543.86
Net profit after taxation	24,672.36	25,155.77

The net asset value of QDP Financial as at 30 September 2021 was RMB1,796.85 million.

LETTER FROM THE BOARD

XIV. BOARD CONFIRMATION

The Board (including the independent non-executive Directors) is of the view that the terms of each of the Absorption and Merger Agreement and the Capital Increase Agreement are arrived at after arm's length negotiations between relevant parties, though not in the ordinary and usual course of business of the Group, and is of the view that the transactions contemplated thereunder and each of the Absorption and Merger Agreement and the Capital Increase Agreement are entered into on normal commercial terms and fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Each of Mr. SU Jianguang, Mr. LI Wucheng, Mr. WANG Xinze, Mr. WANG Jun and Ms. WANG Fuling has abstained from voting at the Board meeting of the Company considering (i) the Absorption and Merger Agreement and the transaction contemplated thereunder; and (ii) the Capital Increase Agreement and the transaction contemplated thereunder, due to the potential conflict of interests as a result of his/her directorships or positions in SDP and/or certain subsidiaries of SDP pursuant to Rule 13.44 of the Hong Kong Listing Rules.

The Board (including the independent non-executive Directors) is of the view that the terms of the Framework Agreements (including respective annual caps) are arrived at after arm's length negotiations between relevant parties and entered into in the ordinary and usual course of business of the Group and is of the view that the transactions contemplated thereunder are entered into on normal commercial terms and fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Each of Mr. SU Jianguang, Mr. LI Wucheng, Mr. WANG Xinze, Mr. WANG Jun and Ms. WANG Fuling has abstained from voting at the Board meeting of the Company considering the Framework Agreements (including respective annual caps), due to the potential conflict of interests as a result of his/her directorships or positions in SDP and/or certain subsidiaries of SDP pursuant to Rule 13.44 of the Hong Kong Listing Rules.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors has any material interest in the agreements mentioned in this circular and the transactions contemplated thereunder who is required to abstain from voting at the Board meeting.

LETTER FROM THE BOARD

XV. RECOMMENDATIONS

Your attention is also drawn to the letter from the Independent Board Committee to the Independent Shareholders (where applicable), which is set out on pages 48 to 49 of this circular, and which contains its recommendations in respect of the following matters, respectively.

The Independent Board Committee has provided recommendations to the Independent Shareholders on (a)(i) the Absorption and Merger Agreement and the transaction contemplated thereunder; and (ii) the Capital Increase Agreement and the transaction contemplated thereunder; (b) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder.

The letter of advice from TC Capital to the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the transactions in respect of the matters mentioned above and whether they are in the interests of the Company and the Shareholders as a whole, is set out on pages 50 to 76 of this circular.

The Independent Board Committee, after taking into account the advice and recommendation from TC Capital, has come to the view that (a)(i) the Absorption and Merger Agreement and the transaction contemplated thereunder; and (ii) the Capital Increase Agreement and the transaction contemplated thereunder, though not in the ordinary and usual course of business of the Group, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole; (b) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned, respectively, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote for the resolutions to be proposed at the EGM to approve the transactions in relation to the matters mentioned above, respectively.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) consider that the ordinary resolutions in relation to (a)(i) the Absorption and Merger Agreement and the transaction contemplated thereunder; and (ii) the Capital Increase Agreement and the transaction contemplated thereunder, though not in the ordinary and usual course of business of the Group, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and are in the interest of the Company and the Shareholders as a whole; (b) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned, respectively, and are in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that Independent Shareholders vote in favour of such resolutions to be proposed at the EGM as set out in the notice of the EGM.

XVI. CLOSURE OF REGISTER OF MEMBERS AND ASCERTAINING OF ELIGIBILITY FOR ATTENDING THE EGM

In order to determine the eligibility of Shareholders of H Shares who are entitled to attend the EGM, the H share register of the Company will be closed from Tuesday, 22 February 2022 to Friday, 25 February 2022 (both days inclusive), during which no H Share transfer will be registered. The Shareholders whose names appear on the register of H share members of the Company on Tuesday, 22 February 2022 are entitled to attend and vote at the EGM. Holders of the Company's H Shares who wish to attend the EGM but have not registered the transfer documents are required to deposit the transfer documents together with the relevant H Share certificates at the H Share Registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 21 February 2022 for registration.

XVII. EGM

A notice convening the EGM to be held at the Conference Room, Shandong Port Tower, No. 7 Gangji Road, City North District, Qingdao, Shandong Province, the PRC on Friday, 25 February 2022 at 10:00 a.m. together with the relevant proxy form has been despatched to the Shareholders on 7 February 2022 and has also been published on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.qingdao-port.com>). If you intend to appoint a proxy to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof, i.e. by 10:00 a.m. on Thursday, 24 February 2022 (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting at the EGM should you so wish.

LETTER FROM THE BOARD

QDP (being a subsidiary of SDP) or its associates are required to abstain from voting on resolutions in relation to (a)(i) the Absorption and Merger Agreement and the transaction contemplated thereunder; and (ii) the Capital Increase Agreement and the transaction contemplated thereunder; (b) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder at the EGM.

To the best of the Directors' information, knowledge and belief, after having made all reasonable enquiries, save for the aforesaid, no Shareholder is required to abstain from voting on resolutions in relation to (a)(i) the Absorption and Merger Agreement and the transaction contemplated thereunder; and (ii) the Capital Increase Agreement and the transaction contemplated thereunder; (b) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder at the EGM.

The resolutions proposed at the EGM will be voted by poll.

XVIII. OTHER INFORMATION

Your attention is drawn to the letter from TC Capital which contains its advice to the Independent Board Committee and the Independent Shareholders, the letter from the Independent Board Committee which sets out its recommendation to the Independent Shareholders and the additional information set out in the appendices to this circular.

By order of the Board
Qingdao Port International Co., Ltd.
SU Jianguang
Chairman



QINGDAO PORT INTERNATIONAL CO., LTD.*

青島港國際股份有限公司

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

(Stock Code: 06198)

7 February 2022

To the Independent Shareholders

Dear Sir or Madam,

**(I) MAJOR AND CONNECTED TRANSACTIONS
AND
(II) MAJOR AND CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 7 February 2022 (the “**Circular**”), of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

We have been appointed to consider and to advise the Independent Shareholders on (a) (i) the Absorption and Merger Agreement and the transaction contemplated thereunder; and (ii) the Capital Increase Agreement and the transaction contemplated thereunder, though not in the ordinary and usual course of business of the Group, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and are in the interest of the Company and the Shareholders as a whole; (b) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned, respectively, and are in the interest of the Company and the Shareholders as a whole. Detailed information of the above-mentioned agreements and the transactions thereunder are set out in the “Letter from the Board” on pages 8 to 47 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

TC Capital has been appointed as our independent financial adviser to advise us on (a) (i) the Absorption and Merger Agreement and the transaction contemplated thereunder; and (ii) the Capital Increase Agreement and the transaction contemplated thereunder; (b) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder. Details of the relevant advice and recommendation of TC Capital, together with the principal factors and reasons taken into account by it in arriving at its advice and recommendation, are set out on pages 50 to 76 of the Circular.

The Board has considered and approved the matters mentioned above. After taking into account the advice and recommendations of TC Capital, we consider that (a) (i) the Absorption and Merger Agreement and the transaction contemplated thereunder; and (ii) the Capital Increase Agreement and the transaction contemplated thereunder, though not in the ordinary and usual course of business of the Group, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole; (b) the purchase of goods and services by the Group from SDP Group and the sales of goods and services by the Group to SDP Group under the 2022 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the provision of Deposit Services and Finance Lease Services under the 2022 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned, respectively, and are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote for the resolutions in relation to matters mentioned above at the EGM.

Yours faithfully,

For and on behalf of
Independent Board Committee

LI Yan
Independent
non-executive Director

JIANG Min
Independent
non-executive Director

LAI Kwok Ho
Independent
non-executive Director

LETTER FROM TC CAPITAL

Set out below is the text of a letter received from TC Capital International Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Absorption and Merger, the Proposed Capital Increase and the Non-exempt Continuing Connected Transactions (as defined below) for the purpose of inclusion in this circular.



7 February 2022

*The Independent Board Committee and the Independent Shareholders
Qingdao Port International Co., Ltd.*

Dear Sirs,

**(1) MAJOR AND CONNECTED TRANSACTIONS
AND
(2) MAJOR AND CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Proposed Absorption and Merger; (ii) the Proposed Capital Increase; (iii) the sales of goods and services by the Group to the SDP Group and the purchase of goods and services by the Group from the SDP Group under the 2022 SDP Goods and Services Agreement (the “**General Sales**” and the “**General Purchases**” respectively); and (iv) the provision of Deposit Services and Finance Lease Services by the SDP Group to the Group under the 2022 SDP Financial Services Agreement ((iii) and (iv) together, the “**Non-exempt Continuing Connected Transactions**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 7 February 2022 issued to the Shareholders (the “**Circular**”). Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 25 January 2022, the Company, SDP, QDP Financial, RZP Financial and RZP entered into the Absorption and Merger Agreement, pursuant to which RZP Financial will merge with QDP Financial by way of absorption and merger. After completion of the Proposed Absorption and Merger, QDP Financial (as the surviving merging party) shall remain subsisting and undertake and inherit all the assets, liabilities, personnel and businesses of RZP Financial, and RZP Financial (as the merged party) will be dissolved and deregistered.

LETTER FROM TC CAPITAL

On 25 January 2022, the Company entered into the Capital Increase Agreement with SDP, RZP and SDP Financial Holdings to increase the registered capital of QDP Financial from RMB2,000 million to RMB2,567.6624 million. Pursuant to the Capital Increase Agreement, SDP and SDP Financial Holdings agreed to subscribe for RMB490.6325 million and RMB77.0299 million of the registered capital of QDP Financial at the considerations of RMB797.0865 million and RMB125.1435 million respectively.

On 25 January 2022, the Company and SDP entered into (i) the 2022 SDP Goods and Services Agreement in relation to, among others, the General Sales and the General Purchases; and (ii) the 2022 SDP Financial Services Agreement in relation to, among others, the provision of the Deposit Services and the Finance Lease Services by the SDP Group to the Group.

SDP is an indirect controlling shareholder of the Company and therefore is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. As (i) SDP Financial Holdings is a wholly-owned subsidiary of SDP; (ii) RZP is indirectly owned as to 44.46% by SDP; (iii) QDP Financial is a connected subsidiary of the Company; and (iv) RZP Financial is an indirect non wholly-owned subsidiary of SDP, SDP Financial Holdings, RZP, QDP Financial and RZP Financial are associates of SDP and are connected persons of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Therefore, the transactions contemplated under the Absorption and Merger Agreement and the Capital Increase Agreement constitute connected transactions of the Company. Accordingly, each of the Proposed Absorption and Merger and the Proposed Capital Increase is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Non-exempt Continuing Connected Transactions constitute continuing connected transactions of the Company and are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Ms. LI Yan, Mr. JIANG Min and Mr. LAI Kwok Ho (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Absorption and Merger Agreement, the Capital Increase Agreement and the Non-exempt Continuing Connected Transactions (including the respective annual caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Proposed Absorption and Merger, the Proposed Capital Increase and the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Proposed Absorption and Merger, the Proposed Capital Increase and the Non-exempt Continuing Connected Transactions at the EGM. We, TC Capital International Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

LETTER FROM TC CAPITAL

OUR INDEPENDENCE

We have not provided any other services to the Company in the last two years. As at the Latest Practicable Date, we did not have any relationships with or interests in the Company or any other parties that could reasonably be regarded as relevant to the independence of us.

BASIS OF OUR OPINION

In putting forth our recommendation, we have relied on the information, opinions, facts and representations supplied to us by the Directors and/or the representatives of the Company. We have reviewed, among other things, (i) the Absorption and Merger Agreement; (ii) the Capital Increase Agreement; (iii) the 2022 SDP Goods and Services Agreement; (iv) the 2022 SDP Financial Services Agreement; (v) the annual reports of the Company for the two years ended 31 December 2020 and the third quarterly report of the Company for the nine months ended 30 September 2021 (the “**2019 Annual Report**”, the “**2020 Annual Report**” and the “**2021 Third Quarterly Report**” respectively); (vi) the respective audit reports of QDP Financial and RZP Financial for the three years ended 31 December 2020 and the nine months ended 30 September 2021; (vii) the respective valuation reports in respect of 100% equity interests in QDP Financial and RZP Financial as at 30 September 2021 prepared by China United Assets Appraisal (together, the “**Valuation Reports**”); (viii) other information as set out in the Circular; and (ix) relevant market data and information available from public sources.

We have assumed that all such information, opinions, facts and representations provided to us by the Directors and/or the representatives of the Company, for which they are fully responsible, are true, accurate and complete in all respects. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the representatives of the Company. The Company has also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld or is misleading.

We consider that we have sufficient information currently available to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided by the Directors and/or the representatives of the Company, nor have we conducted any independent investigation into the business, affairs, operations, financial position or future prospects of each of the Group, SDP, QDP Financial, RZP, RZP Financial, SDP Financial Holdings and any of their respective subsidiaries and associates.

We have not made any independent evaluation or appraisal of the assets and liabilities of QDP Financial and RZP Financial, and we have not been furnished with any such evaluation or appraisal, save as and except for the Valuation Reports. The Valuation Reports were prepared by the Independent Valuer. Since we are not experts in the valuation of businesses, companies or assets, we have relied solely upon the Valuation Reports for the appraised value of 100% equity interests in QDP Financial and RZP Financial as at 30 September 2021.

LETTER FROM TC CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Proposed Absorption and Merger, the Proposed Capital Increase and the Non-exempt Continuing Connected Transactions, we have taken into account the following principal factors and reasons:

A. BACKGROUND INFORMATION OF THE PARTIES

1. Information on the Group

As stated in the Letter from the Board, the Company is a primary operator of the Port of Qingdao, one of the world's largest comprehensive ports. The Company, together with its subsidiaries and joint ventures, mainly provides container, iron ore, coal, crude oil and other goods handling and ancillary services, logistics and port value-added services and port ancillary services.

Set out below is certain financial information of the Group for the three years ended 31 December 2020 ("FY2018", "FY2019" and "FY2020" respectively) and the nine months ended 30 September 2020 and 2021 ("3Q2020" and "3Q2021" respectively) as extracted from the 2019 Annual Report, the 2020 Annual Report and the 2021 Third Quarterly Report:

	For the year ended 31 December			For the nine months ended 30 September	
	2018	2019	2020	2020	2021
	RMB	RMB	RMB	RMB	RMB
	million	million	million	million	million
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	11,741	12,164	13,219	9,525	12,152
Operating profit	4,724	5,113	5,522	4,289	4,562
Net profit attributable to shareholders of the Company	3,593	3,790	3,842	2,947	3,076

	As at 31 December			As at 30 September
	2018	2019	2020	2021
	RMB	RMB	RMB	RMB
	million	million	million	million
	(Audited)	(Audited)	(Audited)	(Unaudited)
Total assets	48,766	52,785	57,177	58,437
Total liabilities	19,346	19,188	20,437	20,379
Net assets	29,420	33,597	36,741	38,058

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As shown in the above table, the revenue of the Group increased by approximately 3.6% to approximately RMB12,164 million for FY2019 as compared to that for FY2018. As disclosed in the 2019 Annual Report, such increase was primarily attributable to the increase in revenue from the liquid bulk handling and ancillary services segment and the port ancillary services segment. The operating profit of the Group amounted to approximately RMB5,113 million for FY2019, representing an increase of approximately 8.2% as compared to that for FY2018. As advised by the representatives of the Company, such increase was mainly due to the increase in gross profit from the liquid bulk handling and ancillary services segment and the port ancillary services segment.

The revenue of the Group increased by approximately 8.7% to approximately RMB13,219 million for FY2020 as compared to that for FY2019. As disclosed in the 2020 Annual Report, such increase was mainly due to the increase in revenue from the liquid bulk handling and ancillary services segment and the metal ores, coal and other cargo handling and ancillary services segment. The operating profit of the Group amounted to approximately RMB5,522 million for FY2020, representing an increase of approximately 8.0% as compared to that for FY2019. As advised by the representatives of the Company, such increase was mainly due to the increase in gross profit from the liquid bulk handling and ancillary services segment.

The revenue of the Group increased by approximately 27.6% to approximately RMB12,152 million for 3Q2021 as compared to that for 3Q2020. As advised by the representatives of the Company, such increase was primarily attributable to the increase in revenue from the logistics and port value-added services segment, the liquid bulk handling and ancillary services segment and the metal ores, coal and other cargo handling and ancillary services segment. The operating profit of the Group amounted to approximately RMB4,562 million for 3Q2021, representing an increase of approximately 6.4% as compared to that for 3Q2020. As advised by the representatives of the Company, the increase was mainly due to the increase in gross profit from the liquid bulk handling and ancillary services segment and the metal ores, coal and other cargo handling and ancillary services segment.

The net assets of the Group showed an increasing trend for FY2019, FY2020 and 3Q2021. The representatives of the Company advised us that such increase in net assets of the Group was mainly due to the profit-making position of the Group during the same period.

2. Information on SDP

As disclosed in the Letter from the Board, SDP is an indirect controlling shareholder of the Company. It is principally engaged in ports operation management, ports industry investment, ports infrastructure construction, ports and shipping supporting services, coastline and land resources storage, development and utilisation, ocean and coastal shipping. As at the Latest Practicable Date, the ultimate beneficial owner of SDP was the SD SASAC.

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3. Information on RZP

As disclosed in the Letter from the Board, RZP is a joint stock company established in the PRC with limited liability on 15 July 2002. It is principally engaged in port loading and unloading, stockpiling and transit services for bulk cargo. As at the Latest Practicable Date, the ultimate beneficial owner of RZP was the SD SASAC.

4. Information on SDP Financial Holdings

As disclosed in the Letter from the Board, SDP Financial Holdings is a wholly-owned subsidiary of SDP. It is principally engaged in supply chain finance, commodity trading, equity investment, port and shipping services, and initially forms a comprehensive financial service system with distinctive port and shipping characteristics. As at the Latest Practicable Date, the ultimate beneficial owner of SDP Financial Holdings was the SD SASAC.

5. Information on RZP Financial

As disclosed in the Letter from the Board, RZP Financial is a finance company qualified under the CBIRC and is principally engaged in absorbing deposit of member units, assisting member units to realise the receipt and payment of transaction funds, handling internal transfer and settlement between member units, self-operated loan business, entrusted loan business, letter of guarantee business, electronic bank acceptance bill business, discount business, inter-bank lending and other services. As at the Latest Practicable Date, the ultimate beneficial owner of RZP Financial was the SD SASAC.

Set out below is certain audited financial information of RZP Financial for the three years ended 31 December 2020 and the nine months ended 30 September 2021 prepared in accordance with the PRC Accounting Standards for Business Enterprises* (中國企業會計準則):

	For the year ended 31 December			For the nine months ended 30 September
	2018	2019	2020	2021
	RMB	RMB	RMB	RMB
	million	million	million	million
	(Audited)	(Audited)	(Audited)	(Audited)
Net profit before taxation	105	116	151	106
Net profit after taxation	79	87	114	79

	As at 31 December			As at 30 September
	2018	2019	2020	2021
	RMB	RMB	RMB	RMB
	million	million	million	million
	(Audited)	(Audited)	(Audited)	(Audited)
Net assets	1,161	1,248	1,362	1,183

LETTER FROM TC CAPITAL

According to the tables above, the net profit after taxation of RZP Financial increased from approximately RMB79 million for FY2018 to approximately RMB87 million for FY2019, and further increased to approximately RMB114 million for FY2020. Such increase was mainly due to the increase in net interest income and the decrease in expected credit losses for FY2019 and FY2020. The net assets of RZP Financial showed an increasing trend during the three years ended 31 December 2020 caused by its profit-making position. The net assets of RZP Financial subsequently decreased to approximately RMB1,183 million as at 30 September 2021 mainly due to the declaration of cash dividend on 30 September 2021.

6. Information on QDP Financial

As disclosed in the Letter from the Board, QDP Financial is a finance company qualified under the CBIRC and is principally engaged in absorbing the deposit of member units, assisting member units to realise the receipt and payment of transaction funds, handling internal transfer and settlement between member units, self-operated loan business, entrusted loan business, letter of guarantee business, foreign exchange settlement business, electronic bank acceptance bill business, discount business, factoring, buyer's credit as well as interbank deposits, interbank lending, financial product investment, and money market businesses, etc. As at the Latest Practicable Date, the ultimate beneficial owner of QDP Financial was the SD SASAC.

Set out below is certain audited financial information of QDP Financial for the three years ended 31 December 2020 and the nine months ended 30 September 2021 prepared in accordance with the PRC Accounting Standards for Business Enterprises* (中國企業會計準則):

	For the year ended 31 December			For the nine months ended 30 September
	2018	2019	2020	2021
	RMB	RMB	RMB	RMB
	million	million	million	million
	(Audited)	(Audited)	(Audited)	(Audited)
Net profit before taxation	403	328	335	321
Net profit after taxation	302	247	252	240
	As at 31 December			As at
	2018	2019	2020	30 September
	RMB	RMB	RMB	2021
	million	million	million	million
	(Audited)	(Audited)	(Audited)	(Audited)
Net assets	1,919	2,162	2,412	1,797

LETTER FROM TC CAPITAL

According to the tables above, the net profit after taxation of QDP Financial decreased from approximately RMB302 million for FY2018 to approximately RMB247 million for FY2019 mainly due to the decrease in net interest income. The net profit after taxation of QDP Financial slightly increased to approximately RMB252 million for FY2020 mainly due to the increase in net interest income which was partially offset by the increase in expected credit losses. The net assets of QDP Financial showed an increasing trend during the three years ended 31 December 2020 caused by its profit-making position. The net assets of QDP Financial subsequently decreased to approximately RMB1,797 million as at 30 September 2021 mainly due to the declaration of cash dividend on 27 September 2021.

We understood from the representatives of the Company that QDP Financial is subject to several rules and measures on supervision, management and risk control set out in the Measures for the Administration of Finance Companies of Enterprise Groups* (《企業集團財務公司管理辦法》) (the “**Administrative Measures**”) promulgated by the China Banking Regulatory Commission (the “**CBRC**”, now merged to become the CBIRC) which regulates the operation of non-bank financial institutions which provide financial management services to the enterprise group member entities. Based on the confirmation provided by the representatives of QDP Financial, it has been in compliance with all the requirements and regulatory indicators set forth by the CBIRC in the past three years.

The table below sets out the key financial ratio requirements of the Administrative Measures, the Provisional Measures for Risk Regulation Indicators Assessment of Finance Companies of Enterprise Groups* (《企業集團財務公司風險監管指標考核暫行辦法》) (the “**Provisional Measures**”) issued by the CBRC on 29 December 2006 and a notice on relevant requirements for off-site supervision of finance companies of enterprise groups (the “**Notice**”) dispatched by the Non-bank Financial Institution Supervision Department* (非銀部) of the CBRC on 25 November 2009 and the respective financial ratios of QDP Financial for the three years ended 31 December 2021 as provided by QDP Financial:

		For the year ended 31 December 2019 (approximate %)	For the year ended 31 December 2020 (approximate %)	For the year ended 31 December 2021 (approximate %)
Requirements		Lowest during the respective year		
Capital adequacy ratio (<i>Note 1</i>)	Not less than 10%	25.22	21.10	16.13

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		For the year ended 31 December 2019 (approximate %)	For the year ended 31 December 2020 (approximate %)	For the year ended 31 December 2021 (approximate %)
Requirements		Highest during the respective year		
Inter-financial institution borrowing balances to total capital ratio	Not more than 100%	Nil	17.58	23.15
Total outstanding guarantees to total capital ratio	Not more than 100%	11.79	12.18	10.68
Investment balance to total capital ratio	Not more than 70%	65.45	67.77	63.83
Self-owned fixed assets to total capital ratio	Not more than 20%	0.09	0.13	0.15
Non-performing loan ratio (Note 2)	Not more than 5%	Nil	Nil	Nil

Notes:

1. According to the Provisional Measures, the capital adequacy ratio is the ratio of net capital to risk-weighted assets plus 12.5 times of market risk capital.
2. According to the Provisional Measures, the non-performing loan ratio is the ratio of non-performing loans to various loans. The various loans refer to the assets generated from the provision of monetary funds by the finance company(ies) to the borrower(s), including loans, bill financing, financial leasing, securities purchased under resale agreements from non-financial institutions and various advances.

As shown in the table above, QDP Financial complied with the relevant financial ratio requirements as set out in the Administrative Measures, the Provisional Measures and the Notice during the three years ended 31 December 2021 and the financial ratios of QDP Financial were better than the requirement specified in the Administrative Measures, the Provisional Measures and the Notice. In particular, the non-performing loan ratio of QDP Financial for the three years ended 31 December 2021 were all nil, which indicated that QDP Financial did not have any non-performing loans. In light of the above, we are of the view that the credit risk exposure of QDP Financial would be mitigated and QDP Financial would be able to perform the relevant obligations under the 2022 SDP Financial Services Agreement.

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B. THE PROPOSED ABSORPTION AND MERGER AND THE PROPOSED CAPITAL INCREASE

1. Reasons for and benefits of the Proposed Absorption and Merger and the Proposed Capital Increase

According to the Letter from the Board, the Proposed Absorption and Merger and the Proposed Capital Increase are inevitable requirements for the implementation of the regulatory policies by the CBIRC, which provides that each group can only establish one financial company. We have reviewed the aforementioned regulatory policies from the website of the CBIRC and noted that the Proposed Absorption and Merger and the Proposed Capital Increase are in line with the regulatory policies of the CBIRC in relation to the establishment of financial companies.

According to the Letter from the Board, the Proposed Absorption and Merger and the Proposed Capital Increase also benefit the functional positioning of “base on the group and serve the group” and enhance the quality of services of QDP Financial. As noted from the Valuation Reports, the capital adequacy ratios of QDP Financial and RZP Financial as at 30 September 2021 were approximately 18.6% and 28.9% respectively. Since (i) the capital adequacy ratio of RZP Financial is higher than that of QDP Financial; and (ii) the Proposed Capital Increase will further strengthen the capital of QDP Financial, the Proposed Absorption and Merger and the Proposed Capital Increase are likely to enhance the quality of services, increase the capital adequacy ratio and mitigate the credit risk exposure of QDP Financial.

As noted from the Letter from the Board, upon completion of the Proposed Absorption and Merger and the Proposed Capital Increase, SDP will become the controlling shareholder of QDP Financial and the members which QDP Financial can provide services will be extended to cover SDP and its over 400 member units. Conducive to the revenue and profit of QDP Financial will also create good returns for the Company and the Shareholders through increasing the scale of fund collection and the scale of business.

Having considered that the Proposed Absorption and Merger and the Proposed Capital Increase (i) are in line with the regulatory policies of the CBIRC in relation to the establishment of financial companies; and (ii) are likely to enhance the quality of services, increase the capital adequacy ratio and mitigate the credit risk exposure of QDP Financial, we are of the view that the Proposed Absorption and Merger and the Proposed Capital Increase are in the interests of the Company and the Shareholders as a whole.

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2. Principal terms of the Absorption and Merger Agreement and the Capital Increase Agreement

The Absorption and Merger Agreement

On 25 January 2022, the Company, SDP, QDP Financial, RZP Financial and RZP entered into the Absorption and Merger Agreement, pursuant to which RZP Financial will merge with QDP Financial by way of absorption and merger. After completion of the Proposed Absorption and Merger, QDP Financial (as the surviving merging party) shall remain subsisting and undertake and inherit all the assets, liabilities, personnel and businesses of RZP Financial, and RZP Financial (as the merged party) will be dissolved and deregistered.

Further details of the Absorption and Merger Agreement are set out in the Letter from the Board.

The following table sets out the shareholding structure of QDP Financial (i) as at the Latest Practicable Date; (ii) prior to the Proposed Absorption and Merger; and (iii) upon completion of the Proposed Absorption and Merger:

	As at the Latest Practicable Date		Prior to the Proposed Absorption and Merger		Upon completion of the Proposed Absorption and Merger	
	Amount of capital contribution <i>RMB0'000</i>	Equity interest in QDP Financial (%)	Amount of capital contribution <i>RMB0'000</i>	Equity interest in QDP Financial (%)	Amount of capital contribution <i>RMB0'000</i>	Equity interest in QDP Financial (%)
The Company	70,000	70.00	70,000	70.00	88,929.10	44.47
SDP	–	–	30,000	30.00	81,887.53	40.94
QDP	30,000	30.00	–	–	–	–
RZP	–	–	–	–	29,183.37	14.59
Total	100,000	100.00	100,000	100.00	200,000.00	100.00

Note: After the completion of the Proposed Absorption and Merger, RZP will hold approximately 14.59% equity interests in QDP Financial, which is determined with reference to the valuations of QDP Financial and RZP Financial and is calculated by the following formula:

(The valuation of RZP Financial) (i.e. RMB1,185,290,000) * 40% / (the total valuations of QDP Financial and RZP Financial) (i.e. RMB3,249,220,000).

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The Capital Increase Agreement

On 25 January 2022, the Company entered into the Capital Increase Agreement with SDP, RZP and SDP Financial Holdings to increase the registered capital of QDP Financial from RMB2,000 million to RMB2,567.6624 million. Pursuant to the Capital Increase Agreement, SDP and SDP Financial Holdings agreed to subscribe for RMB490.6325 million and RMB77.0299 million of the registered capital of QDP Financial at the considerations of RMB797.0865 million and RMB125.1435 million respectively.

Further details of the Capital Increase Agreement are set out in the Letter from the Board.

The following table sets out the shareholding structure of QDP Financial (i) upon completion of the Proposed Absorption and Merger but prior to the Proposed Capital Increase; and (ii) upon completion of the Proposed Capital Increase:

	Upon completion of the Proposed Absorption and Merger but prior to the Proposed Capital Increase		Upon completion of the Proposed Capital Increase	
	Amount of capital contribution <i>RMB0'000</i>	Equity interest in QDP Financial (%)	Amount of capital contribution <i>RMB0'000</i>	Equity interest in QDP Financial (%)
SDP	81,887.53	40.94	130,950.78	51.00
The Company	88,929.10	44.47	88,929.10	34.63
RZP	29,183.37	14.59	29,183.37	11.37
SDP Financial Holdings	—	—	7,702.99	3.00
Total	200,000.00	100.00	256,766.24	100.00

3. The Valuation Reports

As advised by the representatives of the Company, (i) the equity interests of each shareholder in QDP Financial upon completion of the Proposed Absorption and Merger; and (ii) the subscription prices of the Proposed Capital Increase to be paid by SDP and SDP Financial Holdings were determined based on the valuations of 100% equity interests in QDP Financial and RZP Financial. Pursuant to the Valuation Reports, the appraised values of 100% equity interests in QDP Financial and RZP Financial as at 30 September 2021 were RMB2,063.93 million and RMB1,185.29 million respectively.

While reviewing the Valuation Reports, we have discussed with the Independent Valuer on its expertise and obtained the credentials of the persons signing the Valuation Reports, who have around 10 years' and over 20 years' experience in valuation in the PRC respectively. We have also reviewed the Independent Valuer's terms of engagement and discussed with the Independent Valuer on its work performed as regards to the Valuation Reports.

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Valuation methodologies

We understood from the Independent Valuer that the Valuation Reports have been prepared in accordance with its standard practice. As discussed with the Independent Valuer, the comparable transactions of financial companies are limited and there are no similar listed companies in the PRC securities market. It is also difficult to collect the financial and business information of private financial companies. Accordingly, the market approach was not adopted. We further understood from the Independent Valuer that (i) the asset-based approach fails to reflect the value of QDP Financial and RZP Financial in terms of their franchise licenses for collecting and lending funds within the enterprise group and the off-balance sheet assets of QDP Financial and RZP Financial; and (ii) the income approach focuses on the income generating capability of an enterprise and derive the present value of the enterprise by discounting expected cash flows and, can better reflect the value of QDP Financial and RZP Financial as their historical operating income were relatively stable and the relevant risks and returns are reasonably predictable. The Independent Valuer considered that the income approach is the appropriate method for the valuations of 100% equity interests in QDP Financial and RZP Financial and hence was adopted for the appraisals of 100% equity interests in QDP Financial and RZP Financial.

Review of the Valuation Reports

We have reviewed and discussed with the Independent Valuer on the key bases and assumptions adopted for the valuations. The Independent Valuer has confirmed that the relevant underlying assumptions adopted in the valuations are normally used and are fair and reasonable.

In our discussion with the Independent Valuer and the review of the relevant working papers of the Valuation Reports, we noted that the projected financial information mainly comprised the year-by-year projections of future free cash flows of QDP Financial and RZP Financial after taking into account of the operational data and long-term financial projections including operating revenue, operating expenses and taxes from October 2021 to 2026. The free cash flows after 2026 were assumed to be equivalent to the free cash flows for 2026. The operating revenue forecast of QDP Financial was mainly determined based on estimation of net interest income from (i) interest income based on the maturity of existing loans and expected loans demand of the subsidiaries of QDP based on the development level of each subsidiary of QDP and the construction progress of existing projects; and (ii) interest expenses based on the expected deposits from the construction plan of ports and commercial oil depots and the operating income of ports and commercial oil depots afterward. The operating cost forecast of QDP Financial was determined based on administrative expenses. The operating revenue forecast of RZP Financial was mainly determined based on estimation of net interest income from (i) interest income from expected loans demand based on the construction plan of RZP Group; and (ii) interest expenses based on the expected deposits from the construction plan and the operating income of subsidiaries of RZP Group. The operating

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cost forecast of RZP Financial was determined based on administrative expenses and the expected credit losses. For our due diligence purpose, we have obtained and reviewed the key figures and parameters adopted in arriving at the appraisal value of the free cash flows of QDP Financial and RZP Financial. Based on the above and having considered the business nature of QDP Financial and RZP Financial, we consider the appraisal based on the major cash inflow and outflow items to be reasonable.

According to the Valuation Reports, the discount rate was determined based on the capital asset pricing model. Based on our review of the Valuation Reports and discussion with the Independent Valuer, we noticed that under the capital asset pricing model: (i) the risk free rate was determined with reference to the 50-year yield of PRC government bond. We noted from the website of “China Bond.com.cn” operated by the China Central Depository & Clearing Co., Ltd. that the 50-year yield of PRC government bond was consistent with the risk free rate as at 30 September 2021; (ii) the beta was determined based on listed companies that were comparable to QDP Financial and RZP Financial in terms of business type and business scale; (iii) the market risk premium was calculated based on the index rate of return of the SSE Composite Index; and (iv) the specific risk premium was determined based on the difference between QDP Financial or RZP Financial and comparable listed companies in terms of financing conditions, capital liquidity and corporate governance structure.

During our discussion with the Independent Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Reports.

According to the Letter from the Board, the valuation of 100% equity interests in QDP Financial under the valuation report on QDP Financial constitutes a profit forecast under Rule 14.61 of the Hong Kong Listing Rules. In accordance with Rule 14.62 of the Hong Kong Listing Rules, PricewaterhouseCoopers Zhong Tian LLP has issued the letter confirming that they have reviewed the calculations for the forecast and the discounted cash flows do not involve the adoption of accounting policies and the Board has issued a letter confirming that the forecast has been made after due and careful enquiry. In respect of the valuation of 100% equity interests in RZP Financial under the valuation report on RZP Financial, the Company advised us that it has reviewed and discussed with RZP Financial on the bases, assumptions and calculations of the discounted estimated cash flows of RZP Financial.

Taking into account of the above, we consider that (i) the equity interests of each shareholder in QDP Financial upon completion of the Proposed Absorption and Merger; and (ii) the subscription prices of the Proposed Capital Increase, which were determined with reference to the valuations of 100% equity interests in QDP Financial and RZP Financial, are fair and reasonable so far as the Independent Shareholders are concerned.

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4. Financial Impact of the Proposed Absorption and Merger and the Proposed Capital Increase

Upon completion of the Proposed Absorption and Merger and the Proposed Capital Increase, QDP Financial will cease to be a subsidiary of the Company and its financial results will no longer be consolidated in the accounts of the Group. Assuming that the Proposed Absorption and Merger and the Proposed Capital Increase were completed on 30 September 2021 (i.e. valuation assessment date), after which it is expected that the total assets of the Group will decrease by approximately RMB3.5012 billion, representing approximately 5.99% of the total assets of the Group as at 30 September 2021; and the total liabilities of the Group will decrease by approximately RMB2.8536 billion, representing approximately 14.00% of the total liabilities of the Group as at 30 September 2021. It is expected that no material gains or losses will be recorded by the Company from the Proposed Absorption and Merger and the Proposed Capital Increase.

Shareholders should note that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Proposed Absorption and Merger and the Proposed Capital Increase.

C. THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Reasons for and benefits of the Non-exempt Continuing Connected Transactions

According to the Letter from the Board, the Company has entered into a goods and services framework agreement (the “**2020 QDP Goods and Services Agreement**”) with QDP for the period from 1 January 2020 to 31 December 2022. After the completion of the Gratuitous Transfer, SDP has become an indirect controlling shareholder of the Company and any transactions between the Group and the SDP Group constitute connected transactions of the Company. Given that the transactions between the Group and the SDP Group will be continuing, the Company shall enter into the 2022 SDP Goods and Services Agreement with SDP to regulate the transactions in accordance with the requirements under the Hong Kong Listing Rules. The 2020 QDP Goods and Services Agreement will be superseded by the 2022 SDP Goods and Services Agreement upon the later coming into effect.

According to the Letter from the Board, three financial services framework agreements have been entered into between (i) the Company and QDP (the “**2020 QDP Financial Services Agreement**”) in relation to the provision of financial services by the QDP group members to the Group; (ii) the Company and QDP Financial (the “**2020 Financial Services Agreement I**”) in relation to the provision of financial services by QDP Financial to the Group; and (iii) QDP Financial and QDP (the “**2020 Financial Services Agreement II**”) in relation to the provision of financial services by QDP Financial to the QDP group members respectively, which are all valid from 1 January 2020 to 31 December 2022. After the completion of the Gratuitous Transfer, SDP has become an indirect controlling shareholder of the Company and any transactions between the Group and the SDP Group constitute connected transactions of the Company. Given that the transactions between the Group and the SDP Group will be

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continuing, the Company shall enter into the 2022 SDP Financial Services Agreement with SDP to regulate the transactions in accordance with the requirements under the Hong Kong Listing Rules. The 2020 QDP Financial Services Agreement, the 2020 Financial Services Agreement I and the 2020 Financial Services Agreement II will be superseded when the 2022 SDP Financial Services Agreement takes effect.

According to the Letter from the Board, the Group and the SDP Group had extensive cooperation in the past in multiple business areas with strong complementarity, mutual understanding, efficient communication, collaboration, good cooperation experience and natural cooperation advantages due to geographical reasons in some businesses, which enable both parties to provide high-quality and reliable products as well as convenient and efficient services, which are conducive to promoting mutual benefit and achieving high-quality development of each other.

As advised by the representatives of the Company, compared with Independent Third Parties, related companies engaged in financial services of SDP have been providing financial services such as deposits, credit and intermediary services to the Group for many years, and they have a good foundation with the Group for commercial mutual trust and cooperation, and are also familiar with the needs of the Group for relevant services.

According to the Letter from the Board, with regard to the Deposit Services, after the completion of the Proposed Absorption and Merger and the Proposed Capital Increase, the Company will still hold approximately 34.63% equity interests in QDP Financial and be financially benefited from the financial performance of QDP Financial. In addition, the Group has adopted various measures and guidelines to monitor the risk of the Deposit Services under the 2022 SDP Financial Services Agreement.

As stated in the Letter from the Board, the Company has adopted the following internal control measures, arrangements and agreements to ensure the recoverability of the deposits placed in QDP Financial:

- (i) as a shareholder of QDP Financial, the Company is entitled to understand the operation conditions and financial conditions of QDP Financial by having access to its financial accounting report, such that the Company may monitor the operation conditions and financial conditions of QDP Financial at any time and respond to possible barriers to the recovery in time;
- (ii) QDP Financial only provides financial related services to the internal member entities within the SDP Group. QDP Financial had stable operating conditions, good returns and low risks in operation over the years. Thus, there is no restriction to the possibility of recovery on the Company's deposits in QDP Financial;
- (iii) since the inception of QDP Financial, QDP Financial has not previously defaulted any repayment obligation;

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- (iv) the corporate governance, internal control, risk management and economic functional support to its customers of QDP Financial are subject to the review and assessment by the CBIRC according to the Measures for the Supervision and Rating of Financial Companies of Enterprise Groups (Yinbaojianbanfa [2019] No. 8) (《企業集團財務公司監管評級辦法》(銀保監辦發[2019]8號)) annually to ensure its good operation condition and strong risk management capabilities. Thus, with the supervision and regulation by the CBIRC, the Directors are of the view that the interest of the Company can be safeguarded;
- (v) the articles of association of QDP Financial requires that the shareholders of QDP Financial shall provide a written undertaking to provide more funding and assistance to QDP Financial in light of its actual needs to address payment difficulties in the event that QDP Financial experiences any urgent payment difficulties; and
- (vi) SDP, being the controlling shareholder of QDP Financial, maintains strong financial condition. Its total assets as at 31 December 2020 was approximately RMB152.5 billion. Its net asset value as at 31 December 2020 was approximately RMB65.1 billion. Total revenue generated by SDP for the year ended 31 December 2020 was approximately RMB35.0 billion and it recorded net profits for the year ended 31 December 2020 of approximately RMB1.57 billion. The Directors are of the view that SDP, being the controlling shareholder of QDP Financial, has good operation conditions and strong profitability, and will be able to honour its obligation under the written undertaking as mentioned in (v) above to support the liquidity of QDP Financial.

We concur with the Directors that the above measures, arrangements and agreements would enable the Group to monitor the credit risk in respect of the Deposit Services and ensure the recoverability of deposits with QDP Financial.

Given that (i) the nature of the Deposit Services provided by QDP Financial is the same as those provided by the PRC commercial banks; (ii) QDP Financial has been in compliance with all the requirements and regulatory indicators set forth by the CBIRC in the past three years as mentioned in the paragraphs headed “Background information of the parties – Information on QDP Financial” above; (iii) the non-performing loan ratio of QDP Financial for the three years ended 31 December 2021 were all nil, which indicated that QDP Financial did not have any non-performing loans; and (iv) the articles of association of QDP Financial requires that the shareholders of QDP Financial shall provide a written undertaking to provide more funding and assistance to QDP Financial in light of its actual needs to address payment difficulties in the event that QDP Financial experiences any urgent payment difficulties, we are of the view that although the financial strength of QDP Financial may not be similar to that of the PRC commercial banks, the entering into of the Deposit Services is fair and reasonable.

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Having considered that (i) the General Sales provide a reliable customer base and stable income to the Group; (ii) the General Purchases provide the stability and reliability of the supply of goods and services to the Group; (iii) the Deposit Services and the Finance Lease Services provide the stability and reliability of the provision of the financial services to the Group; and (iv) the Non-exempt Continuing Connected Transactions do not restrict the Group to sell/procure the goods/services to/from the corresponding contractual parties only and therefore offer an additional option to the Group, we concur with the Directors that the Non-exempt Continuing Connected Transactions, which are conducted in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole.

2. The General Sales and the General Purchases

(a) Principal terms of the General Sales and the General Purchases

On 25 January 2022, the Company entered into the 2022 SDP Goods and Services Agreement with SDP in relation to, among others, the General Sales and the General Purchases. Further details of the 2022 SDP Goods and Services Agreement are set out in the Letter from the Board.

According to the 2022 SDP Goods and Services Agreement, the pricing policies of the General Sales and the General Purchases shall be negotiated on arm's length basis by the parties under the principle of fairness and reasonableness, and determined in accordance with the prevailing market prices of the parties being offered to Independent Third Parties in the ordinary and usual course of business for the sales or purchases of the same or similar type of goods or services, in particular: (i) if the state-prescribed price is available, the prices shall be determined at the state-prescribed price; (ii) if no state-prescribed price is available but there exists government guided price, the prices shall be determined in accordance with the government guided price; (iii) if no state-prescribed price or government guided price is available, the prices shall be determined at the market price (including prices determined through bidding process); or (iv) if the prices in (i), (ii) and (iii) are not available or applicable, the prices shall be determined at the contract price following the principle of reasonable cost plus reasonable profits and arrived at by the parties after arm's length negotiation.

We understood from the representatives of the Company that the provision of goods and services between the Group and the QDP group members (being members of the SDP Group) was included in the General Sales and the General Purchases. Besides, we intended to cover higher percentage of the total amount of the provision of goods and services between the Group and the QDP group members and to cover the important contracts. Therefore, we conducted our works below to assess the pricing policies of the General Sales and the General Purchases by reviewing the top five vouchers of the provision of goods and services between the Group and the QDP group members for each of the year ended 31 December 2020 and the ten months ended 31 October 2021 (the "Relevant Period").

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The five selected largest amounts of vouchers of the sales of goods and services by the Group to the QDP group members (the “**General Sales to QDP**”) for each of the Relevant Period involved port equipment, manufacturing engineering services for port equipment and facilities and electricity engineering services. For the port equipment, we have checked and noted that the prices of port equipment provided by the Group to the QDP group members were not less than the prices quoted from two Independent Third Parties for similar port equipment of the corresponding period. For the manufacturing engineering services for port equipment and facilities, we have obtained the fee assessment document issued by an independent engineering cost consulting company with qualification certificate class-A on project construction cost consultation approved by the Ministry of Housing and Urban-Rural Development of the PRC, confirming that the service fee for such port equipment and facilities was determined based on the market price. For the electricity engineering services, the representatives of the Company advised us that the engineering fee was determined based on the government guided price. The Company has installed a system which links to the government guided price to calculate the engineering fee. As such, we are of the view that the pricing policies of the General Sales are fair and reasonable so far as the Independent Shareholders are concerned.

The five selected largest amounts of vouchers of the purchase of goods and services by the Group from the QDP group members (the “**General Purchases from QDP**”) for each of the Relevant Period involved body check service, fuel oil, shipping services and earthwork. For the body check service, we have reviewed the breakdown of the body check service and the price list of body check service provided by the QDP group members to the Group and to Independent Third Parties respectively. We noted that the prices of the body check service charged by the QDP group members were not higher than the prices offered by the QDP group members to Independent Third Parties. For the fuel oil, we have checked and noted that the prices of fuel oil charged by the QDP group members were not higher than the prices quoted from two Independent Third Parties. For the shipping services, we have checked and noted that the fees of shipping services charged by the QDP group members were not higher than the fees quoted from two Independent Third Parties or the fees of similar route indicated by the China coastal bulk (coal) freight index (中國沿海煤炭運價指數) issued by the Shanghai Shipping Exchange. For the earthwork, we have checked and noted that the unit prices of earthwork charged by the QDP group members were not higher than the unit prices of similar earthwork indicated by the Qingdao Price Material* (青島價材) published by the Qingdao Engineer Construction Standard & Cost Association (青島市工程建設標準造價協會) which is supervised by the Qingdao Housing and Urban-Rural Construction Bureau (青島市住房和城鄉建設局). As such, we are of the view that the pricing policies of the General Purchases are fair and reasonable so far as the Independent Shareholders are concerned.

Given that (i) the total amount of the five selected largest amounts of vouchers of the General Sales to QDP represented approximately 43% and 19% respectively of the total amount of the General Sales to QDP under the 2020 QDP Goods and Services Agreement for each of the Relevant Period; (ii) the total amount of the five selected largest amounts of vouchers of the General Purchases from QDP represented

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approximately 28% and 15% respectively of the total amount of the General Purchases from QDP under the 2020 QDP Goods and Services Agreement for each of the Relevant Period; (iii) the pricing policies of the 2022 SDP Goods and Services Agreement are the same as those under the 2020 QDP Goods and Services Agreement; and (iv) the prices of the General Sales and the General Purchases shall be determined with reference to the state-prescribed prices, government guided prices, market prices or those arrived by the parties after arm's length negotiation, we are of the view that the pricing policies of the General Sales and the General Purchases are fair and reasonable so far as the Independent Shareholders are concerned.

(b) Proposed annual caps for the General Sales and the General Purchases

The following table sets out the historical transaction amounts of the General Sales and the General Purchases between the Group and the SDP Group (including the QDP group members) for the year ended 31 December 2021 and the annual caps for the year ending 31 December 2022 (the “FY2022”):

	Historical transaction amounts for the year ended 31 December 2021 RMB million	Proposed annual caps for the year ending 31 December 2022 RMB million
The General Sales	1,317	1,800
The General Purchases	1,906 (<i>Note</i>)	3,600

Note: the historical transaction amount of the purchase of goods and services by the Group from the SDP Group for FY2021 included the historical transaction amount of the purchase of goods and services by the Group from a technology company, a port engineering company and a shipping company (the “**Disposed Subsidiaries**”) and other SDP Group members (including the QDP group members) for FY2021.

The annual cap for the General Sales

The representatives of the Company advised us that the annual cap for the General Sales for FY2022 was determined mainly based on (i) the historical transaction amount of the sales of goods and services by the Group to the SDP Group (including the QDP group members) for FY2021 and the expected increase in the General Sales for FY2022; and (ii) the expected increase in provision of logistics services and electricity engineering services to the SDP Group.

As advised by the representatives of the Company, the historical transaction amount of the sales of goods and services by the Group to the SDP Group (including the QDP group members) was approximately RMB1,317 million for FY2021. Besides, the expected increase in the General Sales for FY2022 was determined with reference to the historical growth rate of revenue of the Group for 3Q2021 as compared to the revenue for

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3Q2020. While forecasting the expected increase in provision of logistics services and electricity engineering services to the SDP Group, the Company has discussed with the SDP Group on their demand for logistics services and the project plan of the electricity engineering services for FY2022.

Based on the above, we are of the view that the annual cap for the General Sales is determined based on reasonable estimation and after due and careful consideration and is fair and reasonable so far as the Independent Shareholders are concerned.

The annual cap for the General Purchases

The representatives of the Company advised us that the annual cap for the General Purchases for FY2022 was determined mainly based on (i) the expected increase in expenses of terminals construction projects and the purchase of tugboat and port equipment for FY2022; (ii) the historical transaction amount of the purchase of goods and services by the Group from the SDP Group (including the QDP group members and the Disposed Subsidiaries) for FY2021; and (iii) the expected increase in the General Purchases for FY2022, including the expected increase in logistics services and fuel oil provided by the SDP Group.

The expected increase in expenses of terminals construction projects and the purchase of tugboat and port equipment for FY2022 is approximately RMB950 million. According to the interim report of the Company for the six months ended 30 June 2021, the Group will accelerate the construction of an intelligent port and promote digital port transformation. It will accelerate the construction of key projects in Dongjiakou Port Area to further boost port handling capacity. We have obtained the project list of construction projects and an intelligent port project and the purchase list of tugboat and port equipment which are available for the SDP Group to bid for FY2022. As further advised by the representatives of the Company, if the prices offered by the SDP Group are not less favourable than those provided by Independent Third Parties, the Group may purchase such goods or services from the SDP Group.

The historical transaction amount of the purchase of goods and services by the Group from the Disposed Subsidiaries for FY2021 was approximately RMB1,492 million. As advised by the representatives of the Company, the deemed disposals by the Company of the three Disposed Subsidiaries were completed on 16 July 2021, 9 November 2021 and 12 November 2021 respectively. The Disposed Subsidiaries have changed from the subsidiaries of the Company to the connected persons of the Company after the deemed disposals, resulting in the increase of connected transactions. As shown in the above table, the historical transaction amount of the purchase of goods and services by the Group from the SDP Group (including the QDP group members and the Disposed Subsidiaries) was approximately RMB1,906 million for FY2021.

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The expected increase in the General Purchases for FY2022 was determined with reference to the historical growth rate of revenue of the Group of approximately 28% for 3Q2021 as compared to the revenue for 3Q2020. Furthermore, the expected increase in the procurement of logistics services for FY2022 is approximately RMB131 million. The representatives of the Company further advised us that if the prices of logistics services offered by the SDP Group are not less favourable than those provided by Independent Third Parties, the Group may shift the providers of some logistics services from Independent Third Parties to the SDP Group. For the expected increase in the purchase of fuel oil for FY2022 of approximately RMB85 million, the representatives of the Company advised us that the Group has increased the purchase of fuel oil from the QDP group members since September 2021 as the prices offered by the QDP group members were more competitive.

Based on the above, we are of the view that the annual cap for the General Purchases is determined based on reasonable estimation and after due and careful consideration and is fair and reasonable so far as the Independent Shareholders are concerned.

3. The Deposit Services and the Finance Lease Services

(a) Principal terms of the Deposit Services and the Finance Lease Services

On 25 January 2022, the Company and SDP entered into the 2022 SDP Financial Services Agreement in relation to, among others, the provision of the Deposit Services and the Finance Lease Services by the SDP Group to the Group. Further details of the 2022 SDP Financial Services Agreement are set out in the Letter from the Board.

According to the 2022 SDP Financial Services Agreement, the SDP Group provides Deposit Services to the Group at an interest rate (i) with reference to the deposit benchmark interest rate set by the PBOC from time to time for such types of deposit services; and (ii) not lower than the interest rate offered by the major independent PRC commercial banks in the service location or adjacent areas in the normal course of business for such types of deposit services. The SDP Group provides the Finance Lease Services to the Group at an interest rate or fee rate (i) with reference to the loan benchmark interest rate or the fee rate set by the PBOC from time to time for such types of credit services; and (ii) not higher than the interest rate or fee rate charged by Independent Third Parties in the service location or adjacent areas in the normal course of business for such types of credit services.

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We understood from the representatives of the Company that QDP Financial (being a SDP Group member upon completion of the Proposed Absorption and Merger and the Proposed Capital Increase) will continue to provide Deposit Services to the Group and the QDP group members (being members of the SDP Group) will continue to provide the Finance Lease Services to the Group. Besides, we intended to cover higher percentage of the total amount of the Deposit Services and the Finance Lease Services and to cover the important contracts and deposits. Therefore, we conducted our works below to assess the pricing standards of the Deposit Services and the Finance Lease Services.

We have reviewed the five largest amounts of deposits of the Group with QDP Financial for each of the Relevant Period and compared with the interest rates of such type of deposits set by the PBOC and offered by three major independent PRC commercial banks in similar period. We noted that the above interest rates offered by QDP Financial to the Group were not less than the deposit benchmark interest rates of such type of deposits set by the PBOC and the deposit interest rates of such type of deposits offered by the major independent PRC commercial banks in similar period.

We have reviewed (i) the five largest amounts of the finance lease transactions between the Group and the QDP group members; and (ii) the internal approval form of the Group for each of the finance lease transactions, which recorded three quotations from Independent Third Parties obtained by the Group for finance leases of similar period. We noted that the interest rates or fee rates of the above finance lease transactions between the Group and the QDP group members were no less favourable than those quoted from Independent Third Parties.

Given that (i) the total amount of the five largest amounts of deposits of the Group with QDP Financial represented approximately 70% and 59% respectively of the total amount of deposits of the Group with QDP Financial under the 2020 Financial Services Agreement I for each of the Relevant Period; (ii) the deposit interest rates offered by QDP Financial to the Group were not less than those set by the PBOC and offered by major independent PRC commercial banks in similar period; (iii) the total amount of the five largest amounts of finance lease transactions between the Group and the QDP group members represented approximately 35% and 11% respectively of the total amount of finance lease transactions between the Group and the QDP group members under the 2020 QDP Financial Services Agreement for each of the Relevant Period; and (iv) the interest rates or fee rates of the Finance Lease Services were no less favourable than those quoted from Independent Third Parties, we are of the view that the pricing policies of the Deposit Services and the Finance Lease Services are fair and reasonable so far as the Independent Shareholders are concerned.

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(b) Proposed annual caps for the Deposit Services and the Finance Lease Services

The following table sets out the maximum outstanding balance/historical transaction amount of the provision of Deposit Services by QDP Financial to the Group and the Finance Lease Services by the QDP group members to the Group for the year ended 31 December 2021 and the annual caps for FY2022:

	Outstanding balance as at 31 December 2021/historical transaction volume for the year ended 31 December 2021 RMB million	Proposed annual caps for the year ending 31 December 2022 RMB million
Deposit Services	12,000	20,000
Finance Lease Services	2,400	3,500

The annual cap for the Deposit Services

The representatives of the Company advised us that the annual cap for the Deposit Services for FY2022 was determined mainly based on (i) the outstanding balance of the deposits of the Group placed with QDP Financial as at 31 December 2021; (ii) the deposits of the Group placed with external commercial banks which were available for deposit in QDP Financial; (iii) the expected net cash flow from operating activities of the Group for FY2022; and (iv) the expected increase in scale of fund from the potential investors.

As advised by the representatives of the Company, the outstanding balance of the deposits of the Group placed with QDP Financial as at 31 December 2021 was approximately RMB12,000 million and the deposits of the Group placed with external commercial banks which were available for deposit in QDP Financial was approximately RMB1,200 million. Besides, the net cash flow from operating activities of the Group was approximately RMB1,382 million for 3Q2021 as stated in the 2021 Third Quarterly Report. The expected net cash flow from operating activities of the Group for FY2022 was based on that for 3Q2021. As discussed above, the transaction amount of the General Purchases for FY2022 is expected to increase as compared to FY2021. As advised by the representatives of the Company, the deposits placed with QDP Financial would be used to settle the General Purchases. Thus, the Company has taken into account the increase in the transaction amount of the General Purchases for FY2022 when determining the expected net cash flow from operating activities of the Group for FY2022. Furthermore, the representatives of the Company advised us that the Group expects the potential investors to fund the financing activities of the Group and the funds from financing activities will be deposited with QDP Financial before use. As stated in the 2021 Third

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Quarterly Report, the net cash outflow from financing activities of the Group was approximately RMB3,629 million for 3Q2021. As the Deposit Services under the 2022 SDP Financial Services Agreement provide an option, but not an obligation, for the Group to deposit its cash with the SDP Group, it would provide flexibility to the Group when sourcing deposit service providers with favourable terms in the future.

Given the foregoing, we are of the view that the annual cap for the Deposit Services is determined based on reasonable estimation and after due and careful consideration and is fair and reasonable so far as the Independent Shareholders are concerned.

The annual cap for the Finance Lease Services

The representatives of the Company advised us that the annual cap for the Finance Lease Services for FY2022 was determined mainly based on (i) the outstanding balance of existing finance lease contracts of the Group as at 31 December 2021; and (ii) the expected amounts of fixed assets and equipment of the Group available for finance lease services for FY2022.

As advised by the representatives of the Company, the balance of existing finance lease contracts of the Group was approximately RMB2,400 million as at 31 December 2021. Besides, we have obtained a list of fixed assets and equipment of the Group in the total value of approximately RMB1,100 million which are available for finance lease services for FY2022. Given the foregoing, we are of the view that the annual cap for the Finance Lease Services is determined based on reasonable estimation and after due and careful consideration and is fair and reasonable so far as the Independent Shareholders are concerned.

4. Internal control measures

The Group has established a comprehensive internal control system and adopted various internal control rules, including connected transaction management measures and procurement and tender administration measures, to ensure that the Non-exempt Continuing Connected Transactions are conducted in accordance with their terms and conditions.

We have obtained and reviewed the connected transaction management system* (《H股關連交易管理制度》) of the Company which stipulates the management responsibilities and division of work for the connected transactions of the Company. The Board is responsible for the drafting of the connected transaction management system* and the office to the Board is responsible for the daily monitoring of the connected transactions of the Company. The finance department is responsible for reporting the connected transaction information summary to the office of the Board quarterly. We have obtained and reviewed the connected transaction information summary for the year ended 31 December 2020 and the nine months ended 30 September 2021 and noted that both transaction amounts and annual caps for the continuing connected transactions for the corresponding year were recorded in the connected transaction information summary.

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Further details of the internal control measures of the Group are set out in the Letter from the Board.

Moreover, as stated in the 2020 Annual Report, the independent non-executive Directors have reviewed the continuing connected transactions disclosed in the 2020 Annual Report and confirmed that the transactions (i) were entered into in the ordinary and usual course of business of the Group; (ii) were either on normal commercial terms, or, in the absence of similar transactions to judge whether the terms are normal commercial terms, on terms no less favourable to those adopted for transactions between the Group and Independent Third Parties; (iii) were in accordance with the terms of such transactions agreements, which are in the interest of the Group and the Shareholders as a whole, and fair and reasonable; and (iv) did not exceed the annual cap amounts.

As stated in the 2020 Annual Report, the auditor of the Company has been engaged to report on the continuing connected transactions of the Company disclosed in the 2020 Annual Report in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their conclusions in respect of the continuing connected transactions disclosed in the 2020 Annual Report in accordance with Rule 14A.56 of the Hong Kong Listing Rules. According to the unqualified letter, the auditor has confirmed that in respect of the continuing connected transactions disclosed in the 2020 Annual Report, (i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board; (ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, carried out in accordance with the pricing policies of the Group; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements relating to such transactions; and (iv) with respect to the aggregate amount of each of the continuing connected transactions set out in the letter, nothing has come to their attention that causes them to believe that the amounts of the continuing connected transactions have exceeded the annual caps as set by the Company.

Having considered the internal control measures as stated above, we are of the view that there are appropriate measures in place to govern the Non-exempt Continuing Connected Transactions and hence the interest of the Independent Shareholders would be safeguarded.

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RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the terms of the Absorption and Merger Agreement, the Capital Increase Agreement and the Non-exempt Continuing Connected Transactions (including the respective annual caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Proposed Absorption and Merger, the Proposed Capital Increase and the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Proposed Absorption and Merger, the Proposed Capital Increase and the Non-exempt Continuing Connected Transactions.

Yours faithfully,
For and on behalf of
TC Capital International Limited
Edith Lee
Director

Note: Ms. Edith Lee has been a responsible officer of type 6 (advising on corporate finance) regulated activities under the SFO since 2015. She has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

* *For identification purposes only*

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for each of the years ended 31 December 2018, 2019 and 2020 and the unaudited quarterly report of the Group for the nine months ended 30 September 2021 are disclosed in the following documents which have been published on the websites of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company (<https://www.qingdao-port.com>):

Annual report of the Company for the year ended 31 December 2018 (pages 105 to 333)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0422/ltn20190422131.pdf>

Annual report of the Company for the year ended 31 December 2019 (pages 103 to 305)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0423/2020042301083.pdf>

Annual report of the Company for the year ended 31 December 2020 (pages 109 to 325)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042701177.pdf>

Quarterly report of the Company for the nine months ended 30 September 2021 (pages 10 to 17) <https://www1.hkexnews.hk/listedco/listconews/sehk/2021/1029/2021102901082.pdf>

2. STATEMENT OF INDEBTEDNESS

As of 30 November 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had (1) EUR secured long-term borrowings of approximately EUR10.26 million; and (2) USD unsecured short-term borrowings of approximately USD206.59 million.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and the payables arising from the normal course of business, as of 30 November 2021, the Group did not have any debt capital issued and outstanding or agreed to be issued, bank loans or overdrafts, or other similar indebtedness, liabilities under acceptances or acceptance credits, debt securities, pledges, charges, guarantees or contingent liabilities.

3. WORKING CAPITAL

The Directors, after due and careful inquiry, are of the opinion that, after taking into account the effect of the Proposed Absorption and Merger and the Proposed Capital Increase, and the Group's internal resources, the Group will have sufficient working capital to satisfy its requirements for at least the next twelve months following the date of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest audited consolidated financial statements of the Group were made up to.

5. FINANCIAL AND TRADING PROSPECT

The Group will aim at accelerating “the construction of a world-class marine port”, seize policy benefits, continue to advance reforms and stay focused on results to create greater value for Shareholders and society.

I. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

II. DISCLOSURE OF INTERESTS

So far as the Directors are aware, as at the Latest Practicable Date, none of the Directors, the Supervisors or the chief executive and their respective associates had any interest or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which will be required, pursuant to Section 352 of the SFO, to be recorded in the register kept by the Company, or (ii) which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Save for (i) Mr. SU Jianguang, Mr. LI Wucheng, Mr. WANG Xinze, Mr. WANG Jun and Ms. WANG Fuling of his/her directorships or positions in SDP and/or certain subsidiaries of SDP; and (ii) Mr. FENG Boming of his directorships or positions in COSCO SHIPPING Group and/or certain subsidiaries of COSCO SHIPPING Group, as at the Latest Practicable Date, none of the Directors was a director or an employee of any shareholders of the Company or a company which has an interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

III. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, no Director or proposed Director had entered into any service contract or letter of appointment with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

IV. DIRECTORS' AND SUPERVISORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, save as disclosed in this circular,

- (a) none of the Directors, the proposed Director or the Supervisors had any direct or indirect interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or are proposed to be acquired, disposed of by, or leased to any member of the Group; and
- (b) none of the Directors, the proposed Director or the Supervisors was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

V. COMPETING INTERESTS

SDP has been engaging in port operation and logistics business since its establishment in August 2019. Upon the completion of the Gratuitous Transfer on 23 January 2022, SDP has become an indirect controlling Shareholder of the Company and its business are similar to and/or are likely to compete/compete with those of the Company. Mr. WANG Xinze and Mr. ZHANG Qingcai also hold positions in the Company and SDP.

COSCO SHIPPING Group is one of the largest shipping companies in the world, the port operation and investment and the logistics business of which are similar to and/or are likely to compete/compete with those of the Company. Mr. FENG Boming, a Director of the Company, also serves as a director and/or a member of senior management of COSCO SHIPPING Ports Limited (中遠海運港口有限公司) and COSCO SHIPPING Holdings Co., Ltd. (中遠海運控股股份有限公司), all of which are members of COSCO SHIPPING Group.

So far as the Directors are aware, save as disclosed above, as at the Latest Practicable Date, other than business of the Group, none of the Directors holds any interest in business which directly or indirectly competes or is likely to compete with the business of the Group.

VI. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the Company and its subsidiaries was engaged in any material litigation or arbitration and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company and its subsidiaries.

VII. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Company and its subsidiaries since 31 December 2020, being the date to which the latest published audited accounts of the Company and its subsidiaries were made up to.

VIII. CONSENT OF EXPERTS

The qualification of the experts who have given an opinion or advice in this circular is as follow:

Name	Qualification
TC Capital International Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
China United Assets Appraisal Group Co., Ltd.	A qualified valuer in the PRC
PricewaterhouseCoopers Zhong Tian LLP	Certified Public Accountants

As of the date of this circular, each of the above experts: (i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and the references to its names and advice included herein in the form and context in which it is respectively included; (ii) has no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (iii) has no direct or indirect interests in any assets which have been, since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

IX. MATERIAL CONTRACTS

In the two years immediately preceding the Latest Practicable Date, the following material contracts, not being contracts entered into in the ordinary course of business, were entered into by the Group.

- (a) the equity transfer agreement dated 10 June 2020 entered into between the Company (as the vendor) and SDP Financial Holdings (as the purchaser), in relation to the disposal of the 90% equity interests in Qingdao Yongli Company Agency Co., Ltd.* (青島永利保險代理有限公司) (“**Yongli Company**”) at the consideration of RMB54,475,830.

- (b) the equity transfer agreement dated 10 June 2020 entered into between Qingdao Port (Group) Engineering Co., Ltd.* (青島港(集團)港務工程有限公司) (as the vendor) and SDP Financial Holdings (as the purchaser), in relation to the disposal of the 10% equity interests in Yongli Company at the consideration of RMB6,052,870.
- (c) the equity transfer agreement dated 10 May 2021 entered into among Shandong Haiye Petroleum Pipeline Transportation Co., Ltd.* (青島海業石油有限公司) (“**Haiye Petroleum**”, as the vendor), the Company (as the purchaser), Qingdao Haiye Oil Terminal Co., Ltd.* (青島海業油碼頭有限公司) (“**Haiye Oil Terminal**”), Qingdao Leruite Investment Co., Ltd.* (青島樂瑞特投資有限公司) (“**Leruite Investment**”) and Qingdao Yiruiyuan Trading Co., Ltd.* (青島懿睿源商貿有限公司) (“**Yiruiyuan Trading**”) in relation to the transfer of 40.8% equity interests in Haiye Oil Terminal at the consideration of RMB1,047,614,256.
- (d) the equity transfer agreement dated 10 May 2021 entered into among Yiruiyuan Trading (as the vendor), the Company (as the purchaser), Haiye Oil Terminal, Leruite Investment and Haiye Petroleum in relation to the transfer of 10.2% equity interests in Haiye Oil Terminal at the consideration of RMB261,903,564.
- (e) the capital increase agreement dated 28 June 2021 entered into among the Company, Shandong Harbour Engineering Group Limited Company (山東港灣建設集團有限公司) (“**Harbour Engineering**”) and RZP Group, in relation to the share capital increase of Harbour Engineering by the Company at the total subscription amount of RMB183,487.8 thousand.
- (f) the share transfer agreement dated 28 June 2021 entered into among the Company (as the transferrer), Qingdao Port (Group) Engineering Co., Ltd. (青島港(集團)港務工程有限公司) (“**QDP Engineering**”) and Harbour Engineering (as the transferee), in relation to the transfer of 51% equity interests in QDP Engineering at the consideration of RMB183,487.8 thousand.
- (g) the capital increase agreement dated 28 June 2021 entered into among the Company, Shandong Port Technology Group Co., Ltd. (山東港口科技集團有限公司) (“**SDP Technology**”) and Qingdao Port Technology Co., Ltd. (青島港科技有限公司) (“**QDP Technology**”), in relation to the share capital increase of QDP Technology by SDP Technology at the total subscription amount of RMB52,842.245 thousand.
- (h) the share capital increase agreement dated 28 June 2021 entered into among SDP, the Company, Shandong Port Shipping Group Co., Ltd. (山東港口航運集團有限公司) (“**Shipping Group**”), in relation to the share capital increase of Shipping Group by the Company at the total subscription amount of RMB36,656 thousand.
- (i) the share transfer agreement dated 28 June 2021 entered into among the Company (as the transferrer), Shipping Group (as the transferee) and Qingdao Port Tongbao Shipping Co., Ltd. (青島港通寶航運有限公司) (“**Tongbao Shipping**”) in relation to the transfer of 100% equity interests in Tongbao Shipping at the consideration of RMB36,656 thousand.

X. MISCELLANEOUS

- (a) Ms. SUN Hongmei is the Board Secretary and one of the joint company secretaries of the Company, Ms. NG Sau Mei is another joint company secretary of the Company.
- (b) The registered office of the Company is located at No. 12 Jingba Road, Huangdao District, Qingdao, Shandong Province, the PRC.
- (c) The principal place of business of the Company in Hong Kong is at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.
- (d) The H Share Registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, whose registered office is at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) In the case of any discrepancy, the English text of this circular shall prevail over the Chinese text.

XI. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.qingdao-port.com) for 14 days from the date of this circular:

- (a) the Absorption and Merger Agreement;
- (b) the Capital Increase Agreement;
- (c) the 2022 SDP Goods and Services Agreement;
- (d) the 2022 SDP Financial Services Agreement;
- (e) the letter from the Board, the text of which is set out on pages 8 to 47 of this circular;
- (f) the valuation reports from the Independent Valuer in respect of the valuation on QDP Financial and RZP Financial as set out in Appendix III and Appendix IV of this circular;
- (g) the report from the independent reporting accountant's assurance report on the calculations of discounted future estimated cash flows as set out in Appendix V of this circular;

- (h) the letter from the Board on profit forecast on QDP Financial as set out in Appendix VI of this circular;
- (i) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (j) the letter from TC Capital, the text of which is set out in this circular; and
- (k) the written consents referred to in the section headed “Consent of Experts” in this appendix.

**ASSET VALUATION REPORT
IN RELATION TO
THE VALUE OF THE TOTAL SHAREHOLDERS' EQUITY OF
QINGDAO PORT FINANCE CO., LTD.
INVOLVED IN THE PROPOSED CONSOLIDATION OF A SUBSIDIARY
FINANCIAL COMPANY BY SHANDONG PORT GROUP CO., LTD.**

Zhong Lian Ping Bao Zi [2021] No. 3107

Summary

China United Assets Appraisal Group Co., Ltd. was engaged by Shandong Port Group Co., Ltd. (山東省港口集團有限公司) (the “SDP”), Shandong Port Qingdao Port Group Co., Ltd. (山東港口青島港集團有限公司) (the “QDP”), Shandong Port Rizhao Port Group Co., Ltd. (山東港口日照港集團有限公司) (the “RZP Group”) and Shandong Port Financial Holdings Limited (山東港口金融控股有限公司) (the “SDP Financial Holdings”) to appraise the market value of the total shareholders' equity of Qingdao Port Finance Co., Ltd. (青島港財務有限責任公司) (the “QDP Financial”) involved in the proposed restructuring and consolidation of QDP Financial and Rizhao Port Group Finance Co., Ltd. (日照港集團財務有限公司) by SDP as at the valuation reference date.

The valuation subject is the value of the total shareholders' equity of QDP Financial, and the scope of valuation covers all assets and related liabilities of QDP Financial, including current assets and non-current assets and relevant liabilities.

The valuation reference date is 30 September 2021.

The type of value under the valuation is market value.

This valuation is conducted on the premise of continued use and open market. Taking into account the actual conditions of the valuation subject and comprehensively considering various influencing factors, we conducted an overall evaluation of QDP Financial using the asset-based approach and the income approach respectively, and then reviewed and compared the valuation results. Given the applicable premise of the valuation approaches and the valuation purpose, the valuation conclusion under the income approach is selected as the final valuation conclusion.

Based on the judgment of the equity holders and the management of QDP Financial on its future development trend and the implementation of its business plans, and after conducting the valuation procedures, such as examination and verification, site inspection, market survey and confirmation, and determination of valuation, the valuation conclusion for the total shareholders' equity in QDP Financial as at the valuation reference date, i.e. 30 September 2021, was arrived at as follows:

The book value of the net assets of QDP Financial was RMB1,796,848,100, and the appraised value of its total shareholders' equity was RMB2,063,930,000, representing a valuation appreciation of RMB267,081,900 or 14.86%.

When using the valuation conclusion, the users of this report are hereby reminded to pay attention to the special notes and material subsequent events set out herein.

According to the laws and regulations related to asset valuation, an asset valuation report involving statutory valuation business shall be used only after the principals perform the supervision and management procedures for asset valuation in accordance with relevant laws and regulations. The valuation conclusion shall be valid for one year from 30 September 2021 (the valuation reference date) to 29 September 2022. If the one-year period expires, the valuation subject needs to be re-evaluated.

The users of the report should note that the valuation relies on the business plan of the valuation subject in the future operating period, if the actual operating conditions of QDP Financial differ from its business plan, and the management has not taken corresponding remedial measures to make up for the deviation, the valuation conclusion will be changed.

When there are material changes in the conditions of the appraised assets and external market subsequent to the valuation reference date and as a result the original valuation conclusion becomes void, the users of the asset valuation report should rearrange asset valuation.

The above content is extracted from the full text of the asset valuation report. For the details of the valuation and reasonable understanding of the valuation conclusion, please refer to the full text of the asset valuation report.

**ASSET VALUATION REPORT
IN RELATION TO
THE VALUE OF THE TOTAL SHAREHOLDERS' EQUITY OF
QINGDAO PORT FINANCE CO., LTD.
INVOLVED IN THE PROPOSED CONSOLIDATION OF A SUBSIDIARY
FINANCIAL COMPANY BY SHANDONG PORT GROUP CO., LTD.**

Zhong Lian Ping Bao Zi [2021] No. 3107

Shandong Port Group Co., Ltd., Shandong Port Qingdao Port Group Co., Ltd., Shandong Port Rizhao Port Group Co., Ltd. and Shandong Port Financial Holdings Limited,

China United Assets Appraisal Group Co., Ltd. was engaged by Shandong Port Group Co., Ltd. (山東省港口集團有限公司) (the “SDP”), Shandong Port Qingdao Port Group Co., Ltd. (山東港口青島港集團有限公司) (the “QDP”), Shandong Port Rizhao Port Group Co., Ltd. (山東港口日照港集團有限公司) (the “RZP Group”) and Shandong Port Financial Holdings Limited (山東港口金融控股有限公司) (the “SDP Financial Holdings”) to appraise the market value of the total shareholders' equity of Qingdao Port Finance Co., Ltd. (青島港財務有限責任公司) (the “QDP Financial”) involved in the proposed restructuring and consolidation of QDP Financial and Rizhao Port Group Finance Co., Ltd. (日照港集團財務有限公司) by SDP as at the valuation reference date, i.e. 30 September 2021, by adopting the asset-based approach and the income approach and carrying out necessary valuation procedures in accordance with relevant laws and regulations and asset valuation standards. Details of the asset valuation are reported as follows:

I. THE PRINCIPALS, THE APPRAISED ENTITY AND OTHER USERS OF THE ASSET VALUATION REPORT AS AGREED IN THE ASSET VALUATION ENGAGEMENT CONTRACT

The principals of the asset valuation are SDP, QDP, RZP Group and SDP Financial Holdings, and the appraised entity is QDP Financial.

(I) Overview of the Principals

1. Principle I-SDP

Company Name: Shandong Port Group Co., Ltd.

Registered address: Shandong Port Tower, No. 7 Gangji Road, Shibei District, Qingdao, Shandong Province

Legal representative: Huo Gaoyuan

Registered capital: RMB10 billion

Type of company: Limited liability company (state-controlled)

Unified social credit code: 91370000MA3QB0H980

Date of establishment and duration of operation: 2 August 2019 with an indefinite period

Business scope: Port operation management, port industry investment, port infrastructure construction, port and shipping ancillary services, storage and development and utilization of land resources in coastlines and port areas, ocean and coastal shipping, cargo transportation, warehousing and logistics, bulk commodity trading, equity and fund investment, management, operation; and vessel transactions. (For projects that are subject to approval in accordance with the law, business activities can only be carried out upon approval by relevant authorities).

2. *Principal II-QDP*

Company Name: Shandong Port Qingdao Port Group Co., Ltd.

Registered address: No. 7 Gangji Road, Shibei District, Qingdao, Shandong Province

Legal representative: Su Jianguang

Registered capital: RMB1,860 million

Type of company: Limited liability company (state-controlled)

Unified social credit code: 91370203163581022Y

Date of establishment and duration of operation: 12 August 1988 with an indefinite period

Scope of business: asset management; investment management; equity investment (without the approval of the financial regulatory authorities, no financial business such as deposit absorption, financing guarantee, and wealth management on behalf of customers is allowed); land development in port areas; real estate leasing; tangible movable property leasing; port construction project management; port passenger transportation services; cargo loading and unloading; port warehousing and transportation industry and auxiliary industry; cargo sales; port water supply, power supply and heat supply; cleaning services; electrical equipment sales; contracting of power projects. (For projects that are subject to approval in accordance with the law, business activities can only be carried out upon approval by relevant authorities).

3. *Principal III-RZP Group*

Company Name: Shandong Port Rizhao Port Group Co., Ltd.

Registered address: No. 91 Huanghai First Road, Donggang District, Rizhao City, Shandong Province

Legal representative: Zhang Jiangnan

Registered capital: RMB5 billion

Type of company: Limited liability company (wholly owned by a legal person not invested or controlled by a natural person)

Unified social credit code: 91371100168357011L

Date of establishment and duration of operation: 24 February 2004 with an indefinite period

Business scope: general projects: loading, unloading and handling; general cargo warehousing services (excluding hazardous chemicals and other projects requiring approval); machinery and equipment leasing; ship repair; housing leasing; non-residential real estate leasing; land use right leasing; marketing planning; packaging services; sales of machinery and equipment; sales of mechanical parts and components; ship towing services; repair of general equipment; repair of special equipment; maintenance of transportation facilities; railway transportation ancillary activities; sales of general merchandise (except for items subject to approval in accordance with the law, carrying out business activities independently by virtue of business license according to law). Licensed projects: port operation; domestic waterway passenger transportation; road cargo transportation (network freight); ship pilotage services; internet information services; international liner transportation; railway locomotive and rolling stock maintenance; supply of offshore vessels at ports (for projects that are subject to approval in accordance with the law, business activities can only be carried out upon approval by relevant departments. The specific business projects shall be subject to the approval results).

4. *Principal IV-SDP Financial Holdings*

Company Name: Shandong Port Financial Holdings Co., Ltd.

Registered address: 3rd Floor, No. 58 Ganghuan Road, Shibei District, Qingdao, Shandong Province

Legal representative: Li Fengli

Registered capital: RMB6,900 million

Type of company: Other company with limited liability

Unified social credit code: 91370203MA3DHHAK0C

Date of establishment and duration of operation: 19 April 2017 with an indefinite period

Business scope: investment with self-owned funds, asset management, investment management, equity investment, equity investment management (without the approval of the financial regulatory authorities, no financial service such as deposit absorption from the public, financing guarantee, and wealth management on behalf of customers is allowed); consulting and advisory service, information data analysis and application services. (For projects that are subject to approval in accordance with the law, business activities can only be carried out upon approval by relevant authorities).

(II) Overview of the Appraised Entity

Company Name: Qingdao Port Finance Co., Ltd.

Registered address: No. 7 Ganghua Road, Shibei District, Qingdao

Legal representative: Jiang Chunfeng

Registered capital: RMB1 billion

Type of company: Limited liability company (state-controlled)

Unified social credit code: 913702003967323468

Date of establishment and duration of operation: 22 July 2014 with an indefinite period

1. Company profile

(1) Establishment of QDP Financial and changes in equity

QDP Financial was established in July 2014 with a registered capital of RMB1 billion. The shareholding structure at the time of the establishment of the Company was as follows:

Name of Shareholder	Capital contribution	Unit: RMB0,000
		Percentage of capital contribution (%)
Qingdao Port International Co., Ltd.	70,000.00	70.00
Qingdao Port (Group) Co., Ltd.	30,000.00	30.00
Total	100,000.00	100.00

Note: On 2 August 2021, the name of the shareholder Qingdao Port (Group) Co., Ltd. was changed to Shandong Port Qingdao Port Group Co., Ltd.

QDP Financial is mainly engaged in absorbing deposits from member entities, providing loans and issuing letters of guarantee to member entities, and assisting member entities in the collection and payment of transaction funds, internal transfer and settlement, bill acceptance and discounting, foreign exchange settlement and sale, inter-bank lending and marketable securities investment.

(2) *Current share capital*

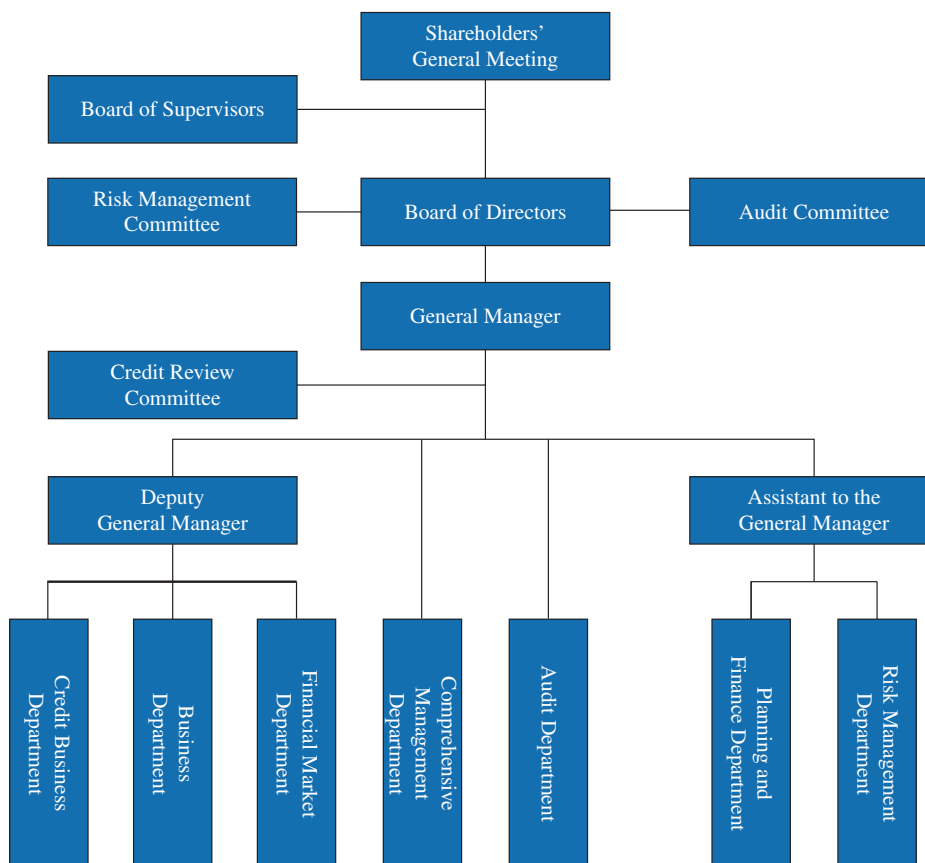
As at the valuation reference date, the registered capital of QDP Financial was RMB1 billion and the paid-in capital was RMB1 billion. The shareholding structure was as follows:

Name of Shareholder	Unit: RMB0,000	
	Capital contribution	Percentage of capital contribution (%)
Qingdao Port International Co., Ltd.	70,000.00	70.00
Shandong Port Qingdao Port Group Co., Ltd.	30,000.00	30.00
Total	100,000.00	100.00

(3) *Organizational structure*

In accordance with the modern corporate governance system, QDP Financial has established a corporate governance structure in which the shareholders' general meeting, the board of directors, the board of supervisors, and the management (the "Three Committees and One Management") shall check and balance each other and assume their respective responsibilities. The board of directors has established risk management committee and audit committee, and the management has established credit review committee. The company organically unifies the Party organization's "three majors and one significant" collective decision-making with the strategic deployment of the board of directors to establish a Party building-leading approval and decision-making mechanism, and clarify and refine the procedures for the Party organization to participate in decision-making on major issues.

The management has general manager, deputy general manager and assistant to the general manager and other positions. The company has seven functional departments, namely the credit business department, the business department, the financial market department, the comprehensive management department, the planning and finance department, the risk management department and the audit department.



(4) Objective of operation

With the objective of “serving the group, strict risk control, effective operation and integration of industry and finance”, QDP Financial has built a “five-in-one” platform to root in and serve the Group. Aiming at maximizing the overall benefits of the Group, QDP Financial comprehensively enhanced its financial service capabilities in accordance with the “three-in-one” treasury operation system of the Group, finance company and members through expanding its service scope, enriching its financial products, expanding its channels of innovation and efficiency, consolidating the foundation of industry-finance integration and accelerating the training of talents, promoting the construction of informatization and improving the risk management system to provide full supports to the development of main business of the Group.

(5) *Employees*

As at the valuation reference date, QDP Financial had 31 employees.

(6) *Branches*

None.

(7) *Business license*

Financial license

Approved date of establishment: 17 July 2014

Agency code: L0201H237020001

Certificate No.: 00607082

Issuing authority: Qingdao Bureau of CBIRC

2. *Scope of business*

The institution is permitted to operate the business approved by the China Banking Regulatory Commission in accordance with relevant laws, administrative regulations and other provisions and the scope of its business is subject to the approval documents (the valid period of the financial license is subject to the license). (For projects that are subject to approval in accordance with the law, business activities can only be carried out upon approval by relevant authorities).

3. *Assets, financial and operating conditions*

The principal business of QDP Financial is deposits and loans. The deposit business mainly consists of demand deposits, time deposits and call deposits absorbed from members. The main interest rate of demand deposits is 0.35%; the interest rate of time deposits ranges from 1.32% to 3.30%; and the interest rate of call deposits ranges from 0.80% to 1.35%. The loan business mainly includes short-term loans and medium and long-term loans granted by QDP Financial to its members. The short-term loans are mainly one-year short-term loans with an interest rate of 3.95%-4.35%; and the medium and long-term loans are mainly medium-to-long-term loans with a maturity of 2 to 10 years, and the interest rate ranges from 4.75% to 5.38%.

As at 30 September 2021, the valuation reference date, the carrying value of the total assets of QDP Financial amounted to RMB15,328,473,400, the total liabilities amounted to RMB13,531,625,400, and the net assets amounted to RMB1,796,848,000. From January to September 2021, the revenue of the company amounted to RMB373,522,200 and the net profit amounted to RMB240,177,400. At present, the enterprise is in normal operation. The assets and financial position of the company for last three years and as at the valuation reference date are as follows:

Balance sheet and statement of financial position of the company

Unit: RMB0,000

Items	Balance sheet		31 December 2019	31 December 2018
	30 September 2021	31 December 2020		
Assets				
Cash and deposits with the central bank	71,038.90	82,407.92	64,560.19	86,512.26
Deposits with banks and other financial institutions	497,155.40	563,215.85	338,178.54	496,563.23
Placements with banks	—	—	4,980.88	—
Financial assets held for trading	124,146.28	141,591.37	141,856.21	107,137.27
Financial assets held under resale agreement	69,723.78	40,010.15	160,144.63	100,200.48
Loans and advances to customers	730,602.39	801,329.44	484,896.87	444,923.90
Debt investments	—	22,181.07	—	13,000.00
Other debt investments	34,685.36	222,442.72	438,242.94	237,919.27
Fixed assets	284.42	338.01	116.87	191.81
Intangible assets	377.59	408.49	317.75	305.05
Deferred income tax assets	4,511.38	3,610.50	2,215.63	1,814.58
Other assets	321.84	2,122.90	0.15	19.53
Total assets	1,532,847.34	1,879,658.41	1,635,510.67	1,488,587.37
Liabilities				
Deposits from banks and other financial institutions	3.42	—	—	—
Financial assets sold under repurchase agreements	—	—	950.12	—
Customer deposits	1,345,674.10	1,630,502.37	1,415,998.16	1,294,808.52
Employee benefits payable	271.78	459.44	285.94	252.00
Taxes payable	2,093.99	1,873.27	1,838.41	1,149.49
Other liabilities	5,119.25	5,671.83	189.24	471.30
Total liabilities	1,353,162.54	1,638,506.91	1,419,261.87	1,296,681.32
Shareholders' equity:				
Paid-in capital	100,000.00	100,000.00	100,000.00	100,000.00
Other comprehensive income	549.60	1,225.24	1,478.31	1,807.93
Surplus reserve	16,394.40	13,992.63	11,477.05	9,009.81
General risk reserve	41,124.85	41,124.85	38,058.68	29,828.38
Undistributed profits	21,615.96	84,808.78	65,234.76	51,259.94
Total owners' equity	179,684.80	241,151.50	216,248.80	191,906.06
Total liabilities and shareholders' equity	1,532,847.34	1,879,658.41	1,635,510.67	1,488,587.37

Income statement				
January to				
Items	September 2021	2020	2019	2018
1. Revenue	37,352.22	44,348.17	37,147.38	44,018.22
Net interest income	29,249.66	34,338.03	25,325.91	34,270.42
Interest income	39,553.99	46,401.70	35,153.36	48,330.91
Interest expenses	10,304.34	12,063.67	9,827.45	14,060.49
Net fee and commission income	40.05	54.61	37.02	126.33
Fee and commission income	55.47	70.77	51.96	136.86
Fees and commission expenses	15.42	16.16	14.94	10.52
Investment income	6,871.59	9,676.53	9,266.53	7,718.79
Gains and losses from changes in fair value	1,131.57	219.56	899.65	501.49
Exchange gains	58.70	55.99	339.21	404.05
Other income	0.64	3.45	1,279.06	997.14
2. Operating expenses	5,262.07	10,804.20	4,614.63	3,804.17
Taxes and surcharges	14.48	72.42	180.47	160.30
Business and management fees	1,167.46	1,560.51	1,452.77	1,403.59
Credit impairment losses	4,080.13	9,171.27	2,981.38	2,240.28
3. Operating profit	32,090.14	33,543.96	32,532.75	40,214.05
Add: Non-operating income	0.60	–	279.17	50.00
Less: Non-operating expenses	–	0.11	0.53	–
4. Total profit	32,090.74	33,543.86	32,811.38	40,264.05
Less: income tax expenses	8,073.01	8,388.09	8,139.02	10,062.41
5. Net profit	24,017.74	25,155.77	24,672.36	30,201.64

Summary of cash flow statement				
January to				
Items	September 2021	2020	2019	2018
Net cash flows from operating activities	76,519.62	135,083.27	2,547.91	(342,270.01)
Net cash flows from investing activities	(56.64)	(439.54)	(192.40)	(184.53)
Net cash flows from financing activities	(84,808.78)	–	–	–

Items	Key regulatory indicators			
	30 September 2021	31 December 2020	31 December 2019	31 December 2018
Tier 1 capital adequacy ratio	17.4825%	20.1590%	24.1017%	24.4980%
Capital adequacy ratio	18.6080%	21.3002%	25.2237%	25.6037%
Net capital	191,210.76	254,648.21	225,990.57	200,275.28
Risk-weighted assets	936,837.34	1,195,518.71	895,944.46	782,211.89
Auditor	ShineWing	ShineWing	ShineWing	ShineWing
	Certified	Certified	Certified	Certified
	Public	Public	Public	Public
	Accountants	Accountants	Accountants	Accountants
	(Special	(Special	(Special	(Special
	General	General	General	General
	Partnership)	Partnership)	Partnership)	Partnership)
Audit opinion	Standard	Standard	Standard	Standard
	unqualified	unqualified	unqualified	unqualified
	opinion	opinion	opinion	opinion

4. Significant accounting policies of QDP Financial

41 standards issued by the Ministry of Finance on 15 February 2006, including the Accounting Standards for Business Enterprises –Basic Standard (MOF Order No. 33, revised in July 2014) and the Accounting Standards for Business Enterprises No.1-Inventories.

(III) Relationship Between the Principals and the Appraised Entity

One of the principals SDP is an indirect shareholder of the appraised entity, one of the principals QDP is a shareholder of the appraised entity, and the principals RZP Group and SDP Financial Holdings are the interested parties for the reorganization and integration of the appraised entity.

(IV) Users of the Asset Valuation Report as Agreed in the Asset Valuation Engagement Contract

This valuation report shall be used by the SDP, the Company, RZP and the relevant regulatory authorities to which the report shall be filed with pursuant to the relevant requirements.

Except as otherwise provided by national laws and regulations, no agency or individual that has not been approved by the appraisal agency and the principals shall become a user of the valuation report by having access to it.

II. PURPOSE OF VALUATION

According to Article 14 of the Implementation Measures of the CBIRC on Administrative Licensing on Non-bank Financial Institutions (Decree [2020] No. 6 of the China Banking and Insurance Regulatory Commission), “one financial company only per enterprise group”, under which QDP Financial and RZP Financial, the subsidiaries of SDP, intend to conduct a reorganization and integration, and the specific transactions include mergers and acquisitions, equity transfers, and capital increase, etc. Therefore, it is necessary to carry out asset valuation to provide a value reference for relevant economic activity.

III. VALUATION SUBJECT AND SCOPE OF VALUATION**(I) Valuation Subject and Scope of Valuation**

The valuation subject is the total shareholders’ equity value of QDP Financial. The scope of the valuation relating to the valuation subject covers all assets and related liabilities of QDP Financial as at the valuation reference date, which are as follows: total book assets of RMB15,328,473,400, total liabilities of RMB13,531,625,400 and net assets of RMB1,796,848,000.

The above audited data of assets and liabilities are extracted from the audit report No. XYZH/2021QDAA20196 issued by ShineWing Certified Public Accountants (Special General Partnership). The audit opinion is that the financial statements of the appraised entity are prepared in accordance with the provisions of the Accounting Standards for Business Enterprises in all material respects, which fairly reflects the financial position as at 30 September 2021 and the operating results and cash flow from January to September 2021 of QDP Financial. The valuation is conducted based on the audited financial information of the enterprise.

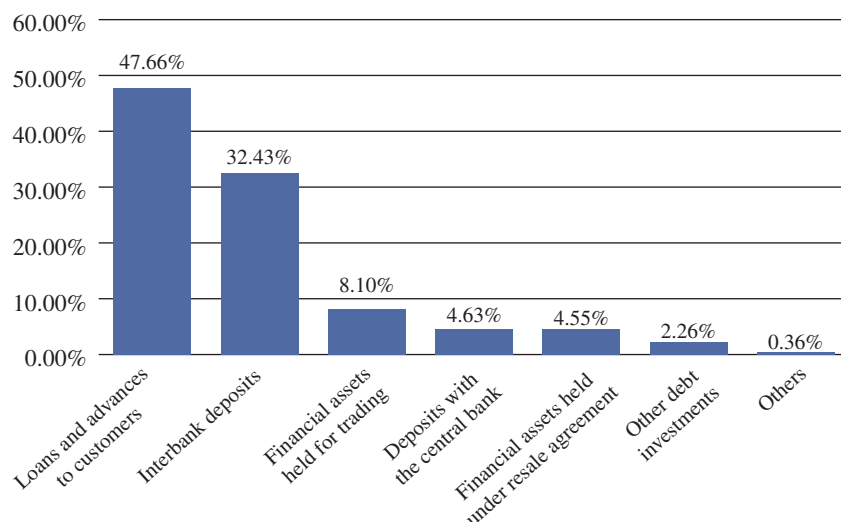
The entrusted valuation subject and scope of valuation are consistent with those involved in the economic activity.

(II) Information on the Major Assets to be Appraised

The major assets involved in the scope of valuation are deposits with the central bank, interbank deposits, financial assets held for trading, financial assets held under resale agreement, loans and advances to customers and other debt investments.

In particular, loans and advances to customers primarily represent short-term loans and mid-to-long-term loans granted to group members. Interbank deposits primarily represent deposits with Bank of Rizhao, Bank of Qingdao, Bank of Communications and other institutions by QDP Financial. Deposits with the central bank primarily represent the deposit placed with the business management department of the People’s Bank of China by QDP Financial. Financial assets held for trading primarily represent the financial bonds and interest rate bonds invested by QDP Financial.

Distribution of Major Assets of QDP Financial



(III) Distribution and Characteristics of Physical Assets

The book value of the physical assets included in the scope of valuation is RMB2,844,200, accounting for 0.02% of the total assets within the scope of valuation, which mainly include office equipment, electronic equipment, vehicles and furniture, etc. These assets have the following characteristics:

1. The distribution of assets is relatively concentrated, and the physical assets are mainly distributed in the office areas leased by enterprises in Qingdao.
2. Equipment assets mainly include office equipment, computer software, and electronic equipment, etc. The enterprise has established strict system regarding the use and maintenance of equipment, and such system has been effectively implemented to meet its production and operation needs.

The office space used for business operation is leased, rather than the assets of QDP Financial.

(IV) Recorded or Unrecorded Intangible Assets Declared by the Enterprise

The intangible assets declared by QDP Financial include various software and business-related management systems used, mainly including information management system, server and network software, core system function extension software, etc. As at the valuation reference date, QDP Financial has no intangible assets that are not recorded on its accounting books, and the intangible assets declared within the scope of valuation are all in normal use.

(V) Type and Quantity of Off-balance-sheet Assets Declared by the Enterprise

As at the valuation reference date, i.e. 30 September 2021, the off-balance-sheet businesses included entrusted loans, issuance of letter of guarantee and acceptance of bills, of which, there were 77 entrusted loans with a loan balance of RMB6,872,000,000, and the principals are mainly SDP Financial Holdings and Qingdao Port International Co., Ltd.; there was an issuance of letter of guarantee with a guarantee amount of RMB4,330,000 and a guarantee balance of RMB4,330,000, and the expiry date is 31 December 2021; there were a total of 7,350 acceptance of bills with a nominal amount of RMB5,155,058,200, a refund amount of RMB152,133,200, a settlement amount of RMB4,836,801,900 and a nominal balance of RMB166,123,200. Except for this, the assets declared for valuation by the enterprise are all assets recorded in its accounting books with no other off-balance-sheet assets declared.

(VI) Type, Quantity and Book Value of Assets Involved in Citing the Conclusions of the Reports Issued by Other Agencies

The book value of each of assets and liabilities as at the valuation reference date in this valuation report represents the audit report No. XYZH/2021QDAA20196 issued by ShineWing Certified Public Accountants (Special General Partnership). The audit opinion is that the financial statements of the appraised entity are prepared in accordance with the provisions of the Accounting Standards for Business Enterprises in all material respects, which fairly reflects the financial position as at 30 September 2021 and the operating results and cash flow from January to September 2021 of QDP Financial. The valuation is conducted based on the audited financial information of the enterprise. Except for this, there is no reference to any reports from other agencies.

IV. TYPE OF VALUE AND ITS DEFINITION

Based on the purpose of valuation, the type of value under this valuation is defined as market value.

Market value represents the estimated value of the valuation subject in an arm's length transaction on the valuation reference date where a willing buyer and a willing seller act rationally and without any coercion.

V. VALUATION REFERENCE DATE

The valuation reference date for this asset valuation is 30 September 2021.

The selection of the valuation reference date is determined after taking into account the realization of economic activity and the factors at end of the accounting period. The valuation reference date was determined by the principals after considering a combination of the assets size, workload, the estimated time required, compliance and other factors of the appraised entity.

VI. BASIS OF VALUATION

The basis of valuation on which this asset valuation is conducted mainly includes the economic activity basis, the law and regulation basis, the valuation standard basis, the asset titles basis as well as the pricing basis adopted in the valuation and estimation and other reference materials, the details of which are as follows:

(I) Economic Activity Basis

Minutes of the Standing Committee Meeting of SDP under the Communist Party of China ([2021] 39th meeting of the Party Committee).

(II) Law and Regulation Basis

1. The Asset Valuation Law of the People's Republic of China (adopted at the 21st Meeting of the Standing Committee of the 12th National People's Congress of the People's Republic of China on 2 July 2016);
2. The Company Law of the People's Republic of China (revised for the fourth time by the Decision on Amendment to the "Company Law of the People's Republic of China" at the sixth Meeting of the Standing Committee of the 13th National People's Congress on 26 October 2018);
3. The Law of the People's Republic of China on the State-owned Assets of Enterprises (adopted at the fifth meeting of the Standing Committee of the 11th National People's Congress on 28 October 2008);
4. The Civil Code of the People's Republic of China (adopted at the third meeting of the 13th National People's Congress on 28 May 2020);
5. The Banking Supervision Law of the People's Republic of China (Presidential Decree No. 58 of the People's Republic of China, adopted on 27 December 2003, and amended at the 24th meeting of the Standing Committee of the Tenth National People's Congress on 31 October 2006);
6. The Administrative Measures for State-owned Assets Appraisal (Decree No. 91 of the State Council, 1991);
7. The Measures for the Administration of Enterprise Group Finance Companies (CBRC [2004] No. 5, adopted at the 23rd Chairman's Meeting of China Banking Regulatory Commission);
8. The Interim Regulations for the Supervision and Administration of State-owned Assets of Enterprise (Decree No. 378 of the State Council, revised in 2019);

9. The Guidelines for the Recordation of Appraisal Projects of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);
10. The Notice on the Relevant Matters Concerning the Audit on Valuation Reports of State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);
11. The Interim Measures for the Administration of State-owned Assets Appraisal of Enterprises (Decree No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council, 2005);
12. The Notice on Strengthening the Administration of State-owned Assets Appraisal of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);
13. The Measures for the Supervision and Administration of the Transactions of State-owned Assets of Enterprises (Decree No. 32 of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance, 24 June 2016);
14. The Provisions on Several Issues Concerning the Administration of State-owned Assets Appraisal (Decree No. 14 [2002] of the Ministry of Finance);
15. The Detailed Rules for the Implementation of the Measures for the Administration of State-owned Assets Appraisal (Guo Zi Ban Fa [1992] No. 36);
16. The Opinions of the General Office of the State Council on Strengthening and Improving the Supervision over State-owned Assets of Enterprises to Prevent the Loss of State-owned Assets (Guo Ban Fa [2015] No. 79);
17. The Notice on Adjusting the Regulatory Requirements of Loan Loss Provisions of Commercial Bank (Yin Jian Fa [2018] No. 7, 28 February 2018);
18. The Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (Cai Shui [2018] No. 32);
19. The Administrative Measures for the Provision of Reserves of Financial Enterprises (Cai Jin [2012] No. 20);
20. The Announcement on Policies Concerning Deepening Value-added Tax Reform of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs (Announcement [2019] No. 39 of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs);

21. The announcement of the State Administration of Taxation and the Ministry of Industry and Information Technology on the release of the Catalogue of Non-transportation Special Operating Vehicles with Fixed Devices That are Exempt from Vehicle Purchase Tax (First Batch) (Announcement [2021] No. 7 of the State Administration of Taxation and the Ministry of Industry and Information Technology);
22. Other laws, regulations and rules related to the valuation.

(III) Valuation Standard Basis

1. Basic Standards for Asset Valuation (Cai Zi [2017] No. 43);
2. Professional Codes of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);
3. Asset Valuation Practicing Standards – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);
4. Asset Valuation Practicing Standards – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);
5. Asset Valuation Practicing Standards – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);
6. Asset Valuation Practicing Standards – Enterprise Value (Zhong Ping Xie [2018] No. 38);
7. Asset Valuation Practicing Standards – Valuation Methods (Zhong Ping Xie [2019] No. 35);
8. Asset Valuation Practicing Standards – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);
9. Asset Valuation Practicing Standards – Use of Expert Work and Relevant Reports (Zhong Ping Xie [2017] No. 35);
10. Asset Valuation Practicing Standards – Intangible Assets (Zhong Ping Xie [2017] No. 37);
11. Asset Valuation Practicing Standards – Machine Equipment (Zhong Ping Xie [2017] No. 39);
12. Guidelines of the Valuation Report on State-owned Assets of Enterprise (Zhong Ping Xie [2017] No. 42);

13. Guidelines for Business Quality Control of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46);
14. Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);
15. Guiding Opinions on Legal Ownership of Asset Valuation Subject (Zhong Ping Xie [2017] No. 48);
16. Asset Valuation Expert Guidance No. 1 – Financial Regulatory Indicators that Should Be Concerned to in Financial Enterprise Valuation (Zhong Ping Xie [2015] No. 62);
17. Assets Valuation Expert Guidance No. 3 – Income Approach Valuation Model and Parameter Determination for Financial Enterprises (Zhong Ping Xie [2015] No. 64);
18. Assets Valuation Expert Guidance No. 12 – Calculation of Discount Rate in the Evaluation of Enterprise Value by Income Approach (Zhong Ping Xie [2020] No. 38);
19. Applicable Guidance under Regulatory Rules – Valuation Category No.1 (CSRC).

(IV) Asset Titles Basis

1. Articles of association, business License, etc. of the appraised entity (copy);
2. Motor Vehicle Driving License;
3. Deposit and loan related agreements;
4. Fixed asset purchase invoices and contract agreements;
5. Materials or vouchers related to the purchase of important assets;
6. Financial product distribution agreement;
7. Other reference materials.

(V) Pricing Basis

1. The balance sheet, income statement, account balance sheet, detailed list and other relevant declaration materials and other relevant evaluation materials provided by the enterprise;

2. Relevant business forecast data, financial and accounting statements and other financial and operational data provided by the enterprise;
3. The audit report No. XYZH/2021QDAA20196 issued by ShineWing Certified Public Accountants (Special General Partnership);
4. Relevant information published by Wind Financial Terminal;
5. Relevant information published on the website of China National Association of Finance Companies;
6. Relevant information published on the website of Shanghai Interbank Offered Rate;
7. 2021 Electromechanical Product Price Information Inquiry System (Machinery Industry Information Research Institute);
8. Market inquiry for main equipment and facilities;
9. The Vehicle Purchase Tax Law of the People's Republic of China (Presidential Decree No. 19 of the People's Republic of China, with effective from 1 July 2019);
10. The Standard for Compulsory Scrapping of Motor Vehicles (Decree [2012] No. 12 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection);
11. Loan prime rate published on 20 September 2021 by the National Interbank Funding Center authorized by the People's Bank of China;
12. Pacific Auto Network, Car Home Network and local auto dealers;
13. Zhongguancun Quotation Network, JD Mall and the local furniture market;
14. Other reference materials.

(VI) Other References

1. Accounting Standards for Business Enterprises – Basic Standards (Decree No. 33 of the Ministry of Finance);
2. Decision of the Ministry of Finance on Amending the Accounting Standards for Business Enterprises – Basic Standards (Decree No. 76 of the Ministry of Finance);
3. 38 Specific Standards including Accounting Standards for Business Enterprises No. 1 – Inventory (Cai Kuai [2006] No. 3);

4. Accounting Standards for Business Enterprises – Application Guidelines (Cai Kuai [2006] No. 18);
5. Measures for the Performance Evaluation of Financial Enterprises (Cai Jin [2016] No. 35);
6. Asset Valuation Common Data and Parameter Manual (Second Edition) (Beijing Science and Technology Press);
7. Investment Valuation (written by [US] Damodaran, translated by [Canada] Lin Qian, Tsinghua University Press);
8. Valuation: Measuring and Managing the Value of Companies (Third Edition) (written by [US] Copeland, T., etc., translated by Hao Shaolun and Xie Guanping, Electronic Industry Press);
9. The accounting statements and audit reports for the previous three years, and the accounting statement and special audit report on the valuation reference date, i.e. 30 September 2021, of the appraised entity;
10. RESSET financial data research library;
11. Other reference materials.

VII. VALUATION METHODS

(I) Selection of Valuation Methods

According to the requirements of the Asset Valuation Practicing Standards – Enterprise Value (Zhong Ping Xie [2017] No. 36), when performing the valuation for enterprise value, the valuer shall, based on the purpose of valuation, the valuation subject, type of value and materials collection and other relevant conditions, analyze the applicability of the three assets valuation approaches, namely income approach, market approach and asset-based approach, and appropriately select one or more assets valuation approaches.

The income approach in the valuation for enterprise value refers to the valuation method of determining the value of the valuation subject by capitalizing or discounting the expected income. The valuer shall consider the applicability of the income approach appropriately after taking into account a combination of the historical operating conditions, the predictability of future earnings, and the adequacy of the valuation data obtained. The market approach in the valuation for enterprise value refers to the valuation method of determining the value of the valuation subject by comparing the valuation subject with comparable listed enterprises or comparable transaction cases. The valuer shall consider the applicability of the market approach appropriately based on the adequacy and reliability of the operating and financial

data available of the comparable enterprises, and the number of comparable enterprises that can be collected. The asset-based approach in the valuation for enterprise value refers to the method of determining the value of the valuation subject by reasonably valuating the value of each asset and liability of the enterprise based on the balance sheet of the appraised enterprise on the valuation reference date.

In this valuation, the valuation methods are adopted as follows:

1. Market approach: The two methods commonly used in the market approach are the transaction case comparison method and the listed company comparison method. As there are few market transaction cases of the same industry, similar scale and comparable with the appraised entity, and considering that there is no finance company qualified by the CBIRC which has been listed on a stock exchange, and the financial and business data of unlisted finance companies with comparable transactions are difficult to collect, this valuation does not have the objective conditions for the market approach.
2. Income approach: According to the requirements of Article 19 of the Asset Valuation Practicing Standards – Enterprise Value, “the asset valuation professionals shall consider the applicability of the income approach appropriately after taking into account a combination of the enterprise nature, asset scale, historical operating conditions, the predictability of future earnings, and the adequacy of the valuation data obtained of the appraised entity.” Considering that the historical annual operating income of the appraised enterprise is relatively stable and its income and risks can be reliably estimated in the future, the income approach can be adopted in this valuation.
3. Asset-based approach: The purpose of this valuation is for the proposed reorganization and integration of the appraised entity, and it is necessary to conduct an overall valuation of QDP Financial to provide a value reference for relevant economic activity. The asset-based approach reflects the value of the enterprises from the perspective of enterprise construction and provides a basis for the operation, management and assessment of the enterprises after completion of the economic activity. Therefore, the asset-based approach is adopted in this valuation.

In summary, the asset-based approach and the income approach are adopted in this valuation.

(II) Introduction to the Assets-based Approach

The assets-based approach is to take the investment amount required for rebuilding an enterprise or an independent profitable entity which is identical to the valuation subject at the valuation reference date as the basis for judging its overall assets value, it is the approach of calculating an enterprise's value by adding up the appraised value of assets which are the various elements that constitute the enterprise and deducting the appraised value of liabilities.

The valuation approaches of various assets and liabilities are as follows:

1. *Deposits with the central bank*

As at the valuation reference date, the deposits with the central bank were mainly the funds denominated in RMB and US dollars deposited by QDP Financial with the business management department of the People's Bank of China. The valuers verified the deposit accounts with the People's Bank of China to prove the true existence of the bank deposits and make sure the amounts in the bank statements were consistent with that in the valuation declaration statements and there were no outstanding items. The valuers checked the deposits with the central bank with the bank statements and the balance reconciliation statements from the central bank to make sure that the accounts were consistent with the statements and the facts, and took the checked and adjusted book value as the appraised value.

2. *Interbank deposits*

As at the valuation reference date, the interbank deposits were mainly the current and time deposits placed by QDP Financial with Industrial and Commercial Bank of China, Bank of Rizhao, Bank of Qingdao and other bank institutions. The valuers verified all bank deposit accounts and the statements of interbank deposits to make sure that the accounts were consistent with the statements and the facts. The appraised value was determined by reference to the verified book value.

3. *Financial assets held for trading*

Including bond investments and floating rate wealth management products. As at the valuation reference date, financial assets held for trading were mainly bonds and funds purchased by QDP Financial. The valuers consulted relevant documents, such as the standard distribution agreement for debt financing instruments of non-financial enterprises and accounting vouchers, to make sure that the asset amounts were consistent with that in relevant accounts, statements and documents. Based on the public data released by Wind, the appraised value was determined by reference to the net valuation and holding amount of the bonds and funds as at the valuation reference date.

4. *Financial assets held under resale agreement*

As at the valuation reference date, financial assets held under resale agreement were the bonds purchased by QDP Financial. The valuers consulted relevant documents, such as the standard distribution agreement for debt financing instruments of non-financial enterprises and accounting vouchers, to make sure that the asset amounts were consistent with that in relevant accounts, statements and documents. Based on the public data released by Wind, the appraised value was determined by reference to the net valuation and holding amount of the bonds as at the valuation reference date.

5. *Loans and advances to customers*

As at the valuation reference date, the loans and advances to customers were mainly short-term loans, medium and long-term loans extended by QDP Financial to its members. Among which, short-term loans were mainly one-year short-term loans with an interest rate ranging from 3.95% to 4.35%; and medium and long-term loans were mainly medium and long-term loans with a term of 2 to 10 years and an interest rate ranging from 4.75% to 5.38%. The valuers verified the account records, carried out a spot check on some original vouchers, loan contracts and other relevant materials and verified the authenticity, aging, business contents and amounts of the transactions, and the results thereof were consistent with the amounts in relevant accounts, statements and documents. After verification, QDP Financial measured the expected credit losses of loans at different stages separately. Loans that had not had a significant increase in credit risk since initial recognition were at stage 1 and loss allowance for such loans were provided at 12-month expected credit loss; loans that had had a significant increase in credit risk since initial recognition but had not suffered a credit impairment were at stage 2 and loss allowance for such loans were provided at lifetime expected credit loss; and loans that had suffered a credit impairment since initial recognition were at stage 3 and loss allowance for such loans were provided at lifetime expected credit loss.

After verifying the correctness of the loans and advances to customers and based on historical information and the results of current investigation, the valuers specifically analyzed, among other things, the amount, time and reason of arrears, recovery of payments and the capital, credit, operation and management status of the debtor. Based on analysis and calculation, the valuers estimated that there were little differences between the expected credit loss amount of loans and advances to customers and the allowance amount provided for expected credit loss by the company, so the corresponding expected credit loss amount was recognized as the appraised risk loss. The appraised value was determined by reference to the verified book value in aggregate minus the appraised risk loss.

6. *Other debt investments*

As at the valuation reference date, other debt investments were certificates of interbank deposits issued by Hankou Bank, China Bohai Bank and Bank of Qingdao and purchased by QDP Financial. The book value consisted of cost, interest adjustment and changes in fair value. The valuers consulted the systematic transaction records of the enterprise. After verification, the book values of certificates of interbank deposits could basically reflect their market values. In the valuation, the audited book value was taken as the appraised value.

7. *Fixed assets*

As at the valuation reference date, the equipment assets included in the scope of this valuation were vehicles and operating office equipment declared by QDP Financial. According to the purpose of this valuation, under the principle of “in situ and in continuous use”, based on the market price and in light of the characteristics of the appraised equipment and collected data, the replacement cost approach was mainly adopted in the valuation. This valuation mainly adopted renewal replacement cost. Some equipments were appraised by market approach.

Appraised value = full replacement price × newness rate

A. *Determination of full replacement price*

It was verified that QDP Financial was a general taxpayer of value-added tax and value-added tax was deductible. Therefore, tax-exclusive price was adopted to determine the full replacement price of various equipment in this valuation.

(a) Full replacement price of transportation vehicles

The current tax-inclusive purchase price of transportation vehicles was determined by reference to the recent price data in the vehicle market, such as the sales information in local vehicle market. On this basis, the vehicle purchase tax and the handling fees for new vehicle registration and licenses were included in accordance with the provisions of the Vehicle Purchase Tax Law of the People’s Republic of China. Furthermore, according to the latest policies regarding value-added tax and the policy of replacing business tax with value-added tax, the deductible value-added tax was deducted when determining the full replacement price of vehicles that were subject to consumption tax and used for production and transportation purposes. The calculation formula is as follows:

Full replacement price = current tax-inclusive purchase price + vehicle purchase tax + handling fees for new vehicle registration and licenses – value added tax input tax incurred in vehicle purchase

The current purchase price was mainly obtained from the current quotation in local vehicle market or by reference to online quotation;

Vehicle purchase tax was calculated in accordance with relevant national regulations and based on displacements;

Handling fees for new vehicle registration and licenses and other fees were calculated in accordance with the regulations of the local traffic management authorities of the place where the vehicle was located;

Value added tax input tax incurred in vehicle purchase = tax-inclusive vehicle purchase price \times value added tax rate/(1+value added tax rate) + transportation costs and sundry expenses \times corresponding value added tax deduction rate

Full replacement price = current tax-inclusive purchase price/(1+applicable tax rate) + vehicle purchase tax + handling fees for new vehicle registration

(b) Full replacement price of electronic equipment and other fixed assets

All the equipment within the scope of valuation were office equipment, which were of low value and required no installation (or the seller was responsible for the installation) and low transportation cost, and the full replacement price of such equipment was determined by reference to the purchase price in the current market.

Full replacement price = current tax-inclusive purchase price/(1+applicable tax rate)

B. Determination of newness rate

(a) Newness rate of vehicles

For transportation vehicles, the relevant service life and mileage parameters were determined in accordance with relevant provisions of the Standard for Compulsory Scrapping of Motor Vehicles (Order No. 12 of 2012) issued by the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection. The final newness rate was the newness rate determined by the following method, whichever was the lowest:

Newness rate of service life = (1 – serviced years/prescribed or economically useful life) \times 100%

Newness rate of mileage = (1 – mileage travelled/prescribed mileage) \times 100%

Newness rate = Min (newness rate of service life, newness rate of mileage) + a

a: Adjustment coefficient for special vehicle conditions. Necessary inspection and appraisal shall be conducted for the vehicle to be appraised. If the inspection and appraisal results are largely different from the newness rate determined by the above method, appropriate adjustment shall be made. If they are equivalent, no adjustment shall be made.

(b) Newness rate of electronic equipment

In the process of this valuation, the remaining service life of equipment was estimated according to the economic service life of equipment and the results of on-site inspection, and the newness rate was calculated accordingly. The formula is as follows:

Newness rate = remaining service life/(actual serviced years + remaining service life)×100%

C. Determination of appraised value

Appraised value = full replacement price × newness rate

8. Intangible assets

As at the valuation reference date, the intangible assets included in the scope of this valuation were the software declared by QDP Financial, mainly including database software, information management system and accounting system, foreign exchange system, core system and network software. The valuation process was as follows:

Stage 1: preparation

Got preliminary details of other intangible assets within the scope of this valuation, submitted the list of valuation preparation materials and valuation statements, and guided the appraised entity to fill in the Statements for Valuation of Intangible Assets – Other Intangible Assets in accordance with the requirements of the valuation plan.

Stage 2: on-site inspection

Based on the asset declaration statements completed by the appraised entity and in view of the main characteristics of the assets, the valuers inspected some software related materials.

Stage 3: valuation estimation

Other intangible assets of QDP Financial were purchased software. For the purchased software on sale as at the reference date, the valuers fully communicated with relevant personnel from the financial and operation management departments of the entrusting enterprise on the basis of detailed investigation to get information on the current effectiveness and practicability of such software, and adopted the market approach to carry out valuation, and determined the appraised value according to the market price on the reference date. As the purchased software had been used for years and the technology involved was relatively outdated, the market approach was adopted to evaluate the residual use value.

9. *Deferred tax assets*

As at the valuation reference date, deferred income tax assets were deductible temporary differences arising from provision for loan impairment of QDP Financial. The valuers carefully checked the consistency of deferred tax debit statements, general ledger and sub-ledger, enquired about the cause, time, original amount and contents of deferred tax debit from relevant financial personnel, consulted relevant documents, and accrued deferred income tax assets for the changes in fair value of available for sale financial assets. The appraised value was recognized by reference to the verified book value.

10. *Other assets*

As at the valuation reference date, other assets were mainly the input tax to be deducted from the value-added tax. After verifying the correctness of other current assets, the valuers analyzed the amount, formation time and reason, tax payment documents, tax returns, operation and management status, etc. by leveraging on historical data and investigation results. In this valuation, the verified book value was taken as the appraised value.

11. *Liabilities*

Checked and verified the actual debtors and amounts of various liabilities as at the valuation reference date, and the appraised value was determined by reference to the actual liability items and amounts to be borne by the appraised entity as at the valuation reference date.

(III) Introduction to the Income Approach**1. Overview**

According to the Asset Valuation Practicing Standards–Enterprise Value (Zhong Ping Xie [2018] No. 38), the discounted cash flow method appraises the value of assets by discounting the expected future net cash flows of the appraised entity to a present value. The basic idea is to obtain the appraised value by estimating the expected future net cash flows of the underlying assets and converting them into a present value at an appropriate discount rate. The basic conditions for its application are: the target enterprise has the foundation and conditions for continuous operation; there is a stable correlation between its operations and income; and its future income and risks can be predicted and quantified. The greatest difficulty in using the discounted cash flow method lies in the estimation of future cash flows, and the objectivity and reliability of data collection and processing. When the estimation of future cash flows is objective and fair and the discount rate is reasonable, the valuation result will be relatively objective.

2. Valuation methodology

Based on the due diligence findings of this valuation and the characteristics of QDP Financial’s asset composition and principal business, the basic idea of this valuation is to estimate the value of all shareholders’ equity (net assets) based on the financial statements and profit forecast provided by the enterprise, that is, the value of the enterprise is determined by using discounted cash flow method to estimate the value of the operating assets of the enterprise based on its income sources and then adding the value of other non-operating or surplus assets as at the valuation reference date.

3. Valuation model

(1) *Basic model:*

$$E = P + C \quad (1)$$

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_{n+1}}{r(1+r)^n} \quad (2)$$

E: Value of the total shareholders’ equity of the valuation subject;

P: Value of the operating assets of the valuation subject;

C: Value of surplus or non-operating assets (liabilities) of the valuation subject as at the valuation reference date;

R_i: Expected income (equity free cash flow) of the valuation subject in year i in the future;

r: Discount rate;

n: Future operating period of the valuation subject;

(2) *Income indicators*

In this valuation, the free cash flow of shareholders is used as the income indicator of the valuation subject, which is basically defined as:

$$R = \text{net profit} - \text{increase in equity} + \text{other comprehensive income}$$

The future expected free cash flows of shareholders of the appraised entity are estimated based on its operating history and future market development, combined with the restrictions on profit distribution imposed by regulatory indicators. The value of the total shareholders' equity of the appraised entity is arrived at by discounting the free cash flows of shareholders in the future operating period to present values and adding them up.

(3) *Discount rate*

In this valuation, the capital asset pricing model (CAPM) is adopted to determine the discount rate r

$$r = r_f + \beta_e (r_m - r_f) + \varepsilon \quad (3)$$

Where:

r_f: Risk-free rate of return;

β_e: Expected market risk factor of equity capital;

r_m: Market-expected rate of return;

(r_m – r_f): Market risk premium;

ε: Adjustment coefficient for risks specific to the valuation subject.

Determination of discount rate

(i) Determination of risk-free rate

With reference to website of China Asset Evaluation Association, the yield of government bonds provided by China Central Depository & Clearing Corporation (CCDC) published on the website is as follows:

Date	Period	Interest rate %
30 September 2021	three months	1.96
	six months	2.20
	one year	2.33
	two years	2.49
	three years	2.51
	five years	2.71
	seven years	2.85
	10 years	2.88
	30 years	3.42
	40 years	3.50
	50 years	3.54

Since operation period of operation period of QDP Financial as approved is a long-term period and its income period is unlimited, pursuant to “Guidelines for Experts on Asset Evaluation No. 12 – Calculation of Discount Rate in Income Appraisal of Enterprise Value” (Zhongping Xie [2020] No. 38) (《資產評估專家指引第12號 – 收益法評估企業價值中折現率的測算》(中評協[2020]38號)), the yield to maturity of a government bond can be adopted as the risk-free interest rate. When selecting the government bond, the remaining maturity period and the cash flow period of the enterprise shall be matched. As such, the 50-year treasury bond yield is selected as the risk-free interest rate for this valuation, i.e. 3.54%.

(ii) Determination of market risk premium

Market risk premium refers to the expected excess of return by investors for their investment in the market with similar risks, which means risk compensation over the risk-free rate. Market risk premium can be calculated using historical market risk premium data. The valuation uses the long-term average return A share market index as the expected market return rate (r_m) and the expected market return rate over the risk-free rate is taken as the market risk premium. Pursuant to the requirement of “Guidelines for Asset Evaluation Experts No. 12 – Calculation of Discount Rate in the Evaluation of Enterprise Value by Income Appraisal” (Zhongping Xie [2020] No. 38) (《資產評估專家

指引第12號 – 收益法評估企業價值中折現率的測算》(中評協[2020]38號)), the representing stock market index in the PRC shall be used when calculating the market risk premium, such as CSI 300 Index and Shanghai Securities Composite Index. To calculate the excess return on the index over a period of time, the time span can be selected for more than ten years, the data frequency can be selected from weekly or monthly, and the calculation method can be arithmetic mean or geometric mean.

According to the research on A-share market conducted by the valuer, and consolidated with the above guidelines, the representing Shanghai Composite Index was selected as the underlying index during the valuation process. The annualized to annual rate of return was calculated by the average of weekly and monthly data. The expected market rate of return was calculated after comprehensive analysis of arithmetic mean, geometric mean and harmonic mean, i.e. $r_m = 10.47\%$.

$$\text{Market risk premium} = r_m - r_f = 10.47\% - 3.54\% = 6.93\%.$$

(iii) Estimated market risk factor of equity capital (β_e)

Considering there is no finance company qualified by the CBIRC which has been listed on a stock exchange, while finance companies and banks are financial institutions, and their business mode are similar. Therefore, we have selected the stocks of 21 comparable banks listed on the Shanghai Composite Index, and carved out five major banks after taking into account the comparable scale and related indicators. The valuer used the remaining 16 comparable companies to estimate the market price between 1 October 2016 to 30 September 2021. The estimated market risk factor of equity capital is 0.8545.

(iv) Adjustment coefficient for risks specific to QDP Financial (ϵ)

The specific risk which may arise from the differences between financing condition, capital volatility and governance structure of QDP Financial have been considered to compare with listed comparable companies, and the adjustment coefficient for risks specific to QDP Financial is 3.20%.

(v) Cost of equity capital (r_e)

The cost of equity capital (r_e) of QDP Financial is as follow:

$$r_e = 3.54\% + 0.8545 \times (10.47\% - 3.54\%) + 3.20\% = 12.66\%$$

(4) *Income period*

This valuation assumes that QDP Financial will continue to operate on a perpetual basis after the valuation reference date and the corresponding income period is indefinite. The discount rate adopted in the valuation QDP Financial is comparable to the similar financial companies.

VIII. IMPLEMENTATION OF VALUATION PROCEDURES

The overall valuation process was carried out from 1 October 2021 to 26 October 2021. Among which, field works were conducted from 1 October 2021 to 15 October 2021. The overall valuation process was carried out in four stages:

(I) Valuation Preparation

1. On 30 September 2021, the principals held a coordination meeting with the intermediary parties involved in this project and the parties agreed on the purpose of valuation, valuation reference date, scope of valuation and other issues, and worked out a work plan for the asset valuation.
2. Collaborated with the appraised entity to take stock of assets and fill in asset declaration statements. On 1 October 2021, members of the valuation project team obtained details about the assets to be appraised, made arrangements for the asset valuation, assisted the appraised entity in the declaration of assets to be appraised, and collected documents needed for the asset valuation.

(II) On-site Verification and Identification

The on-site valuation by the project team was carried out from 4 October 2021 to 15 October 2021. The main tasks were as follows:

1. Listened to the principals and relevant personnel of the appraised entity introducing its company profile and the history and status quo of the assets within the scope of the valuation, so as to understand the appraised entity's financial system, operating conditions and technical status of fixed assets;

2. Reviewed and verified the asset declaration statements provided by the appraised entity, reconciled them with its relevant financial records, and collaborated with the appraised entity to make adjustments for the problems found;
3. Conducted on-site inspection and checks to verify physical assets based on the asset declaration statements.
4. Collected and consulted certificates of title for the assets within the scope of the valuation to check the title documents provided by the appraised entity and verify the title documents of assets; collected statistics on the defects of assets and asked the appraised entity to verify and confirm whether the assets belonged to the appraised entity and whether there were title disputes;
5. A key inspection on the operating assets and office premises of the appraised entity was conducted based on the application materials. In particular, for the financial assets declared by the entity, inspection and verification was conducted on its reconciliation statements, confirmation requests and various business contracts to confirm their existence and analyze the risks. For the entity's office premises, random inspections on fixed assets were carried out based on the fixed asset ledger provided by the entity, and the lease contracts of its office premises were reviewed.
6. For major equipment, to understand the management system and maintenance works, technical data and other related information was inspected and collected; for general equipment, price information was collected mainly through market surveys and inquiries about relevant data;
7. For assets and liabilities within the scope of valuation, preliminary valuation and estimation was made on the basis of inspection and verification;
8. Inspection was conducted on the business types, historical operating results and operation model, etc. of the valuation subject;
9. Research was made on the current operating conditions of the entity and the development of the industry in which it has been operating;
10. Inspection was conducted on the debt, borrowing and debt costs of the appraised entity in recent years;
11. Inspection was conducted on tax rates and taxation status of the appraised entity;
12. Inspection was conducted on accounts receivable and payable of the appraised entity;

13. Inspection was conducted on the audited balance sheets, income statements, cash flow statements, income statements and cost expense statements of the appraised entity in recent years;
14. Through collecting comparable peers information, industry research reports and other public materials, combined with the historical operating conditions of the entity, inspection and verification was conducted on the projected future cash flow or financial budget approved by the management, including but not limited to information on the external environment, such as the macroeconomic environment, industry development trends, geographic factors, and internal operating information, such as the development prospect of Qingdao Port on which the entity's business has been depending, the entity's future deposit scale, deposit interest rate, lending scale, lending rate, and existing loan contracts, to evaluate the consistency between the above information and the financial budget or forecast data provided by the principals and the appraised entity;
15. The authenticity, rationality and feasibility of the financial budget or forecast data was determined through analysis, communication, discussion or adjustment made with the principals and the appraised entity;
16. According to the application materials such as future development plan and profit forecast provided by the appraised entity, discussions were held with the management personnel of the entity to reach agreement on the future development trend as far as possible;
17. The specific model and method of asset valuation was determined based on the actual conditions and characteristics of the assets to be appraised;
18. Based on the consensus reached, the valuation model was determined and the valuation results were calculated, and relevant textual descriptions were drafted.

(III) Valuation and Estimation

The preliminary results of the valuation and estimation of various assets and liabilities were analyzed and summarized, to which necessary adjustments, modifications and improvements to such valuation results were made.

This phase of work was conducted between 10 October 2021 and 18 October 2021.

(IV) Valuation Report

On the basis of the above, a preliminary asset valuation report was drafted, and opinions were exchanged with the principals on the valuation results after the preliminary review of the report. After an independent analysis of the relevant opinions, amendments and adjustments were made to the report in accordance with the appraisal agency's internal measures and procedures for review of assets valuation reports, and then the final asset valuation reports were formally issued.

This phase of work was conducted between 19 October 2021 and 26 October 2021.

IX. VALUATION ASSUMPTIONS

In this valuation, the asset valuers followed the following valuation assumptions:

(I) General Assumptions**1. *Transaction Assumption***

The transaction assumption is to assume that all assets to be appraised are in the process of transaction, and the asset appraiser conducts valuation in a simulated market based on the trading conditions of the assets to be appraised. Transaction assumption is the most fundamental assumption for the implementation of asset valuation.

2. *Open Market Assumption*

The open market assumption is to assume that assets traded in the market or to be traded in the market, the transactions parties are equal to each other in asset transactions, and each has the opportunity and time to obtain sufficient market information to make rational judgments on the function, use and transaction price of the assets. The open market assumption is based on the fact that assets can be bought and sold publicly in the market.

3. *Asset Continuity Assumption*

Asset continuity assumption refers to the assets to be evaluated should be used continuously in the course of assessment according to the current purpose, usage, scale, frequency and environment, or used on the basis of changes, and the evaluation methods, parameters and bases shall be determined accordingly.

(II) Special Assumptions

1. The assessment assumes that the external economic environment remains unchanged on the valuation assessment date, and that the country's current macro economy does not change significantly;
2. The social and economic environment in which QDP Financial is located and the policies such as taxes and tax rates implemented do not change significantly;
3. All assets in this assessment are based on the actual stock on the valuation assessment date, and the current market prices of the relevant assets are based on the effective domestic prices on the valuation assessment date;
4. This assessment assumes that the basic information and financial information provided by the principal and QDP Financial are true, accurate and complete;
5. The scope of assessment is only based on the assessment declaration form provided by QDP Financial, without considering the contingent assets or contingent liabilities that may exist outside the list provided by QDP Financial;
6. The various operating permits required for production and operation of QDP Financial will be approved as scheduled, and can continue to be obtained through applications after the expiration of the future year;
7. The income generated from the main business of QDP Financial mainly comes from its current operating business income and investment income, but does not consider new business that may occur;
8. The future management team of QDP Financial will fulfil its duty and continue to maintain the existing management mode to operate continuously;
9. The assessment is only based on the current business strategy, operating capabilities and operating conditions on the valuation assessment date, and does not consider changes that may be caused by changes in management in the future;
10. The remaining profits of QDP Financial will all be distributed in accordance with the relevant regulatory standards for capital adequacy ratios;
11. The business scale of the QDP Financial is limited to its existing capital scale, and does not consider the impact of possible future restructuring on the development of the business scale of QDP Financial;

12. The industry in which the assessed unit has developed steadily without material changes; and
13. The valuer does not assume any responsibility for the changes in the market, nor is it obligated to revise the valuer's valuation report for events or circumstances that occur after the assessment benchmark date.

When the above conditions change, the evaluation results will generally be rendered invalid.

X. VALUATION CONCLUSION

Based on the judgment of the equity holder and the management of the entity on its future development trend and its business plans and in accordance with relevant laws and regulations and asset valuation standards, we adopted the asset-based approach and the income approach and performed necessary valuation procedures to appraise shareholders' equity of QDP Financial by conducting on-site surveys, market surveys, inquiries and verifications and evaluation calculations on the its assets as at the valuation reference date of 30 September 2021. Our conclusions are as follows:

(I) Valuation Conclusion under the Asset-based Approach

Under the asset-based approach, the valuation conclusion of QDP Financial as at the valuation reference date of 30 September 2021 are as follows:

The book value and appraised value of the assets were RMB15,328,473,400 and RMB15,329,047,000, respectively, representing a valuation appreciation of RMB573,600.

The book value and appraised value of the liabilities were RMB13,531,625,400 and RMB13,531,625,400, respectively.

The book value and appraised value of the net assets were RMB1,796,848,000 and RMB1,797,421,600, respectively, representing a valuation appreciation of RMB573,600, or 0.03%. See the table below for details:

Consolidated Statement of Asset Valuation Results

Appraised entity: Qingdao Port Finance Co., Ltd. valuation reference date: 30 September 2021 Unit: RMB0,000

Items	Book value (RMB Yuan) B	Appraised value (RMB Yuan) C	Changes (RMB Yuan) D = C - B	Appreciation rate (%) E = D/B × 100
1 Deposit with central bank	71,038.90	71,038.90	—	—
2 Deposits with banks	497,155.40	497,155.40	—	—
3 Financial assets held for trading	124,146.28	124,146.28	—	—
4 Financial assets purchased under resale agreements	69,723.78	69,723.78	—	—
5 Loans and advances to customers	730,602.39	730,602.39	—	—
6 Other debt investments	34,685.36	34,685.36	—	—
7 Fixed assets	284.42	317.96	33.54	11.79
8 Intangible assets	377.59	401.41	23.82	6.31
9 Deferred tax assets	4,511.38	4,511.38	—	—
10 Development expenses	321.84	321.84	—	—
11 Total assets	1,532,847.34	1,532,904.70	57.36	—
12 Total liabilities	1,353,162.54	1,353,162.54	—	—
13 Net assets (owners' equity)	179,684.80	179,742.16	57.36	0.03

For details of the valuation conclusions under the asset-based approach, please refer to the valuation schedule.

(II) Valuation Conclusion under the Income Approach

The discounted cash flow (DCF) method was used to assess the value of total shareholders' equity, after various valuation procedures including, among others, inspection and verification, on-site surveys, market surveys and inquiries, assessment and estimation. The book value of net assets of QDP Financial on valuation reference date of 30 September 2021 was RMB1,796,848,000, all shareholders' equity value under the valuation (net asset value) was RMB2,063,930,000, representing a valuation appreciation of RMB267,081,900, or 14.86%.

(III) Analysis of Valuation Conclusions and Selection of Final Valuation Conclusion***1. Analysis of difference between the valuation conclusions***

In this valuation, the total shareholders' equity was valued at RMB2,063,930,000 under the income approach, which was RMB266,508,400, or 14.83% higher than the appraised value of RMB1,797,421,600 under the asset-based approach. The main reasons for the difference between the two valuation approaches are:

- (1) The asset-based approach valuation is based on the cost replacement of assets as the value standard, which reflects the socially necessary labor consumed by asset input (purchase and construction costs). Such acquisition and construction costs will usually change with the national economy.
- (2) The income approach valuation is based on the expected return of the assets as the value standard, which reflects the size of the asset's operating capacity (profitability), which is usually subject to various conditions such as macroeconomics, government control and effective use of assets, and represents the intrinsic value of an enterprise.

The combination of the above has resulted in the difference between the two valuation approaches.

2. Determination of valuation conclusion

Asset-based approach valuation is based on the cost replacement of assets as the value standard, which objectively reflects the value of the net assets of the enterprise from the perspective of asset construction. However, taking into account the special natures of the financial company of the enterprise group, which has the franchise licenses for collecting and lending funds within the group, with assets managed and loans granted under entrustment being mostly off-balance sheet assets, the asset-based approach has certain limitations on the measurement of the value of franchise licenses and off-balance sheet assets of finance companies. Since the valuation conclusion under the income approach focuses on the overall profitability of the appraised entity in the future, and reflects the actual value of the enterprise by discounting the expected cash flow, the income approach can more accurately reflect the true profitability of the enterprise. By comparing the above two valuation approaches, it is believed that the valuation conclusion under income approach can more appropriately reflect the value of total shareholders' equity of QDP Financial.

Based on the above analysis and the purpose of this valuation, the income approach is selected as the final result of the valuation, pursuant to which, the value of total shareholders' equity of QDP Financial is RMB2,063,930,000.

3. *Analysis of reasons for appreciation in value*

The income approach is based on judgement on the overall profitability of the enterprise, and more objectively reflects the value of the enterprise and shareholders' equity. The value of QDP Financial is organically comprised by not only individual assets that can generate value, but also various intangible assets established by comprehensive factors such as its goodwill, excellent management experience, market channels, customers, and brands, and the combination of such factors results in an appreciation in the valuation.

XI. DESCRIPTION OF SPECIAL MATTERS**(I) Defects of Title**

As at the valuation reference date, we had not found any defects of title in the declared assets of QDP Financial.

(II) Mortgage, Pledge, Guarantee and Other Matters

As at the valuation reference date, we had not found any external mortgage, pledge or guarantee provided by QDP Financial.

(III) Uncertain Factors Such as Unresolved Issues and Legal Disputes

As at the valuation reference date, no uncertain factors such as unresolved issues and legal disputes have been found involving Qingdao Finance.

(IV) Material Subsequent Events

As at the reporting date, no material subsequent events have been found in relation to QDP Financial.

(V) Off-balance Sheet Assets

As at the valuation reference date of 30 September 2021, off-balance sheet businesses were related to entrusted loans and issuance of guarantee letters and acceptance notes. There were totally 77 entrusted loans with a balance of RMB6,872 million, principals of which mainly consisted of SDP Financial Holdings Limited and Qingdao Port International Co., Ltd.; one guarantee letter with a guaranteed amount of RMB4.33 million and a balance of RMB4.33 million, the maturity date of which fell on 31 December 2021; and 7,350 acceptance notes with a principal amount of RMB5,155,058,200, a refund amount of RMB152,133,200, a settlement amount of RMB4,836,801,900 and a balance of RMB166,123,200.

As QDP Financial shared no risks and returns of the above-mentioned off-balance sheet assets, apart from the service fees charged by QDP Financial according to agreement, no other matters have been taken into account in this valuation to assess the effects on the value of the total shareholders' equity.

(VI) Effects from Equity Premium, Discount Factors and Liquidity

In the overall valuation of QDP Financial, the effects of equity premium and discount factors on the value of the total shareholders' equity and the effects of equity liquidity on the value of the total shareholders' equity have not been taken into consideration.

(VII) Citation of Other Reports

All valuation works of this project was performed by China United Assets Appraisal Group Co., Ltd.. Except for the carrying amounts of assets and liabilities as at the valuation reference date which were from the audit report issued by ShineWing Certified Public Accountants (Special General Partnership), no reports issued by other institutions were cited herein.

(VIII) Other Matters That Need to Be Explained

1. It is the legal responsibility of the valuers and the appraisal agency to make professional judgment on the value of the underlying assets for the purpose of valuation specified herein, which involves no judgment whatsoever by the valuers and the appraisal agency as to the economic activity concerning the purpose of valuation. To a large extent, the valuation depends on the information provided by the principals and the appraised entity. Therefore, the valuation is based on the authenticity and validity of the economic activity documents, asset ownership documents, certificates and accounting vouchers, and relevant legal documents provided by the principals and the appraised entity.
2. The principals and the appraised entity are responsible for the authenticity and completeness of the data, statements and relevant documents provided by the appraised entity, which are adopted and included in the scope of the valuation.
3. The title certificates and related documents involved in the valuation report are provided by the appraised entity and the principals and the appraised entity are responsible for their authenticity and validity.

4. During the validity period subsequent to the valuation reference date, if there is any change in the quantity and pricing standard of the underlying assets, the following principles shall be applied:
 - (1) if there is any change in the quantity of assets, the appraised value of assets shall be adjusted according to the original valuation approach;
 - (2) if there is any change in the pricing standard of assets, which greatly affects the asset valuation result, the principals shall timely engage a qualified asset appraisal agency to re-determine the appraised value;
 - (3) for any changes in the quantity or pricing standard of assets subsequent to the valuation reference date, the principals shall give full consideration to such changes and make adjustments accordingly when determining the consideration for the assets.
5. The purpose of asset valuation by the valuers is to estimate the value of the appraised entity and provide professional opinions, assuming no responsibilities for decisions made by the relevant parties. The valuation conclusion shall not be deemed as the guarantee of a realizable value of the appraised entity.
6. The profit forecast of the appraised entity obtained by the appraisal agency serves as the basis of the income approach in this valuation report. The valuers have conducted necessary inquiry, analysis and judgment on the profit forecast of the appraised entity. After repeated discussions with the management and major shareholders of the appraised entity and further revision and improvement of the forecast by the appraised entity, the appraisal agency adopted the relevant data of such profit forecast. The appraisal agency's use of the appraised entity's profit forecast is not a guarantee for the future profitability of the appraised entity.
7. The conclusion of this valuation is based on the accurate judgment of the equity holder and the management of the appraised entity on its future development trend and the implementation of its business plans. If the actual operating conditions of the entity in the future deviate from its business plans, and the equity holder and its management fail to take effective measures to make up for the deviation, the valuation conclusion will change significantly.

Users of the report are advised to pay attention to the abovementioned matters.

XII. LIMITATIONS ON THE USE OF THE VALUATION REPORT

1. The valuation report shall only be used for the valuation purpose and use set out in this report. Meanwhile, the valuation conclusion in this report is purported to reflect the prevailing fair market value as determined by open market principles and for the purpose of the valuation under this report, without taking into consideration the possible impact on the valuation price from any possible collateral, pledge or security and other guarantee liabilities as well as any additional price that a special party to the transaction may pay. Furthermore, this report does not take into consideration effects on asset prices from changes in state macroeconomic policies and from natural forces and other forms of force majeure. When the above-mentioned conditions and the principle of continuous operation followed in the valuation are changed, the valuation conclusion will generally lose its validity. The appraisal agency may not be held legally responsible for such invalidity of valuation conclusion due to any change in the above-mentioned conditions.

The prerequisite for the validity of the valuation report is that the economic activity hereunder complies with any and all applicable state laws and regulations and is approved by relevant authorities.

2. This valuation report may only be used by the users of valuation report specified herein. The right to use the valuation report belongs to the principals. Without the principals' permission, we as the appraisal agency will not disclose it to others.
3. The asset valuation agency and its valuers shall not be held responsible if the principals or any other users of the asset valuation report fail to use this report in accordance with the provisions of laws and administrative regulations and within the scope of use specified herein.
4. Except for the principals, other asset valuation report users designated in the asset valuation engagement contract, and users stipulated by laws and administrative regulations, any other institution or individual may not become a user of this asset valuation report.
5. Without permission from the appraisal agency and verifying the relevant contents, all or part of the valuation report may not be copied, quoted or disclosed in public media, unless otherwise provided for by laws, regulations and otherwise agreed on by the related entrusting parties.

6. The purpose of asset valuation by the valuers is to estimate the value of the appraised entity and provide professional opinions, assuming no responsibilities for decisions made by the relevant parties. The users of the asset valuation report should correctly understand and use the valuation conclusion which does not represent the realizable price of the appraised entity and should not be regarded as a guarantee for the realizable price of the appraised entity.
7. Validity period of the valuation conclusions: In accordance with relevant laws and regulations on asset valuation, the asset valuation report involving statutory valuation business shall not be used until the principals have performed the supervision and management procedures of asset valuation as required by relevant laws and regulations. The valuation conclusion is valid for one year from the valuation reference date of 30 September 2021 to 29 September 2022. A re-valuation is required after one year.

XIII. DATE OF VALUATION REPORT

The date of this valuation report is 26 October 2021.

**ASSET VALUATION REPORT
IN RELATION TO
THE VALUE OF THE TOTAL SHAREHOLDERS' EQUITY OF RIZHAO PORT
FINANCE CO., LTD. INVOLVED IN THE PROPOSED CONSOLIDATION OF A
SUBSIDIARY FINANCIAL COMPANY BY SHANDONG PORT GROUP CO., LTD.**

Zhong Lian Ping Bao Zi [2021] No. 3108

Summary

China United Assets Appraisal Group Co., Ltd. was engaged by Shandong Port Group Co., Ltd. (山東省港口集團有限公司) (the “SDP”), Shandong Port Qingdao Port Group Co., Ltd. (山東港口青島港集團有限公司) (the “QDP”), Shandong Port Rizhao Port Group Co., Ltd. (山東港口日照港集團有限公司) (the “RZP Group”) and Shandong Port Financial Holdings Limited (山東港口金融控股有限公司) (the “SDP Financial Holdings”) to appraise the market value of the total shareholders' equity of Rizhao Port Finance Co., Ltd. (日照港集團財務有限責任公司) (the “RZP Financial”) involved in the proposed restructuring and consolidation of RZP Financial as at the valuation reference date.

The valuation subject is the value of the total shareholders' equity of RZP Financial, and the scope of valuation covers all assets and related liabilities of RZP Financial, including current assets and non-current assets and relevant liabilities.

The valuation reference date is 30 September 2021.

The type of value under the valuation is market value.

This valuation is conducted on the premise of continued use and open market. Taking into account the actual conditions of the valuation subject and comprehensively considering various influencing factors, we conducted an overall evaluation of RZP Financial using the asset-based approach and the income approach respectively, and then reviewed and compared the valuation results. Given the applicable premise of the valuation approaches and the valuation purpose, the valuation conclusion under the income approach is selected as the final valuation conclusion.

Based on the judgment of the equity holders and the management of RZP Financial on its future development trend and the implementation of its business plans, and after conducting the valuation procedures, such as examination and verification, site inspection, market survey and confirmation, and determination of valuation, the valuation conclusion for the total shareholders' equity in RZP Financial as at the valuation reference date, i.e. 30 September 2021, was arrived at as follows:

The book value of the net assets of RZP Financial was RMB1,182,761,300, and the appraised value of its total shareholders' equity was RMB1,185,290,000, representing a valuation appreciation of RMB2,528,700 or 0.21%.

When using the valuation conclusion, the users of this report are hereby reminded to pay attention to the special notes and material subsequent events set out herein.

According to the laws and regulations related to asset valuation, an asset valuation report involving statutory valuation business shall be used only after the principals perform the supervision and management procedures for asset valuation in accordance with relevant laws and regulations. The valuation conclusion shall be valid for one year from 30 September 2021 (the valuation reference date) to 29 September 2022. If the one-year period expires, the valuation subject needs to be re-evaluated.

The users of the report should note that the valuation relies on the business plan of the valuation subject in the future operating period, if the actual operating conditions of RZP Financial differ from its business plan, and the management has not taken corresponding remedial measures to make up for the deviation, the valuation conclusion will be changed.

When there are material changes in the conditions of the appraised assets and external market subsequent to the valuation reference date and as a result the original valuation conclusion becomes void, the users of the asset valuation report should rearrange asset valuation.

The above content is extracted from the full text of the asset valuation report. For the details of the valuation and reasonable understanding of the valuation conclusion, please refer to the full text of the asset valuation report.

**ASSET VALUATION REPORT
IN RELATION TO
THE VALUE OF THE TOTAL SHAREHOLDERS' EQUITY OF RIZHAO PORT
FINANCE CO., LTD. INVOLVED IN THE PROPOSED CONSOLIDATION OF A
SUBSIDIARY FINANCIAL COMPANY BY SHANDONG PORT GROUP CO., LTD.**

Zhong Lian Ping Bao Zi [2021] No. 3108

Shandong Port Group Co., Ltd., Shandong Port Qingdao Port Group Co., Ltd., Shandong Port Rizhao Port Group Co., Ltd. and Shandong Port Financial Holdings Limited,

China United Assets Appraisal Group Co., Ltd. was engaged to appraise the market value of the total shareholders' equity of Rizhao Port Finance Co., Ltd. (日照港集團財務有限公司) (the **"RZP Financial"**) involved in the proposed restructuring and consolidation of QDP Financial and RZP Financial as at the valuation reference date, i.e. 30 September 2021, by adopting the asset-based approach and the income approach and carrying out necessary valuation procedures in accordance with relevant laws and regulations and asset valuation standards. Details of the asset valuation are reported as follows:

**I. THE PRINCIPALS, THE APPRAISED ENTITY AND OTHER USERS OF THE
ASSET VALUATION REPORT AS AGREED IN THE ASSET VALUATION
ENGAGEMENT CONTRACT**

The principals of the asset valuation are Shandong Port Group Co., Ltd. (山東省港口集團有限公司) (the **"SDP"**), Shandong Port Qingdao Port Group Co., Ltd. (山東港口青島港集團有限公司) (the **"QDP"**), Shandong Port Rizhao Port Group Co., Ltd. (山東港口日照港集團有限公司) (the **"RZP Group"**) and Shandong Port Financial Holdings Limited (山東港口金融控股有限公司) (the **"SDP Financial Holdings"**), and the appraised entity is RZP Financial.

(I) Overview of the Principals

1. Principle I-SDP

Company Name: Shandong Port Group Co., Ltd.

Registered address: Shandong Port Tower, No. 7 Gangji Road, Shibei District, Qingdao, Shandong Province

Legal representative: Huo Gaoyuan

Registered capital: RMB10 billion

Type of company: Limited liability company (state-controlled)

Unified social credit code: 91370000MA3QB0H980

Date of establishment and duration of operation: 2 August 2019 with an indefinite period

Business scope: port operation management, port industry investment, port infrastructure construction, port and shipping ancillary services, storage and development and utilization of land resources in coastlines and port areas, ocean and coastal shipping, cargo transportation, warehousing and logistics, bulk commodity trading, equity and fund investment, management, operation; and vessel transactions. (For projects that are subject to approval in accordance with the law, business activities can only be carried out upon approval by relevant authorities).

2. *Principal II-QDP*

Company Name: Shandong Port Qingdao Port Group Co., Ltd.

Registered address: No. 7 Gangji Road, Shibei District, Qingdao, Shandong Province

Legal representative: Su Jianguang

Registered capital: RMB1,860 million

Type of company: Limited liability company (state-controlled)

Unified social credit code: 91370203163581022Y

Date of establishment and duration of operation: 12 August 1988 with an indefinite period

Scope of business: asset management; investment management; equity investment (without the approval of the financial regulatory authorities, no financial business such as deposit absorption, financing guarantee, and wealth management on behalf of customers is allowed); land development in port areas; real estate leasing; tangible movable property leasing; port construction project management; port passenger transportation services; cargo loading and unloading; port warehousing and transportation industry and auxiliary industry; cargo sales; port water supply, power supply and heat supply; cleaning services; electrical equipment sales; contracting of power projects. (For projects that are subject to approval in accordance with the law, business activities can only be carried out upon approval by relevant authorities).

3. *Principal III-RZP Group*

Company Name: Shandong Port Rizhao Port Group Co., Ltd.

Registered address: No. 91 Huanghai First Road, Donggang District, Rizhao City, Shandong Province

Legal representative: Zhang Jiangnan

Registered capital: RMB5 billion

Type of company: Limited liability company (wholly owned by a legal person not invested or controlled by a natural person)

Unified social credit code: 91371100168357011L

Date of establishment and duration of operation: 24 February 2004 with an indefinite period

Business scope: general projects: loading, unloading and handling; general cargo warehousing services (excluding hazardous chemicals and other projects requiring approval); machinery and equipment leasing; ship repair; housing leasing; non-residential real estate leasing; land use right leasing; marketing planning; packaging services; sales of machinery and equipment; sales of mechanical parts and components; ship towing services; repair of general equipment; repair of special equipment; maintenance of transportation facilities; railway transportation ancillary activities; sales of general merchandise (except for items subject to approval in accordance with the law, carrying out business activities independently by virtue of business license according to law). Licensed projects: port operation; domestic waterway passenger transportation; road cargo transportation (network freight); ship pilotage services; internet information services; international liner transportation; railway locomotive and rolling stock maintenance; supply of offshore vessels at ports (for projects that are subject to approval in accordance with the law, business activities can only be carried out upon approval by relevant departments. The specific business projects shall be subject to the approval results).

4. *Principal IV-SDP Financial Holdings*

Company Name: Shandong Port Financial Holdings Co., Ltd.

Registered address: 3rd Floor, No. 58 Ganghuan Road, Shibei District, Qingdao, Shandong Province

Legal representative: Li Fengli

Registered capital: RMB6,900 million

Type of company: Other company with limited liability

Unified social credit code: 91370203MA3DHHAK0C

Date of establishment and duration of operation: 19 April 2017 with an indefinite period

Business scope: [investment with self-owned funds, asset management, investment management, equity investment, equity investment management] (without the approval of the financial regulatory authorities, no financial service such as deposit absorption from the public, financing guarantee, and wealth management on behalf of customers is allowed); consulting and advisory service, information data analysis and application services. (For projects that are subject to approval in accordance with the law, business activities can only be carried out upon approval by relevant authorities).

(II) Overview of the Appraised Entity

Company Name: Rizhao Port Finance Co., Ltd.

Registered address: 14th and 15th Floor, Tower E, Rizhao Port International Trade Center, East End of Shanghai Road, Donggang District, Rizhao, Shandong Province

Legal representative: Gao Zhenqiang

Registered capital: RMB1 billion

Type of company: Other limited liability company

Unified social credit code: 91371100MA3CAX9D1D

Date of establishment and duration of operation: 20 May 2016 to 19 May 2036

1. Company profile**(1) Establishment of RZP Financial and changes in equity**

RZP Financial was established in May 2016 by RZP Group and Rizhao Port Co., Ltd. (日照港股份有限公司) (the “RZP”) with an original registered capital of RMB1 billion, among which, the capital contributions of RZP Group and RZP were RMB0.6 billion and 0.4 billion, respectively. The shareholding structure at the time of the establishment of the Company was as follows:

Unit: RMB0,000

Name of Shareholder	Capital contribution	Percentage of capital contribution (%)
Shandong Port Rizhao Port Group Co., Ltd.	60,000.00	60.00
Rizhao Port Co., Ltd.	40,000.00	40.00
Total	100,000.00	100.00

The above capital contribution has been verified by Rizhao Yitong Co., Ltd. Accounting Firm and has issued Riyitongyanzi [2016] No. 3 Capital Verification Report.

(2) Current share capital

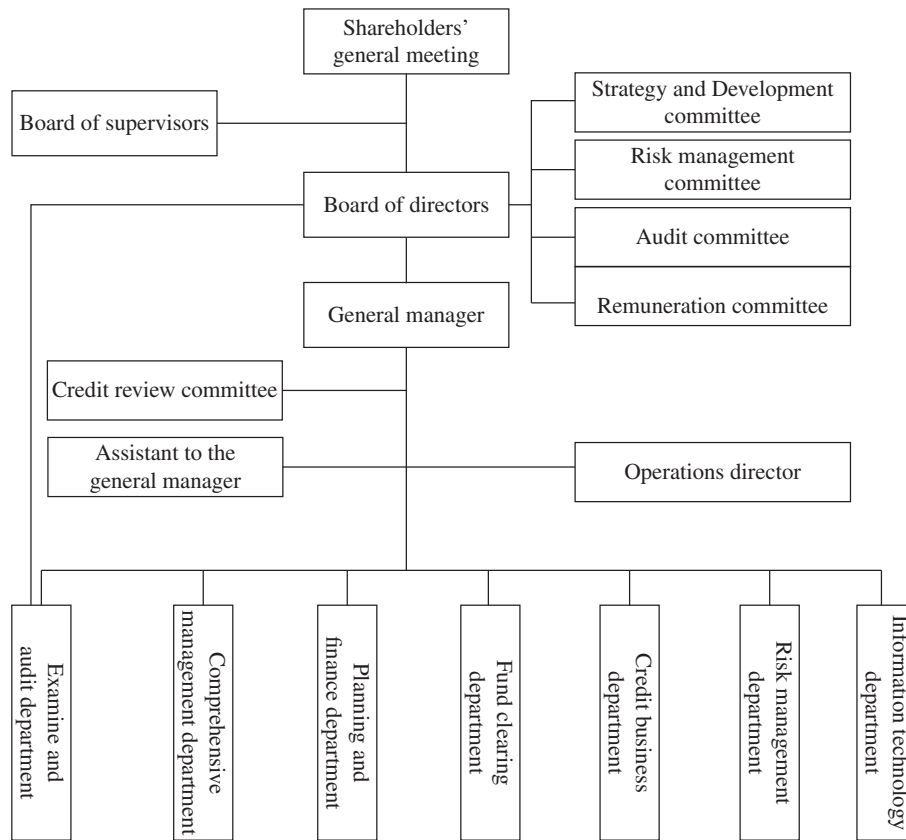
As at the valuation reference date, the registered capital of RZP Financial was RMB1 billion and the paid-in capital was RMB1 billion. The shareholding structure was as follows:

Unit: RMB0,000

Name of Shareholder	Capital contribution	Percentage of capital contribution (%)
Shandong Port Rizhao Port Group Co., Ltd.	60,000.00	60.00
Rizhao Port Co., Ltd.	40,000.00	40.00
Total	100,000.00	100.00

(3) *Organizational structure*

As at the valuation reference date, i.e. 30 September 2021, RZP Financial has seven functional departments, namely the examine and audit department, the comprehensive management department, the planning and finance department, the fund clearing department, the credit business department, the risk management department and the information technology department.

(4) *Employees*

As at the valuation reference date, RZP Financial had 29 employees.

(5) *Branches*

None.

(6) *Business license*

RZP Financial has obtained the financial license on 18 May 2016, the certificate number is 00909333, the details are as follows:

Agency name: Rizhao Port Finance Co., Ltd.

Approved date: 18 May 2016

Agency address: 14th and 15th Floor, Tower E, Rizhao Port International Trade Center, East End of Shanghai Road, Donggang District, Rizhao, Shandong Province

Agency code: L0240H337110001

(7) *Corporate briefing*

RZP Financial is the first enterprise group finance company in Rizhao. It is a non-bank financial institution that provides financial services to group's member units for the purpose of strengthening the centralized management of funds of the group company and improving the efficiency of using funds. It mainly provides settlement, deposits, loans, entrusted loan, guarantee, bill acceptance and discount, financial advisory, finance lease, buyer credit and other services.

The company always adheres to the original intention of "based on the group and serves the group", adheres to the leadership of Party building, deepens internal reform, strengthens the construction of the workforce, and steadily promotes business and service innovation; strengthens risk management and control, optimizes resource allocation, and prevents capital risks; continuously improves financial service function, promotes the effective combination of production and financing capital, and provides customers with good-quality, efficient and diversified financial services to achieve high-quality development of the company.

After several years of development, the company has built a relatively complete set of internal control and business framework systems, and built a financial service team with professional qualities. It has received "Advanced Unit for Serving Local Economic Development" from the resident government, "Advanced Unit for Safe Port Construction" from Rizhao Port and other honorary titles, and has received many pennants and letters of thanks from member units, enhancing the brand recognition and reputation.

2. *Scope of business*

The institution is permitted to operate the business approved by the China Banking Regulatory Commission in accordance with relevant laws, administrative regulations and other provisions and the scope of its business is subject to the approval documents (the valid period of the financial license is subject to the license). (For projects that are subject to approval in accordance with the law, business activities can only be carried out upon approval by relevant authorities).

3. *Assets, financial and operating conditions*

The principal business of RZP Financial is deposits and loans. The deposit business mainly consists of demand deposits, time deposits, agreement deposits and call deposits absorbed from group members. As at the valuation reference date, the main interest rate of demand deposits is 0.35%; the interest rate of time deposits mainly ranges from 1.1% to 1.82%; the interest rate of agreement deposits mainly is 1.15%, and the interest rate of call deposits ranges from 1.35% to 1.89%. The loan business mainly includes short-term loans and medium and long-term loans granted by RZP Financial to RZP Group's members. The short-term loans are mainly one-year short-term loans with an interest rate of 4.05%-5%; and the medium and long-term loans are mainly medium-to-long-term loans with a maturity of 2 to 5 years, and the interest rate ranges from 4.2% to 5.225%.

As at 30 September 2021, the valuation reference date, the book value of the total assets of RZP Financial amounted to RMB4,794,821,900, the total liabilities amounted to RMB3,612,060,600, and the net assets amounted to RMB1,182,761,300. From January to September 2021, the total revenue of the company amounted to RMB125,817,100 and the net profit amounted to RMB79,096,200. At present, the enterprise is in normal operation. The assets and financial position of the company for last three years and as at the valuation reference date are as follows:

Balance sheet and statement of financial position of the company

Unit: RMB0,000

Items	Balance sheet			
	31 December 2018	31 December 2019	31 December 2020	30 September 2021
Assets				
Cash and deposits with the central bank	24,633.59	24,060.44	17,794.54	18,511.26
Deposits with banks and other financial institutions	156,324.78	104,392.13	72,142.89	117,423.86
Placements with banks				19,967.57
Loans and advances to customers	272,352.09	343,191.09	326,664.91	320,864.67
Fixed assets	1,476.88	1,494.70	1,396.29	1,320.50
Intangible assets	102.05	84.64	45.84	27.67
Deferred income tax assets	1,047.55	1,318.42	1,108.48	1,340.76
Other assets	11.24	23.57		25.91
Total assets	455,948.18	474,564.99	419,152.95	479,482.20
Liabilities				
Loans and other banks			20,000.00	20,001.61
Customer deposits	338,299.61	348,521.24	261,411.82	339,793.43
Employee benefits payable	4.93	8.62	29.99	121.66
Taxes payable	1,439.37	1,174.07	1,148.45	1,285.44
Other liabilities	128.57	60.60	5.55	3.92
Total liabilities	339,872.48	349,764.53	282,595.81	361,206.06
Shareholders' equity:	—	—	—	—
Paid-in capital	100,000.00	100,000.00	100,000.00	100,000.00
Other comprehensive income				
Surplus reserve	1,607.57	2,480.05	3,655.72	4,406.29
General risk reserve	7,069.39	7,127.54	7,127.55	7,127.54
Undistributed profits	7,398.73	15,192.87	25,773.90	6,742.30
Total owners' equity	116,075.69	124,800.46	136,557.16	118,276.13
Total liabilities and shareholders' equity	455,948.18	474,564.99	419,152.95	479,482.20

Income statement				January to September
Items	2018	2019	2020	2021
1. Revenue	14,148.03	14,408.71	15,690.27	12,581.71
Net interest income	14,088.98	14,353.68	15,524.48	11,916.10
Interest income	16,172.55	15,885.55	17,217.22	13,955.46
Interest expenses	2,083.57	1,531.87	1,692.74	2,039.36
Net fee and commission income	59.05	55.03	165.67	665.44
Fee and commission income	59.05	57.73	169.32	670.10
Fees and commission expenses		2.70	3.65	4.66
Investment income				
Gains and losses from changes in fair value				
Exchange gains				
Other income			0.12	0.16
2. Operating expenses	3,666.75	2,773.75	13.62	2,028.72
Taxes and surcharges	99.28	104.25	134.15	103.64
Business and management fees	770.58	864.07	919.57	829.20
Credit impairment losses	2,796.89	1,805.43	(1,040.10)	1,095.88
3. Operating profit	10,481.28	11,634.96	15,676.65	10,552.99
Add: Non-operating income				
Less: Non-operating expenses				
4. Total profit	10,481.28	11,634.96	15,676.65	10,552.99
Less: income tax expenses	2,622.07	2,910.18	3,919.95	2,643.37
5. Net profit	7,859.21	8,724.78	11,756.70	7,909.62

Summary of cash flow statement				January to September
Items	2018	2019	2020	2021
Net cash flows from operating activities	69,464.20	(52,806.72)	(24,029.52)	71,545.41
Net cash flows from investing activities	(462.70)	(124.37)	(41.86)	(14.30)
Net cash flows from financing activities	—	—	—	(26,190.64)

Items	Key regulatory indicators			
	31 December 2018	31 December 2019	31 December 2020	30 September 2021
Core tier 1 capital adequacy ratio	30.45%	28.42%	35.37%	27.71%
Capital adequacy ratio	31.61%	29.58%	36.51%	28.87%
Net capital	120,426.71	129,813.78	140,935.30	123,174.81
Risk-weighted assets	380,922.85	438,822.18	385,996.80	426,688.28
Auditor	ShineWing	ShineWing	ShineWing	ShineWing
	Certified Public Accountants	Certified Public Accountants	Certified Public Accountants	Certified Public Accountants
	(Special General Partnership)	(Special General Partnership)	(Special General Partnership)	(Special General Partnership)
Audit opinion	Standard unqualified opinion	Standard unqualified opinion	Standard unqualified opinion	Standard unqualified opinion

4. Significant accounting policies of QDP Financial

41 standards issued by the Ministry of Finance on 15 February 2006, including the Accounting Standards for Business Enterprises – Basic Standard (MOF Order No. 33, revised in July 2014) and the Accounting Standards for Business Enterprises No. 1 – Inventories.

(III) Relationship Between the Principals and the Appraised Entity

One of the principals SDP is an ultimate controller of the appraised entity, one of the principals RZP Group is a majority shareholder of the appraised entity, and the principals QDP and SDP Financial Holdings are the interested parties for the reorganization and integration of the appraised entity.

(IV) Users of the Asset Valuation Report as Agreed in the Asset Valuation Engagement Contract

This valuation report shall be used by the SDP, RZP, the Company and the relevant regulatory authorities to which the report shall be filed with pursuant to the relevant requirements.

Except as otherwise provided by national laws and regulations, no agency or individual that has not been approved by the appraisal agency and the principals shall become a user of the valuation report by having access to it.

II. PURPOSE OF VALUATION

According to the development needs, QDP Financial and RZP Financial contemplate to conduct a reorganization and integration, including QDP and RZP Group will transfer their respective equity interests in QDP Financial and RZP Financial to SDP, QDP Financial will merge with RZP Financial by way of absorption and merger to remain QDP Financial surviving and deregister RZP Financial, SDP and SDP Financial Holdings will increase the capital to surviving QDP Financial. Therefore, it is necessary to carry out asset valuation to provide a value reference for relevant economic activity.

III. VALUATION SUBJECT AND SCOPE OF VALUATION**(I) Valuation Subject and Scope of Valuation**

The valuation subject is the total shareholders' equity value of RZP Financial. The scope of the valuation relating to the valuation subject covers all assets and related liabilities of RZP Financial as at the valuation reference date, which are as follows: total book assets of RMB4,794,821,900, total liabilities of RMB3,612,060,600 and net assets of RMB1,182,761,300.

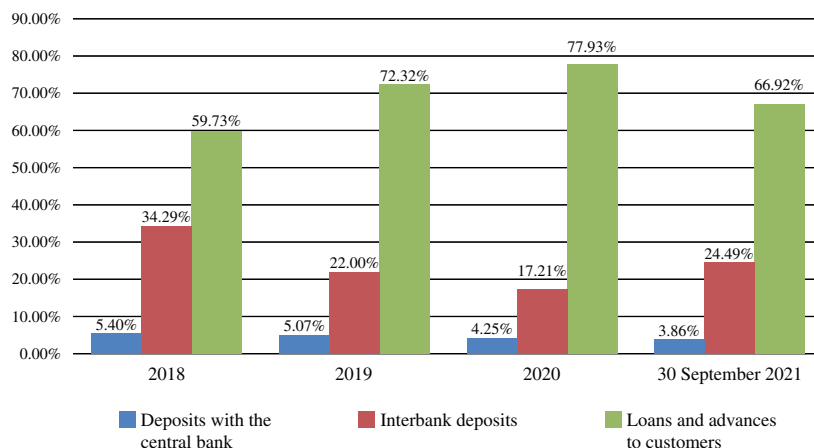
The above audited data of assets and liabilities are extracted from the audit report No. XYZH/2021QDAA20197 issued by ShineWing Certified Public Accountants (Special General Partnership). The audit opinion is that the financial statements of the appraised entity are prepared in accordance with the provisions of the Accounting Standards for Business Enterprises in all material respects, which fairly reflects the financial position as at 30 September 2021 and the operating results and cash flow from January to September 2021 of RZP Financial. The valuation is conducted based on the audited financial information of the enterprise.

The entrusted valuation subject and scope of valuation are consistent with those involved in the economic activity.

(II) Information on the Major Assets to be Appraised

The major assets involved in the scope of valuation are deposits with the central bank, interbank deposits, loans and advances to customers, etc.

In particular, loans and advances to customers primarily represent short-term loans, mid-to-long-term loans and discount assets granted to group members. Interbank deposits primarily represent deposits with Bank of Rizhao, Industrial and Commercial Bank of China, Bank of China, Agricultural Bank of China and other institutions by RZP Financial. Deposits with the central bank primarily represent the bank reserves placed with the Rizhao center subbranch of the People's Bank of China by RZP Financial.

Distribution of Major Assets Structure of RZP Financial

Note: The above ratios refer to the ratio of the ending balance of the current period to the total assets of the current period

(III) Distribution and Characteristics of Physical Assets

The book value of the physical assets included in the scope of valuation is RMB13,205,000, accounting for 0.28% of the total assets within the scope of valuation, which mainly include self-use office building, office equipment, electronic equipment, etc. These assets have the following characteristics:

1. The distribution of assets is relatively concentrated, and the physical assets are mainly distributed in the office areas, i.e. 14th and 15th floor, tower E of Rizhao Port International Trade Center at the east end of Shanghai Road in Donggang District of Rizhao.
2. Building assets mainly include two-story commercial office (14th and 15th floor) and 15 parking spaces in tower E of International Trade Center, with a total area of 1,470.14 square meters and steel-concrete structure, which was completed in 2016.
3. Equipment assets mainly include office equipment, computer software, and electronic equipment, etc. The enterprise has established strict system regarding the use and maintenance of equipment, and such system has been effectively implemented to meet its production and operation needs.

(IV) Recorded or Unrecorded Intangible Assets Declared by the Enterprise

The intangible assets declared by RZP Financial include various software and business-related management systems used, mainly including electronic ticket software system, Inspur core business system, operation and maintenance and audit system, generalized credit system, etc. As at the valuation reference date, RZP Financial has not declared intangible assets that are not recorded on its accounting books, and the intangible assets declared within the scope of valuation are all in normal use.

(V) Type and Quantity of Off-balance-sheet Assets Declared by the Enterprise

As at the valuation reference date, i.e. 30 September 2021, the off-balance-sheet businesses included entrusted loans, issuance of letter of guarantee and acceptance of bills, etc. of which, there were 2 entrusted loans with a balance of RMB97,000,000 at the valuation reference date; there was an issuance of letter of guarantee (non-financing letter of guarantee) with a balance of RMB21,819,000 at the valuation reference date; there were 21 acceptance of bills with a balance of RMB290,138,000 at the valuation reference date. For details, please refer to “XI. Description of Special Matters (IV) Off-balance sheet assets” in this report.

Except for above off-balance sheet assets, the assets declared for valuation by the enterprise are all assets recorded in its accounting books with no other off-balance-sheet assets declared.

(VI) Type, Quantity and Book Value of Assets Involved in Citing the Conclusions of the Reports Issued by Other Agencies

The book value of each of assets and liabilities as at the valuation reference date in this valuation report represents the audit report No. XYZH/2021QDAA20197 issued by ShineWing Certified Public Accountants (Special General Partnership). The audit opinion is that the financial statements of the appraised entity are prepared in accordance with the provisions of the Accounting Standards for Business Enterprises in all material respects, which fairly reflects the financial position as at 30 September 2021 and the operating results and cash flow from January to September 2021 of RZP Financial. The valuation is conducted based on the audited financial information of the enterprise. Except for this, there is no reference to any reports from other agencies.

IV. TYPE OF VALUE AND ITS DEFINITION

Based on the purpose of valuation, the type of value under this valuation is defined as market value.

Market value represents the estimated value of the valuation subject in an arm's length transaction on the valuation reference date where a willing buyer and a willing seller act rationally and without any coercion.

V. VALUATION REFERENCE DATE

The valuation reference date for this asset valuation is 30 September 2021.

The selection of the valuation reference date is determined after taking into account the realization of economic activity and the factors at end of the accounting period. The valuation reference date was determined by the principals after considering a combination of the assets size, workload, the estimated time required, compliance and other factors of the appraised entity.

VI. BASIS OF VALUATION

The basis of valuation on which this asset valuation is conducted mainly includes the economic activity basis, the law and regulation basis, the valuation standard basis, the asset titles basis as well as the pricing basis adopted in the valuation and estimation and other reference materials, the details of which are as follows:

(I) Economic Activity Basis

On 18 September 2021, Minutes of the Standing Committee Meeting of SDP under the Communist Party of China ([2021] 39th meeting of the Party Committee).

(II) Law and Regulation Basis

1. The Asset Valuation Law of the People's Republic of China (adopted at the 21st Meeting of the Standing Committee of the 12th National People's Congress of the People's Republic of China on 2 July 2016);
2. The Company Law of the People's Republic of China (revised for the fourth time by the Decision on Amendment to the "Company Law of the People's Republic of China" at the sixth Meeting of the Standing Committee of the 13th National People's Congress on 26 October 2018);
3. The Law of the People's Republic of China on the State-owned Assets of Enterprises (adopted at the fifth meeting of the Standing Committee of the 11th National People's Congress on 28 October 2008);
4. The Civil Code of the People's Republic of China (adopted at the third meeting of the 13th National People's Congress on 28 May 2020);
5. The Banking Supervision Law of the People's Republic of China (Presidential Decree No. 58 of the People's Republic of China, adopted on 27 December 2003, and amended at the 24th meeting of the Standing Committee of the Tenth National People's Congress on 31 October 2006);

6. The Administrative Measures for State-owned Assets Appraisal (Decree No. 91 of the State Council, 1991);
7. The Measures for the Administration of Enterprise Group Finance Companies (CBRC [2004] No. 5, adopted at the 23rd Chairman's Meeting of China Banking Regulatory Commission);
8. The Interim Regulations for the Supervision and Administration of State-owned Assets of Enterprise (Decree No. 378 of the State Council, revised in 2019);
9. The Guidelines for the Recordation of Appraisal Projects of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);
10. The Notice on the Relevant Matters Concerning the Audit on Valuation Reports of State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);
11. The Interim Measures for the Administration of State-owned Assets Appraisal of Enterprises (Decree No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council, 2005);
12. The Notice on Strengthening the Administration of State-owned Assets Appraisal of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);
13. The Measures for the Supervision and Administration of the Transactions of State-owned Assets of Enterprises (Decree No. 32 of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance, 24 June 2016);
14. The Provisions on Several Issues Concerning the Administration of State-owned Assets Appraisal (Decree No. 14 [2002] of the Ministry of Finance);
15. The Detailed Rules for the Implementation of the Measures for the Administration of State-owned Assets Appraisal (Guo Zi Ban Fa [1992] No. 36);
16. The Opinions of the General Office of the State Council on Strengthening and Improving the Supervision over State-owned Assets of Enterprises to Prevent the Loss of State-owned Assets (Guo Ban Fa [2015] No. 79);
17. The Notice on Adjusting the Regulatory Requirements of Loan Loss Provisions of Commercial Bank (Yin Jian Fa [2018] No. 7, 28 February 2018);
18. The Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (Cai Shui [2018] No. 32);

19. The Administrative Measures for the Provision of Reserves of Financial Enterprises (Cai Jin [2012] No. 20);
20. The Announcement on Policies Concerning Deepening Value-added Tax Reform of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs (Announcement [2019] No. 39 of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs);
21. Urban Real Estate Administration Law of the People's Republic of China (revised for the third time by the Decision on Amendment to the "Land Administration Law of the People's Republic of China" and "Urban Real Estate Administration Law of the People's Republic of China" at the twelfth Meeting of the Standing Committee of the 13th National Peoples Congress on 26 August 2019);
22. Other laws, regulations and rules related to the valuation.

(III) Valuation Standard Basis

1. Basic Standards for Asset Valuation (Cai Zi [2017] No. 43);
2. Professional Codes of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);
3. Asset Valuation Practicing Standards – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);
4. Asset Valuation Practicing Standards – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);
5. Asset Valuation Practicing Standards – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);
6. Asset Valuation Practicing Standards – Enterprise Value (Zhong Ping Xie [2018] No. 38);
7. Asset Valuation Practicing Standards – Valuation Methods (Zhong Ping Xie [2019] No. 35);
8. Asset Valuation Practicing Standards – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);
9. Asset Valuation Practicing Standards – Use of Expert Work and Relevant Reports (Zhong Ping Xie [2017] No. 35);

10. Asset Valuation Practicing Standards – Intangible Assets (Zhong Ping Xie [2017] No. 37);
11. Asset Valuation Practicing Standards – Machine Equipment (Zhong Ping Xie [2017] No. 39);
12. Guidelines of the Valuation Report on State-owned Assets of Enterprise (Zhong Ping Xie [2017] No. 42);
13. Guidelines for Business Quality Control of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46);
14. Guidelines of the Valuation Report on State-owned Assets of Financial Enterprise (Zhong Ping Xie [2017] No. 43);
15. Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);
16. Guiding Opinions on Legal Ownership of Asset Valuation Subject (Zhong Ping Xie [2017] No. 48);
17. Asset Valuation Expert Guidance No. 1 – Financial Regulatory Indicators that Should Be Concerned to in Financial Enterprise Valuation (Zhong Ping Xie [2015] No. 62);
18. Assets Valuation Expert Guidance No. 3 – Income Approach Valuation Model and Parameter Determination for Financial Enterprises (Zhong Ping Xie [2015] No. 64);
19. Assets Valuation Expert Guidance No. 12 – Calculation of Discount Rate in the Evaluation of Enterprise Value by Income Approach (Zhong Ping Xie [2020] No. 38);
20. Applicable Guidance under Regulatory Rules – Valuation Category No. 1.

(IV) Asset Titles Basis

1. Articles of association, business License, etc. of the appraised entity (copy);
2. Deposit and loan related agreements;
3. Fixed asset purchase invoices and contract agreements;
4. Materials or vouchers related to the purchase of important assets;
5. Financial product distribution agreement;
6. Other reference materials.

(V) Pricing Basis

1. The balance sheet, income statement, account balance sheet, detailed list and other relevant declaration materials and other relevant evaluation materials provided by the enterprise;
2. Relevant business forecast data, financial and accounting statements and other financial and operational data provided by the enterprise;
3. Real Estate Certificate;
4. The audit report No. XYZH/2021QDAA20197 issued by ShineWing Certified Public Accountants (Special General Partnership);
5. Relevant information published by Wind Financial Terminal;
6. Relevant information published on the website of China National Association of Finance Companies;
7. Relevant information published on the website of Shanghai Interbank Offered Rate;
8. 2021 Electromechanical Product Price Information Inquiry System (Machinery Industry Information Research Institute);
9. Market inquiry for main equipment and facilities;
10. Loan prime rate published on 20 September 2021 by the National Interbank Funding Center authorized by the People's Bank of China;
11. Zhongguancun Quotation Network, JD Mall and the local electronic equipment market, etc.;
12. China United Assets Appraisal Group Co., Ltd. Price Information Database Related information;
13. Other reference materials.

(VI) Other References

1. Accounting Standards for Business Enterprises – Basic Standards (Decree No. 33 of the Ministry of Finance);
2. Decision of the Ministry of Finance on Amending the Accounting Standards for Business Enterprises – Basic Standards (Decree No. 76 of the Ministry of Finance);
3. 38 Specific Standards including Accounting Standards for Business Enterprises No. 1 – Inventory (Cai Kuai [2006] No. 3);
4. Accounting Standards for Business Enterprises – Application Guidelines (Cai Kuai [2006] No. 18);
5. Measures for the Performance Evaluation of Financial Enterprises (Cai Jin [2016] No. 35);
6. Asset Valuation Common Data and Parameter Manual (Second Edition) (Beijing Science and Technology Press);
7. Investment Valuation (written by [US] Damodaran, translated by [Canada] Lin Qian, Tsinghua University Press);
8. Valuation: Measuring and Managing the Value of Companies (Third Edition) (written by [US] Copeland, T., etc., translated by Hao Shaolun and Xie Guanping, Electronic Industry Press);
9. The accounting statements and audit reports for the previous three years, and the accounting statement and special audit report on the valuation reference date, i.e. 30 September 2021, of the appraised entity;
10. Real Estate Valuation Specifications (GB/T50291-2015);
11. RESSET financial data research library;
12. Other reference materials.

VII. VALUATION METHODS**(I) Selection of Valuation Methods**

According to the requirements of the Asset Valuation Practicing Standards – Enterprise Value (Zhong Ping Xie [2018] No. 38), when performing the valuation for enterprise value, the valuer shall, based on the purpose of valuation, the valuation subject, type of value and materials collection and other relevant conditions, analyze the applicability of the three assets valuation approaches, namely income approach, market approach and asset-based approach, and appropriately select one or more assets valuation approaches.

The income approach in the valuation for enterprise value refers to the valuation method of determining the value of the valuation subject by capitalizing or discounting the expected income. The valuer shall consider the applicability of the income approach appropriately after taking into account a combination of the historical operating conditions, the predictability of future earnings, and the adequacy of the valuation data obtained. The market approach in the valuation for enterprise value refers to the valuation method of determining the value of the valuation subject by comparing the valuation subject with comparable listed enterprises or comparable transaction cases. The valuer shall consider the applicability of the market approach appropriately based on the adequacy and reliability of the operating and financial data available of the comparable enterprises, and the number of comparable enterprises that can be collected. The asset-based approach in the valuation for enterprise value refers to the method of determining the value of the valuation subject by reasonably valuating the value of each asset and liability of the enterprise based on the balance sheet of the appraised entity on the valuation reference date.

In this valuation, the valuation methods are adopted as follows:

1. Market approach: The two methods commonly used in the market approach are the transaction case comparison method and the listed company comparison method. As there are few market transaction cases of the same industry, similar scale and comparable with the appraised entity, and considering that there is no finance company qualified by the CBIRC which has been listed on a stock exchange, and the financial and business data of unlisted finance companies with comparable transactions are difficult to collect, this valuation does not have the objective conditions for the market approach.
2. Income approach: According to the requirements of Article 19 of the Asset Valuation Practicing Standards – Enterprise Value, “the asset valuation professionals shall consider the applicability of the income approach appropriately after taking into account a combination of the enterprise nature, asset scale, historical operating conditions, the predictability of future earnings, and the adequacy of the valuation

data obtained of the appraised entity.” Considering that the historical annual operating income of the appraised entity is relatively stable and its income and risks can be reliably estimated in the future, the income approach can be adopted in this valuation.

3. Asset-based approach: The purpose of this valuation is for the proposed reorganization and integration of the appraised entity, and it is necessary to conduct an overall valuation of RZP Financial to provide a value reference for relevant economic activity. The asset-based approach reflects the value of the enterprises from the perspective of enterprise construction and provides a basis for the operation, management and assessment of the enterprises after completion of the economic activity. Therefore, the asset-based approach is adopted in this valuation.

In summary, the asset-based approach and the income approach are adopted in this valuation.

(II) Introduction to the Assets-based Approach

The assets-based approach is to take the investment amount required for rebuilding an enterprise or an independent profitable entity which is identical to the valuation subject at the valuation reference date as the basis for judging its overall assets value, it is the approach of calculating an enterprise’s value by adding up the appraised value of assets which are the various elements that constitute the enterprise and deducting the appraised value of liabilities.

The valuation approaches of various assets and liabilities are as follows:

1. *Deposits with the central bank*

As at the valuation reference date, the deposits with the central bank were mainly the bank reserves deposited by RZP Financial with the Rizhao center subbranch of the People’s Bank of China. The valuers verified the deposit accounts with the People’s Bank of China to prove the true existence of the bank deposits and make sure the amounts in the bank statements were consistent with that in the valuation declaration statements and there were no outstanding items. The valuers checked the deposits with the central bank with the bank statements and the balance reconciliation statements from the central bank to make sure that the accounts were consistent with the statements and the facts, and took the checked and adjusted book value as the appraised value.

2. *Interbank deposits*

As at the valuation reference date, the interbank deposits were mainly the current and time deposits placed by RZP Financial with Industrial and Commercial Bank of China, Bank of Rizhao, Agricultural Bank of China and other bank institutions. The

valuers verified all bank deposit accounts and the statements of interbank deposits to make sure that the accounts were consistent with the statements and the facts. The appraised value was determined by reference to the verified book value.

3. *Lending funds*

As at the valuation reference date, loan funds were mainly credit loan from RZP Financial by Xinfengxiang Finance Co., Ltd.. The evaluator checked the relevant documents, such as the credit loan transaction documents and the accounting vouchers, to make sure that the asset amounts were consistent with that in relevant accounts, statements and documents. The appraised value was determined by deducting the appraisal risk loss from the principal and interest of the borrowing funds as at the valuation reference date.

4. *Loans and advances to customers*

As at the valuation reference date, the loans and advances to customers were mainly short-term loans, medium and long-term loans extended by RZP Financial to its members. Among which, short-term loans were mainly one-year short-term loans with an interest rate ranging from 4.05% to 5%; and medium and long-term loans were mainly medium and long-term loans with a term of 2 to 5 years and an interest rate ranging from 4.2% to 5.225%. The valuers verified the account records, carried out a spot check on some original vouchers, loan contracts and other relevant materials and verified the authenticity, aging, business contents and amounts of the transactions, and the results thereof were consistent with the amounts in relevant accounts, statements and documents. After verification, RZP Financial measured the expected credit losses of loans at different stages separately. Loans that had not had a significant increase in credit risk since initial recognition were at stage 1 and loss allowance for such loans were provided at 12-month expected credit loss; loans that had had a significant increase in credit risk since initial recognition but had not suffered a credit impairment were at stage 2 and loss allowance for such loans were provided at lifetime expected credit loss; and loans that had suffered a credit impairment since initial recognition were at stage 3 and loss allowance for such loans were provided at lifetime expected credit loss.

After verifying the correctness of the loans and advances to customers and based on historical information and the results of current investigation, the valuers specifically analyzed, among other things, the amount, time and reason of arrears, recovery of payments and the capital, credit, operation and management status of the debtor. Based on analysis and calculation, the valuers estimated that there were little differences between the expected credit loss amount of loans and advances to customers and the allowance amount provided for expected credit loss by the company, so the corresponding expected credit loss amount was recognized as the appraised risk loss. The appraised value was determined by reference to the verified book value in aggregate minus the appraised risk loss.

5. *Fixed assets*

As at the valuation reference date, the fixed assets included in the scope of this valuation were houses and buildings assets and equipment assets. Houses and buildings assets referred to two-story (14th and 15th Floor) commercial office and 15 parking spaces in tower E of International Trade Center at Donggang District in Rizhao; equipment assets were mainly operating office electronic equipment, etc..

(1) *Houses and buildings assets*

This assessment is based on the use of buildings, structural characteristics and nature of use by using the market approach.

Market approach

Appraised value = $P \times A \times B \times C \times D$

Among which: A – Transaction Correction Coefficient;
B – Transaction Date Correction Factor;
C – Regional Factor Correction Coefficient;
D – Individual Factor Correction Coefficient

The valuation process was carried out in three stages:

Stage 1: Investigate characteristics of the evaluation subject. According to the houses and buildings assessment declaration form provided by the principal, and with the cooperation of the asset management personnel of the appraised entity, the valuer shall verify, investigate and appraise the houses and buildings listed in the asset assessment declaration form one by one, so as to understand its status quo of the surface body, internal structure, decoration standard, functional performance, quantity and quality, geographical location, etc. and make detailed appraisal record. Make adjustments to the discrepancies to match the accounts.

Stage 2: Collect information. According to the general principles of asset evaluation, the valuer collects the materials required for this evaluation, including the real estate transaction data of the real estate transaction management department, and relevant information in various newspapers, magazines and yearbooks, and directly collects real estate example data related to rent and sale from real estate sellers. In addition, according to the assessment declaration form provided by the principal, collecting the proof of ownership of the houses and buildings and related materials.

Stage 3: Evaluate analytical calculations. According to the results of on-site investigation and the investigation of the real estate transaction market, the valuer selects three or more transaction cases similar to the entrusted appraised houses and buildings, and analyzes the discrepancies in location, area, use, transaction time, service life, environmental conditions, housing conditions, transaction conditions, purchase motives, etc. between main houses and buildings and the real estate market transaction cases, correcting their regional factor and individual factor to quantificate by correction value to calculate appraised value of houses and buildings.

Market approach basic steps: collect relevant information on transaction instances; select valid comparable market transaction instances; establish a price comparison basis; correct transaction conditions; correct transaction dates; revise regional factors; revise individual factors; obtain benchmark prices to adjust to determine the assessed value of the appraised building (or real estate).

The parking space assets within the scope of this assessment are assessed by the market approach, and the specific method shall refer to the assessment method of houses and buildings.

(2) Equipment assets – electronic equipment

According to the purpose of this evaluation, in accordance with the principle of in situ and continuous use, based on the market price, combined with the characteristics of the entrusted appraised equipment and the collection of data, mainly adopting the replacement cost method to evaluate. This assessment mainly adopts updating replacement cost. Some devices are evaluated by market approach.

Appraised value = full replacement price × newness rate

A. Determination of full replacement price of electronic equipment

It was verified that RZP Financial was a general taxpayer of value-added tax and value-added tax was deductible. Therefore, tax-exclusive price was adopted to determine the full replacement price of various equipment in this valuation.

All the equipment within the scope of valuation were office electronic equipment, which were of low value and required no installation (or the seller was responsible for the installation) and low transportation cost, and the full replacement price of such equipment was determined by reference to the purchase price in the current market.

Full replacement price = current tax-inclusive purchase price/(1 + applicable tax rate)

B. Determination of electronic equipment newness rate

In the process of this valuation, the remaining service life of equipment was estimated according to the economic service life of equipment and the results of on-site inspection, and the newness rate was calculated accordingly. The formula is as follows:

$$\text{Newness rate} = \text{remaining service life} / (\text{actual serviced years} + \text{remaining service life}) \times 100\%$$

C. Determination of appraised value

$$\text{Appraised value} = \text{full replacement price} \times \text{newness rate}$$

6. *Intangible assets*

As at the valuation reference date, the intangible assets included in the scope of this valuation were the software declared by QDP Financial, mainly including electronic bill of exchange software system, Inspur core business system, operation, maintenance and audit system, generalized credit system, etc. According to the purpose of this evaluation, in accordance with the principle of continuous use, based on market prices, and inquired through open channels for all intangible assets to determine appraisal value taking account of market conditions.

7. *Deferred tax assets*

As at the valuation reference date, deferred income tax assets were deductible temporary differences arising from provision for loan impairment and bad debts of other receivables of RZP Financial. The valuers carefully checked the consistency of deferred tax debit statements, general ledger and sub-ledger, enquired about the cause, time, original amount and contents of deferred tax debit from relevant financial personnel, consulted relevant documents. The appraised value was recognized by reference to the verified book value.

8. *Other assets*

As at the valuation reference date, other assets were mainly prepayments and other receivables. After verifying the correctness of other assets, the valuers analyzed the amount, debt time and reason, fund recovery situations, debtor's fund and credit, etc. by leveraging on historical data and investigation results. In this valuation, the valuation was determined by the verified book value deducting the appraisal risk loss.

9. Liabilities

Checked and verified the actual debtors and amounts of various liabilities as at the valuation reference date, and the appraised value was determined by reference to the actual liability items and amounts to be borne by the appraised entity as at the valuation reference date.

(III) Introduction to the Income Approach**1. Overview**

According to the Asset Valuation Practicing Standards – Enterprise Value (Zhong Ping Xie [2018] No. 38), the discounted cash flow method appraises the value of assets by discounting the expected future net cash flows of the appraised entity to a present value. The basic idea is to obtain the appraised value by estimating the expected future net cash flows of the underlying assets and converting them into a present value at an appropriate discount rate. The basic conditions for its application are: the target enterprise has the foundation and conditions for continuous operation; there is a stable correlation between its operations and income; and its future income and risks can be predicted and quantified. The greatest difficulty in using the discounted cash flow method lies in the estimation of future cash flows, and the objectivity and reliability of data collection and processing. When the estimation of future cash flows is objective and fair and the discount rate is reasonable, the valuation result will be relatively objective.

2. Valuation methodology

Based on the due diligence findings of this valuation and the characteristics of RZP Financial's asset composition and principal business, the basic idea of this valuation is to estimate the value of all shareholders' equity (net assets) based on the financial statements and profit forecast provided by the enterprise, that is, the value of the enterprise is determined by using discounted cash flow method to estimate the value of the operating assets of the enterprise based on its income sources and then adding the value of other non-operating or surplus assets as at the valuation reference date.

3. Valuation model

(1) *Basic model:*

$$E = P + C \quad (1)$$

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_{n+1}}{r(1+r)^n} \quad (2)$$

E: Value of the total shareholders' equity of the valuation subject;

P: Value of the operating assets of the valuation subject;

C: Value of surplus or non-operating assets (liabilities) of the valuation subject as at the valuation reference date;

R_i: Expected income (equity free cash flow) of the valuation subject in year *i* in the future;

r: Discount rate;

n: Future operating period of the valuation subject;

(2) *Income indicators*

In this valuation, the free cash flow of shareholders is used as the income indicator of the valuation subject, which is basically defined as:

$R = \text{net profit} - \text{increase in equity} + \text{other comprehensive income}$

The future expected free cash flows of shareholders of the appraised entity are estimated based on its operating history and future market development, combined with the restrictions on profit distribution imposed by regulatory indicators. The value of the total shareholders' equity of the appraised entity is arrived at by discounting the free cash flows of shareholders in the future operating period to present values and adding them up.

(3) *Discount rate*

In this valuation, the capital asset pricing model (CAPM) is adopted to determine the discount rate *r*

$$r = r_f + \beta_e (r_m - r_f) + \varepsilon \quad (3)$$

Where:

r_f: Risk-free rate of return;

β_e: Expected market risk factor of equity capital;

r_m: Market-expected rate of return;

$(r_m - r_f)$: Market risk premium (rpm);

ε : Adjustment coefficient for risks specific to the valuation subject.

Determination of discount rate

(i) Determination of risk-free rate

With reference to website of China Asset Evaluation Association, the yield of government bonds provided by China Central Depository & Clearing Corporation (CCDC) published on the website is as follows:

Date	Period	Interest rate %
30 September 2021	three months	1.96
	six months	2.20
	one year	2.33
	two years	2.49
	three years	2.51
	five years	2.71
	seven years	2.85
	10 years	2.88
	30 years	3.42
	40 years	3.50
	50 years	3.54

Since operation period of RZP Financial as approved is a long-term period and its income period is unlimited, pursuant to “Guidelines for Experts on Asset Evaluation No. 12 – Calculation of Discount Rate in Income Appraisal of Enterprise Value” (Zhongping Xie [2020] No. 38) (《資產評估專家指引第12號 – 收益法評估企業價值中折現率的測算》(中評協[2020]38號)), the yield to maturity of a government bond can be adopted as the risk-free interest rate. When selecting the government bond, the remaining maturity period and the cash flow period of the entity shall be matched. As such, the 50-year treasury bond yield is selected as the risk-free interest rate for this valuation, i.e. 3.54%.

(ii) Determination of market risk premium

Market risk premium refers to the expected excess of return by investors for their investment in the market with similar risks, which means risk compensation over the risk-free rate. Market risk premium can be calculated using historical market risk premium data. The valuer uses the long-term average return A share market index as the expected market return rate (r_m) and the expected market return rate over the risk-free rate is take as the market risk premium. Pursuant to the

requirement of “Guidelines for Asset Evaluation Experts No. 12 – Calculation of Discount Rate in the Evaluation of Enterprise Value by Income Appraisal” (Zhongping Xie [2020] No. 38) (《資產評估專家指引第12號 – 收益法評估企業價值中折現率的測算》(中評協[2020]38號)), the representing stock market index in the PRC shall be used when calculating the market risk premium, such as CSI 300 Index and Shanghai Securities Composite Index. To calculate the excess return on the index over a period of time, the time span can be selected for more than ten years, the data frequency can be selected from weekly or monthly, and the calculation method can be arithmetic mean or geometric mean.

According to the research on A-share market conducted by the valuer, and consolidated with the above guidelines, the representing Shanghai Composite Index was selected as the underlying index during the valuation process. The annualized to annual rate of return was calculated by the average of weekly and monthly data. The expected market rate of return was calculated after comprehensive analysis of arithmetic mean, geometric mean and harmonic mean, i.e. $r_m=10.47\%$.

$$\text{Market risk premium} = r_m - r_f = 10.47\% - 3.54\% = 6.93\%.$$

(iii) Estimated market risk factor of equity capital (β_e)

Considering there is no finance company qualified by the CBIRC which has been listed on a stock exchange, while finance companies and banks are financial institutions, and their business mode are similar. Therefore, we have selected the stocks of 21 comparable banks listed on the Shanghai Composite Index, and carved out five major banks after taking into account the comparable scale and related indicators. The valuer used the remaining 16 comparable companies to estimate the market price between 1 October 2016 to 30 September 2021. The estimated market risk factor of equity capital is 0.8545.

(iv) Adjustment coefficient for risks specific to RZP Financial (ε)

The specific risk which may arise from the differences between financing condition, capital volatility and governance structure of RZP Financial have been considered to compare with listed comparable companies, and the adjustment coefficient for risks specific to RZP Financial is 3.10%.

(v) Cost of equity capital (r_e)

The cost of equity capital (r_e) of RZP Financial is as follow:

$$\begin{aligned} r_e &= 3.54\% + 0.8545 \times (10.47\% - 3.54\%) + 3.10\% \\ &= 12.56\% \end{aligned}$$

(4) Income period

According to RZP Financial's operation situation to determine. The discount rate adopted in the valuation RZP Financial is comparable to the similar financial companies.

VIII. IMPLEMENTATION OF VALUATION PROCEDURES

The overall valuation process was carried out from 1 October 2021 to 26 October 2021. Among which, field works were conducted from 1 October 2021 to 15 October 2021. The overall valuation process was carried out in four stages:

(I) Valuation Preparation

1. On 30 September 2021, the principals held a coordination meeting with the intermediary parties involved in this project and the parties agreed on the purpose of valuation, valuation reference date, scope of valuation and other issues, and worked out a work plan for the asset valuation.
2. Collaborated with the appraised entity to take stock of assets and fill in asset declaration statements. On 1 October 2021, members of the valuation project team obtained details about the assets to be appraised, made arrangements for the asset valuation, assisted the appraised entity in the declaration of assets to be appraised, and collected documents needed for the asset valuation.

(II) On-site Verification and Identification

The on-site valuation by the project team was carried out from 8 October 2021 to 15 October 2021. The main tasks were as follows:

1. Listened to the principals and relevant personnel of the appraised entity introducing its company profile and the history and status quo of the assets within the scope of the valuation, so as to understand the appraised entity's financial system, operating conditions and technical status of fixed assets;
2. Reviewed and verified the asset declaration statements provided by the appraised entity, reconciled them with its relevant financial records, and collaborated with the appraised entity to make adjustments for the problems found;
3. Conducted on-site inspection and checks to verify physical assets based on the asset declaration statements;

4. Collected and consulted certificates of title for the assets within the scope of the valuation to check the title documents provided by the appraised entity and verify the title documents of assets; collected statistics on the defects of assets and asked the appraised entity to verify and confirm whether the assets belonged to the appraised entity and whether there were title disputes;
5. A key inspection on the operating assets and office premises of the appraised entity was conducted based on the application materials. In particular, for the financial assets declared by the entity, inspection and verification was conducted on its reconciliation statements, confirmation requests and various business contracts to confirm their existence and analyze the risks. For the entity's office premises, comprehensive verification on fixed assets were carried out based on the fixed asset ledger provided by the entity;
6. For major equipment, to understand the management system and maintenance works, technical data and other related information was inspected and collected; for general equipment, price information was collected mainly through market surveys and inquiries about relevant data;
7. For assets and liabilities within the scope of valuation, preliminary valuation and estimation was made on the basis of inspection and verification;
8. Inspection was conducted on the business types, historical operating results and operation model, etc. of the valuation subject;
9. Research was made on the current operating conditions of the entity and the development of the industry in which it has been operating;
10. Inspection was conducted on tax rates and taxation status of the appraised entity;
11. Inspection was conducted on accounts receivable and payable of the appraised entity;
12. Inspection was conducted on the audited balance sheets, income statements, cash flow statements, income statements and cost expense statements of the appraised entity in recent years;
13. Through collecting comparable peers information, industry research reports and other public materials, combined with the historical operating conditions of the entity, inspection and verification was conducted on the projected future cash flow or financial budget approved by the management, including but not limited to information on the external environment, such as the macroeconomic environment, industry development trends, geographic factors, and internal operating information, such as the development prospect of Rizhao Port on which the entity's business has

been depending, the entity's future deposit scale, deposit interest rate, lending scale, lending rate, and existing loan contracts, to evaluate the consistency between the above information and the financial budget or forecast data provided by the principals and the appraised entity;

14. The authenticity, rationality and feasibility of the financial budget or forecast data was determined through analysis, communication, discussion or adjustment made with the principals and the appraised entity;
15. According to the application materials such as future development plan and profit forecast provided by the appraised entity, discussions were held with the management personnel of the entity to reach agreement on the future development trend as far as possible;
16. The specific model and method of asset valuation was determined based on the actual conditions and characteristics of the assets to be appraised;
17. Based on the consensus reached, the valuation model was determined and the valuation results were calculated, and relevant textual descriptions were drafted.

(III) Valuation and Estimation

The preliminary results of the valuation and estimation of various assets and liabilities were analyzed and summarized, to which necessary adjustments, modifications and improvements to such valuation results were made.

This phase of work was conducted between 10 October 2021 and 18 October 2021.

(IV) Valuation Report

On the basis of the above, a preliminary asset valuation report was drafted, and opinions were exchanged with the principals on the valuation results after the preliminary review of the report. After an independent analysis of the relevant opinions, amendments and adjustments were made to the report in accordance with the appraisal agency's internal measures and procedures for review of assets valuation reports, and then the final asset valuation reports were formally issued.

This phase of work was conducted between 19 October 2021 and 26 October 2021.

IX. VALUATION ASSUMPTIONS

In this valuation, the asset valuers followed the following valuation assumptions:

(I) General Assumptions**1. Transaction assumption**

The transaction assumption is to assume that all assets to be appraised are in the process of transaction, and the asset appraiser conducts valuation in a simulated market based on the trading conditions of the assets to be appraised. Transaction assumption is the most fundamental assumption for the implementation of asset valuation.

2. Open market assumption

The open market assumption is to assume that assets traded in the market or to be traded in the market, the transactions parties are equal to each other in asset transactions, and each has the opportunity and time to obtain sufficient market information to make rational judgments on the function, use and transaction price of the assets. The open market assumption is based on the fact that assets can be bought and sold publicly in the market.

3. Asset Continuity Assumption

Asset continuity assumption refers to the assets to be evaluated should be used continuously in the course of assessment according to the current purpose, usage, scale, frequency and environment, or used on the basis of changes, and the evaluation methods, parameters and bases shall be determined accordingly.

(II) Special Assumptions

1. The assessment assumes that the external economic environment remains unchanged on the valuation assessment date, and that the country's current macro economy does not change significantly;
2. The social and economic environment in which RZP Financial is located and the policies such as taxes and tax rates implemented do not change significantly;
3. All assets in this assessment are based on the actual stock on the valuation assessment date, and the current market prices of the relevant assets are based on the effective domestic prices on the valuation assessment date;
4. This assessment assumes that the basic information and financial information provided by the principal and RZP Financial are true, accurate and complete;

5. The scope of assessment is only based on the assessment declaration form provided by RZP Financial, without considering the contingent assets or contingent liabilities that may exist outside the list provided by RZP Financial;
6. The various operating permits required for production and operation of RZP Financial will be approved as scheduled, and can continue to be obtained through applications after the expiration of the future year;
7. The income generated from the main businesses of RZP Financial mainly comes from its current operating business income and investment income, but does not consider new business that may occur;
8. The future management team of RZP Financial will fulfil its duty and continue to maintain the existing management mode to operate continuously;
9. The assessment is only based on the current business strategy, operating capabilities and operating conditions on the valuation assessment date, and does not consider changes that may be caused by changes in management in the future;
10. The remaining profits of RZP Financial will all be distributed in accordance with the relevant regulatory standards for capital adequacy ratios;
11. The business scale of the RZP Financial is limited to its existing capital scale, and does not consider the impact of possible future restructuring on the development of the business scale of RZP Financial;
12. The industry in which the assessed unit has developed steadily without material changes; and
13. The valuer does not assume any responsibility for the changes in the market, nor is it obligated to revise the valuer's valuation report for events or circumstances that occur after the valuation assessment date.

When the above conditions change, the evaluation results will generally be rendered invalid.

X. VALUATION CONCLUSION

Based on the judgment of the equity holder and the management of the entity on its future development trend and its business plans and in accordance with relevant laws and regulations and asset valuation standards, we adopted the asset-based approach and the income approach and performed necessary valuation procedures to appraise shareholders' equity of RZP Financial by conducting on-site surveys, market surveys, inquiries and verifications and evaluation calculations on the its assets as at the valuation reference date of 30 September 2021. Our conclusions are as follows:

(I) Valuation Conclusion under the Asset-based Approach

Under the asset-based approach, the valuation conclusion of RZP Financial as at the valuation reference date of 30 September 2021 are as follows:

The book value and appraised value of the assets were RMB4,794,821,900 and RMB4,796,313,600, respectively, representing a valuation appreciation of RMB1,491,700, or 0.03%.

The book value and appraised value of the liabilities were RMB3,612,060,600 and RMB3,612,060,600, respectively, with no change.

The book value and appraised value of the net assets were RMB1,182,761,300 and RMB1,184,253,000, respectively, representing a valuation appreciation of RMB1,491,700, or 0.13%. See the table below for details:

Consolidated Statement of Asset Valuation Results

Appraised entity: Rizhao Port Finance Co., Ltd. valuation reference date: 30 September 2021

		<i>Unit: RMB0,000</i>			
Items	Book value	Appraised value	Changes	Appreciation rate	
	<i>(RMB Yuan)</i>	<i>(RMB Yuan)</i>	<i>(RMB Yuan)</i>	<i>(%)</i>	
	B	C	D=C-B	E=D/B×100	
1 Cash and deposit with central bank	18,511.26	18,511.26			
2 Deposits with banks	117,423.86	117,423.86			
3 Placements with banks	19,967.57	19,967.57			

Unit: RMB0,000

Items	Book value (RMB Yuan) B	Appraised value (RMB Yuan) C	Changes (RMB Yuan) D=C-B	Appreciation rate (%) E=D/B×100
4 Loans and advances to customers	320,864.67	320,864.67		
5 Fixed assets	1,320.49	1,469.66	149.17	11.30
6 Intangible assets	27.67	27.67		
7 Deferred tax assets	1,340.76	1,340.76		
8 Other assets	25.91	25.91		
9 Total assets	479,482.19	479,631.34	149.17	0.03
10 Borrowed funds	20,001.61	20,001.61		
11 Customer deposits	339,793.43	339,793.43		
12 Employee benefits payable	121.66	121.66		
13 Net assets (owners' equity)	1,285.44	1,285.44		
14 Other liabilities	3.92	3.92		
15 Total liabilities	361,206.06	361,206.06		
16 Net assets (owner's equity)	118,276.13	118,425.30	149.17	0.13

For details of the valuation conclusions under the asset-based approach, please refer to the valuation schedule.

(II) Valuation Conclusion under the Income Approach

The discounted cash flow (DCF) method was used to assess the value of total shareholders' equity, after various valuation procedures including, among others, inspection and verification, on-site surveys, market surveys and inquiries, assessment and estimation. The book value of net assets of RZP Financial on valuation reference date of 30 September 2021 was RMB1,182,761,300, all shareholders' equity value under the valuation (net asset value) was RMB1,185,290,000, representing a valuation appreciation of RMB2,528,700, or 0.21%.

(III) Analysis of Valuation Conclusions and Selection of Final Valuation Conclusion***1. Analysis of difference between the valuation conclusions***

In this valuation, the total shareholders' equity was valued at RMB1,185,290,000 under the income approach, which was RMB1,037,000, or 0.09% higher than the appraised value of RMB1,184,253,000 under the asset-based approach. The main reasons for the difference between the two valuation approaches are:

- (1) The asset-based approach valuation is based on the cost replacement of assets as the value standard, which reflects the socially necessary labor consumed by asset input (purchase and construction costs). Such acquisition and construction costs will usually change with the national economy.
- (2) The income approach valuation is based on the expected return of the assets as the value standard, which reflects the size of the asset's operating capacity (profitability), which is usually subject to various conditions such as macroeconomics, government control and effective use of assets, and represents the intrinsic value of an enterprise.

The combination of the above has resulted in the difference between the two valuation approaches.

2. Determination of valuation conclusion

Asset-based approach valuation is based on the cost replacement of assets as the value standard, which objectively reflects the value of the net assets of the enterprise from the perspective of asset construction. However, taking into account the special natures of the financial company of the enterprise group, which has the franchise licenses for collecting and lending funds within the group, with assets managed and loans granted under entrustment being mostly off-balance sheet assets, the asset-based approach has certain limitations on the measurement of the value of franchise licenses and off-balance sheet assets of finance companies. Since the valuation conclusion under the income approach focuses on the overall profitability of the appraised entity in the future, and reflects the actual value of the enterprise by discounting the expected cash flow, the income approach can more accurately reflect the true profitability of the enterprise. By comparing the above two valuation approaches, it is believed that the valuation conclusion under income approach can more appropriately reflect the value of total shareholders' equity of RZP Financial.

Based on the above analysis and the purpose of this valuation, the income approach is selected as the final result of the valuation, pursuant to which, the value of total shareholders' equity of RZP Financial is RMB1,185,290,000.

3. Analysis of reasons for appreciation in value

The income approach is based on judgement on the overall profitability of the enterprise, and more objectively reflects the value of the enterprise and shareholders' equity. The value of RZP Financial is organically comprised by not only individual assets that can generate value, but also various intangible assets established by comprehensive factors such as its goodwill, excellent management experience, market channels, customers, and brands, and the combination of such factors results in an appreciation in the valuation.

XI. DESCRIPTION OF SPECIAL MATTERS**(I) Defects of Title**

As at the valuation reference date, we had not found any defects of title in the declared assets of RZP Financial.

(II) Mortgage, Pledge, Guarantee and Other Matters

As at the valuation reference date, we had not found any guarantee provided by RZP Financial.

(III) Uncertain Factors Such as Unresolved Issues and Legal Disputes

As at the valuation reference date, no unfinished pending issues and legal disputes have been found involving RZP Financial.

(IV) Off-balance Sheet Assets

As at the valuation reference date, the off-balance-sheet businesses of RZP Financial included entrusted loans, issuance of letter of guarantee and acceptance of bills. The details were as follows:

1. Entrusted loans

Unit: RMB0,000

No.	Borrowing unit	Contract number	Loan amount	Loan balance	Date of loan	Date of expire	Entrusted unit	Time limit	Rate of interest	Use
1	Rizhao Jinqiao Energy Saving Technology Co., Ltd.	GCSW 2020005	20,000	9,000	11 December 2020	11 December 2021	RZP Group	12 months	4.35%	Repay the loan
2	Rizhao Lingang International Logistics Co., Ltd.	GCSW 2021001	700	700	30 April 2021	28 April 2022	Rizhao Langang Real Estate Development Co., Ltd.	12 months	4.35%	Current account transferred to entrusted loan
	Total		20,700	9,700						

APPENDIX IV

SUMMARY OF THE VALUATION REPORT ON RZP FINANCIAL

2. Issuance of letter of guarantee (non-financing letter of guarantee)

Unit: RMB0,000

No.	Company name	Contract number	The letter of guarantee amount	The letter of guarantee balance	Date of issue	Date of expire	Use
1	RZP Group	GCSH 2021001	2,181.90	2,181.90	31 May 2021	30 June 2022	Performance guarantee

3. Acceptance of bills

Unit: RMB0,000

No.	Drawer name	Agreement number	Issue date of bill	Due date of bill	Acceptance of bills amount/ balance	Margin percentage	Margin amount/ balance	Commitment fee
1	Rizhao Port Machinery Engineering Co., Ltd.	Ri Cai Cheng Zi [2021] No. 007	28 April 2021	28 August 2021	430.00	10%	43.00	387.00
2	Shandong Port Industry-City Integration Development Rizhao Co., Ltd.	Ri Cai Cheng Zi [2021] No. 008	28 April 2021	28 April 2022	281.00	10%	28.10	252.90
3	Rizhao Port Marine Machinery Industry Co., Ltd.	Ri Cai Cheng Zi [2021] No. 009	27 May 2021	27 November 2021	198.00	10%	19.80	178.20
4	Rizhao Port Machinery Engineering Co., Ltd.	Ri Cai Cheng Zi [2021] No. 010	31 May 2021	30 November 2021	1,952.00	10%	195.20	1,756.80
5	Shandong Port Industry-City Integration Development Rizhao Co., Ltd.	Ri Cai Cheng Zi [2021] No. 011	27 May 2021	27 May 2022	445.80	10%	44.58	401.22
6	Rizhao Port Machinery Engineering Co., Ltd.	Ri Cai Cheng Zi [2021] No. 010	9 June 2021	30 November 2021	30.00	10%	3.00	27.00
7	Shandong Port International Trade Group Rizhao Co., Ltd.	Ri Cai Cheng Zi [2021] No. 012	16 June 2021	16 December 2021	10,000.00	10%	1,000.00	9,000.00
8	Shandong Harbor Construction Group Co., Ltd.	Ri Cai Cheng Zi [2021] No. 013	23 June 2021	23 June 2022	1,500.00	10%	150.00	1,350.00
9	Rizhao Port Machinery Engineering Co., Ltd.	Ri Cai Cheng Zi [2021] No. 014	6 July 2021	6 January 2022	3,581.00	10%	358.10	3,222.90

APPENDIX IV

SUMMARY OF THE VALUATION REPORT ON RZP FINANCIAL

No.	Drawer name	Agreement number	Issue date of bill	Due date of bill	Acceptance of bills amount/ balance	Margin percentage	Margin amount/ balance	Commitment fee
10	Shandong Port International Trade Group Rizhao Co., Ltd.	Ri Cai Cheng Zi [2021] No. 015	8 July 2021	8 January 2022	5,700.00	10%	570.00	5,130.00
11	Shandong Port Industry-City Integration Development Rizhao Co., Ltd.	Ri Cai Cheng Zi [2021] No. 016	16 July 2021	16 July 2022	320.00	10%	32.00	288.00
12	Shandong Harbor Construction Group Co., Ltd.	Ri Cai Cheng Zi [2021] No. 017	28 July 2021	28 October 2021	1,000.00	10%	100.00	900.00
13	Rizhao Port Marine Machinery Industry Co., Ltd.	Ri Cai Cheng Zi [2021] No. 018	29 July 2021	29 January 2022	281.00	10%	28.10	252.90
14	Shandong Harbor Construction Group Co., Ltd.	Ri Cai Cheng Zi [2021] No. 019	10 August 2021	10 February 2022	230.00	10%	23.00	207.00
15	Rizhao Port Machinery Engineering Co., Ltd.	Ri Cai Cheng Zi [2021] No. 020	18 August 2021	18 February 2022	215.00	10%	21.50	193.50
16	Rizhao Port Container Development Co., Ltd.	Ri Cai Cheng Zi [2021] No. 021	20 August 2021	20 February 2022	600.00	10%	60.00	540.00
17	Rizhao Port Marine Machinery Industry Co., Ltd.	Ri Cai Cheng Zi [2021] No. 022	25 August 2021	25 February 2022	462.00	10%	46.20	415.80
18	Shandong Port Industry-City Integration Development Rizhao Co., Ltd.	Ri Cai Cheng Zi [2021] No. 023	18 September 2021	18 September 2022	90.00	10%	9.00	81.00
19	Rizhao Port Marine Machinery Industry Co., Ltd.	Ri Cai Cheng Zi [2021] No. 024	28 September 2021	28 March 2022	688.00	10%	68.80	619.20
20	Shandong Harbor Construction Group Co., Ltd.	Ri Cai Cheng Zi [2021] No. 025	28 September 2021	28 March 2022	610.00	10%	61.00	549.00
21	Rizhao Port Container Development Co., Ltd.	Ri Cai Cheng Zi [2021] No. 026	29 September 2021	29 March 2022	400.00	10%	40.00	360.00
Total					29,013.80		2,901.38	26,112.42

As at the valuation reference date, there were no other off-balance-sheet assets declared except for above off-balance sheet assets.

(V) Material Subsequent Events

As at the reporting date, no material subsequent events have been found in relation to RZP Financial.

(VI) Effects from Equity Premium, Discount Factors and Liquidity

In the overall valuation of RZP Financial, the effects of equity premium and discount factors on the value of the total shareholders' equity and the effects of equity liquidity on the value of the total shareholders' equity have not been taken into consideration.

(VII) Citation of Other Reports

All valuation works of this project was performed by China United Assets Appraisal Group Co., Ltd.. Except for the carrying amounts of assets and liabilities as at the valuation reference date which were from the audit report issued by ShineWing Certified Public Accountants (Special General Partnership), no reports issued by other institutions were cited herein.

(VIII) Other Matters That Need to Be Explained

1. It is the legal responsibility of the valuers and the appraisal agency to make professional judgment on the value of the underlying assets for the purpose of valuation specified herein, which involves no judgment whatsoever by the valuers and the appraisal agency as to the economic activity concerning the purpose of valuation. To a large extent, the valuation depends on the information provided by the principals and the appraised entity. Therefore, the valuation is based on the authenticity and validity of the economic activity documents, asset ownership documents, certificates and accounting vouchers, and relevant legal documents provided by the principals and the appraised entity.
2. The principals and the appraised entity are responsible for the authenticity and completeness of the data, statements and relevant documents provided by the appraised entity, which are adopted and included in the scope of the valuation.
3. The title certificates and related documents involved in the valuation report are provided by the appraised entity and the principals and the appraised entity are responsible for their authenticity and validity.
4. During the validity period subsequent to the valuation reference date, if there is any change in the quantity and pricing standard of the underlying assets, the following principles shall be applied:
 - (1) if there is any change in the quantity of assets, the appraised value of assets shall be adjusted according to the original valuation approach;
 - (2) if there is any change in the pricing standard of assets, which greatly affects the asset valuation result, the principals shall timely engage a qualified asset appraisal agency to re-determine the appraised value;

- (3) for any changes in the quantity or pricing standard of assets subsequent to the valuation reference date, the principals shall give full consideration to such changes and make adjustments accordingly when determining the consideration for the assets.
5. The purpose of asset valuation by the valuers is to estimate the value of the appraised entity and provide professional opinions, assuming no responsibilities for decisions made by the relevant parties. The valuation conclusion shall not be deemed as the guarantee of a realizable value of the appraised entity.
6. The profit forecast of the appraised entity obtained by the appraisal agency serves as the basis of the income approach in this valuation report. The valuers have conducted necessary inquiry, analysis and judgment on the profit forecast of the appraised entity. After repeated discussions with the management and major shareholders of the appraised entity and further revision and improvement of the forecast by the appraised entity, the appraisal agency adopted the relevant data of such profit forecast. The appraisal agency's use of the appraised entity's profit forecast is not a guarantee for the future profitability of the appraised entity.
7. The conclusion of this valuation is based on the accurate judgment of the equity holder and the management of the appraised entity on its future development trend and the implementation of its business plans. If the actual operating conditions of the entity in the future deviate from its business plans, and the equity holder and its management fail to take effective measures to make up for the deviation, the valuation conclusion will change significantly.

Users of the report are advised to pay attention to the abovementioned matters.

XII. LIMITATIONS ON THE USE OF THE VALUATION REPORT

1. The valuation report shall only be used for the valuation purpose and use set out in this report. Meanwhile, the valuation conclusion in this report is purported to reflect the prevailing fair market value as determined by open market principles and for the purpose of the valuation under this report, without taking into consideration the possible impact on the valuation price from any possible collateral, pledge or security and other guarantee liabilities as well as any additional price that a special party to the transaction may pay. Furthermore, this report does not take into consideration effects on asset prices from changes in state macroeconomic policies and from natural forces and other forms of force majeure. When the above-mentioned conditions and the principle of continuous operation followed in the valuation are changed, the valuation conclusion will generally lose its validity. The appraisal agency may not be held legally responsible for such invalidity of valuation conclusion due to any change in the above-mentioned conditions.

The prerequisite for the validity of the valuation report is that the economic activity hereunder complies with any and all applicable state laws and regulations and is approved by relevant authorities.

2. This valuation report may only be used by the users of valuation report specified herein. The right to use the valuation report belongs to the principals. Without the principals' permission, we as the appraisal agency will not disclose it to others.
3. The asset valuation agency and its valuers shall not be held responsible if the principals or any other users of the asset valuation report fail to use this report in accordance with the provisions of laws and administrative regulations and within the scope of use specified herein.
4. Except for the principals, other asset valuation report users designated in the asset valuation engagement contract, and users stipulated by laws and administrative regulations, any other institution or individual may not become a user of this asset valuation report.
5. Without permission from the appraisal agency and verifying the relevant contents, all or part of the valuation report may not be copied, quoted or disclosed in public media, unless otherwise provided for by laws, regulations and otherwise agreed on by the related entrusting parties.
6. The purpose of asset valuation by the valuers is to estimate the value of the appraised entity and provide professional opinions, assuming no responsibilities for decisions made by the relevant parties. The users of the asset valuation report should correctly understand and use the valuation conclusion which does not represent the realizable price of the appraised entity and should not be regarded as a guarantee for the realizable price of the appraised entity.
7. Validity period of the valuation conclusions: In accordance with relevant laws and regulations on asset valuation, the asset valuation report involving statutory valuation business shall not be used until the principals have performed the supervision and management procedures of asset valuation as required by relevant laws and regulations. The valuation conclusion is valid for one year from the valuation reference date of 30 September 2021 to 29 September 2022. A re-valuation is required after one year.

XIII. DATE OF VALUATION REPORT

The date of this valuation report is 26 October 2021.

**APPENDIX V INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE
REPORT ON THE CALCULATIONS OF DISCOUNTED
FUTURE ESTIMATED CASH FLOWS**

The following is the text of a report received from PricewaterhouseCoopers Zhong Tian LLP, for the purpose of incorporation in this circular.



普华永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN
CONNECTION WITH THE BUSINESS VALUATION OF QINGDAO PORT FINANCE
CO., LTD.**

PwC ZT Te Shen Zi (2022) No. 1036
(Page 1 of 2)

To the Board of Directors of Qingdao Port International Co., Ltd.

We have completed our assurance engagement to report on the calculations of the discounted future estimated cash flows on which the business valuation (the “**Valuation**”) dated 26 October 2021 prepared by China United Assets Appraisal Group Co., Ltd. in respect of the appraisal of the fair value of the 100% equity interests in Qingdao Port Finance Co., Ltd. (the “**Disposal Company**”) as at 30 September 2021 is based. The Valuation is set out in Appendix III of the circular of Qingdao Port International Co., Ltd. (the “**Company**”) dated 7 February 2022 (the “**Circular**”) in connection with the proposed merger of Rizhao Port Group Finance Co., Ltd. with the Disposal Company by way of absorption and merger and the proposed capital increase of the Disposal Company. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors' Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and as set out on pages 18 to 19 of the Circular. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting Accountant's Responsibilities

It is our responsibility to report, as required by paragraph 29(2) of Appendix 1B of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Disposal Company.

普华永道中天会计师事务所 (特殊普通合伙)
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**APPENDIX V INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE
REPORT ON THE CALCULATIONS OF DISCOUNTED
FUTURE ESTIMATED CASH FLOWS**

PwC ZT Te Shen Zi (2022) No. 1036
(Page 2 of 2)

We conducted our work in accordance with the China Standard on Other Assurance Engagements No. 3101, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by Chinese Institute of Certified Public Accountant. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions as set out on pages 18 to 19 of the Circular. We reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted cash flows do not involve the adoption of accounting policies. The discounted cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 29(2) of Appendix 1B of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows, has been properly compiled in all material respects in accordance with the bases and assumptions made by the directors of the Company as set out on pages 18 to 19 of the Circular.

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
7 February 2022

CPA: Jia Na
CPA: Lv Yongzheng

**QINGDAO PORT INTERNATIONAL CO., LTD.*****青島港國際股份有限公司**

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

(Stock Code: 06198)

Dear Sir or Madam,

**Transactions contemplated under the Absorption and Merger Agreement and
Capital Increase Agreement**

Reference is hereby made to the valuation report (the “**Valuation Report**”) prepared by China United Assets Appraisal Group Co., Ltd. (the “**Valuer**”), in relation to the valuation of entire equity interest of Qingdao Port Finance Co., Ltd.* (青島港財務有限責任公司) as of the valuation assessment date (i.e. 30 September 2021). The valuation adopted the income approach, and therefore is regarded as a profit forecast (the “**Profit Forecast**”) under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We have considered various aspects of the valuation, including the bases and assumptions of preparation of the valuation, and have reviewed the valuation responsible by the Valuer. We have also considered the letter dated 7 February 2022 issued by PricewaterhouseCoopers Zhong Tian LLP, the reporting accountant, in relation to whether the Profit Forecast is properly prepared based on the assumptions set out in the Valuation Report in terms of the arithmetical accuracy of the calculations. We have noticed that the calculations in the Profit Forecast are accurate and comply with the bases and assumptions set out in the Valuation Report.

Based on the above, we believe the Profit Forecast is made after due and careful enquiry.

By order of the Board
Qingdao Port International Co., Ltd.
SU Jianguang
Chairman