THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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.

山东港口 SHANDONG PORT GROUP | 青岛港国际股份有限公司 QINGDAO PORT INTERNATIONAL CO.,LTD.

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) PROPOSED CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS
(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS
(3) PROPOSED CONTINUING CONNECTED TRANSACTIONS
(4) PROPOSED CHANGES IN THE USE OF PROCEEDS FROM THE H SHARE PLACING
(5) PROPOSED ELECTION OF DIRECTORS IN THE FOURTH SESSION OF THE BOARD
AND
NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING OF 2022

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

TC CAPITAL

A letter from the Board is set out on pages 10 to 60 of this circular. A letter from the Independent Board Committee is set out on pages 61 to 62 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 63 to 99 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, 23 December 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 18 November 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, 22 December 2022). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

18 November 2022

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

"2023 COSCO SHIPPING Goods and Services Agreement"	the goods and services framework agreement dated 28 October 2022 entered into between the Company and COSCO SHIPPING in relation to (i) the sales of goods and services by the Group to the COSCO SHIPPING Group; (ii) the purchase of goods and services by the Group from the COSCO SHIPPING Group; and (iii) the provision of asset lease services by the Group to the COSCO SHIPPING Group
"2023 SDP Financial Services Agreement"	the financial services framework agreement dated 28 October 2022 entered into between the Company and Shandong Port Group in relation to the provision of financial services by Shandong Port Group to the Group
"2023 SDP Goods and Services Agreement"	the goods and services framework agreement dated 28 October 2022 entered into between the Company and Shandong Port Group in relation to (i) the purchase of goods and services by the Group from Shandong Port Group; (ii) the sales of goods and services by the Group to Shandong Port Group; (iii) the provision of asset lease services by Shandong Port Group to the Group; and (iv) the provision of asset lease services by the Group to Shandong Port Group
"A Share(s)"	share(s) with a nominal value of RMB1.00 each issued by the Company which are listed on the main board of the Shanghai Stock Exchange (stock code: 601298) and traded in RMB
"Absorption and Merger"	the transaction contemplated under the absorption and merger agreement entered into among Shandong Port Group, the Company, Qingdao Port Finance, Rizhao Port Co., Ltd.* (日照港股份有限公司) and Rizhao Port Group Finance Co., Ltd.* (日照港集團財務有限公司) on 25 January 2022, comprising of the acquisition of Rizhao Port Group Finance Co., Ltd. and disposal of Qingdao Port Finance
"Board"	the board of Directors

"CBIRC"	China Banking and Insurance Regulatory Commission* (中國銀行保險監督管理委員會)
"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"	China COSCO Shipping Corporation Limited* (中國遠洋海運集團有限公司), a limited liability company incorporated in the PRC on 5 February 2016, is the ultimate controlling shareholder of COSCO SHIPPING Ports Limited* (中遠海運港口有限公司) and Shanghai China Shipping Terminal Development Co., Ltd.* (上海中海碼頭發展有限公司). As at the Latest Practicable Date, COSCO Shipping indirectly held approximately 21% equity interests in the Company and is a substantial shareholder and connected person of the Company
"COSCO SHIPPING Group"	COSCO SHIPPING and its subsidiaries, and for the purpose of this circular, also including its associates
"Credit Services"	the provision of credit services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement from time to time (including Unsecured Credit Services and Secured Credit Services)
"Deposit Services"	the Group may from time to time deposit money with Shandong Port Group under the 2023 SDP Financial Services Agreement
"Director(s)"	the director(s) of the Company
"EGM"	the 2022 second 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, 23 December 2022
"Framework Agreements"	the 2023 SDP Goods and Services Agreement and the 2023 SDP Financial Services Agreement

"Gratuitous Transfer"	the gratuitous transfer of 51% equity interests in Qingdao Port Group by the 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) to Shandong Port Group
"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 main board of the Hong Kong Stock Exchange and are traded in Hong Kong dollars
"H Share Placing"	the Company issued 243,000,000 H Shares by way of placing and has been listed on the main board of the Hong Kong Stock Exchange
"Haiye Oil Terminal"	Qingdao Haiye Oil Terminal Co., Ltd.* (青島海業油碼頭有限公司)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"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 recommendations to the Independent Shareholders in respect of (a) (i) the Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; and (ii) the Shandong Port Equipment Group Capital Increase Agreement and the transaction contemplated thereunder; (b) the purchase of goods and services by the Group from Shandong Port Group and the sales of goods and services by the Group to Shandong Port Group under the 2023 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (c) the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (d) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement and the proposed annual cap contemplated thereunder
"Independent Shareholders"	the Shareholders other than Qingdao Port Group and its associates and/or the Shareholders other than COSCO SHIPPING and its associates, as the case may be
"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 Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement
"Latest Practicable Date"	15 November 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"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)

"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 Capital Increase" or "Shandong Port Equipment Group Capital Increase"	the transaction contemplated under the Shandong Port Equipment Group Capital Increase Agreement
"Proposed Changes"	the proposed changes in the use of proceeds from the H Share Placing
"Proposed Share Transfer" or "Qingdao Port Equipment Share Transfer"	the transaction contemplated under the Qingdao Port Equipment Share Transfer Agreement
"Qingdao Port Equipment"	Qingdao Port Equipment Manufacturing Co., Ltd.* (青島港口裝備製造有限公司), a limited liability company incorporated in the PRC on 16 November 2020, is a wholly-owned subsidiary of the Company before the Qingdao Port Equipment Share Transfer and Shandong Port Equipment Group Capital Increase
"Qingdao Port Equipment Share Transfer Agreement"	the share transfer agreement dated 28 October 2022 entered into between the Company and Shandong Port Equipment Group, in relation to the transfer of 51% equity interests in Qingdao Port Equipment by the Company to Shandong Port Equipment Group
"Qingdao Port Finance"	Qingdao Port Finance Co., Ltd.* (青島港財務有限責任公司), a company established on 22 July 2014 in the PRC with limited liability and a subsidiary jointly established by the Company (holding 70% equity interests) and Qingdao Port Group (holding 30% equity interests) as at the Latest Practicable Date, which is mainly engaged in the provision of depository services, credit granting services, financial and financing advisory services, credit assurance and relevant consulting and agency services; trade receivables collection and payment services; internal fund transfer and settlement and formulation of proposals for the corresponding settlement and clearing services and other financial services to Qingdao Port Group and its member companies

"Qingdao Port Finance Capital Increase"	the transaction contemplated under the capital increase agreement entered into among Shandong Port Group, the Company, Rizhao Port Co., Ltd.* (日照港股份有限公司) and Shandong Port Financial Holdings Limited* (山東港口金融控股有限公司, now known as Shandong Port Investment Holdings Limited* (山東港口投資控股有限公司)) on 25 January 2022 in relation to increase the registered capital of Qingdao Port Finance from RMB2,000 million to RMB2,567.6624 million
"Qingdao Port Group"	Shandong Port Qingdao Port Group Co., Ltd.* (山東港口青島港集團有限公司), a company established on 12 August 1988 in the PRC with limited liability, the controlling shareholder of the Company, holding approximately 55.77% equity interests in the Company as at the Latest Practicable Date
"Qingdao Port International Trade Equity Transfer"	the transaction contemplated under the equity transfer agreement entered into between Qingdao Port International Logistics Co., Ltd.* (青島港國際物流有限公司) and Shandong Port Land-Sea International Logistics Group Co., Ltd.* (山東港口陸海國際物流集團有限公司), pursuant to which, Qingdao Port International Logistics Co., Ltd. agreed to transfer 11% equity interests in Qingdao Port International Trade Logistics Co., Ltd.* (青島港國際貿易物流有限公司) to Shandong Port Land-Sea International Logistics Group Co., Ltd.
"Reference Date"	the date on which the appraised value is determined in the valuation reports for Shandong Port Equipment Group and Qingdao Port Equipment, which is 28 February 2022
"Rizhao Port Group"	Shandong Port Rizhao Port Group Co., Ltd.* (山東港口日照港集團有限公司), a company established in the PRC with limited liability on 24 February 2004 and a wholly-owned subsidiary of Shandong Port Group
"RMB"	Renminbi, the lawful currency of PRC
"Secured Credit Services"	the provision of finance lease services (assets as collateral) and commercial factoring Services (accounts receivable as collateral) by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shandong Huide"	Shandong Huide Asset Appraisal Co., Ltd.* (山東匯德資產評估有限公司), an independent asset appraisal company
"Shandong Port Equipment Group"	Shandong Port Equipment Group Co., Ltd.* (山東港口裝備集團有限公司), a company established in the PRC with limited liability on 27 March 2020. As at the Latest Practicable Date, Shandong Port Group, Rizhao Port Group and Yantai Port Group hold 66.86%, 31.61% and 1.53% equity interests in Shandong Port Equipment Group, respectively
"Shandong Port Equipment Group Capital Increase Agreement"	the share capital increase agreement dated 28 October 2022 entered into among the Company, Shandong Port Group, Rizhao Port Group, Yantai Port Group and Shandong Port Equipment Group, in relation to Shandong Port Equipment Group Capital Increase
"Shandong Port Group"	Shandong Port Group Co., Ltd.* (山東省港口集團有限公司), a company established on 2 August 2019 in PRC with limited liability with Shandong SASAC as the actual controller, holding 100% equity interests in Qingdao Port Group as at the Latest Practicable Date, when references are made to connected transactions, also including its subsidiaries and associates (if applicable)
"Shandong SASAC"	the 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)
"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 advise to the Independent Board Committee and the Independent Shareholders on (a) (i) the Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; and (ii) the Shandong Port Equipment Group Capital Increase Agreement and the transaction contemplated thereunder; (b) the purchase of goods and services by the Group from Shandong Port Group and the sales of goods and services by the Group to Shandong Port Group under the 2023 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (c) the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (d) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement and the proposed annual cap contemplated thereunder
"Unsecured Credit Services"	the provision of loan services, entrusted loan services, bill acceptance and discount services, issuance of letter of credit, letter of guarantee and financing guarantee services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement
"Weihai Port Development Equity Transfer"	the transaction contemplated under the equity transfer agreement dated 16 May 2022 entered into between Shandong Port Weihai Port Co., Ltd.* (山東港口威海港有限公司) and the Company, pursuant to which, the Company agreed to acquire 51% equity interests in Shandong Weihai Port Development Co., Ltd.* (山東威海港發展有限公司) from Shandong Port Weihai Port Co., Ltd.
"Yantai Port Group"	Shandong Port Yantai Port Group Co., Ltd.* (山東港口煙台港集團有限公司), a company established in PRC with limited liability on 27 November 1984 and a wholly-owned subsidiary of Shandong Port Group

"Zhong Ping Heng Xin"	Shandong Zhong Ping Heng Xin Asset Appraisal Co., Ltd.* (山東中評恒信資產評估有限公司), an independent asset appraisal company
"%"	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.

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 Director:
Mr. SU Jianguang *(Chairman)*

Non-executive Directors:
Mr. LI Wucheng *(Vice Chairman)*
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

18 November 2022

To the Shareholders,

Dear Sir or Madam,

(1) PROPOSED CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS
(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS
(3) PROPOSED CONTINUING CONNECTED TRANSACTIONS
(4) PROPOSED CHANGES IN THE USE OF PROCEEDS FROM THE H SHARE PLACING
AND
(5) PROPOSED ELECTION OF DIRECTORS IN THE FOURTH SESSION OF THE BOARD

I. INTRODUCTION

We refer to four announcements of the Company all dated 28 October 2022, in relation to, among other things, (i) the Qingdao Port Equipment Share Transfer Agreement and the Shandong Port Equipment Group Capital Increase Agreement and the transactions contemplated thereunder; (ii) the 2023 SDP Goods and Services Agreement and the transactions contemplated thereunder (including the proposed annual caps); (iii) the 2023 SDP Financial Services Agreement and the transactions contemplated thereunder (including the proposed annual caps); (iv) the 2023 COSCO SHIPPING Goods and Services Agreement and the transactions contemplated thereunder (including the proposed annual caps); (v) the proposed changes in the use of proceeds from the H Share Placing; and (vi) proposed election of Directors in the fourth session of the Board.

The purposes of this circular are, among other matters:

(1) to provide details in respect of the Qingdao Port Equipment Share Transfer Agreement and Shandong Port Equipment Group Capital Increase Agreement;

(2) to provide details in respect of the 2023 SDP Goods and Services Agreement and the proposed annual caps for the year ending 31 December 2023;

(3) to provide details in respect of the 2023 SDP Financial Services Agreement and the proposed annual caps for the year ending 31 December 2023;

(4) to provide details in respect of the 2023 COSCO SHIPPING Goods and Services Agreement and the proposed annual caps for the year ending 31 December 2023;

(5) to set out the recommendations from the Independent Board Committee in respect of (a) (i) the Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; and (ii) the Shandong Port Equipment Group Capital Increase Agreement and the transaction contemplated thereunder; (b) the purchase of goods and services by the Group from Shandong Port Group and the sales of goods and services by the Group to Shandong Port Group under the 2023 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (c) the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (d) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement and the proposed annual cap contemplated thereunder;

(6) to set out the advice from TC Capital in respect of (a) (i) the Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; and (ii) the Shandong Port Equipment Group Capital Increase Agreement and the transaction contemplated thereunder; (b) the purchase of goods and services by the Group from Shandong Port Group and the sales of goods and services by the Group to Shandong Port Group under the 2023 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (c) the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (d) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement and the proposed annual cap contemplated thereunder;

(7) to provide details in respect of the proposed changes in the use of proceeds from the H Share Placing;

(8) to provide details in respect of the proposed election of Directors in the fourth session of the Board; and

(9) to provide the Shareholders with other information required under the Hong Kong Listing Rules.

II. PROPOSED CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS

1. The Proposed Share Transfer and the Proposed Capital Increase

On 28 October 2022 (after trading hours), (i) the Company entered into the Qingdao Port Equipment Share Transfer Agreement with Shandong Port Equipment Group, and (ii) the Company entered into the Shandong Port Equipment Group Capital Increase Agreement with Shandong Port Group, Rizhao Port Group, Yantai Port Group and Shandong Port Equipment Group, pursuant to which, the Company agreed to make a registered capital contribution of RMB89,056,445 to Shandong Port Equipment Group by transferring 51% equity interests in Qingdao Port Equipment, the wholly-owned subsidiary of the Company, at the consideration of RMB101,488,725, in exchange for 16.56% equity interests of the enlarged share capital in Shandong Port Equipment Group, and the investment premium of RMB12,432,280 shall be regarded as capital reserves of Shandong Port Equipment Group. The Qingdao Port Equipment Share Transfer Agreement and the Shandong Port Equipment Group Capital Increase Agreement are interconditional to each other.

As at the Latest Practicable Date, Qingdao Port Equipment is a wholly-owned subsidiary of the Company. After the completion of the Qingdao Port Equipment Share Transfer, it will be owned as to 49% and 51% equity interests by the Company and Shandong Port Equipment Group, respectively. Qingdao Port Equipment will cease to be a subsidiary of the Company, and the financial statements of Qingdao Port Equipment will not be consolidated into the financial statements of the Company.

As at the Latest Practicable Date, Shandong Port Group, Rizhao Port Group and Yantai Port Group hold 66.86%, 31.61% and 1.53% equity interests in Shandong Port Equipment Group, respectively. After the completion of the Shandong Port Equipment Group Capital Increase, Shandong Port Group, Rizhao Port Group, the Company and Yantai Port Group will hold 55.79%, 26.37%, 16.56% and 1.28% equity interests in Shandong Port Equipment Group, respectively. The financial statements of Shandong Port Equipment Group will not be consolidated into the financial statements of the Company.

Details of the Qingdao Port Equipment Share Transfer Agreement are set out as below:

Date:	28 October 2022 (after trading hours)
Parties:	(1) the Company (as the transferor); and (2) Shandong Port Equipment Group (as the transferee).
Subject of the Transaction:	51% equity interests in Qingdao Port Equipment
Consideration:	The consideration for the 51% equity interests in Qingdao Port Equipment is RMB101,488,725, which was determined after negotiations on an arm's length basis between signing parties to the agreement with reference to the appraised value of RMB198.9975 million for 100% equity interests in Qingdao Port Equipment as at the Reference Date. The valuation report was prepared by Zhong Ping Heng Xin on the basis of income approach. As at the Reference Date, the book value of 100% equity interests in Qingdao Port Equipment was RMB116.6464 million with an appraisal appreciation of RMB82.3511 million as compared with the appraised value in the valuation report.
Closing Date:	The date of completion of the industrial and commercial change registration of the Qingdao Port Equipment Share Transfer. Both the transferor and the transferee shall cooperate with Qingdao Port Equipment to complete the industrial and commercial change registration procedures and other relevant registration procedures within 30 working days after the effect of the Qingdao Port Equipment Share Transfer Agreement.
Arrangements of credits and debts:	Upon the completion of the Qingdao Port Equipment Share Transfer, the credits or debts of Qingdao Port Equipment shall continue to be enjoyed and borne by itself.

Taxes and Fees: Taxes payable due to the transaction of the Qingdao Port Equipment Share Transfer shall be paid according to relevant national regulations.

Fees payable due to the transaction of the Qingdao Port Equipment Share Transfer shall be borne by the responsible parties unless otherwise agreed in the Qingdao Port Equipment Share Transfer Agreement.

Transition Period: Any profits or loss of Qingdao Port Equipment accrued between 1 March 2022 and the closing date shall be attributed to the Company. As of and after the closing date, the profits or loss of Qingdao Port Equipment shall be owned by the Company and Shandong Port Equipment Group in proportion to their respective shareholding in Qingdao Port Equipment.

The following table sets out the shareholding structure of Qingdao Port Equipment prior to and upon completion of the Proposed Share Transfer:

Name of shareholders	**Equity Interests in Qingdao Port Equipment Prior to the Proposed Share Transfer**	**Equity Interests in Qingdao Port Equipment Upon Completion of the Proposed Share Transfer**
	(%)	*(%)*
The Company	100.00	49.00
Shandong Port Equipment Group	–	51.00
Total	100.00	100.00

Details of the Shandong Port Equipment Group Capital Increase Agreement are set out as below:

Date: 28 October 2022 (after trading hours)

Parties:

(1) Shandong Port Group (as one of the existing shareholders);

(2) Rizhao Port Group (as one of the existing shareholders);

(3) Yantai Port Group (as one of the existing shareholders);

(4) the Company (as the subscriber); and

(5) Shandong Port Equipment Group (as the issuer).

Subject of the Transaction: 16.56% equity interests of the enlarged share capital in Shandong Port Equipment Group

Consideration: The Company agreed to make a registered capital contribution of RMB89,056,445 to Shandong Port Equipment Group by transferring 51% equity interests in Qingdao Port Equipment, the wholly-owned subsidiary of the Company, at the consideration of RMB101,488,725, in exchange for 16.56% equity interests of the enlarged share capital in Shandong Port Equipment Group, and the investment premium of RMB12,432,280 shall be regarded as capital reserves of Shandong Port Equipment Group.

The total subscription amount of the registered capital by the Company is RMB89,056,445, which was determined after negotiations on an arm's length basis among signing parties to the agreement with reference to the appraised value of RMB511.3229 million for 100% equity interests in Shandong Port Equipment Group. The valuation report was prepared by Shandong Huide on the basis of an asset-based approach.

As at the Reference Date, the book value of 100% equity interests in Shandong Port Equipment Group was RMB446.2636 million with an appraisal appreciation of RMB65.0593 million as compared with the appraised value in the valuation report.

Payment Arrangement: The consideration of RMB101,488,725 shall be paid by way of transferring 51% equity interests in Qingdao Port Equipment by the Company to Shandong Port Equipment Group, and the investment premium of RMB12,432,280 shall be regarded as capital reserves of Shandong Port Equipment Group.

Closing Date: The date of completion of the industrial and commercial change registration of the Shandong Port Equipment Group Capital Increase.

Shandong Port Equipment Group is responsible for the procedure of the industrial and commercial change registration of the Shandong Port Equipment Group Capital Increase and bears the relevant expenses thereunder.

All parties shall cooperate with Shandong Port Equipment Group to complete the industrial and commercial change registration procedure.

Arrangements of assets, liabilities and interests: As at the date of completion of the industrial and commercial registration of changes, all the assets, liabilities and interests of the Shandong Port Equipment Group shall all continue to be enjoyed and borne by itself upon the Proposed Capital Increase.

Expenses: The expenses incurred by the parties hereto in connection with the Proposed Capital Increase, including but not limited to capital verification fees, audit fees, valuation fees and legal fees, etc., shall be borne by the responsible parties unless otherwise agreed in the Shandong Port Equipment Group Capital Increase Agreement.

Transition Period: Any profits or loss of Shandong Port Equipment Group accrued between 1 March 2022 and the closing date shall be attributed to Shandong Port Group, Rizhao Port Group and Yantai Port Group. As of and after the closing date, the profits or loss of Shandong Port Equipment Group shall be owned by the Company, Shandong Port Group, Rizhao Port Group and Yantai Port Group in proportion to their respective shareholding in Shandong Port Equipment Group.

The following table sets out the shareholding structure of Shandong Port Equipment Group prior to and upon completion of the Proposed Capital Increase:

	Prior to the Proposed Capital Increase		**Upon completion of the Proposed Capital Increase**	
Name of shareholders	**Equity interests in Shandong Port Equipment Group** *(%)*	**Amount of capital contribution** *(RMB Yuan)*	**Equity interests in Shandong Port Equipment Group** *(%)*	**Amount of capital contribution** *(RMB Yuan)*
Shandong Port Group	66.86	300,000,000.00	55.79	300,000,000.00
Rizhao Port Group	31.61	141,806,455.97	26.37	141,806,455.97
The Company	–	–	16.56	89,056,445.00
Yantai Port Group	1.53	6,876,004.20	1.28	6,876,004.20
Total	100.00	448,682,460.17	100.00	537,738,905.17

2. Hong Kong Listing Rules Implications in Relation to the Proposed Share Transfer and the Proposed Capital Increase

The transactions under the Qingdao Port Equipment Share Transfer Agreement and the Shandong Port Equipment Group Capital Increase Agreement involve both a disposal and an acquisition of the Company.

(1) In respect of the Proposed Share Transfer

As Shandong Port Group is an indirect controlling shareholder of the Company, and Shandong Port Equipment Group is owned as to 66.86% equity interests by Shandong Port Group, Shandong Port Group is therefore a connected person of the Company and Shandong Port Equipment Group is an associate of Shandong Port Group and a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Accordingly, the Qingdao Port Equipment Share Transfer constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratio (as defined under the Hong Kong Listing Rules) of the Qingdao Port Equipment Share Transfer is more than 0.1% but less than 5%, the Qingdao Port Equipment Share Transfer is subject to the reporting and announcement but exempt from the circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

However, pursuant to Rule 14A.81 of the Hong Kong Listing Rules, the Qingdao Port Equipment Share Transfer shall be aggregated with (a) (i) the Absorption and Merger (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0206/2022020600103.pdf); and (ii) the Qingdao Port Finance Capital Increase (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0206/2022020600103.pdf), both of which involved the disposal of certain equity interests in Qingdao Port Finance; and (b) the Qingdao Port International Trade Equity Transfer (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0810/2022081000644.pdf), which involved the disposal of 11% equity interests in Qingdao Port International Trade Logistics Co., Ltd.* (青島港國際貿易物流有限公司).

After aggregation of (i) the Qingdao Port Equipment Share Transfer; (ii) the disposal of Qingdao Port Finance; and (iii) the Qingdao Port International Trade Equity Transfer, the highest applicable percentage ratio (as defined under the Hong Kong Listing Rules) was still less than 75%. However, the Qingdao Port Equipment Share Transfer, when aggregated with the Qingdao Port International Trade Equity Transfer, would constitute a discloseable transaction and a connected transaction of the Company under the Hong Kong Listing Rules as the highest applicable percentage ratio (as defined under the Hong Kong Listing Rules) exceeds 5% but less than 25%, which are subject to reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Hong Kong Listing Rules.

(2) In respect of the Proposed Capital Increase

As Shandong Port Group 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) Shandong Port Equipment Group is owned as to 66.86% equity interests by Shandong Port Group; (ii) Rizhao Port Group is a wholly-owned subsidiary of Shandong Port Group; and (iii) Yantai Port Group is a wholly-owned subsidiary of Shandong Port Group, therefore Shandong Port Equipment Group, Rizhao Port Group and Yantai Port Group are associates of Shandong Port Group and connected persons of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Accordingly, the Shandong Port Equipment Group Capital Increase constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratio (as defined under the Hong Kong Listing Rules) of the Shandong Port Equipment Group Capital Increase is more than 0.1% but less than 5%, the Shandong Port Equipment Group Capital Increase is subject to the reporting and announcement but exempt from the circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

However, pursuant to Rule 14A.81 of the Hong Kong Listing Rules, the Shandong Port Equipment Group Capital Increase shall be aggregated with (i) the Absorption and Merger, which involved the acquisition of Rizhao Port Group Finance Co., Ltd.* (日照港集團財務有限公司); and (ii) the Weihai Port Development Equity Transfer (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0516/2022051600974.pdf), which involved the acquisition of 51% equity interests in Shandong Weihai Port Development Co., Ltd.* (山東威海港發展有限公司).

After the aggregation of (i) the Shandong Port Equipment Group Capital Increase; (ii) the acquisition of Rizhao Port Group Finance Co., Ltd.* (日照港集團財務有限公司); and (iii) the Weihai Port Development Equity Transfer, the highest applicable percentage ratio (as defined under the Hong Kong Listing Rules) is still less than 25%. However, the Shandong Port Equipment Group Capital Increase, when aggregated with the Weihai Port Development Equity Transfer, would constitute a discloseable transaction and a connected transaction of the Company under the Hong Kong Listing Rules as the highest applicable percentage ratio (as defined under the Hong Kong Listing Rules) exceeds 5% but less than 25%, which are subject to reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Hong Kong Listing Rules.

Therefore, the transactions contemplated under the Qingdao Port Equipment Share Transfer Agreement and the Shandong Port Equipment Group Capital Increase Agreement constitute a discloseable transaction and a connected transaction of the Company, which are subject to reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14 and 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 Qingdao Port Equipment Share Transfer Agreement and the Shandong Port Equipment Group 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 Qingdao Port Equipment Share Transfer Agreement and the Shandong Port Equipment Group Capital Increase Agreement and the transactions contemplated thereunder.

3. 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 Group and its joint ventures mainly provide handling and ancillary services of container, iron ore, coal, crude oil and other goods, logistics and port value-added services, port ancillary services and financial services.

Information of Qingdao Port Equipment

Qingdao Port Equipment is a company established in the PRC with limited liability on 16 November 2020, with a registered capital of RMB100 million. It is mainly engaged in port equipment manufacturing, engineering construction, maintenance and repair and other business.

As at the Latest Practicable Date, Qingdao Port Equipment is a wholly-owned subsidiary of the Company. After the completion of the Qingdao Port Equipment Share Transfer, it will be owned as to 49% and 51% equity interests by the Company and Shandong Port Equipment Group, respectively. Qingdao Port Equipment will cease to be a subsidiary of the Company, and the financial statements of Qingdao Port Equipment will not be consolidated into the financial statements of the Company.

Set out below is the summary of the financial information of Qingdao Port Equipment for the year ended 31 December 2021. The financial information was audited in accordance with PRC Accounting Standards for Business Enterprises.

	For the year ended 31 December 2021 *(RMB Yuan)*
Net profit before taxation	2,712,585.68
Net profit after taxation	2,838,257.88

Note: Qingdao Port Equipment was established in November 2020, and its financial data of 2020 was not referential.

Information of Shandong Port Equipment Group

Shandong Port Equipment Group is a company established in the PRC with limited liability in March 2020, with a registered capital of RMB448,682,460.17. It is mainly engaged in port equipment manufacturing, marine equipment manufacturing, ship repairing and other businesses, with the ability to undertake large, non-standard, batch port equipment production capacity.

As at the Latest Practicable Date, Shandong Port Group, Rizhao Port Group and Yantai Port Group hold 66.86%, 31.61% and 1.53% equity interests in Shandong Port Equipment Group, respectively. After the completion of the Shandong Port Equipment Group Capital Increase, Shandong Port Group, Rizhao Port Group, the Company and Yantai Port Group will hold 55.79%, 26.37%, 16.56% and 1.28% equity interests in Shandong Port Equipment Group, respectively. The financial statements of Shandong Port Equipment Group will not be consolidated into the financial statements of the Company.

Set out below is the summary of the consolidated financial information of Shandong Port Equipment Group for the two years ended 31 December 2021. The financial information was audited in accordance with PRC Accounting Standards for Business Enterprises.

	For the year ended 31 December 2020 *(RMB Yuan)*	**For the year ended 31 December 2021** *(RMB Yuan)*
Net profit before taxation	19,284,546.69	10,593,496.61
Net profit after taxation	19,281,040.43	2,227,964.44

Note: The net profit before taxation of Shandong Port Equipment Group decreased by approximately 45.1% to approximately RMB10.6 million in 2021 as compared to that in 2020. Such decrease was mainly attributable to the increase in the asset impairment losses resulting from Shandong Port Equipment Group's adoption of a new accounting policy under the PRC Accounting Standards for Business Enterprises in 2021. The net profit after taxation of Shandong Port Equipment Group decreased by approximately 88.4% to approximately RMB2.2 million in 2021 as compared to that in 2020. Such decrease was mainly due to the year-on-year increment of taxation in 2021 because the income tax in 2020 was offset by the tax loss carried forward from the previous year. Such adjustment also resulted in a significant difference between the net profit before and after taxation for 2021. The Directors are of the view that such adjustment is a normal accounting behaviour.

Information of Shandong Port Group

Shandong Port Group, an existing shareholder of Shandong Port Equipment Group and an indirect controlling shareholder of the Company, is a company established in the PRC with limited liability in August 2019, with a registered capital of RMB30 billion. It is mainly engaged in port operation management, port industry investment, port infrastructure construction, port 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 Shandong Port Group is Shandong SASAC.

Information of Rizhao Port Group

Rizhao Port Group, an existing shareholder of Shandong Port Equipment Group and a wholly-owned subsidiary of Shandong Port Group, is a company established in the PRC with limited liability in February 2004, with a registered capital of RMB5,000 million. It is mainly engaged in port operation, port industry investment, port infrastructure construction, port and shipping supporting services and other businesses. As at the Latest Practicable Date, the ultimate beneficial owner of Rizhao Port Group was Shandong SASAC.

Information of Yantai Port Group

Yantai Port Group, an existing shareholder of Shandong Port Equipment Group and a wholly-owned subsidiary of Shandong Port Group, is a company established in the PRC with limited liability in November 1984, with a registered capital of RMB6,000 million. It is mainly engaged in port operation, domestic cargo transportation agency, international cargo transportation agency, import and export agency, import and export of goods, import and export of technology, non-residential real estate leasing, housing leasing, labour services, engineering management services and other businesses. As at the Latest Practicable Date, the ultimate beneficial owner of Yantai Port Group was Shandong SASAC.

4. Reasons for and Benefits of the Proposed Share Transfer and the Proposed Capital Increase

Shandong Port Equipment Group specializes in port equipment manufacturing, marine equipment manufacturing, ship repairing and other businesses. Leveraging on the larger platform and better opportunities brought by the integration reform of the ports of Shandong Province, Shandong Port Equipment Group has a good technical reserve and has a strong synergy effect with Qingdao Port Equipment in terms of market, customers and technology. The Proposed Share Transfer and the Proposed Capital Increase will not only be conducive to promoting Shandong Port Equipment Group and Qingdao Port Equipment to achieve resource sharing and complementary advantages, expand the market and enhance competitiveness, but also be able to resolve the horizontal competition within Shandong Port Group and help create good returns for the Company and the Shareholders. In addition, the Proposed Share Transfer and the Proposed Capital Increase enable the Company to further focus on its main business while sharing the investment income generating from the continuous development of the expanded Shandong Port Equipment Group. Shandong Port Equipment Group did not declare any dividend since its establishment in 2020. As a start-up company, it is more commercially reasonable for Shandong Port Equipment Group to retain an adequate level of working capital to continue its business operation while supporting the accelerated growth of its business. The Company may receive capital gain and dividend in accordance with relevant provisions of the PRC company law and the operating results of Shandong Port Equipment Group following the expansion of Shandong Port Equipment Group's business scale in the future.

5. Financial Impact of the Proposed Share Transfer and Proposed Capital Increase

Upon the completion of the Proposed Share Transfer and the Proposed Capital Increase, (i) Qingdao Port Equipment will cease to be a subsidiary of the Company, and its financial statements of Qingdao Port Equipment will not be consolidated into the financial statements of the Company; and (ii) the financial statements of Shandong Port Equipment Group will not be consolidated into the financial statements of the Company.

The Company is expected to record a one-off gain of approximately RMB82.3511 million, which is calculated and determined based on the proceeds from the disposal and the cost of equity interests to be disposed.

6. Valuation on Qingdao Port Equipment

Zhong Ping Heng Xin, an independent valuer, performed independent valuation in respect of 100% equity interests in Qingdao Port Equipment. The appraised value for 100% equity interests in Qingdao Port Equipment as at the Reference Date was RMB198.9975 million, which was determined based on the income method adopted in the valuation report and took into account the cash flow projection of the relevant businesses, and as such, the valuation under the valuation report on Qingdao Port Equipment 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 method in the valuation, methods and assumptions adopted by Zhong Ping Heng Xin, valuation scope and results.

The assumptions contained in the valuation report on Qingdao Port Equipment are as follows:

A. General Assumptions

1. Transaction assumption

The transaction assumption assumes that all assets to be appraised are in the process of transaction, and the valuers conduct the valuation based on a simulated market according the transaction conditions, etc. of the assets to be appraised.

2. Open market assumption

The open market assumption is an assumption about the conditions of the market for proposed asset to enter and what kind of influence the asset will receive under such market conditions. The open market refers to the fully developed and perfect market conditions, which is a competitive market with voluntary buyers and sellers. In this market, buyers and sellers have equal status and have the opportunity and time to obtain sufficient market information. Both buyers and sellers conduct their transactions under voluntary, rational, non-mandatory or unrestricted conditions.

3. Continuous use assumption

The continuous use assumption is an assumption about the conditions of the market for proposed asset to enter and the asset status under such market conditions. First, the appraised assets are in use status. Second, it is assumed that the assets in use will continue to be used. Under the assumption of continuous use, the scope of use of the appraisal results is limited without considering the conversion of the use of assets or the best use conditions.

4. Going concern assumption for the enterprise

The appraisal assumption made by taking the overall assets of the enterprise as the appraisal object. That is, the enterprise, as the main body of operation, will continue to operate under the external environment in accordance with the business objectives. The enterprise operator is responsible and capable of assuming the responsibility. The enterprise operates legally and can obtain appropriate profits to maintain its continuous operation ability.

5. Data authenticity assumption

As for the information and materials provided by the client and relevant parties on the basis of the appraisal conclusion, the asset appraiser assumes that these are credible and has made necessary verification according to the appraisal procedure, but the asset appraiser does not make any guarantee for the authenticity, legality and integrity of these information and materials.

B. Special Assumptions

1. There are no material changes in the relevant prevailing laws regulations and policies of the State and the macroeconomic situation of the State, there are no material changes in the political, economic and social environment of the regions where the parties to this transaction are located; and there are no material adverse effects caused by other unpredictable and force majeure factors.

2. It is assumed that the operator of the company is responsible and the company's management is capable to shoulder its duties.

3. Unless otherwise stated, it is assumed that the company is fully subject to all relevant laws and regulations.

4. It is assumed that the accounting policies to be adopted by the company in the future are basically consistent with the accounting policies adopted in the preparation of the valuation report in material aspects.

5. It is assumed that the business scope and mode of the company are consistent with the current direction based on the existing management mode and management level.

6. There are no material changes in interest rates, exchange rates, tax bases and tax rates, and policy-based levies.

7. It is assumed that the enterprise forecast annual cash flow will be generated evenly.

8. It is assumed that the products or services of the enterprise will maintain the current market competition after the Reference Date.

9. According to Cai Shui [2021] No. 13, if the research and development expenses actually incurred in the research and development activities of manufacturing enterprises do not form intangible assets and are included in the current profits and losses, on the basis of actual deduction according to regulations, from 1 January 2021, 100% of the actual amount will be added and

deducted before tax. The document does not specify the implementation expiration date, and will continue to be implemented in the absence of a new policy document. Therefore, the appraisal is based on the assumption that the incentive and preferential policies will continue to be implemented.

10. The lease contracts for major assets such as and materials warehouse, office building, plant and land of Qingdao Port Equipment are signed with the connected parties, the Company and Qingdao Port Group, both of which will expire on 31 December 2022. As Qingdao Port Equipment is a wholly-owned subsidiary of the Company and an indirect holding subsidiary of Qingdao Port Group, given the operation needs of Qingdao Port Equipment, it needs to lease the above assets continuously, therefore the appraisal is based on the assumption that the contract will be renewed after the expiration of the lease contract.

After reviewing on the valuation report and taking into account (i) that Zhong Ping Heng Xin has prepared the valuation report based on procedures, standards, laws and regulations of the PRC on valuation; (ii) that Zhong Ping Heng Xin has reviewed the financial data, operating data and other relevant data in relation to Qingdao Port Equipment to understand such company comprehensively; and (iii) the reasons for adoption of the income method in the valuation, methods and assumptions adopted by Zhong Ping Heng Xin, valuation scope and valuation results, the Directors believe the valuation results reflect the value of Qingdao Port Equipment and are fair and reasonable.

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 Qingdao Port Equipment set out in the valuation report on Qingdao Port Equipment 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.

7. Valuation on Shandong Port Equipment Group

Shandong Huide, an independent valuer, performed independent valuation in respect of 100% equity interests in Shandong Port Equipment Group. The appraised value for 100% equity interests in Shandong Port Equipment Group as at the Reference Date was RMB511.3229 million. The valuation report was prepared on the basis of asset-based method, among which Shandong Huide applied asset-based method to appraise Rizhao Port Ship Machinery Industry Co., Ltd.* (日照港船機工業有限公司) and Yantai Haigang Motor Vehicle Comprehensive Performance Testing Co., Ltd.* (煙台海港機動車綜合性能檢測有限公司). Shandong Huide applied income method to appraise Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司), Rizhao Port Machinery Engineering Co., Ltd.* (日照港機工程有限公司) and Shandong Luhai Heavy Industry Co., Ltd.* (山東陸海重工有限公司), all being subsidiaries of Shandong Port Equipment Group.

As the income method was determined by taking into account the cash flow projection of the relevant businesses, and as such, the valuation under the valuation reports on Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司), Rizhao Port Machinery Engineering Co., Ltd.* (日照港機工程有限公司) and Shandong Luhai Heavy Industry Co., Ltd.* (山東陸海重工有限公司) constitutes profit forecasts under Rule 14.61 of the Hong Kong Listing Rules. Summary of the valuation report is set out in Appendix IV to this circular, including the reasons for adoption of the asset-based method used by Shandong Port Equipment Group and adoption of the income method used by Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司), Rizhao Port Machinery Engineering Co., Ltd.* (日照港機工程有限公司) and Shandong Luhai Heavy Industry Co., Ltd.* (山東陸海重工有限公司) in the valuation, methods and assumptions adopted by Shandong Huide, valuation scope and results.

The assumptions contained in the valuation report on Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司), Rizhao Port Machinery Engineering Co., Ltd.* (日照港機工程有限公司) and Shandong Luhai Heavy Industry Co., Ltd.* (山東陸海重工有限公司) are as follows:

A. General Assumptions

1. Transaction assumption

The transaction assumption assumes that all assets to be appraised are in the process of transaction, and the valuers conduct the valuation based on a simulated market using the transaction conditions of the assets to be appraised. The transaction assumption is the most fundamental premise for asset valuation.

2. Open market assumption

The open market assumption assumes that both parties to an asset transaction or a proposed asset transaction in the market are in equal position and have opportunities and time to obtain sufficient market information, so as to make rational judgments on the functions, purposes and transaction prices of the assets. The open market assumption is based on the fact that assets can be publicly traded in the market.

3. Going concern assumption for the enterprise

The going concern assumption for the enterprise assumes that the appraised enterprise operates in a legal manner and there will be no unforeseeable factors that will render it unable to operate as a going concern.

B. Special Assumptions

1. As a basic assumption and premise, this valuation is based on the specific valuation purpose(s) as stated in the asset valuation report.

2. Assumption of no material change: It is assumed that there are no material changes in the relevant prevailing laws and regulations of the State and the macroeconomic situation of the State, and there are no unforeseeable material changes in the external economic environment such as interest rates, exchange rates, tax bases and tax rates, and policy-based levies.

3. Assumption of no adverse impact: It is assumed that there are no other force majeure factors and unforeseeable factors that will have a material adverse impact on the assets and liabilities to be appraised of the appraised entity.

4. Assumption of consistent direction: It is assumed that the business scope and mode of the appraised entity are consistent with the current direction in terms of the existing management mode and management level, without taking into account the changes in operation capacity that may be caused by the adjustment of management and operation strategy in the future.

5. Assumption of consistent policies: It is assumed that the accounting policies to be adopted by the appraised entity in the future are basically consistent with the accounting policies adopted at the time this report is being prepared in all material aspects.

6. Assumption of continuous use of assets: It is assumed that the appraised assets will continue to be used in accordance with the current use and the mode, scale, frequency and environment of use, without taking into account the respective optimal use of each asset.

7. Assumption of data authenticity: It is assumed that the financial reports and transaction data of the comparable companies relied on by the valuers are true and reliable. The relevant basic information and financial information provided by the appraised entity and the client are true, accurate and complete.

8. Assumption of stable cash flow: It is assumed that the net cash flow of each appraised entity is evenly distributed every year.

9. The scope of valuation is only based on the valuation declaration form provided by the appraised entity, without taking into account the contingent assets and contingent liabilities that may exist outside the list provided by the appraised entity.

After reviewing on the valuation report and taking into account (i) that Shandong Huide has prepared the valuation report based on procedures, standards, laws and regulations of the PRC on valuation; (ii) that Shandong Huide has reviewed the financial data, operating data and other relevant data in relation to Shandong Port Equipment Group to understand such company comprehensively; (iii) the reasons for adoption of the asset-based method in the valuation of the Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司) and Yantai Haigang Motor Vehicle Comprehensive Performance Testing Co., Ltd.* (煙台海港機動車綜合性能檢測有限公司); (iv) the reasons for the adoption of the income method to appraise Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司), Rizhao Port Machinery Engineering Co., Ltd.* (日照港機工程有限公司) and Shandong Luhai Heavy Industry Co., Ltd. (山東陸海重工有限公司) in the valuation; and (v) methods and assumptions adopted by Shandong Huide, valuation scope and valuation results, the Directors believe the valuation results reflect the value of Shandong Port Equipment Group and are fair and reasonable.

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 Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司), Rizhao Port Machinery Engineering Co., Ltd.* (日照港機工程有限公司) and Shandong Luhai Heavy Industry Co., Ltd.* (山東陸海重工有限公司) set out in the valuation report on Shandong Port Equipment Group 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.

III. PROPOSED CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS

On 28 October 2022 (after trading hours), the Company entered into the 2023 SDP Goods and Services Agreement and the 2023 SDP Financial Services Agreement with Shandong Port Group.

1. 2023 SDP Goods and Services Agreement

A. Principal terms

Date	28 October 2022 (after trading hours)
Parties:	(1) the Company; and (2) Shandong Port Group.
Terms:	Without prejudice to the representations and warranties made by the parties and subject to the completion of relevant legal procedures, the 2023 SDP Goods and Services Agreement will come into effect from 1 January 2023 till 31 December 2023.
Transaction type:	*Purchase of goods and services by the Group from Shandong Port Group* The Group purchases goods and services from Shandong Port Group, including but not limited to, products such as port machinery, vessels, etc., and services such as construction engineering, comprehensive logistic services, information technology, etc. The Group has the discretion to decide whether or not to purchase goods and services from Shandong Port Group. *Sales of goods and services by the Group to Shandong Port Group* The Group sells goods and services to Shandong Port Group, including but not limited to, products such as work clothes, equipment and accessories, etc., and services such as stevedoring, transportation, tugboat, property and supply of electricity, etc.

Provision of asset lease services by the Group to Shandong Port Group

The Group leases assets to Shandong Port Group, including but not limited to land and houses, etc.

Provision of asset lease services by Shandong Port Group to the Group

The Group leases assets from Shandong Port Group, including but not limited to land, houses, equipment and facilities, etc.

Pricing policy: The pricing policies for each of the goods and services under the 2023 SDP Goods and Services Agreement shall be determined in accordance with relevant laws and regulations, by reference to the market prices of both parties being offered to independent third parties for the purchases or provision of the similar goods or services in the same category of the local region on normal commercial terms during the ordinary course of business, and on a fair and reasonable basis. 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 the 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 both parties after arm's length negotiation.

In particular, detailed pricing policies for the primary goods and services under the 2023 SDP Goods and Services Agreement are set out as below:

Goods and Services Involved	**Pricing Policy**
Purchase of goods and services by the Group from Shandong Port Group	
Port machinery, vessels, etc.	To be determined through public bidding if the requirements of statutory bidding are met. To be determined by referring to the historical purchase price and the prevailing market price through fair negotiation between both parties if it fails to meet the statutory bidding requirements.
Construction engineering services	To be determined through public bidding or based on inquiry in the open market.
Comprehensive logistics service	To be determined with reference to the prevailing market price after arms' length negotiation and taking into consideration the requirements from the customers on comprehensive logistic services, including timing, quality and destination of the cargoes, etc.
Information Technology, etc.	To be determined with reference to the prevailing market price after arms' length negotiation.

Note: The prevailing market price refers to the reference price determined by the Group by obtaining the quotations of no less than three suppliers providing same or similar goods and services in the same category of the local region.

Open market inquiry means that the Group will make an inquiry to no less than three suppliers providing the same or similar goods and services in the same category of the local region.

Sales of goods and services by the Group to Shandong Port Group	
Work clothes, equipment and accessories, etc.	To be determined with reference to approximately 10% mark-up above cost of providing the goods and services of no less than margins set for the independent customer for similar goods and services.

Stevedoring, transportation services, property services	To be determined with reference to the market price according to the following procedures: 1. the department responsible for relevant business will determine an internal charging standard with references to the industry standard, market condition and the Company's business strategy; 2. the relevant departments and subsidiaries will negotiate with the client based on the above-mentioned internal charging standard; and 3. the department responsible for relevant business will review the final price agreed with the client to ensure the price is fair and reasonable.
Tugboat services	To be determined in accordance with the Measures of Port Charges and Calculations (《港口收費計費辦法》) promulgated by the Ministry of Transport and the NDRC, with reference to the government guided price.
Supply services of electricity	To be determined with reference to approximately 10% mark-up above cost of providing the services of no less than margins set for the independent customer for similar services.

Asset lease services provided by the Group to Shandong Port Group/Shandong Port Group to the Group

Asset lease	To be determined with reference to the rental of the same or similar kinds of assets located in similar areas as well as the historical rental of such assets after arms' length negotiation.

B. Proposed annual caps

The table below sets out the historical annual caps for the year ending 31 December 2022, together with the actual transaction amounts for the nine months ended 30 September 2022 and the proposed annual caps for the year ending 31 December 2023 in respect of (i) the purchase of goods and services by the Group from Shandong Port Group; (ii) the sales of goods and services by the Group to Shandong Port Group; (iii) the provision of asset lease services by the Group to Shandong Port Group; and (iv) the provision of asset lease services by Shandong Port Group to the Group under 2023 SDP Goods and Services Agreement.

Transaction type	Historical annual caps for the year ending 31 December 2022/ actual transaction amount for the nine months ended 30 September 2022 *(RMB million)*	Proposed annual caps for the year ending 31 December 2023 *(RMB million)*
Purchase of goods and services by the Group from Shandong Port Group	3,600/1,430	9,000
Sales of goods and services by the Group to Shandong Port Group	1,800/1,190	2,400
Provision of asset lease services by the Group to Shandong Port Group	20/7.42	40
Provision of asset lease services by Shandong Port Group to the Group	300/110	350

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

Purchase of goods and services by the Group from Shandong Port Group

(i) the historical amounts of such transactions between the Group and Shandong Port Group for the nine months ended 30 September 2022 was approximately RMB1,430 million. As foreign trade business accounts for approximately 80% of the Group's overall port business while according to the industry practice, the fourth quarter is the traditional peak season for the foreign trade business as the transaction amount of the Group's purchase of products and services from Shandong Port Group in the fourth quarter of 2021 accounted for approximately 36% of the annual transaction amount, which is significantly higher than the average of the previous three quarters. Therefore, the transaction size is expected to increase significantly in the fourth quarter of 2022. As such, the Group's demands for the purchase of goods and services from Shandong Port Group in the fourth quarter will be significantly larger than the average of the first three quarters;

(ii) according to the Group's business plan, the Group will adjust the operation mode of its liquid bulk business, thereby may increase the transaction scale of subcontracting business to Shandong Port Group with an estimated transaction value of RMB4,000 million for the year ending 31 December 2023;

(iii) In May 2022, NDRC and the ministry of transport held a press conference to promote the implementation of major transportation projects in the 14th five-year plan. In response, the Group formulate its investment plan aiming at seizing policy empowerment to improve its market share in the transportation industry. Under such investment plan, the Group's total investment amount in 2023 will increase by approximately 40% compared to the previous year, and will accelerate the construction of key projects including liquid chemical terminals, multi-purpose berths and grains silos to further boost port handling capacity. As such, the scale of the transaction that the Group is expected to purchase goods and services from Shandong Port Group, including services such as construction engineering and products such as ports machinery will be remarkable for the year ending 31 December 2023; and

(iv) as the Group's business expands, it is expected that the scale of connected transactions between the Group and Shandong Port Group will continue to increase in line with the Group's increasing demand for products and services.

Sales of goods and services by the Group to Shandong Port Group

(i) the historical amounts of such transactions between the Group and Shandong Port Group for the nine months ended 30 September 2022 was approximately RMB1,190 million. As most transactions will be settled at the end of this year, the transaction size is expected to increase significantly in the fourth quarter of 2022. Based on market conditions, the fourth quarter is the traditional peak season for the foreign trade business, for instance, the transaction amount of the Group's sales of products and services to Shandong Port Group in the fourth quarter of 2021 accounted for approximately 30% of the annual transaction amount, which is significantly higher than the average of the previous three quarters. As the Group is a key player in foreign trade business among coastal ports of China, Shandong Port Group's demands for the purchase of goods and services from the Group in the fourth quarter will be significantly larger than the average of the first three quarter; and

(ii) in order to expand development scope, it is expected that the transaction scale of the Group's provision of stevedoring and logistics services, etc., to Shandong Port Group will increase significantly in 2023.

Provision of asset lease services by the Group to Shandong Port Group

(i) the historical amounts of such transactions between the Group and Shandong Port Group for the nine months ended 30 September 2022 was approximately RMB7.42 million, and it is expected that such transactions will continue in 2023; and

(ii) it is expected that the scale of land, buildings and other assets leased by the Group to Shandong Port Group will be expanded in 2023.

Provision of asset lease services by Shandong Port Group to the Group

(i) the historical amounts of such transactions between the Group and Shandong Port Group for the nine months ended 30 September 2022 was approximately RMB110 million; and

(ii) it is expected that the scale of land, buildings, infrastructure and other assets leased by the Group from Shandong Port Group will be expanded in 2023.

C. Reasons for and Benefits of Entering into the 2023 SDP Goods and Services Agreement

The Company has entered into a goods and services framework agreement with Shandong Port Group in 2022. Please refer to the announcements of the Company dated 25 January 2022 and 25 February 2022 and the circular of the Company dated 7 February 2022 for details. After the completion of the Gratuitous Transfer, Shandong Port Group becomes an indirect controlling shareholder of the Company and the transactions between the Group and Shandong Port Group constitute connected transactions of the Company. Given the transactions between the Group and Shandong Port Group will be continuing, the Company shall enter into the 2023 SDP Goods and Services Agreement with Shandong Port Group to regulate the transactions in accordance with the requirements under the Hong Kong Listing Rules.

The Group and Shandong Port Group have extensive cooperation in multiple business areas, with strong complementarity, mutual understanding, efficient communication, collaboration and 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 Board considers that the purchase of goods and services by the Group from Shandong Port Group under the 2023 SDP Goods and Services Agreement will not result in the Group's reliance on Shandong Port Group, due to the following reasons:

1. the Group has independent access to sources of suppliers for the operation of its business while it also has the right to make operational decisions and implement such decisions independently. As stipulated under the 2023 SDP Goods and Services Agreement, the Group has the discretion to decide whether or not to purchase goods and services, either from independent third parties or from Shandong Port Group;

2. Given (i) the relationship between the Group and Shandong Port Group has been established for a long term; and (ii) the mutual benefits for the Group and Shandong Port Group to maintain such reciprocal relationship, the Group's business relationship with Shandong Port Group is unlikely to be materially adversely changed or terminated. While the Group continues to purchase

certain goods and services from Shandong Port Group, such goods and services can be sourced from alternative independent third parties at comparable prices. Further, the Group will conduct market price comparison before choosing the appropriate suppliers in accordance with its pricing policy and will only purchase goods and services from Shandong Port Group when Shandong Port Group offers a more favorable commercial terms than those offered by independent third parties; and

3. the Group has adopted various measures to ensure the pricing for the goods and services provided by Shandong Port Group are fair and reasonable, details of which are set out at the paragraph headed "3. Measures to Ensure Compliance with the Hong Kong Listing Rules and Internal Control Measures" below.

The Directors (including the independent non-executive Directors) are of the view that the 2023 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. 2023 SDP Financial Services Agreement

A. Principal terms

Date: 28 October 2022 (after trading hours)

Parties:
(1) the Company; and
(2) Shandong Port Group.

Terms: Without prejudice to the representations and warranties made by the parties and subject to the completion of relevant legal procedures, the 2023 SDP Financial Services Agreement will come into effect from 1 January 2023 till 31 December 2023.

Transaction type:

(1) Deposit Services

The provision of Deposit Services by Shandong Port Group to the Group.

(2) Credit Services, including:

(i) Unsecured Credit Services

The provision of loan services, entrusted loan services, bills acceptance and discounting, issuance of letter of credit, letter of guarantee and financing guarantee services by Shandong Port Group to the Group.

(ii) *Secured Credit Services*

The provision of finance lease services (assets as collateral) and commercial factoring services (accounts receivable as collateral) by Shandong Port Group to the Group.

(3) Intermediary Services

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

Pricing policy: The pricing policies on provision of specific financial services by Shandong Port Group to the Group shall be determined in accordance with the principles below:

Deposit Services

Shandong Port 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 independent third parties in the service location or adjacent areas in the normal course of business for such types of deposit services.

Credit Services

Shandong Port 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 Shandong Port 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.

B. Proposed annual caps

The table below sets out the historical annual caps for the year ending 31 December 2022, together with the maximum outstanding balance as at 30 September 2022 and/or the historical transaction volume for the nine months ended 30 September 2022 and the proposed annual caps for the year ending 31 December 2023 in respect of (i) the Deposit Services, (ii) the Credit Services, and (iii) the Intermediary Services provided by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement.

Transaction Type	**Historical annual caps for the year ending 31 December 2022** *(RMB million)*	**Maximum outstanding balance as at 30 September 2022/ historical transaction volume for the nine months ended 30 September 2022** *(RMB million)*	**Proposed annual caps for the next year ending 31 December 2023** *(RMB million)*
Deposit Services	20,000	13,028	18,000
Credit Services	16,000	4,874	18,000
among which:			
Secured Credit Services	4,000	1,090	3,000
Unsecured Credit Services	12,000	3,784	15,000
Intermediary Services	20	1.6	20

In arriving at the proposed annual caps mentioned above, 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:

(i) the maximum outstanding balance of the deposits of the Group as at 30 September 2022 deposited with Qingdao Port Finance was approximately RMB13,028 million;

(ii) it is expected that in 2023, the Group's deposits in external commercial banks that may be converted into deposits with Qingdao Port Finance amounted to approximately RMB1,100 million. However, the Group will only obtain Deposit Services from Qingdao Port Finance when the rates and terms for the Deposit Services offered by the Qingdao Port Finance are more favorable than those offered by the external commercial banks. The Group may monitor the prevailing market rates and terms regarding Deposit Services from time to time and convert the deposits in accordance with the Group's pricing policy and relevant internal control measures to maximize the Group's commercial interest; and

(iii) 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 2023 and such cash generated will be deposited with Qingdao Port Finance in 2023.

Credit Services

The proposed annual caps for Credit Services were determined after considering the factors below:

(i) the maximum outstanding balance of credit services as at 30 September 2022 was approximately RMB4,874 million;

(ii) it is expected that the demand of loan services from Shandong Port Group to replace the existing loan offered by external commercial banks will be approximately RMB2,900 million;

(iii) it is expected that crude oil depot, liquid chemical storage project, terminal construction projects and other infrastructure projects invested in Dongjiakou port area by the Group will require large capital, thereby increasing demand for additional loan services in 2023; and

(iv) in order to increase capital gains and meet the liquidity demand for capital turnover, the Group has a continuous and stable demand for credit services such as bill acceptance and working capital loans.

Intermediary Services

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

(i) the historical transaction volume for the nine months ended 30 September 2022 was approximately RMB1.6 million; and

(ii) it is expected that the scale of the intermediary services will increase due to the further expansion of the business scope and the foreign exchange business scale of the Group.

C. Reasons for and benefits of entering into the 2023 SDP Financial Services Agreement

The Company has entered into a financial services framework agreement with Shandong Port Group in 2022. Please refer to the announcements of the Company dated 25 January 2022 and 25 February 2022 and the circular of the Company dated 7 February 2022 for details. After the completion of the Gratuitous Transfer, Shandong Port Group has become an indirect controlling shareholder of the Company and the transactions between the Group and Shandong Port Group constitute connected transactions of the Company. Given the transactions between the Group and Shandong Port Group will be continuing, the Company shall enter into the 2023 SDP Financial Services Agreement with Shandong Port Group to regulate the transactions in accordance with the requirements under the Hong Kong Listing Rules.

Compared with independent third parties, related companies engaged in financial services of Shandong Port 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, after the completion of Absorption and Merger and Qingdao Port Finance Capital Increase, Qingdao Port Finance will be a subsidiary of Shandong Port Group and will cease to be a subsidiary of the Company. Therefore, Qingdao Port Finance will be a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules. Accordingly, the Deposit Services constitute continuing connected transactions of the Company. Nevertheless, the Company will still hold 34.63% equity interests in Qingdao Port Finance and will be financially benefited from the financial performance of Qingdao Port Finance. In addition, the Group has adopted various measures and guidelines to monitor the risk of Deposit Services under the 2023 SDP Financial Services Agreement. As per the articles of association of Qingdao Port Finance, the shareholders of Qingdao Port Finance undertake to provide more funding to Qingdao Port Finance in light of its actual needs to address payment difficulties in the event that Qingdao Port Finance experiences any urgent payment difficulties. For more information, please refer to the paragraph headed "3. Measures to Ensure Compliance with the Hong Kong Listing Rules and Internal Control Measures" below.

The Directors (including the independent non-executive Directors) are of the view that 2023 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.

3. 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.

2023 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 2023 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 2023 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 2023 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 2023 SDP Goods and Services Agreement; (ii) on normal commercial terms or better; (iii) no more favorable than terms offered to independent third parties by the Company or no less favorable than terms offered by independent third parties to the Company (if applicable); and (iv) in accordance with the 2023 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 2023 SDP Financial Services Agreement.

2023 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 2023 SDP Financial Services Agreement from Shandong Port Group:

(i) the financial management department of the Group would obtain interests and rates for the Deposit Services and the 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 financial management 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 financial management department of the Group confirms that the rates and terms in respect of relevant services offered by Shandong Port Group are in compliance with the criteria referred to in paragraph (v) below, the financial management 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 the 2023 SDP Financial Services Agreement and the assessment criteria referred to in paragraph (v) below; and

(v) assessment criteria: the financial management department of the Group would compare relevant interests and rates for the Deposit Services and the Intermediary Services (if applicable) and rates and terms for the Credit Services offered by Shandong Port 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 favorable than the interest, rates for the Deposit Services and the 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 Shandong Port Group.

Internal control measures

The deposit placed with Shandong Port 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 Qingdao Port Finance:

(i) as a shareholder of Qingdao Port Finance, the Company is entitled to understand the operation conditions and financial conditions, read and copy the financial reports of Qingdao Port Finance by having access to its financial accounting report, such that the Company may monitor the operation conditions and financial conditions of Qingdao Port Finance at any time and respond to possible barriers to the recovery in time;

(ii) Qingdao Port Finance only provides financial related services to the internal member entities within Shandong Port Group. Qingdao Port Finance 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 Qingdao Port Finance;

(iii) since the inception of Qingdao Port Finance, Qingdao Port Finance has not previously defaulted on any repayment obligation;

(iv) the corporate governance, internal control, risk management, economic function and support to its customers of Qingdao Port Finance is subject to be reviewed and assessed 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 safeguarded;

(v) the articles of association of Qingdao Port Finance requires that the shareholders of Qingdao Port Finance shall provide a written undertaking to provide more funding and assistance to Qingdao Port Finance in light of its actual needs to address payment difficulties in the event that Qingdao Port Finance experiences any urgent payment difficulties; and

(vi) Shandong Port Group, being the controlling shareholder of Qingdao Port Finance after the completion of (a) the Absorption and Merger; and (b) the Qingdao Port Finance Capital Increase, maintains strong financial condition (i.e., its total assets as at 31 December 2021 was approximately RMB231,928.70 million, its net assets value as at 31 December 2021 was approximately RMB100,910.81 million, revenue generated by Shandong Port Group for the year ended 31 December 2021 was approximately RMB83,982.72 million and it recorded net profits for the year ended

31 December 2021 of approximately RMB5,271.94 million. The Directors are of the view that Shandong Port Group, being the controlling shareholder of Qingdao Port Finance after the completion of (a) the Absorption and Merger; and (b) the Qingdao Port Finance Capital Increase, has good operation conditions and strong profitability, and will be able to honor its obligation under the written undertaking as mentioned in (v) above to support the liquidity of Qingdao Port Finance.

Apart from the mechanism of the assessment criteria regarding the pricing of the financial 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 Shandong Port 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 departments in charge of the production business, financial management, legal and compliance, auditing and connected transactions of the Company 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 2023 SDP Goods and Services Agreement and the 2023 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 2023 SDP Goods and Services Agreement and the 2023 SDP Financial Services Agreement and safeguard the interests of the Shareholders as a whole.

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 2023 SDP Goods and Services Agreement and the 2023 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 2023 SDP Goods and Services Agreement and the 2023 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 financing 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 Group 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 2023 SDP Goods and Services Agreement and the 2023 SDP Financial Services Agreement and ensure that the terms of the specific agreements under the 2023 SDP Goods and Services Agreement and the 2023 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.

4. Hong Kong Listing Rules Implications in Relation to the Framework Agreements

2023 SDP Goods and Services Agreement

As Shandong Port Group 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 2023 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 Shandong Port Group; and (ii) the sales of goods and services by the Group to Shandong Port Group under the 2023 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 the annual caps of each of (i) the provision of asset lease services by Shandong Port Group to the Group; and (ii) the provision of asset lease services by the Group to Shandong Port Group under the 2023 SDP Goods and Services Agreement exceeds 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.

2023 SDP Financial Services Agreement

As Shandong Port Group 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 2023 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 Shandong Port Group as set out in the 2023 SDP Financial Services Agreement exceed 25%, the Deposit Services in respect of the 2023 SDP Financial Services Agreement and the proposed annual cap contemplated thereunder are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Deposit Services in respect of the 2023 SDP Financial Services Agreement and the transactions contemplated thereunder also constitute a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules.

(ii) Credit Services

As the Unsecured Credit Services received by the Group from Shandong Port Group under the 2023 SDP Financial Services Agreement are on normal commercial terms which are similar to or more favorable 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 Unsecured Credit 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 one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the proposed annual cap of Secured Credit Services received by the Group from Shandong Port Group as set out in the 2023 SDP Financial Services Agreement exceed 5% but less than 25%, the Secured Credit Services in respect of the 2023 SDP Financial Services Agreement and the proposed annual cap contemplated thereunder are subject to the reporting, announcement, circular, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Secured Credit Services in respect of the 2023 SDP Financial Services Agreement and the proposed annual cap contemplated thereunder also constitute discloseable transactions of the Company under Chapter 14 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 Shandong Port Group as set out in the 2023 SDP Financial Services Agreement exceed 0.1% but less than 5%, such transactions and the 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 Shandong Port Group and the sales of goods and services by the Group to Shandong Port Group under the 2023 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (ii) the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement and the respective 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 Shandong Port Group and the sales of goods and services by the Group to Shandong Port Group under the 2023 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (ii) the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder.

IV. PROPOSED CONTINUING CONNECTED TRANSACTIONS

On 28 October 2022 (after trading hours), the Company entered into the 2023 COSCO SHIPPING Goods and Services Agreement with COSCO SHIPPING.

1. 2023 COSCO SHIPPING Goods and Services Agreement

A. Background and general information of COSCO SHIPPING

COSCO SHIPPING is a state-owned enterprise wholly-owned by the State-owned Assets Supervision and Administration Commission of the State Council in the PRC. COSCO SHIPPING is one of the largest container shipping companies in the world. The business layout of COSCO SHIPPING mainly focuses on shipping, logistics, finance and equipment manufacturing. As at the Latest Practicable Date, COSCO SHIPPING indirectly holds approximately 21% equity interests in the Company.

B. Principal terms

Date: 28 October 2022 (after trading hours)

Parties:
(i) the Company; and
(ii) COSCO SHIPPING.

Terms: Without prejudice to the representations and warranties made by the parties and subject to the completion of the relevant legal process, the 2023 COSCO SHIPPING Goods and Services Agreement will come into effect from 1 January 2023 till 31 December 2023.

Transaction type: *Sales of goods and services by the Group to the COSCO SHIPPING Group*

The Group shall sell goods and services to the COSCO SHIPPING Group, including but not limited to, products such as fuel oil (retail), water, electricity, accessories, etc., and comprehensive port services such as stevedoring, logistics, etc.

Purchase of goods and services by the Group from the COSCO SHIPPING Group

The Group shall purchase goods and services from the COSCO SHIPPING Group, including but not limited to, products such as fuel oil (wholesale), and services such as sea freight, freight forwarding, freight station, etc.

Provision of asset lease services by the Group to the COSCO SHIPPING Group

The Group shall lease assets to the COSCO SHIPPING Group, including but not limited to, houses, sites, mechanical equipment, etc.

Pricing policy: The pricing policies for each of the goods and services under the 2023 COSCO SHIPPING Goods and Services Agreement shall be determined in accordance with relevant laws and regulations, by reference to the market prices of both parties being offered to independent third parties for the purchases or provision of the similar goods or services in the same category of the local region on normal commercial terms during the ordinary course of business, and on a fair and reasonable basis. 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 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 both parties after arm's length negotiation.

In particular, detailed pricing policies for the primary goods and services under the 2022 COSCO SHIPPING Goods and Services Agreement are set out as below:

Goods and Services Involved	**Pricing Policy**
Sales of goods and services by the Group to the COSCO SHIPPING Group	
Fuel oil (retail)	In accordance with the national fuel oil price promulgated by and published on the website of the NDRC from time to time.
Electricity and water supply services	To be determined with reference to approximately 10% mark-up above cost of providing the goods and services of no less than margins set for the independent customer for similar goods and services.

Stevedoring services and logistic services	To be determined with reference to the market price according to the following procedures: 1. the department responsible for relevant business will determine an internal charging standard with references to the industry standard, market condition and the Company's business strategy; 2. the relevant departments and subsidiaries will negotiate with the client based on the above-mentioned internal charging standard; and 3. the department responsible for relevant business will review the final price agreed with the client to ensure the price is fair and reasonable.

Purchase of goods and services by the Group from the COSCO SHIPPING Group

Fuel oil (wholesale)	To be determined based on inquiry in the open market.
Sea freight, freight forwarding, and freight station services	To be determined with reference to the prevailing market price after arms' length negotiation and taking into consideration the requirements from the customers on shipping services, including shipping schedule and port of destination of the customers.

Note: The prevailing market price refers to the reference price determined by the Group by obtaining the quotations of no less than three suppliers providing same or similar goods and services in the same category of the local region.

Open market inquiry means that the Group will make an inquiry to no less than three suppliers providing the same or similar goods and services in the same category of the local region.

Asset lease services provided by the Group to the COSCO SHIPPING Group

Asset lease	To be determined with reference to the rental of the same or similar kinds of assets located in similar areas as well as the historical rental of such assets after arms' length negotiation.

C. Proposed annual caps

The table below sets out the historical annual caps, together with the actual transaction amounts for the two years ended 31 December 2021, the historical annual caps for the year ending 31 December 2022, together with actual transaction amounts for the nine months ended 30 September 2022, and the proposed annual caps for the year ending 31 December 2023 in respect of (i) the sales of goods and services by the Group to the COSCO SHIPPING Group; (ii) the purchase of goods and services by the Group from the COSCO SHIPPING Group; and (iii) the provision of asset lease services by the Group to the COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement.

Transaction type	**Historical annual caps/actual transaction amounts for the two years ended 31 December**		**Historical annual caps for the year ending 31 December 2022/actual transaction amounts for the nine months ended 30 September**	**Proposed annual caps for the year ending 31 December**
	2020	**2021**	**2022**	**2023**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
Sales of goods and services by the Group to the COSCO SHIPPING Group	910/609	1,005/691	1,110/673	1,500
Purchase of goods and services by the Group from the COSCO SHIPPING Group	460/243	520/373	578/265	800
Provision of asset lease services by the Group to the COSCO SHIPPING Group	60/32.9	60/35.3	60/21.4	60

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

Sales of goods and services by the Group to the COSCO SHIPPING Group

(i) the historical amounts of such transactions between the Group and the COSCO SHIPPING Group for the two years ended 31 December 2021 and for nine months ended 30 September 2022 were approximately RMB609 million, RMB691 million and RMB673 million, respectively;

(ii) according to the Group's business expansion plan which is the business growth outlook for 2023, the scale of transactions for the sale of products such as fuel oil (retail) and electricity as well as the provision of services such as stevedoring, logistics, etc., to the COSCO Shipping Group is expected to increase by approximately 20% in 2023. As the largest customer in terms of container handling business, the transaction scale between the Group and the COSCO Shipping Group maintains increasing over the past years; and

(iii) The maritime market has been changing rapidly in recent years. An allowance for increase of approximately 15% in the annual cap of sales of goods and services by the Group to the COSCO Shipping Group have been made to avoid the occurrence of exceeding the annual cap in light of the market uncertainty.

Purchase of goods and services by the Group from the COSCO SHIPPING Group

(i) the historical amounts of such transactions between the Group and the COSCO SHIPPING Group for the two years ended 31 December 2021 and for the nine months ended 30 September 2022 were approximately RMB243 million, RMB373 million and RMB265 million, respectively;

(ii) based on the expansion plan of the Group's full logistics business, the scale of comprehensive logistics services purchased by the Group from the COSCO SHIPPING Group is expected to increase significantly in 2023; and

(iii) it is expected that the scale of transactions between the Group and the COSCO SHIPPING Group will continue to increase in line with the Group's business growth and expansion.

Provision of asset lease services by the Group to the COSCO SHIPPING Group

(i) the historical transaction amount of asset lease services by the Group to the COSCO SHIPPING Group for the two years ended 31 December 2021 and for the nine months ended 30 September 2022 were around RMB32.9 million, RMB35.3 million and RMB21.4 million, respectively; and

(ii) the expected continuing of such asset lease services and increasing demand for other asset lease services by the COSCO SHIPPING Group from the Group for the year 2023 due to the continuous development of the business operation of the COSCO SHIPPING Group.

D. Reasons for and Benefits of Entering into the 2023 COSCO SHIPPING Goods and Services Agreement

The Company has entered into a goods and services framework agreement with COSCO SHIPPING for the period from 1 January 2020 to 31 December 2022. Please refer to the announcements of the Company dated 28 March 2019 and 17 May 2019 and the circular of the Company dated 23 April 2019 for details. As COSCO SHIPPING is a substantial shareholder of the Company and therefore a connected person of the Company, any transactions between the Group and COSCO SHIPPING Group constitute connected transactions of the Company. Given the transactions between the Group and COSCO SHIPPING Group will be continuing, the Company shall enter into the 2023 COSCO SHIPPING Goods and Services Agreement with COSCO SHIPPING to regulate the transactions in accordance with the requirements under the Hong Kong Listing Rules.

The Group has maintained extensive and in-depth cooperation with COSCO SHIPPING Group over the years. The main businesses of the Company and COSCO SHIPPING Group are upstream and downstream in the same industry chain, with high correlation in business and strong complementarity. Both parties are able to provide each other with high quality and reliable products, convenient and efficient services, which are conducive to promoting mutual benefits and win-win results.

The Directors (including the independent non-executive Directors) are of the view that the 2023 COSCO SHIPPING 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. 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 2023 COSCO SHIPPING Goods and Services Agreement are conducted in compliance with the Hong Kong Listing Rules.

The Company has established a comprehensive internal control system and adopted various internal control rules, including a management system on connected transactions and procurement and tender administration measures, to ensure that the continuing connected transactions under the 2023 COSCO SHIPPING 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 2023 COSCO SHIPPING 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 2023 COSCO SHIPPING 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 2023 COSCO SHIPPING Goods and Services Agreement; (ii) on normal commercial terms or better; (iii) no more favorable than terms offered to independent third parties by the Company or no less favorable than terms offered by independent third parties to the Company (if applicable); and (iv) in accordance with the 2023 COSCO SHIPPING Goods and Services Agreement on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Hong Kong Listing Rule Implications

COSCO SHIPPING indirectly holds approximately 21% equity interests of the Company and therefore is a substantial shareholder and a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the 2023 COSCO SHIPPING 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 the sales of goods and services by the Group to the COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement is higher than 5%, such transactions and the proposed annual caps contemplated thereunder are subject to the reporting, announcement, circular, 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 (i) the purchase of goods and services by the Group from the COSCO SHIPPING Group, and (ii) the provision of asset lease services by the Group to the COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement exceeds 0.1% and less than 5%, such transactions and the 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.

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 the sales of goods and services by the Group to COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement and the proposed annual cap 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 sales of goods and services by the Group to COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement and the proposed annual cap contemplated thereunder.

V. PROPOSED CHANGES IN THE USE OF PROCEEDS FROM THE H SHARE PLACING

References are made to the announcements of the Company dated 20 January 2017, 10 May 2017, 18 May 2017, 24 May 2021, 28 June 2021 and 28 October 2022 and the circulars of the Company dated 14 February 2017 and 27 May 2021 in relation to, among other things, the issuance of new H Shares by way of placing and proposed changes in the use of proceeds from the H Share Placing.

On 18 May 2017, the Company issued 243 million H Shares by way of the H Share Placing, and received net proceeds of approximately HK$1,035 million, equivalent to approximately RMB912 million (based on the exchange rate on 18 May 2017), which were mainly used for the reserved funds for the Company's overseas terminal acquisition and investment and the operation fund for the terminal projects management company established by the Company and COSCO SHIPPING Ports Limited* (中遠海運港口有限公司) to operate and manage overseas terminal projects. As of 31 March 2021, there were proceeds of HK$460.45 million, equivalent to approximately RMB389.16 million (based on the exchange rate on 31 March 2021) from the H Share Placing having been used, mainly for the payment of the acquisition of equity interests in COSCO SHIPPING Ports (Abu Dhabi) Limited* (中遠海運港口(阿布扎比)有限公司) with remaining proceeds from the H Share Placing of HK$634.91 million (including accumulated interests income), equivalent to approximately RMB536.61 million (based on the exchange rate on 31 March 2021).

Based on the actual situation of the investment projects for the use of proceeds from H Share Placing and approval by the 2020 annual general meeting of the Company held on 28 June 2021, the Company decided to change the use of the remaining proceeds of the H Share Placing of approximately HK$634.91 million (including accumulated interests income) equivalent to approximately RMB536.61 million (based on the exchange rate on 31 March 2021), for the acquisition of 51% equity interests in Haiye Oil Terminal. As of 30 September 2022, the Company did not use proceeds of the H Share Placing in the above-mentioned acquisition. As of 30 September 2022, the remaining proceeds from the H Share Placing amounted to approximately RMB558.68 million (including accumulated interests income).

As for the acquisition of 51% equity interest in Haiye Oil Terminal, due to changes in international and domestic conditions and policies that may have an impact on the liquid bulk business of Haiye Oil Terminal, the Company needs to further evaluate the impacts of such changes on the acquisition. Hence, the parties need to further discuss the details of the transaction, and there is uncertainty about whether and when the transaction can be completed. In view of such uncertainty, after prudent consideration, the Company proposed to use the remaining proceeds from the H Share Placing of approximately RMB558.68 million for the investment in engineering construction, including Dongjiakou Port Area terminal and oil storage and other construction projects to improve the efficiency of the use of proceeds from the H Share Placing and enhance the profitability of the Company.

The above proposed changes will be implemented subject to Shareholders' approval at the EGM.

Please refer to Appendix VII to this circular for further details of the proposed changes in the use of proceeds from the H Share Placing.

VI. PROPOSED ELECTION OF DIRECTORS IN THE FOURTH SESSION OF THE BOARD

Pursuant to the applicable laws, regulations and normative documents as well as the articles of association of the Company, and according to the recommendation from Qingdao Port Group, the controlling shareholder of the Company, the Board has resolved to nominate Mr. ZHANG Baohua as a candidate for an executive Director, and nominate Mr. XUE Baolong as a candidate for a non-executive Director; and according to the recommendation by Shanghai China Shipping Terminal Development Co., Ltd.* (上海中海碼頭發展有限公司), a substantial shareholder of the Company, the Board has resolved to nominate Mr. ZHU Tao as a candidate for a non-executive Director.

The term of office of the above Directors will commence upon the date of the approval from the Shareholders at the EGM and expire on the date of conclusion of the term of office of the fourth session of the Board. The proposed appointments of Mr. ZHANG Baohua, Mr. XUE Baolong and Mr. ZHU Tao are subject to the Shareholders' consideration and approval at the EGM.

Please refer to the Appendix VIII to this circular for the biographical details of all the above candidates.

VII. BOARD CONFIRMATION

The Board (including the independent non-executive Directors) is of the view that (a) (i) the Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; and (ii) the Shandong Port Equipment Group 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 and are in the interest of the Company and the Shareholders as a whole; (b) the Framework Agreements (including respective proposed annual caps); and (c) the 2023 COSCO SHIPPING Goods and 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 and are in the interest of the Company and the Shareholders as a whole, respectively.

Each of Mr. SU Jianguang, Mr. LI Wucheng and Ms. WANG Fuling has abstained from voting at the Board meeting of the Company considering (i) the Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; (ii) the Shandong Port Equipment Group Capital Increase Agreement and the transaction contemplated thereunder; (iii) the 2023 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (iv) the 2023 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder, due to the potential conflict of interests as a result of his/her directorships or positions in Shandong Port Group and/or certain subsidiaries of Shandong Port Group 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.

VIII. 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 61 to 62 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 Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; and (ii) the Shandong Port Equipment Group Capital Increase Agreement and the transaction contemplated thereunder; (b) the purchase of goods and services by the Group from Shandong Port Group and the sales of goods and services by the Group to Shandong Port Group under the 2023 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (c) the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (d) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement and the proposed annual cap 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 63 to 99 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 Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; and (ii) the Shandong Port Equipment Group 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 Shandong Port Group and the sales of goods and services by the Group to Shandong Port Group under the 2023 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (c) the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (d) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement and the proposed annual cap 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.

The Directors (including the independent non-executive Directors) consider that the ordinary resolutions in relation to (a) (i) the Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; and (ii) Shandong Port Equipment Group 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 Shandong Port Group and the sales of goods and services by the Group to Shandong Port Group under the 2023 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (c) the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; (d) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and 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; (e) the proposed changes in the use of proceeds from the H Share Placing; and (f) the proposed election of Directors in the fourth session of the Board, are in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders (as applicable) to vote in favour of such resolutions to be proposed at the EGM as set out in the notice of the EGM.

IX. 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, 20 December 2022 to Friday, 23 December 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, 20 December 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, 19 December 2022 for registration.

X. 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, 23 December 2022 at 10:00 a.m. together with the relevant proxy form has been despatched to the Shareholders on 18 November 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, 22 December 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.

Qingdao Port Group (being a subsidiary of Shandong Port Group) and its associates are required to abstain from voting on resolutions in relation to (a) (i) the Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; and (ii) the Shandong Port Equipment Group Capital Increase Agreement and the transaction contemplated thereunder; (b) the 2023 SDP Goods and Services Agreement and the proposed annual caps contemplated thereunder; and (c) the 2023 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder at the EGM.

COSCO SHIPPING and its associates are required to abstain from voting on the resolution in relation to the 2023 COSCO SHIPPING Goods and 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 Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; and (ii) the Shandong Port Equipment Group Capital Increase Agreement and the transaction contemplated thereunder; (b) the 2023 SDP Goods and Services Agreement and the proposed annual caps contemplated thereunder; (c) the 2023 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder; (d) the 2023 COSCO SHIPPING Goods and Services Agreement and the proposed annual caps contemplated thereunder; (e) the proposed changes in the use of proceeds from the H Share Placing; and (f) the proposed election of Directors in the fourth session of the Board.

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

XI. 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

山东港口 SHANDONG PORT GROUP | 青岛港国际股份有限公司 QINGDAO PORT INTERNATIONAL CO.,LTD.

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)

18 November 2022

To the Independent Shareholders

Dear Sir or Madam,

(1) PROPOSED CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS
(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS
AND
(3) PROPOSED CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 18 November 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 Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; and (ii) the Shandong Port Equipment Group 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 Shandong Port Group and the sales of goods and services by the Group to Shandong Port Group under the 2023 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (c) the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (d) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement and the proposed annual cap 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 10 to 60 of the Circular.

TC Capital has been appointed as our independent financial adviser to advise us on (a) (i) the Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; and (ii) the Shandong Port Equipment Group Capital Increase Agreement and the transaction contemplated thereunder; (b) the purchase of goods and services by the Group from Shandong Port Group and the sales of goods and services by the Group to Shandong Port Group under the 2023 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (c) the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (d) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement and the proposed annual cap 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 63 to 99 of the Circular.

The Board has considered and approved the matters mentioned above. After taking into account the advice and recommendation of TC Capital, we consider that (a) (i) the Qingdao Port Equipment Share Transfer Agreement and the transaction contemplated thereunder; and (ii) the Shandong Port Equipment Group 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 Shandong Port Group and the sales of goods and services by the Group to Shandong Port Group under the 2023 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (c) the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (d) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement and the proposed annual cap 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	**JIANG Min**	**LAI Kwok Ho**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

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 Share Transfer, the Proposed Capital Increase and the Non-exempt Continuing Connected Transactions (as defined below) for the purpose of inclusion in this circular.

TC CAPITAL

18 November 2022

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

Dear Sirs,

(1) PROPOSED CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS
(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS
(3) PROPOSED 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 Share Transfer; (ii) the Proposed Capital Increase; (iii) the sales of goods and services by the Group to Shandong Port Group and the purchase of goods and services by the Group from Shandong Port Group under the 2023 SDP Goods and Services Agreement (the "**General SDP Sales**" and the "**General SDP Purchases**" respectively); (iv) the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group under the 2023 SDP Financial Services Agreement; and (v) the sales of goods and services by the Group to the COSCO SHIPPING Group under the 2023 COSCO SHIPPING Goods and Services Agreement (the "**General COSCO Sales**") ((iii) to (v) 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 18 November 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 28 October 2022 (after trading hours), the Company and Shandong Port Equipment Group entered into the Qingdao Port Equipment Share Transfer Agreement, pursuant to which the Company agreed to transfer 51% equity interests in Qingdao Port Equipment, a wholly-owned subsidiary of the Company, to Shandong Port Equipment Group at the consideration of RMB101,488,725.

On 28 October 2022 (after trading hours), the Company, Shandong Port Group, Rizhao Port Group, Yantai Port Group and Shandong Port Equipment Group entered into the Shandong Port Equipment Group Capital Increase Agreement, pursuant to which the Company agreed to make a capital contribution of RMB89,056,445 to Shandong Port Equipment Group by transferring 51% equity interests in Qingdao Port Equipment to Shandong Port Equipment Group in exchange for 16.56% equity interests of the enlarged share capital in Shandong Port Equipment Group. The investment premium of RMB12,432,280 shall be regarded as capital reserves of Shandong Port Equipment Group. The Qingdao Port Equipment Share Transfer Agreement and the Shandong Port Equipment Group Capital Increase Agreement are interconditional to each other.

On 28 October 2022 (after trading hours), the Company and Shandong Port Group entered into (i) the 2023 SDP Goods and Services Agreement in relation to, among others, the General SDP Sales and the General SDP Purchases; and (ii) the 2023 SDP Financial Services Agreement in relation to, among others, the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group.

On 28 October 2022 (after trading hours), the Company and COSCO SHIPPING entered into the 2023 COSCO SHIPPING Goods and Services Agreement in relation to, among others, the General COSCO Sales.

Shandong Port Group 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) Shandong Port Equipment Group is owned as to 66.86% equity interests by Shandong Port Group; (ii) Rizhao Port Group is a wholly-owned subsidiary of Shandong Port Group; and (iii) Yantai Port Group is a wholly-owned subsidiary of Shandong Port Group, Shandong Port Equipment Group, Rizhao Port Group and Yantai Port Group are associates of Shandong Port Group and are connected persons of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Each of the Proposed Share Transfer and the Proposed Capital Increase constitutes a discloseable and connected transaction of the Company and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Hong Kong Listing Rules. The General SDP Sales, the General SDP Purchases and the provision of Deposit Services and Secured Credit Services constitute continuing connected transactions of the Company and are subject to the reporting, announcement, circular, annual review and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

COSCO SHIPPING indirectly holds approximately 21% equity interests in the Company and therefore is a substantial shareholder and a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the General COSCO Sales constitute continuing connected transactions of the Company and are subject to the reporting, announcement, circular, annual review 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 Qingdao Port Equipment Share Transfer Agreement, the Shandong Port Equipment Group 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 Share Transfer, 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 Share Transfer, 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.

OUR INDEPENDENCE

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. In the last two years, we have acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to an occasion as detailed in the circular of the Company dated 7 February 2022. We have also acted as an independent financial adviser to the then independent board committee and independent shareholders of COSCO Shipping Development Co., Ltd.* (stock code: 2866.HK), a member of the COSCO SHIPPING Group, in relation to an occasion as detailed in the circular of COSCO Shipping Development Co., Ltd.* dated 9 June 2022. Given (i) our independent role in the abovementioned engagements; and (ii) our fees for the abovementioned engagements represented an insignificant percentage of our revenue, we consider that the abovementioned engagements would not affect our independence to form our opinion in respect of the Proposed Share Transfer, the Proposed Capital Increase and the Non-exempt Continuing Connected Transactions.

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 Qingdao Port Equipment Share Transfer Agreement; (ii) the Shandong Port Equipment Group Capital Increase Agreement; (iii) the 2023 SDP Goods and Services Agreement; (iv) the 2023 SDP Financial Services Agreement; (v) the 2023 COSCO SHIPPING Goods and Services Agreement; (vi) the annual reports of the Company for the two years ended 31 December 2021 (the "**2020 Annual Report**" and the "**2021 Annual Report**" respectively); (vii) the interim report of the Company for the six months ended 30 June 2022 (the "**2022 Interim Report**"); (viii) the audited report of Qingdao Port Equipment for the year ended 31 December 2021 and the two months ended 28 February 2022 (the "**QPE Audited Report**"); (ix) the audited report of Shandong Port Equipment Group for the year ended 31 December 2021 (the "**SPE Audited Report**"); (x) the valuation report in respect of 100% equity interests in Qingdao Port Equipment as at the Reference Date (the

"**QPE Valuation Report**") prepared by Zhong Ping Heng Xin (the "**QPE Valuer**"); (xi) the valuation report in respect of 100% equity interests in Shandong Port Equipment Group as at the Reference Date (the "**SPE Valuation Report**") prepared by Shandong Huide (the "**SPE Valuer**"); (xii) other information as set out in the Circular; and (xiii) 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, Shandong Port Group, Rizhao Port Group, Yantai Port Group, Qingdao Port Equipment, Shandong Port Equipment Group, COSCO SHIPPING and any of their respective subsidiaries and associates.

We have not made any independent evaluation or appraisal of the assets and liabilities of Qingdao Port Equipment and Shandong Port Equipment Group, and we have not been furnished with any such evaluation or appraisal, save as and except for the QPE Valuation Report and the SPE Valuation Report. The QPE Valuation Report and the SPE Valuation Report were prepared by the QPE Valuer and the SPE Valuer respectively. Since we are not experts in the valuation of businesses, companies or assets, we have relied solely upon the QPE Valuation Report and the SPE Valuation Report for the appraised values of 100% equity interests in Qingdao Port Equipment and Shandong Port Equipment Group as at 28 February 2022.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Proposed Share Transfer, 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 Group and its joint ventures mainly provide handling and ancillary services of container, iron ore, coal, crude oil and other goods, logistics and port value-added services, port ancillary services and financial services.

Set out below is certain financial information of the Group for the three years ended 31 December 2021 ("**FY2019**", "**FY2020**" and "**FY2021**" respectively) and the six months ended 30 June 2021 and 2022 ("**1H2021**" and "**1H2022**" respectively) as extracted from the 2020 Annual Report, the 2021 Annual Report and the 2022 Interim Report:

	For the year ended 31 December			**For the six months ended 30 June**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
	(Audited)	*(Audited)*	*(Audited)*	*(Unaudited) (Restated)*	*(Unaudited)*
Revenue	12,164	13,219	16,099	8,386	9,946
Operating profit	5,113	5,522	5,783	3,198	3,430
Net profit attributable to shareholders of the Company	3,790	3,842	3,964	2,181	2,311

	As at 31 December				**As at 30 June**
	2019	**2020**	**2021**	**2021**	**2022**
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
	(Audited)	*(Audited)*	*(Audited)*	*(Unaudited) (Restated)*	*(Unaudited)*
Total assets	52,785	57,177	60,576	62,220	63,658
Total liabilities	19,188	20,437	21,791	22,202	23,743
Net assets	33,597	36,741	38,785	40,017	39,915

As shown in the above table, 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 21.8% to approximately RMB16,099 million for FY2021 as compared to that for FY2020. As disclosed in the 2021 Annual Report, such increase was mainly due to the increase in revenue from the liquid bulk handling and ancillary services segment and the logistics and port value-added services segment. The operating profit of the Group amounted to approximately RMB5,783 million for FY2021, representing an increase of approximately 4.7% as compared to that for FY2020. 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 18.6% to approximately RMB9,946 million for 1H2022 as compared to that for 1H2021. As disclosed in the 2022 Interim Report, such increase was primarily attributable to the increase in revenue from the logistics and port value-added services segment, the container handling and ancillary services segment and the liquid bulk handling and ancillary services segment. The operating profit of the Group amounted to approximately RMB3,430 million for 1H2022, representing an increase of approximately 7.3% as compared to that for 1H2021. As advised by the representatives of the Company, the increase was mainly due to the increase in gross profit from the container handling and ancillary services segment, the logistics and port value-added services segment and the liquid bulk handling and ancillary services segment.

The net assets of the Group showed an increasing trend for FY2020 and FY2021. 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. The net assets of the Group remained relatively stable for 1H2022.

2. Information on Shandong Port Group

As stated in the Letter from the Board, Shandong Port Group, an existing shareholder of Shandong Port Equipment Group and an indirect controlling shareholder of the Company, is a company established in the PRC with limited liability in August 2019 with a registered capital of RMB30 billion. It is mainly engaged in port operation management, port industry investment, port infrastructure construction, port 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 Shandong Port Group was the Shandong SASAC.

3. Information on Rizhao Port Group

As stated in the Letter from the Board, Rizhao Port Group, an existing shareholder of Shandong Port Equipment Group and a wholly-owned subsidiary of Shandong Port Group, is a company established in the PRC with limited liability in February 2004, with a registered capital of RMB5,000 million. It is mainly engaged in port operation, port industry investment, port infrastructure construction, port and shipping supporting services and other businesses. As at the Latest Practicable Date, the ultimate beneficial owner of Rizhao Port Group was the Shandong SASAC.

4. *Information on Yantai Port Group*

As stated in the Letter from the Board, Yantai Port Group, an existing shareholder of Shandong Port Equipment Group and a wholly-owned subsidiary of Shandong Port Group, is a company established in the PRC with limited liability in November 1984, with a registered capital of RMB6,000 million. It is mainly engaged in port operation, domestic cargo transportation agency, international cargo transportation agency, import and export agency, import and export of goods, import and export of technology, non-residential real estate leasing, housing leasing, labour services, engineering management services and other businesses. As at the Latest Practicable Date, the ultimate beneficial owner of Yantai Port Group was the Shandong SASAC.

5. *Information on Qingdao Port Equipment*

As stated in the Letter from the Board, Qingdao Port Equipment is a company established in the PRC with limited liability on 16 November 2020, with a registered capital of RMB100 million. It is mainly engaged in port equipment manufacturing, engineering construction, maintenance and repair and other business.

As at the Latest Practicable Date, Qingdao Port Equipment was a wholly-owned subsidiary of the Company. After the completion of the Proposed Share Transfer, it will be owned as to 49% and 51% equity interests by the Company and Shandong Port Equipment Group respectively.

Set out below is certain financial information of Qingdao Port Equipment for FY2021 as extracted from the QPE Audited Report. The financial information was audited in accordance with the PRC Accounting Standards for Business Enterprises* (中國企業會計準則).

	For the year ended 31 December 2021 *RMB*
Net profit before taxation	2,712,585.68
Net profit after taxation	2,838,257.88

6. *Information on Shandong Port Equipment Group*

As stated in the Letter from the Board, Shandong Port Equipment Group is a company established in the PRC with limited liability in March 2020, with a registered capital of RMB448,682,460.17. It is mainly engaged in port equipment manufacturing, marine equipment manufacturing, ship repairing and other businesses, with the ability to undertake large, non-standard, batch port equipment production capacity.

As at the Latest Practicable Date, Shandong Port Group, Rizhao Port Group and Yantai Port Group held 66.86%, 31.61% and 1.53% equity interests in Shandong Port Equipment Group respectively. After the completion of the Proposed Capital Increase, Shandong Port Group, Rizhao Port Group, the Company and Yantai Port Group will hold 55.79%, 26.37%, 16.56% and 1.28% equity interests in Shandong Port Equipment Group respectively.

Set out below is certain consolidated financial information of Shandong Port Equipment Group for FY2020 and FY2021 as extracted from the SPE Audited Report. The financial information was audited in accordance with the PRC Accounting Standards for Business Enterprises* (中國企業會計準則).

	For the year ended 31 December 2020 *RMB*	**For the year ended 31 December 2021** *RMB*
Net profit before taxation	19,284,546.69	10,593,496.61
Net profit after taxation	19,281,040.43	2,227,964.44

The net profit before taxation of Shandong Port Equipment Group decreased by approximately 45.1% to approximately RMB10.6 million in FY2021 as compared to that in FY2020. Such decrease was mainly attributable to the increase in the asset impairment losses in FY2021 resulting from Shandong Port Equipment Group's adoption of a new accounting policy under the PRC Accounting Standards for Business Enterprises in FY2021. The net profit after taxation of Shandong Port Equipment Group decreased by approximately 88.4% to approximately RMB2.2 million for FY2021 as compared to that for FY2020. Such decrease was mainly due to the year-on-year increment of taxation in FY2021 because the income tax for FY2020 was offset by the tax loss carried forward from the previous year. Such adjustment also resulted in a significant difference between the net profit before and after taxation of Shandong Port Equipment Group for FY2021.

7. Information on COSCO SHIPPING

As stated in the Letter from the Board, COSCO SHIPPING is a state-owned enterprise wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council in the PRC. COSCO SHIPPING is one of the largest shipping companies in the world. The business layout of COSCO SHIPPING mainly focuses on shipping, logistics, finance and equipment manufacturing.

8. Information on Qingdao Port Finance

As advised by the representatives of the Company, Qingdao Port Finance was a company established on 22 July 2014 in the PRC with limited liability and a subsidiary jointly established by the Company (holding 70% equity interests) and Qingdao Port Group (holding 30% equity interests) as at the Latest Practicable Date. Qingdao Port Finance is mainly engaged in the provision of depository services, credit granting services, financial and financing advisory services, credit assurance and relevant consulting and agency services; trade receivables collection and payment services; internal fund transfer and settlement and formulation of proposals for the corresponding settlement and clearing services and other financial services to Qingdao Port Group and its member companies.

We understood from the representatives of the Company that Qingdao Port Finance 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 Qingdao Port Finance, 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 Qingdao Port Finance for the three years ended 31 December 2021 as provided by Qingdao Port Finance:

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

	Requirements	For the year ended 31 December 2019 (approximate %)	For the year ended 31 December 2020 (approximate %)	For the year ended 31 December 2021 (approximate %)
		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, Qingdao Port Finance 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 Qingdao Port Finance were better than the requirement specified in the Administrative Measures, the Provisional Measures and the Notice. In particular, the non-performing loan ratio of Qingdao Port Finance for the three years ended 31 December 2021 were all nil, which indicated that Qingdao Port Finance did not have any non-performing loans. In light of the above, we are of the view that the credit risk exposure of Qingdao Port Finance would be mitigated and Qingdao Port Finance would be able to perform the relevant obligations under the 2023 SDP Financial Services Agreement.

B. The Proposed Share Transfer and the Proposed Capital Increase

1. Reasons for and benefits of the Proposed Share Transfer and the Proposed Capital Increase

According to the Letter from the Board, Shandong Port Equipment Group specialises in port equipment manufacturing, marine equipment manufacturing, ship repairing and other businesses. Leveraging on the larger platform and better opportunities brought by the integration reform of the ports of Shandong Province, Shandong Port Equipment Group has a good technical reserve and has a strong synergy effect with Qingdao Port Equipment in terms of market, customers and technology. The Proposed Share Transfer and the Proposed Capital Increase will not only be conducive to promoting Shandong Port Equipment Group and Qingdao Port Equipment to achieve resource sharing, complementary advantages, expand the market and enhance competitiveness, but also be able to resolve the horizontal competition within Shandong Port Group and help create good returns for the Company and the Shareholders. In addition, the Proposed Share Transfer and the Proposed Capital Increase enable the Company to further focus on its main business while sharing the investment income generating from the continuous development of the expanded Shandong Port Equipment Group. Shandong Port Equipment Group did not declare any dividend since its establishment in 2020. As a start-up company, it is more commercially reasonable for Shandong Port Equipment Group to retain an adequate level of working capital to continue its business operation while supporting the accelerated growth of its business. The Company may receive capital gain and dividend in accordance with relevant provisions of the PRC company law and the operation result of Shandong Port Equipment Group, following the expansion of Shandong Port Equipment Group's business scale in the future. Although there is no guarantee whether the Company will receive capital gain and dividend following the expansion of Shandong Port Equipment Group's business scale in the future, the Company is expected to record a one-off gain of approximately RMB82.3511 million as a result of the Proposed Share Transfer and the Proposed Capital Increase, which is calculated and determined based on the proceeds from the disposal and the cost of equity interests to be disposed.

As stated in the 2021 Annual Report, relying on the larger platform of Shandong Port, the Group has unified with the majority of the shipowners and cargo owners and concentrated its efforts to jointly expand the market. Moreover, the reform of Shandong Port integration and the synergistic development of Qingdao Port with other ports and business sectors continue to deepen, which will effectively expand new space for the port to increase its volume and profit. The Group will continue to deepen reforms, accelerate transformation and upgrading, adhere to a performance-based principle, expand development space, comprehensively improve management efficiency and accelerate the construction of an international shipping hub in Northeast Asia. We understand that the integration reform with Shandong Port is one of the business advantages of the Company to expand its business and increase its competitiveness. As advised by the representatives of the Company, the Proposed Share Transfer and the Proposed Capital Increase will deepen the integration reform with Shandong Port in order to expand the market and enhance its competitiveness.

According to the "Opinions of the General Office of the People's Government of Shandong Province on Accelerating the Development of World Class Marine Ports*" (山東省人民政府辦公廳關於加快推進世界一流海洋港口建設的實施意見) issued by the General Office of the People's Government of Shandong Province on 21 March 2021, it is advised to deepen the reform of port integration continuously through capital operation, project cooperation, mixed ownership reform and etc. in order to promote the integration of the ports and related resources in the province and to strengthen the port development.

Having considered that the Proposed Share Transfer and the Proposed Capital Increase (i) are in line with the business strategies of the Company; and (ii) is to complement the government policy in relation to port business, we are of the view that the Proposed Share Transfer and the Proposed Capital Increase, which are not 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. Principal terms of the Qingdao Port Equipment Share Transfer Agreement and the Shandong Port Equipment Group Capital Increase Agreement

The Qingdao Port Equipment Share Transfer Agreement

On 28 October 2022 (after trading hours), the Company and Shandong Port Equipment Group entered into the Qingdao Port Equipment Share Transfer Agreement, pursuant to which the Company agreed to transfer 51% equity interests in Qingdao Port Equipment, a wholly-owned subsidiary of the Company, to Shandong Port Equipment Group at the consideration of RMB101,488,725.

Further details of the Qingdao Port Equipment Share Transfer Agreement are set out in the Letter from the Board.

The following table sets out the shareholding structure of Qingdao Port Equipment prior to and upon completion of the Proposed Share Transfer:

	Prior to the Proposed Share Transfer *(%)*	**Upon completion of the Proposed Share Transfer** *(%)*
The Company	100.00	49.00
Shandong Port Equipment Group	0.00	51.00
Total	100.00	100.00

Upon completion of the Proposed Share Transfer, Qingdao Port Equipment will be owned as to 49% and 51% equity interests by the Company and Shandong Port Equipment Group respectively. Qingdao Port Equipment will cease to be a subsidiary of the Company and the financial statements of Qingdao Port Equipment will not be consolidated into the financial statements of the Company.

The Shandong Port Equipment Group Capital Increase Agreement

On 28 October 2022 (after trading hours), the Company, Shandong Port Group, Rizhao Port Group, Yantai Port Group and Shandong Port Equipment Group entered into the Shandong Port Equipment Group Capital Increase Agreement, pursuant to which the Company agreed to make a capital contribution of RMB89,056,445 to Shandong Port Equipment Group by transferring 51% equity interests in Qingdao Port Equipment to Shandong Port Equipment Group in exchange for 16.56% equity interests of the enlarged share capital in Shandong Port Equipment Group. The investment premium of RMB12,432,280 shall be regarded as capital reserves of Shandong Port Equipment Group.

Further details of the Shandong Port Equipment Group Capital Increase Agreement are set out in the Letter from the Board.

The following table sets out the shareholding structure of Shandong Port Equipment Group prior to and upon completion of the Proposed Capital Increase:

	Prior to the Proposed Capital Increase		**Upon completion of the Proposed Capital Increase**	
	Equity interests in Shandong Port Equipment Group	**Amount of capital contribution**	**Equity interests in Shandong Port Equipment Group**	**Amount of capital contribution**
	(%)	*(RMB)*	*(%)*	*(RMB)*
Shandong Port Group	66.86	300,000,000.00	55.79	300,000,000.00
Rizhao Port Group	31.61	141,806,455.97	26.37	141,806,455.97
The Company	Nil	Nil	16.56	89,056,445.00
Yantai Port Group	1.53	6,876,004.20	1.28	6,876,004.20
Total	100.00	448,682,460.17	100.00	537,738,905.17

Upon completion of the Proposed Capital Increase, Shandong Port Group, Rizhao Port Group, the Company and Yantai Port Group will hold 55.79%, 26.37%, 16.56% and 1.28% equity interests in Shandong Port Equipment Group respectively. The financial statements of Shandong Port Equipment Group will not be consolidated into the financial statements of the Company.

3. THE VALUATION REPORTS

a. The QPE Valuation Report

As advised by the representatives of the Company, the consideration for the 51% equity interests in Qingdao Port Equipment of approximately RMB101.49 million was determined with reference to the appraised value of 100% equity interests in Qingdao Port Equipment. According to the QPE Valuation Report, the appraised value of 100% equity interests in Qingdao Port Equipment as at 28 February 2022 was approximately RMB199.00 million.

While reviewing the QPE Valuation Report, we have discussed with the QPE Valuer on its expertise and obtained the credentials of the persons signing the QPE Valuation Report, who have around 5 years' and 8 years' experience in valuation in the PRC respectively. We have also reviewed the QPE Valuer's terms of engagement including its scope of work and discussed with the QPE Valuer on its work performed as regards to the QPE Valuation Report. We are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the QPE Valuation Report. Based on our discussion with the QPE Valuer and our review of (i) the credentials; and (ii) the terms of engagement including its scope of work, we are not aware of any matters that could cause us to have doubts on the expertise of the QPE Valuer and the scope of work in relation to the valuation of the equity interests in Qingdao Port Equipment.

Valuation methodologies

We understood from the QPE Valuer that the QPE Valuation Report has been prepared in accordance with its standard practice. As discussed with the QPE Valuer, a sufficient number of comparable transactions and companies must be established in order to adopt the market approach. However, the comparable transactions of 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 companies. Accordingly, the market approach was not adopted. We further understood from the QPE Valuer that (i) the asset-based approach fails to reflect the value of Qingdao Port Equipment in terms of the income generating capability of its assets and the growth of the enterprise; and (ii) the income approach focuses on the income generating capability of an enterprise and derives the present value of the enterprise by discounting expected cash flows and, can better reflect the growth and profitability of Qingdao Port Equipment as Qingdao Port Equipment has generated revenue and net income and the relevant risks and returns are reasonably predictable. The QPE Valuer considered that the income approach is the appropriate method for the valuation of 100% equity interests in Qingdao Port Equipment and hence was adopted for the appraisal of 100% equity interests in Qingdao Port Equipment. We concur with the QPE Valuer that the adoption of the income approach is an appropriate valuation methodology on the valuation of the equity interests in Qingdao Port Equipment.

Review of the QPE Valuation Report

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

In our discussion with the QPE Valuer and the review of the relevant working papers of the QPE Valuation Report, we noted that the projected financial information mainly comprised the year-by-year projections of future free cash flows of Qingdao Port Equipment after taking into account of the operational data and long-term financial projections including operating revenue, operating expenses and taxes from March 2022 to 2028. The free cash flows after 2028 were assumed to be equivalent to the free cash flows for 2028. The operating revenue forecast of Qingdao Port Equipment was mainly determined based on estimation of the revenue from the provision of port services including provision of port equipment, engineering construction and maintenance services. The operating cost forecast of Qingdao Port Equipment was determined based on cost of port equipment production, construction, maintenance services and other utilities and administrative expenses. 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 Qingdao Port Equipment. Based on the above and having considered the business nature of Qingdao Port Equipment, we consider the appraisal based on the major cash inflow and outflow items to be reasonable.

According to the QPE Valuation Report, the QPE Valuer has used the weighted average cost of capital to estimate the required rate of return of Qingdao Port Equipment. In deriving the discount rate, the QPE Valuer has taken into account various factors including, among others, (i) risk-free rate; (ii) beta coefficient; (iii) market risk premium; and (iv) firm specific risk premium. Based on our review of the QPE Valuation Report and discussion with the QPE Valuer, we noticed that under the capital asset pricing model, (i) the risk-free rate was determined with reference to the 10-year yield of PRC government bond as at 28 February 2022; (ii) the beta coefficient was determined based on listed companies that were comparable to Qingdao Port Equipment in terms of business nature; (iii) the market risk premium was determined based on the rate of return of the China Securities Index 300 (CSI 300) with deduction of the risk-free rate; and (iv) the firm specific risk premium was determined based on the related firm specific risk premium of the comparable transactions with adjustment based on the financing conditions, volatility of raw material price and labour cost and related business structure.

During our discussion with the QPE 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 QPE Valuation Report.

According to the Letter from the Board, the valuation under the QPE Valuation Report on Qingdao Port Equipment constitutes 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.

Taking into account of the above, we consider that the consideration for the 51% equity interests in Qingdao Port Equipment under the Proposed Share Transfer, which was determined with reference to the appraised value of 100% equity interests in Qingdao Port Equipment, is fair and reasonable so far as the Independent Shareholders are concerned.

b. The SPE Valuation Report

As advised by the representatives of the Company, the total subscription amount of the Company under the Proposed Capital Increase of approximately RMB89.06 million was determined with reference to the appraised value of 100% equity interests in Shandong Port Equipment Group. According to the SPE Valuation Report, the appraised value of 100% equity interests in Shandong Port Equipment Group as at 28 February 2022 was approximately RMB511.32 million.

While reviewing the SPE Valuation Report, we have discussed with the SPE Valuer on its expertise and obtained the credentials of the persons signing the SPE Valuation Report, who have around 26 years' and 10 years' experience in valuation in the PRC respectively. We have also reviewed the SPE Valuer's terms of engagement including its scope of work and discussed with the SPE Valuer on its work performed as regards to the SPE Valuation Report.We are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the SPE Valuation Report. Based on our discussion with the SPE Valuer and our review of (i) the credentials; and (ii) the terms of engagement including its scope of work, we are not aware of any matters that could cause us to have doubts on the expertise of the SPE Valuer and the scope of work in relation to the valuation of the equity interests in Shandong Port Equipment Group.

Valuation methodologies

We understood from the SPE Valuer that the SPE Valuation Report has been prepared in accordance with its standard practice. As discussed with the SPE Valuer, a sufficient number of comparable transactions and companies must be established in order to adopt the market approach. However, there is a lack of accessibility to available data on similar comparable transactions and companies of the port equipment business in the PRC securities market. In addition, the relevant listed companies and transactions in the market have low comparability with Shandong Port Equipment Group and cannot accurately reflect the value of the company. Therefore, the market approach was not adopted. We further understood from the SPE Valuer that Shandong Port Equipment Group is an investment holding company which directly or indirectly holds the equity interests in five subsidiaries, namely Rizhao Port Marine Machinery Industry Co., Ltd.* (日照港船機工業有限公司), Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司), Rizhao Port Machinery Engineering Co., Ltd.* (日照港機工程有限公司), Shandong Luhai Heavy Industry Co., Ltd.* (山東陸海重工有限公司) and Yantai Haigang Motor Vehicle Comprehensive Performance Testing Co., Ltd.* (煙台海港機動車綜合性能檢測有限公司) (the "**Investees**") respectively. Since Shandong Port Equipment Group is an investment holding company and does not have any actual operating business, the income approach was not adopted. Shandong Port Equipment Group holds the equity interests in the Investees and each of them should be appraised individually. The appraised value of each of the Investees will reflect the revaluation of assets and liabilities of Shandong Port Equipment Group and the asset-based approach can reflect Shandong Port Equipment Group's investment on each of the Investees. In addition, the asset-based approach can objectively and comprehensively reflect the value of all shareholders' equity of the enterprise based on the acquisition cost of each individual asset of the enterprise and such approach is used for asset dependent business where its operating income requires those assets as the main driver of sustaining its operation. The SPE Valuer considered that the asset-based approach is the appropriate method for the valuation of 100% equity interests in Shandong Port Equipment Group and hence was adopted for the appraisal of 100% equity interests in Shandong Port Equipment Group. We concur with the SPE Valuer that the adoption of the asset-based approach is an appropriate valuation methodology on the valuation of the equity interests in Shandong Port Equipment Group.

Review of the SPE Valuation Report

According to the SPE Valuation Report, the SPE Valuer has considered the below in the valuation of the assets and liabilities of Shandong Port Equipment Group.

Current assets and current liabilities

According to the SPE Valuation Report, current assets of Shandong Port Equipment Group mainly comprised cash at bank, other receivable and deferred value-added tax. Current liabilities of Shandong Port Equipment Group mainly comprised liabilities due within one year, lease liabilities and accounts payable including employee payroll, taxes and others. In determining the valuation of current assets and current liabilities, the SPE Valuer has adopted the book values as at 28 February 2022 as their fair value on the assumption that there exists no material difference between the book values and the fair values of the current assets and current liabilities.

As discussed with the SPE Valuer, the above appraisal method is a common methodology in establishing the valuation of such current assets and current liabilities and complies with the relevant professional standard for valuation in the PRC.

Non-current assets

The non-current assets of Shandong Port Equipment Group mainly comprised fixed assets, long-term equity investments, right-of-use assets and long-term deferred expenses.

(i) fixed assets

Fixed assets mainly comprised electronic equipment and vehicles. As advised by the SPE Valuer, the SPE Valuer has adopted the cost replacement approach for the electronic equipment and vehicles taking into consideration of their market price, age, condition and features in arriving at the appraised value of the fixed assets.

We have discussed with the SPE Valuer and noted that the cost replacement approach assesses the fair value of the fixed assets by deducting depreciation of the assets from the cost of replacement. The SPE Valuer advised us that it is a common practice in valuation to adopt the cost replacement approach for the electronic equipment and vehicles of Shandong Port Equipment Group. The appraised value of the fixed assets increased by approximately RMB15,909 from the book value of approximately RMB664,880 as at 28 February 2022. As discussed with the SPE Valuer, such increase is mainly due to the difference between the economic useful life and the depreciation period.

(ii) long-term equity investments

According to the SPE Valuation Report, long-term equity investments mainly comprised the equity investment in the Investees. The SPE Valuer evaluated each of the Investees with adoption of the appropriate valuation methodology based on their respective business natures. The appraisal value is calculated and determined according to the proportion of equity investment.

The appraised value of the long-term equity investments increased by approximately RMB65.04 million from the book value of approximately RMB166.03 million as at 28 February 2022. As discussed with the SPE Valuer, such increase is mainly due to (i) the book value of long-term equity investments which is initial investment cost by deducting the provision for impairment of long-term equity investment and would not be adjusted according to the change in financial performance of the Investees; and (ii) the appreciation of all shareholders' equity of the Investees due to the increase in the value of the land and fixed assets of the Investees and overall profitability of the Investees.

(iii) right-of-use assets

The right-of-use assets comprise lease payment of the office. As advised by the SPE Valuer, the SPE Valuer has compared the lease rate stated in the relevant lease contract with the market lease rate. The SPE Valuer has adopted the book values as at 28 February 2022 as their fair value on the assumption that there exists no material difference between the book values and the fair values of the right-of-use assets.

(iv) long-term deferred expenses

The long-term deferred expenses comprise the amortised remaining balance of the office renovation cost. As advised by the SPE Valuer, the SPE Valuer arrived at the fair value of the long-term deferred expenses taking into account of the original cost, remaining useful period and amortisation period. The SPE Valuer has adopted the book values as at 28 February 2022 as their fair value on the assumption that there exists no material difference between the book values and the fair values of the long-term deferred expenses.

As discussed with the SPE Valuer, the above appraisal method is a common methodology in establishing the valuation of such non-current assets and complies with the relevant professional standard for valuation in the PRC.

Non-current liabilities

According to the SPE Valuation Report, the non-current liabilities of Shandong Port Equipment Group mainly comprised lease liabilities. In determining the valuation of non-current liabilities, the SPE Valuer has adopted the book values as at 28 February 2022 as their fair value on the assumption that there exists no material difference between the book values and the fair values of the non-current liabilities.

As discussed with the SPE Valuer, the above appraisal method is a common methodology in establishing the valuation of such non-current liabilities and complies with the relevant professional standard for valuation in the PRC.

Appraised value of Investees concluded by asset-based approach

The valuations in respect of Rizhao Port Marine Machinery Industry Co., Ltd.* (日照港船機工業有限公司) and Yantai Haigang Motor Vehicle Comprehensive Performance Testing Co., Ltd.* (煙台海港機動車綜合性能檢測有限公司) (the "**Two Companies**") were concluded by the SPE Valuer by asset-based approach. We understood that the SPE Valuer adopted asset-based approach to conclude the valuations in respect of the Two Companies after considering the following factors:

– Market approach was not adopted because relevant listed companies and transactions in the market have low comparability with the Two Companies and cannot accurately reflect the value of the company.

– Income approach was not adopted due to (i) the uncertainty in forecasted income of the Two Companies; and (ii) the fact that Rizhao Port Marine Machinery Industry Co., Ltd.* (日照港船機工業有限公司) is an investment holding company directly holding the equity interests in Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司) and Rizhao Port Machinery Engineering Co., Ltd.* (日照港機工程有限公司) and does not have any actual operating business nor revenue generation.

– Asset-based approach was adopted as it can objectively and comprehensively reflect the value of all shareholders' equity of the Two Companies based on the acquisition cost of each individual asset of the enterprise.

Given the foregoing, we concur with the SPE Valuer that the adoption of the asset-based approach is an appropriate valuation methodology on the valuation of the Two Companies.

We have obtained the valuation model for each of the Two Companies. We noted that:

1. Rizhao Port Marine Machinery Industry Co., Ltd.* (日照港船機工業有限公司) – The assets and liabilities of Rizhao Port Marine Machinery Industry Co., Ltd.* (日照港船機工業有限公司) mainly comprise (i) long-term equity investment in Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司) and Rizhao Port Machinery Engineering Co., Ltd.* (日照港機工程有限公司); (ii) fixed assets including properties and buildings, machineries and electronic equipment; and (iii) current liabilities including short term loans, account and other payables, contract liabilities, employee payroll, taxes and others. The difference between the appraised value and the net asset value as at 28 February 2022 was mainly due to the appreciation of all shareholders' equity of Rizhao Port Marine Machinery Industry Co., Ltd.* (日照港船機工業有限公司) off set by the depreciation of all shareholders' equity of Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司). Such appreciation or depreciation was mainly due to the increase or decrease in the value of the land and fixed assets and overall profitability and financial performance of Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司) and Rizhao Port Machinery Engineering Co., Ltd.* (日照港機工程有限公司).

2. Yantai Haigang Motor Vehicle Comprehensive Performance Testing Co., Ltd.* (煙台海港機動車綜合性能檢測有限公司) – The assets and liabilities of Yantai Haigang Motor Vehicle Comprehensive Performance Testing Co., Ltd.* (煙台海港機動車綜合性能檢測有限公司) mainly comprise (i) current assets

including cash and receivables; (ii) fixed assets including properties and buildings, machineries, vehicles and electronic equipment; and (iii) current liabilities including account and other payables, employee payroll and taxes. The difference between the appraised value and the net asset value as at 28 February 2022 was due to (i) the appreciation of fixed assets; (ii) the difference between the depreciation rates used in accounting and the appraisal; and (iii) the difference between the economic useful life and the depreciation period on equipment and machineries.

Appraised value of Investees concluded by income approach

The valuations in respect of Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司), Rizhao Port Machinery Engineering Co., Ltd.* (日照港機工程有限公司) and Shandong Luhai Heavy Industry Co., Ltd.* (山東陸海重工有限公司) (the "**Three Companies**") were concluded by the SPE Valuer by income approach. We understood that the SPE Valuer adopted income approach to conclude the valuations in respect of the Three Companies after considering the following factors:

– Market approach was not adopted because relevant listed companies and transactions in the market have low comparability with the Three Companies and cannot accurately reflect the value of the company.

– Asset-based approach fails to reflect the value of the Three Companies in terms of the income generating capability of assets and the growth of the enterprise.

– Income approach was considered to better reflect the growth and profitability of the Three Companies.

Given the foregoing, we concur with the SPE Valuer that the adoption of the income approach is an appropriate valuation methodology on the valuation of the Three Companies.

As the valuation of the Three Companies were prepared by the SPE Valuer using the income approach and the income approach took into account the cash flow projection of the relevant business, the valuation on the Three Companies constitutes profit forecasts 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 letters 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 is made after due and careful enquiry.

We have also discussed the key assumptions and parameters under the valuation of the Three Companies.

1. Major cash inflow and outflow items

We noted that the operating income adopted in arriving at the valuation was determined with reference to the historical operating income of the Three Companies and the development of the industry. The operating income generated by the Three Companies are mainly from product sales, maintenance and other port-related services.

Operating expenses include cost of sales, raw materials, labours, utilities, taxation, administrative expenses and other costs, etc. Operating expenses were determined based on, among others, the historical amounts and the ratio of operating expenses to operating income in previous year of the Three Companies.

2. Discount rate

The discount rates for free cashflow applied in valuations of the Three Companies were determined based on the capital asset pricing model.

Based on our review of the valuations of the Three Companies and discussion with the SPE Valuer, we noticed that (i) the risk-free rate was determined with reference to the 10-year yield of PRC government bond; (ii) the beta was determined based on listed companies that were comparable to the Three Companies in terms of business type and business scale; (iii) the market risk premium was calculated based on the index rate of return of the China Securities Index 300 (CSI 300) with deduction of the risk-free rate; and (iv) the specific risk premium was determined based on the difference between the Three Companies and comparable listed companies in terms of business scale, development stage, core competitiveness, dependence on key customers and key suppliers, etc.

During our discussion with the SPE 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 of the Three Companies.

Taking into account of the above, we consider that the total subscription amount of the Company under the Proposed Capital Increase, which was determined with reference to the appraised value of 100% equity interests in Shandong Port Equipment Group, is fair and reasonable so far as the Independent Shareholders are concerned.

4. Financial effects of the Proposed Share Transfer and the Proposed Capital Increase

Upon completion of the Proposed Share Transfer and the Proposed Capital Increase, (i) Qingdao Port Equipment will cease to be a subsidiary of the Company and the financial statements of Qingdao Port Equipment will not be consolidated into the financial statements of the Company; and (ii) the financial statements of Shandong Port Equipment Group will not be consolidated into the financial statements of the Company.

The Company is expected to record a one-off gain of approximately RMB82.3511 million, which is calculated and determined based on the proceeds from the disposal and the cost of equity interests to be disposed.

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 Share Transfer and the Proposed Capital Increase.

C. THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

As advised by the representatives of the Company, the Company has entered into (i) a goods and services framework agreement; and (ii) a financial services framework agreement with Shandong Port Group in 2022 for the year ending 31 December 2022. After the completion of the Gratuitous Transfer, Shandong Port Group becomes an indirect controlling shareholder of the Company and the transactions between the Group and Shandong Port Group constitute connected transactions of the Company. Given that the transactions between the Group and Shandong Port Group will be continuing, the Company shall enter into (i) the 2023 SDP Goods and Services Agreement; and (ii) the 2023 SDP Financial Services Agreement with Shandong Port Group to regulate the transactions in accordance with the requirements under the Hong Kong Listing Rules.

As stated in the Letter from the Board, the Group and Shandong Port Group have extensive cooperation 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 enables 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 stated in the Letter from the Board, compared with independent third parties, related companies engaged in financial services of Shandong Port 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, the Company, as a shareholder of Qingdao Port Finance, will be financially benefited from the financial performance of Qingdao Port Finance. In addition, the Group has adopted various measures and guidelines to monitor the risk of Deposit Services.

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 Qingdao Port Finance:

(i) as a shareholder of Qingdao Port Finance, the Company is entitled to understand the operation conditions and financial conditions, read and copy the financial reports of Qingdao Port Finance by having access to its financial accounting report, such that the Company may monitor the operation conditions and financial conditions of Qingdao Port Finance at any time and respond to possible barriers to the recovery in time;

(ii) Qingdao Port Finance only provides financial related services to the internal member entities within Shandong Port Group. Qingdao Port Finance 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 Qingdao Port Finance;

(iii) since the inception of Qingdao Port Finance, Qingdao Port Finance has not previously defaulted on any repayment obligation;

(iv) the corporate governance, internal control, risk management and economic function and support to its customers of Qingdao Port Finance are subject to be reviewed and assessed 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 Qingdao Port Finance requires that the shareholders of Qingdao Port Finance shall provide a written undertaking to provide more funding and assistance to Qingdao Port Finance in light of its actual needs to address payment difficulties in the event that Qingdao Port Finance experiences any urgent payment difficulties; and

(vi) Shandong Port Group, being the controlling shareholder of Qingdao Port Finance after the completion of (a) the Absorption and Merger, and (b) the Qingdao Port Finance Capital Increase, maintains strong financial condition. Its total assets as at 31 December 2021 were approximately RMB231,928.70 million. Its net asset value as at 31 December 2021 was approximately RMB100,910.81 million. Total revenue generated by Shandong Port Group for the year ended 31 December 2021 was approximately RMB83,982.72 million and it recorded net profits for the year ended 31 December 2021 of approximately RMB5,271.94 million. The Directors are of the view that Shandong Port Group, being the controlling shareholder of Qingdao Port Finance after the completion of (a) the Absorption and Merger; and (b) the Qingdao Port Finance Capital Increase, 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 funds of Qingdao Port Finance.

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 Qingdao Port Finance.

As stated in the Letter from the Board, the Company has entered into a goods and services framework agreement with COSCO SHIPPING for the three years ending 31 December 2022. As COSCO SHIPPING is a substantial shareholder of the Company and therefore a connected person of the Company, any transactions between the Group and COSCO SHIPPING Group constitute connected transactions of the Company. Given that the transactions between the Group and COSCO SHIPPING Group will be continuing, the Company shall enter into the 2023 COSCO SHIPPING Goods and Services Agreement with COSCO SHIPPING to regulate the transactions in accordance with the requirements under the Hong Kong Listing Rules.

As stated in the Letter from the Board, the Group has maintained extensive and in-depth cooperation with COSCO SHIPPING Group over the years. The main businesses of the Company and COSCO SHIPPING are upstream and downstream in the same industry chain with high correlation in business and strong complementarity. Both parties are able to provide each other with high quality and reliable products and convenient and efficient services, which are conducive to promoting mutual benefits and win-win results.

Having considered that (i) the General SDP Sales and the General COSCO Sales provide a reliable customer base and stable income to the Group due to the long-established relationship of the Group with Shandong Port Group and COSCO SHIPPING Group; (ii) the General SDP Purchases provide the stability and reliability of the supply of goods and services to the Group; (iii) the Deposit Services and the Secured Credit 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 SDP Sales and the General SDP Purchases

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

On 28 October 2022 (after trading hours), the Company entered into the 2023 SDP Goods and Services Agreement with Shandong Port Group in relation to, among others, the General SDP Sales and the General SDP Purchases. Further details of the 2023 SDP Goods and Services Agreement are set out in the Letter from the Board.

According to the 2023 SDP Goods and Services Agreement, the pricing policies of the General SDP Sales and the General SDP Purchases shall be determined in accordance with relevant laws and regulations, by reference to the market prices of both parties being offered to independent third parties for the purchases or provision of the similar goods or services in the same category of the local region on normal commercial terms during the ordinary course of business, and on a fair and reasonable basis. 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 the 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. Further details of the pricing policies of the General SDP Sales and the General SDP Purchases are set out in the Letter from the Board.

We conducted our works below to assess the pricing policies of the General SDP Sales and the General SDP Purchases by reviewing the top five vouchers of the provision of goods and services between the Group and Shandong Port Group and its group members (the "**SDP Group Member(s)**") for each of the year ended 31 December 2021 and the nine months ended 30 September 2022 (the "**Relevant Period**").

The five selected largest amounts of vouchers of the sales of goods and services by the Group to the SDP Group Members for each of the Relevant Period involved the provision of port equipment and transportation services. For the port equipment, we have checked and noted that the prices of port equipment provided by the Group to the SDP Group Members were not less than the prices quoted from independent third parties for the similar port equipment and facilities. For the transportation services, we have checked and noted that the transportation fee rates offered by the Group to the SDP Group Members were determined with reference to the standard fee rate of the relevant port. As such, we are of the view that the pricing policies of the General SDP 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 SDP Group Members for each of the Relevant Period involved the provision of construction services, warehouse engineering services and logistics services. For the construction services, we have obtained from the Company the fee assessment document issued by an independent consultation company with the qualification of class A of engineering cost assessment issued by the Ministry of Housing and Urban-Rural Development of the PRC and noted that the price offered by the SDP Group Member to the Group was no more than the fee concluded by the independent consultation company. For the warehouse engineering services, we have checked and noted that the prices of the warehouse engineering services provided by the SDP Group Member to the Group were not higher than the prices quoted from independent third parties for the similar warehouse engineering services. For the logistics services, we have reviewed the similar transactions entered into between the Group and independent third parties and noted that the prices offered to the Group by the SDP Group Members on the logistics services were no less favourable than those offered by the independent third parties. As such, we are of the view that the pricing policies of the General SDP 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 SDP Sales represented approximately 17.48% and 10.34% respectively of the total amount of the General SDP Sales for each of the Relevant Period; (ii) the total amount of the five selected largest amounts of vouchers of the General SDP Purchases represented approximately 18.41% and 19.93% respectively of the total amount of the General SDP Purchases for each of the Relevant Period; (iii) the top five vouchers of the General SDP Sales and the General SDP Purchases covered different transaction types under the 2023 SDP Goods and Services Agreement; and (iv) the prices of the General SDP Sales and the General SDP Purchases shall be determined with reference to the state-prescribed prices, government guided-prices, market prices or those arrived at by the parties after arm’s length negotiation according to the pricing policy, we are of the view that the pricing policies of the General SDP Sales and the General SDP Purchases are fair and reasonable so far as the Independent Shareholders are concerned.

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

The following table sets out (i) the historical transaction amounts of the General SDP Sales and the General SDP Purchases between the Group and the SDP Group Members for the nine months ended 30 September 2022; (ii) the annual caps for the General SDP Sales and the General SDP Purchases for the year ending 31 December 2022 ("**FY2022**"); and (iii) the proposed annual caps for the General SDP Sales and the General SDP Purchases for the year ending 31 December 2023 ("**FY2023**"):

	Annual caps for the year ending 31 December 2022/ actual transaction amounts for the nine months ended 30 September 2022 *RMB million*	**Proposed annual caps for the year ending 31 December 2023** *RMB million*
The General SDP Sales	1,800/1,190	2,400
The General SDP Purchases	3,600/1,430	9,000

The annual cap for the General SDP Sales

The representatives of the Company advised us that the annual cap for the General SDP Sales for FY2023 was determined mainly based on (i) the historical transaction amount of the sales of goods and services by the Group to the SDP Group Members for the nine months ended 30 September 2022 and the expected increase in transaction amount for the fourth quarter of 2022 as most transactions will be settled at the end of this year; and (ii) the expected increase in the sales of goods and services to the SDP Group Members, including services such as stevedoring and logistics as the Company intends to expand development opportunities in 2023.

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 Members was approximately RMB1,190 million for the nine months ended 30 September 2022. Furthermore, based on market conditions, the fourth quarter is the traditional peak season for the Group's foreign trade business. We have obtained and reviewed the historical quarterly transaction amounts of the General SDP Sales for FY2021 and understand that the transaction amount for the fourth quarter of FY2021 accounted for approximately 30% of the annual transaction amount and was the highest for FY2021. Besides, the expected increase in the General SDP Sales for FY2023 was determined with reference to the historical growth rate of revenue of the Group of approximately 18.6% for 1H2022 as compared to the revenue for

1H2021. While forecasting the expected increase in provision of stevedoring services, logistics services and other related services to the SDP Group Members, the Company has discussed with Shandong Port Group on their demand for such services for FY2023. We have obtained and reviewed the plan prepared by the Group based on its discussion with Shandong Port Group regarding the provision of goods and services for FY2023 and understand that the demand of Shandong Port Group for the related goods and services will be increased significantly for FY2023.

Based on the above, we are of the view that the annual cap for the General SDP 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 SDP Purchases

The representatives of the Company advised us that the annual cap for the General SDP Purchases for FY2023 was determined mainly based on (i) the historical transaction amount of the purchase of goods and services by the Group from the SDP Group Members for the nine months ended 30 September 2022 and the expected increase in transaction amount for the fourth quarter of 2022 as most transactions will be settled at the end of this year; (ii) that the Group will adjust the operation mode of its liquid bulk business and may increase the transaction scale of subcontracting business to Shandong Port Group; (iii) the expected increase in the purchases of goods and services from the SDP Group Members, including services such as construction engineering and products such as ports machinery based on the investment plan of the Group for FY2023; and (iv) the business growth and expansion of the Group in recent years.

As advised by the representatives of the Company, the historical transaction amount of the purchase of goods and services by the Group from the SDP Group Members was approximately RMB1,430 million for the nine months ended 30 September 2022. Furthermore, based on market conditions, the fourth quarter is the traditional peak season for the Group's foreign trade business. We have obtained and reviewed the historical quarterly transaction amounts of the General SDP Purchases for FY2021 and understand that the transaction amount for the fourth quarter of FY2021 accounted for approximately 36% of the annual transaction amount and was the highest for FY2021. As stated in the 2022 Interim Report, the Group will accelerate the construction of a domestic trade hub port in northern China. Moreover, the Group will accelerate the construction of an intelligent and green port, speed up the construction of the third phase of the fully automated terminal, accelerate the transformation of the traditional terminal, and accelerate the transformation to a digital' automated and intelligent port. We have obtained the project list of construction projects and an intelligent port project and the purchase list of products which are available for the SDP Group Members to bid for FY2023.

As advised by the representatives of the Company, according to the Group's business plan, the Group will adjust the operation mode of its liquid bulk business and may increase the transaction scale of subcontracting business to Shandong Port Group with an estimated transaction value of RMB4,000 million for FY2023. We have obtained and reviewed the Group's business plan and understand that the Group is expected to unify operating liquid bulk business of the Group and Shandong Port Group. As a result, Shandong Port Group will provide the service of liquid bulk business to the Group. Furthermore, we have reviewed the financial information of Shandong Port Group and understand that the transaction amount of liquid bulk business of Shandong Port Group was approximately RMB4,838 million for FY2021.

Based on the above, we are of the view that the annual cap for the General SDP 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 Secured Credit Services

a) Principal terms of the Deposit Services and the Secured Credit Services

On 28 October 2022 (after trading hours), the Company and Shandong Port Group entered into the 2023 SDP Financial Services Agreement in relation to, among others, the provision of Deposit Services and Secured Credit Services by Shandong Port Group to the Group. Further details of the 2023 SDP Financial Services Agreement are set out in the Letter from the Board.

According to the 2023 SDP Financial Services Agreement, Shandong Port 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 independent third parties in the service location or adjacent areas in the normal course of business for such types of deposit services. Shandong Port Group provides Secured 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.

We understood from the representatives of the Company that Qingdao Port Finance (being a SDP Group Member) provides Deposit Services to the Group and the SDP Group Members provide Secured Credit Services, which include finance lease services and commercial factoring services, to the Group. Therefore, we conducted our works below to assess the pricing standards of the Deposit Services and the Secured Credit Services.

We have reviewed the vouchers of the five largest daily deposits of the Group with Qingdao Port Finance for each of the Relevant Period and compared with the interest rates of such type of deposits set by the PBOC and offered by major independent PRC commercial banks in similar period. We noted that the above interest rates offered by Qingdao Port Finance 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.

As advised by the representatives of the Company, the Group did not conduct any finance lease transactions with independent third parties during the Relevant Period. We have reviewed the five largest amounts of the finance lease transactions between the Group and the SDP Group Members for each of the Relevant Period and compared with the interest rates of the similar finance lease services offered by the SDP Group Members to independent third parties. We noted that the interest rates of the above finance lease transactions between the Group and the SDP Group Members were no less favourable than those offered by the SDP Group Members to independent third parties.

As advised by the representatives of the Company, the Group did not conduct any commercial factoring transactions with independent third parties during the Relevant Period. We have reviewed the five largest amounts or all of the commercial factoring transactions between the Group and the SDP Group Members for each of the Relevant Period and compared with the interest rates of the similar commercial factoring services offered by the SDP Group Members to independent third parties. We noted that the interest rates of the above commercial factoring transactions between the Group and the SDP Group Members were no less favourable than those offered by the SDP Group Members to independent third parties.

Given that (i) the deposit interest rates offered by Qingdao Port Finance to the Group were not less than those set by the PBOC and offered by major independent PRC commercial banks in similar period; and (ii) the interest rates of the Secured Credit Services were no less favourable than those offered by the SDP Group Members to independent third parties, we are of the view that the pricing policies of the Deposit Services and the Secured Credit Services are fair and reasonable so far as the Independent Shareholders are concerned.

b) Proposed annual caps for the Deposit Services and the Secured Credit Services

The following table sets out (i) the maximum outstanding balances of the Deposit Services provided by Qingdao Port Finance to the Group and the Secured Credit Services provided by the SDP Group Members to the Group for the nine months ended 30 September 2022; (ii) the annual caps for FY2022; and (iii) the proposed annual caps for FY2023:

	Annual caps for the year ended 31 December 2022/maximum outstanding balance for the nine months ended 30 September 2022	Proposed annual caps for the year ending 31 December 2023
	RMB million	*RMB million*
Deposit Services	20,000/13,028	18,000
Secured Credit Services	4,000/1,090	3,000

The annual cap for the Deposit Services

The representatives of the Company advised us that the annual cap for the Deposit Services for FY2023 was determined mainly based on (i) the maximum outstanding balance of the deposits of the Group deposited with Qingdao Port Finance for the nine months ended 30 September 2022; (ii) the deposits of the Group deposited with external commercial banks which were available to be deposited with Qingdao Port Finance as at 30 September 2022; and (iii) the expected net cash flow from operating activities of the Group for FY2023.

As advised by the representatives of the Company, the maximum outstanding balance of the deposits of the Group deposited with Qingdao Port Finance for the nine months ended 30 September 2022 were approximately RMB13,028 million and the deposits of the Group deposited with external commercial banks which were available to be deposited with Qingdao Port Finance were approximately RMB1,100 million as at 30 September 2022. As stated in the 2022 Interim Report, the net cash flows from operating activities of the Group for 1H2022 were approximately RMB3,187 million, which were mainly derived from the operating profit of the Group and net cash inflow from agency procurement business. As discussed above, the transaction amount of the General SDP Purchases for FY2023 is expected to increase as compared to FY2022. As advised by the representatives of the Company, the deposits deposited with Qingdao Port Finance would be used to settle the General SDP Purchases. Thus, the Company has taken into account the increase in the transaction amount of the General SDP Purchases for FY2023 when determining the expected net cash flow from operating activities of the Group for FY2023. As the Deposit Services under the 2023 SDP Financial Services Agreement provide an option, but not an obligation, for the Group to deposit its cash with Qingdao Port Finance, 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 Secured Credit Services

The representatives of the Company advised us that the annual cap for the Secured Credit Services for FY2023 was determined mainly based on (i) the maximum outstanding balance of Secured Credit Services received by the Group for the nine months ended 30 September 2022; (ii) the expected amounts of fixed assets and equipment of the Group available for finance lease services for FY2023; and (iii) the maximum outstanding balance of financing receivables of the Group for FY2020 and FY2021.

As advised by the representatives of the Company, the maximum outstanding balance of finance lease contracts of the Group was approximately RMB1,039 million for the nine months ended 30 September 2022. We have obtained a list of fixed assets and equipment of the Group in the total value of approximately RMB2,100 million which are available for finance lease services for FY2023. Furthermore, as advised by the representatives of the Company, the maximum outstanding balance of commercial factoring of the Group was approximately RMB51 million for the nine months ended 30 September 2022. As advised by the representatives of the Company, the maximum outstanding balance of financing receivables of the Group for FY2020 and FY2021 was approximately RMB529 million. Given the foregoing, we are of the view that the annual cap for the Secured Credit 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. The General COSCO Sales

a) Principal terms of the General COSCO Sales

On 28 October 2022 (after trading hours), the Company entered into the 2023 COSCO SHIPPING Goods and Services Agreement with COSCO SHIPPING in relation to, among others, the General COSCO Sales. Further details of the 2023 COSCO SHIPPING Goods and Services Agreement are set out in the Letter from the Board.

According to the 2023 COSCO SHIPPING Goods and Services Agreement, the pricing policies of the General COSCO Sales shall be determined in accordance with relevant laws and regulations, by reference to the market prices of both parties being offered to independent third parties for the purchases or provision of the similar goods or services in the same category of the local region on normal commercial terms during the ordinary course of business, and on a fair and reasonable basis. 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. Further details of the pricing policies of the General COSCO Sales are set out in the Letter from the Board.

We conducted our works below to assess the pricing policies of the General COSCO Sales by reviewing the top five vouchers of the sales of goods and services from the Group to the COSCO SHIPPING Group for each of the Relevant Period.

The five selected largest amounts of vouchers of the sales of goods and services by the Group to the COSCO SHIPPING Group for each of the Relevant Period involved the provision of stevedoring and port related services and logistics services. For the stevedoring and port related services, we have obtained and reviewed the contracts for the similar services entered into between the Group and independent third parties and noted that the fee rates offered to the COSCO SHIPPING Group were no less than the fee rates of the similar service offered to the independent third parties. For the tugboat services, we noted that the fee rate was determined in accordance with the Measures of Port Charges and Calculations (《港口收費計費辦法》) promulgated by the Ministry of Transport and the NDRC. As such, we are of the view that the pricing policies of the General COSCO Sales 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 COSCO Sales represented approximately 26.32% and 14.35% respectively of the total amount of the General COSCO Sales for each of the Relevant Period; (ii) the top five vouchers of the General COSCO Sales covered different transaction types under the 2023 COSCO SHIPPING Goods and Services Agreement; and (iii) the prices of the General COSCO Sales shall be determined with reference to the state-prescribed prices, government guided-prices, market prices or those arrived at by the parties after arm's length negotiation according to the pricing policy, we are of the view that the pricing policies of the General COSCO Sales are fair and reasonable so far as the Independent Shareholders are concerned.

b) Proposed annual cap for the General COSCO Sales

The following table sets out (i) the historical transaction amount of the General COSCO Sales by the Group to the COSCO SHIPPING Group for the nine months ended 30 September 2022; (ii) the annual caps for the General COSCO Sales for FY2020, FY2021 and FY2022; and (iii) the proposed annual cap for the General COSCO Sales for FY2023:

	Annual cap/actual transaction amount for the year ended 31 December		Annual cap for the year ending 31 December 2022/actual transaction amount for the nine months ended 30 September	Proposed annual cap for the year ending 31 December
	2020	**2021**	**2022**	**2023**
	RMB million	*RMB million*	*RMB million*	*RMB million*
The General COSCO Sales	910/609	1,005/691	1,110/673	1,500

The representatives of the Company advised us that the annual cap for the General COSCO Sales for FY2023 was determined mainly based on (i) the historical amounts of similar transactions between the Group and the COSCO SHIPPING Group for FY2020, FY2021 and the nine months ended 30 September 2022; and (ii) the expected increase in the sales of goods and services by the Group to the COSCO SHIPPING Group, including products such as fuel oil (retail) and electricity as well as the provision of services such as stevedoring, logistics, etc. for FY2023.

As advised by the representatives of the Company, the historical amounts of similar transactions between the Group and the COSCO SHIPPING Group for FY2020, FY2021 and the nine months ended 30 September 2022 were approximately RMB609 million, RMB691 million and RMB673 million respectively. Besides, the expected increase in the General COSCO Sales for FY2023 was determined with reference to the historical growth rate of revenue of the Group of approximately 18.6% for 1H2022 as compared to the revenue for 1H2021. While forecasting the expected increase in provision of stevedoring services, logistics services and other related services to the COSCO SHIPPING Group, the Company has discussed with COSCO SHIPPING on their demand for such services for FY2023. We have obtained and reviewed the plan prepared by the Group based on its discussion with COSCO SHIPPING regarding the provision of goods and services for FY2023 and understand that the demand of the COSCO SHIPPING Group for the related goods and services will be increased significantly for FY2023.

Based on the above, we are of the view that the annual cap for the General COSCO 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.

5. Internal control measures

The Company has established a comprehensive internal control system and adopted various internal control rules, including a management system on connected transactions 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 management system on connected transactions* (《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 management system on connected transactions* 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 2021 and the six months ended 30 June 2022 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.

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

Moreover, as stated in the 2021 Annual Report, the independent non-executive Directors have reviewed the continuing connected transactions disclosed in the 2021 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 2021 Annual Report, the auditor of the Company has been engaged to report on the continuing connected transactions of the Company disclosed in the 2021 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 2021 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 2021 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.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the terms of the Qingdao Port Equipment Share Transfer Agreement, the Shandong Port Equipment Group 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 Share Transfer, 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 Share Transfer, 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

Financial information of the Group for each of the years ended 31 December 2019, 2020, and 2021 and for the six months ended 30 June 2022 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 2019 (pages 102 to 304) https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0423/2020042301083.pdf

Annual report of the Company for the year ended 31 December 2020 (pages 108 to 324) https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042701177.pdf

Annual report of the Company for the year ended 31 December 2021 (pages 109 to 336) https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042500473.pdf

Interim report of the Company for the six months ended 30 June 2022 (pages 37 to 262) https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0923/2022092300841.pdf

2. STATEMENT OF INDEBTEDNESS

As of 28 October 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had (1) unsecured short-term borrowings of approximately RMB90 million; and (2) lease liability of approximately RMB120 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 28 October 2022, 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 transactions as set out in this circular, 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 2021, 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 the 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 Mr. SU Jianguang, Mr. LI Wucheng and Ms. WANG Fuling of his/her directorships or positions in Shandong Port Group and/or certain subsidiaries of Shandong Port 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 Directors 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 Directors or the Supervisors had any direct or indirect interest in any assets which have been, since 31 December 2021 (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 Directors 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

Upon the completion of the Gratuitous Transfer, Shandong Port Group, which has been engaging in port operation, logistics business and other businesses, has become an indirect controlling Shareholder of the Company and its businesses are similar to and/or are likely to compete/compete with those of the Company. Mr. LI Wucheng, one of the non-executive Directors, also hold positions in Shandong Port Group since September 2022.

So far as the Directors are aware, save as disclosed above, as at the Latest Practicable Date, other than businesses 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 member of the Group 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 any member of the Group.

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 Group since 31 December 2021, being the date to which the latest published audited accounts of the Group 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
Shandong Huide Asset Appraisal Co., Ltd.	a qualified valuer in the PRC
Shandong Zhong Ping Heng Xin Asset Appraisal Co., Ltd.	a qualified valuer in the PRC
PricewaterhouseCoopers Zhong Tian LLP	Certified Public Accountants

As of the Latest Practicable Date, 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 2021 (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 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), 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.

(b) 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.

(c) 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 Rizhao Port Group, in relation to the share capital increase of Harbour Engineering by the Company at the total subscription amount of RMB183,487.8 thousand.

(d) 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) ("**Qingdao Port Engineering**") and Harbour Engineering (as the transferee), in relation to the transfer of 51% equity interests in Qingdao Port Engineering at the consideration of RMB183,487.8 thousand.

(e) 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) ("**Shandong Port Technology**") and Qingdao Port Technology Co., Ltd.* (青島港科技有限公司) ("**Qingdao Port Technology**"), in relation to the share capital increase of Qingdao Port Technology by Shandong Port Technology at the total subscription amount of RMB52,842.245 thousand.

(f) the share capital increase agreement dated 28 June 2021 entered into among Shandong Port Group, 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.

(g) 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.

(h) the equity transfer agreement dated 16 May 2022 entered into among the Company (as the transferee) and Shandong Port Weihai Port Co., Ltd.* (山東港口威海港有限公司) (as the transferor) in relation to the acquisition of 51% equity interests in Shandong Weihai Port Development Co., Ltd.* (山東威海港發展有限公司) from Shandong Port Weihai Port Co., Ltd.* (山東港口威海港有限公司) at the consideration of RMB984.4466 million.

(i) the equity transfer agreement dated 10 August 2022 entered into among the Qingdao Port International Logistics Co., Ltd.* (青島港國際物流有限公司) (as the transferor), a wholly-owned subsidiary of the Company and Shandong Port Land-Sea International Logistics Group Co., Ltd.* (山東港口陸海國際物流集團有限公司) (as the transferee) in relation to the disposal of 11% equity interests in Qingdao Port International Trade Logistics Co., Ltd.* (青島港國際貿易物流有限公司) at the consideration of RMB17.1237 million.

X. MISCELLANEOUS

(a) Ms. SUN Hongmei is secretary to the Board and one of the joint company secretaries of the Company, Ms. NG Sau Mei is the other 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 (http://www.hkexnews.hk) and the Company (http://www.qingdao-port.com) for 14 days from the date of this circular:

(a) the Qingdao Port Equipment Share Transfer Agreement;

(b) the Shandong Port Equipment Group Capital Increase Agreement;

(c) the 2023 SDP Goods and Services Agreement;

(d) the 2023 SDP Financial Services Agreement;

(e) the 2023 COSCO SHIPPING Goods and Services Agreement;

(f) the letter from the Board, the text of which is set out on pages 10 to 60 of this circular;

(g) the letter from Independent Board Committee, the text of which is set out in this circular;

(h) the valuation report from the independent valuer in respect of the valuation on Qingdao Port Equipment as set out in Appendix III of this circular;

(i) the valuation report from the independent valuer in respect of the valuation on Shandong Port Equipment Group as set out in Appendix IV of this circular;

(j) 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;

(k) the letter from the Board on the profit forecast as set out in Appendix VI of this circular;

(l) the letter from TC Capital, the text of which is set out in this circular; and

(m) the written consents referred to in the section headed "Consent of Experts" in this appendix.

SUMMARY OF ASSET VALUATION REPORT IN RELATION TO THE VALUE OF THE TOTAL SHAREHOLDERS' EQUITY OF QINGDAO PORT EQUIPMENT MANUFACTURING CO., LTD. INVOLVED IN THE PROPOSED TRANSFER OF THE EQUITY OF QINGDAO PORT EQUIPMENT MANUFACTURING CO., LTD. HELD BY QINGDAO PORT INTERNATIONAL CO., LTD. TO MAKE A CAPITAL CONTRIBUTION

Zhong Heng Lu Ping Bao Zi (2022) No. 065

Shandong Zhong Ping Heng Xin Asset Appraisal Co., Ltd. (山東中評恒信資產評估有限公司) entrusted by Qingdao Port International Co., Ltd. (青島港國際股份有限公司) ("**Qingdao Port**"), in accordance with the provisions of laws, administrative regulations and asset appraisal standards, adhered to the principle of independence, objectivity and fairness, adopted asset-based method and income method on the basis of necessary valuation procedure to appraise the market value in relation to the total shareholders' equity of Qingdao Port Equipment Manufacturing Co., Ltd. (青島港口裝備製造有限公司) ("**Port Equipment Company**") involved in the proposed transfer of the equity interests of Port Equipment Company held by Qingdao Port International Co., Ltd. to make a capital contribution as of 28 February 2022. The valuation situation is now reported as follows:

I. Valuation purpose: according to the Decision of Qingdao Port International Co., Ltd. on Agreeing to Promote the Project Audit and Evaluation of the Proposed Transfer of 51% Equity Interests in Qingdao Port Equipment Manufacturing Co., Ltd. to Shandong Port Equipment Group Co., Ltd. on 20 January 2022, Qingdao Port International Co., Ltd. proposed to transfer its equity of Qingdao Port Equipment Manufacturing Co., Ltd., it is necessary to evaluate the value of the total shareholders' equity of Qingdao Port Equipment Manufacturing Co., Ltd. providing value reference for the economic behavior.

II. Valuation object: the total shareholder's equity of Qingdao Port Equipment Manufacturing Co., Ltd..

III. Valuation scope: all assets and liabilities (audited) of Qingdao Port Equipment Manufacturing Co., Ltd. on the valuation benchmark date.

IV. Value type: market value.

V. Valuation benchmark date: 28 February 2022.

VI. Valuation approach: asset-based method and income method.

VII. Valuation conclusion:

In this valuation, the valuer used the asset-based method and income method to evaluate the valuation object respectively, and eventually selected the valuation result of the income method as the valuation conclusion.

Under the premise of continuing operation assumption on the valuation benchmark date, the total value of shareholder's equity of Qingdao Port Equipment Manufacturing Co., Ltd. was RMB198.9975 million, representing an appreciation of RMB82.3511 million or 70.60% compared with the book net assets of RMB116.6464 million.

When using the assessment conclusion of the report, please note the impact of No. XI "Special Notes" in the text of the report on the valuation conclusion; and pay attention to the assessment assumptions and preconditions for the establishment of the valuation conclusion.

Special attention of users of the report is drawn to the following significant matters mentioned in No. XI "Special Notes" of the text of the report, which may affect the valuation conclusion but are beyond the professional level and capability of the asset valuers:

1. The site, plant, office building and staff dormitory of Port Equipment Company are all leased assets. Detailed operational leasing matters are as follows:

Lessee	**Lessor**	**Address**	**Asset name**	**Lease period**	**Area** *(m^2)*	**Annual rental including tax** *(RMB0'000)*
Port Equipment Company	Qingdao Port International Co., Ltd	Qingdao Port Qianwan Port Area	Material depot	2021.1.1-2022.12.31	8,086.18	63.38
Port Equipment Company	Shandong Port Qingdao Port Group Co., Ltd	Qingdao Port Dagang Port Area	Houses, land	2022.1.1-2022.12.31	78,205.38	462.11
Port Equipment Company	Shandong Port Qingdao Port Group Co., Ltd	No. 28, Ganghuan Road, Shibei District, Qingdao	Office building	2022.1.1-2022.12.31	2,916.10	80.50
Port Equipment Company	Qingdao One Stop Fast Rent Real Estate Agency Co., Ltd.	Puji New Area, Shibei District, Qingdao	Dormitory	2021.7.12-2022.7.11	270.00	9.50
Port Equipment Company	Qingdao One Stop Fast Rent Real Estate Agency Co., Ltd.	Puji New Area, Shibei District, Qingdao	Dormitory	2021.8.8-2022.8.7	180.00	6.54
Port Equipment Company	Qingdao One Stop Fast Rent Real Estate Agency Co., Ltd.	Puji New Area, Shibei District, Qingdao	Dormitory	2021.5.15-2022.5.14	540.00	19.01
Total					90,197.66	641.04

As Port Equipment Company is a wholly-owned subsidiary of Qingdao Port and a holding sub-subsidiary of Shandong Port Qingdao Port Group Co., Ltd., considering the operation needs of Port Equipment Company and the need to continuously lease the above assets, the current appraisal is conducted on the assumption that the contract will be renewed after the expiration of the lease contract, and the user of the report is reminded to pay attention to the impact of this matter on the valuation conclusion.

2. A total of 30 items (sets) of machinery and equipment included in the valuation scope are seriously damaged in the retired state. The enterprise has issued a statement of equipment retirement, involving the original book value of RMB68,642.17, and the net book value of RMB45,145.33. For retired equipment, the value is determined according to the recoverable price.

3. A total of 3 vehicles included in the valuation scope are seriously damaged in the retired state. The enterprise has issued a statement of vehicle retirement, involving the original book value of RMB52,657.34, and the net book value of RMB44,414.93. For retired vehicles, the value is determined according to the recoverable price.

4. A total of 27 items (sets) of electronic and office equipment included in the valuation scope are seriously damaged in the retired state. The enterprise has issued a statement of electronic and office equipment retirement, involving the original book value of RMB2,363.20 and the net book value of RMB1,006.34. For retired electronic and office equipment, the value is determined according to the recoverable price.

In particular, this valuation opinion only serves as a reference basis for the parties to the transaction in relation to the value of the equity transfer, and cannot replace the decision of the parties to the transaction on the equity transfer price.

According to the relevant regulations of the State, the validity period of this valuation conclusion is one year, from the valuation benchmark date of 28 February 2022 to 27 February 2023.

The above content is extracted from the text of the valuation report. For details of this valuation project and reasonable understanding of the valuation conclusion, please read the full text of the valuation report carefully, and pay attention to the content of the special notes.

ASSET VALUATION REPORT
IN RELATION TO
THE VALUE OF THE TOTAL SHAREHOLDERS' EQUITY OF
QINGDAO PORT EQUIPMENT MANUFACTURING CO., LTD.
INVOLVED IN THE PROPOSED TRANSFER OF THE EQUITY
OF QINGDAO PORT EQUIPMENT MANUFACTURING CO., LTD.
HELD BY QINGDAO PORT INTERNATIONAL CO., LTD.
TO MAKE A CAPITAL CONTRIBUTION

Zhong Heng Lu Ping Bao Zi (2022) No. 065

To: Qingdao Port International Co., Ltd. (青島港國際股份有限公司)

Shandong Zhong Ping Heng Xin Asset Appraisal Co., Ltd., (山東中評恒信資產評估有限公司) entrusted by Qingdao Port International Co., Ltd., (青島港國際股份有限公司) in accordance with the provisions of laws, administrative regulations and asset appraisal standards, adhered to the principle of independence, objectivity and fairness, adopted asset-based method and income method on the basis of necessary valuation procedure to appraise the market value in relation to the total shareholders' equity of Qingdao Port Equipment Manufacturing Co., Ltd. (青島港口裝備製造有限公司) ("**Port Equipment Company**") involved in the proposed transfer of the equity interests of Port Equipment Company held by Qingdao Port International Co., Ltd. to make a capital contribution as of 28 February 2022. The valuation situation is now reported as follows:

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

(I) Overview of the client

Enterprise name: Qingdao Port International Co., Ltd. ("**Qingdao Port**")
Stock code: 601298
Registered address: No. 12 Jingba Road, Huangdao District, Qingdao, Shandong Province
Legal representative: Su Jianguang
Registered capital: RMB6,491.10 million
Enterprise type: Other joint stock limited companies (listed)
Established date: 15 November 2013
Uniform social credit code: 91370200081422810C

Business scope: Domestic coastal transportation of general cargo vessels (the validity period of the water transportation permit is subject to the permit). Terminals and other port facilities services; cargo handling and storage services; port passenger transportation services; port tugging and barging services; port services for vessels; leasing and repair services of port facilities, equipment and machinery. Installation of pressure pipelines; pipeline installation supporting projects; liquefied natural gas operation, construction and operation of liquefied natural gas stations; development, operation and management of terminals; port construction project management; channel dredging and reclamation; earthwork engineering; municipal engineering construction; vessel, floating dock and house leasing; import and export of goods and technology; business of publishing domestic advertisements; international freight forwarding; construction labor operation, construction labor subcontracting, port and shipping equipment installation and water transportation management construction works, machinery and equipment manufacturing, installation, modification and maintenance; manufacturing, installation, modification and maintenance of cranes; construction works of communication, informatization, building intelligence, fire protection and industrial automation projects; electronic equipment installation projects; development of computer technology and communication technology; port communication facilities leasing; manufacturing of electrical equipment and sale of electricity; installation of fire protection devices and power distribution equipment; power transmission and transformation within the port; maintenance of power supply equipment, installation and maintenance of power lines and lighting works; electrical engineering design and consultancy; test of power transmission, supply and receiving facilities; measurement verification, calibration and testing; waterproof, anti-corrosion and heat preservation, offshore oil engineering; petrochemical engineering works, inspection and maintenance; manufacturing and installation of metal steel structures and metal storage tanks. Wholesale and retail: electrical equipment and materials, communication equipment, computer equipment, electronic equipment. Bidding agency. Operation by branch institutions only: power supply, water supply and gas supply at ports; domestic labor dispatch; car rental; container loading and unloading, transshipment, stacking, storage, unpacking, consolidation, packing, washing and repairing, warehousing; leasing of machinery and equipment; road transportation; ordinary freight; transportation intermediary services; communication and information services; parking services; road freight forwarding; passenger vehicle cargo loading, storage, handling and carrying; shipping agency; vessel services; offshore oil operations; ship engineering installation and maintenance; vessel waiting halls; passenger transportation services at vessel waiting halls; luggage storage and deposit (excluding dangerous goods), packing, lead sealing, loading and unloading; ordering ferry tickets and platform tickets; port dredging, port construction project management; tool manufacturing; ocean shipping water supply; property management; safety technology preventive projects and works; riveting processing; casting and forging processing; tire refurbishment; shipbuilding and maintenance; type 2 motor vehicle maintenance; motor vehicle repairs, assembly repairs, vehicle maintenance, minor repairs, repairs and rescue, special repairs; installation of insulation and fire-proof anti-theft devices, communication lines and communication equipment; wholesale and retail: building materials and hardware, steel, cement, electromechanical products, ores; general merchandise, sporting goods, textiles, clothing, shoes and hats, office supplies, pre-packaged food; gasoline, diesel, lubricating oil, aquatic products and their products, dried and fresh fruits, cold food, beverages; production of pastries, flour, peanut oil, spring water, noodles, bean products, dried sausages; production and processing: knitwear, rope net, plastic products, clothing, tarpaulin net; port worker tool manufacture and repairs; printing; conference services; domestic freight forwarding; sales of automobile accessories. (For projects subject to approval in accordance with the laws, business activities shall be conducted only after approved by the relevant departments).

(II) Overview of appraised entity

1. General information

Enterprise name: Qingdao Port Equipment Manufacturing Co., Ltd.
Registered address: No. 1, work-waiting building with full floor, No. 58A Ganghuan Road, Shibei District, Qingdao, Shandong Province
Legal representative: Han Xiaolong
Registered capital: RMB100 million
Paid-in capital: RMB100 million
Enterprise type: Limited liability company (invested by non-natural person or wholly owned by legal person)
Establishment date: 16 November 2020
Business period: 16 November 2020 to no fixed term
Unified social credit code: 91370203MA3UD2U318

Business scope: general items: manufacture of material handling equipment; manufacture of ocean engineering equipment; manufacture of deep-sea oil drilling equipment; research and development of offshore wind power related systems; manufacture of mining machinery; manufacture of metal structures; manufacture of metal tools; sales of special equipment; sales of intelligent port handling equipment; sales of material handling equipment; sales of ocean engineering equipment; sales of offshore wind power related equipment; sales of mining machinery; sales of metal structures; vessel modification; vessel repairs; leasing of machinery and equipment; transportation equipment leasing services; container leasing services; container manufacturing; sales of containers; metal packaging containers and materials manufacturing; sales of metal packaging containers and materials; sales of construction materials; metal materials manufacturing; sales of metal materials; project management services; external contracting projects; general goods warehousing services (excluding items requiring permits and approval such as hazardous chemicals); sales of building decoration materials; retail of hardware products; convention and exhibition services; information technology consulting services; shipbuilding; repairs and maintenance of motor vehicles; advertisement publication (non-broadcast radio stations, television stations, newspaper and magazine publishing units); vessel chartering. (Except for items subject to approval in accordance with the laws, business activities shall be carried out independently with business licenses in accordance with the laws) Licensed items: port operation; special equipment manufacturing; special equipment design; special equipment installation, modification and repairs; special equipment inspection and testing services; various works and construction activities; construction project design; import and export of goods; import and export of technology; road cargo transportation (excluding hazardous goods). (For projects subject to approval in accordance with the laws, business activities shall be conducted only after approved by the relevant departments, and specific business projects shall be subject to the approval documents or licenses issued by relevant departments).

2. Corporate history

Qingdao Port Equipment Manufacturing Co., Ltd. (青島港口裝備製造有限公司) was established on 16 November 2020 with a registered capital of RMB100,000,000. It is a wholly-owned subsidiary established by Qingdao Port International Co., Ltd. with cash and cash equivalents and the asset group (all assets and liabilities) of Port Machinery Branch of Qingdao Port International Co., Ltd. ("**Port Machinery Branch**") as capital contributions. Among which, the cash and cash equivalents capital contribution amount was RMB46,735,000.00, while the capital contribution amount of the asset group was RMB53,265,000.00, which is recognized based on the capital contribution amount of the asset group as at 31 May 2021, including total assets of RMB1,316,764,468.25 and total liabilities of RMB1,263,499,468.25. The fixed assets and intangible assets involved are recognized based on the corresponding appraised value of assets as at 30 June 2020, being the benchmark date of the valuation report (Zhong Lian Ping Bao Zi (2020) No. 2536), net of the depreciation and amortization amounts from July 2020 to 31 May 2021. The capital contributions have been verified by Shandong Branch of Grant Thornton (Special General Partnership) and a capital verification report (Zhi Tong Yan Zi (2021) No. 370FC0005) has been issued. The shareholding structure of the company upon its establishment was as follows:

Unit: RMB0'000

No.	Name of shareholder	Capital contribution	Paid-in capital contribution	Percentage of shareholding
1	Qingdao Port International Co., Ltd.	10,000.00	10,000.00	100.00%
	Total	**10,000.00**	**10,000.00**	**100.00%**

As of the valuation benchmark date, the shareholding structure of Qingdao Port Equipment Manufacturing Co., Ltd. has not changed again.

3. Overview of major assets of the enterprise

The main assets of Port Equipment Company are current assets and non-current assets, and the main assets are as follows:

Current assets mainly include monetary funds, bills receivable, accounts receivable, receivables financing, prepayment, other receivables, inventory, contract assets and other current assets; non-current assets mainly include fixed assets, intangible assets and deferred income tax assets, including fixed assets comprising machinery and equipment, vehicles, electronics and office equipment; intangible assets comprising patents and purchased software. The specific types and characteristics of the physical assets and intangible assets are as follows:

(1) Inventories

Inventories consist of materials in transit, raw materials and contract performance costs. Materials in transit mainly include bolts, flanges, manganese plates, etc., all of which are materials in transit that have invoice documents received but have not yet arrived or have not been accepted for storage as at the valuation benchmark date. Raw materials mainly include cranes, cables, motors and various hardware and spare parts, all of which function normally. Contract performance costs account for the relevant labor costs, material costs, engineering costs, etc. incurred in the engineering projects that have not been completed and accepted. The main projects include port machinery product – Qingwei three automatic rail cranes (青威三台自動化軌道吊) ZGD-21-109, port machinery product – Datang Terminal eight 4540 portal slewing crane construction project (大唐碼頭8台4540門機製造工程) ZM-21-101, belt conveyor project – Dongkuang loading and unloading ship transfer process manufacturing project (董礦裝卸船轉水流程製造工程) ZZP-19-107, port machinery product – Rizhao Port eight 4200T reclaimer manufacturing project (日照港8台4200T取料機製造項目) ZD-20-113, etc., all of which are in normal production. The inventories are mainly distributed in multiple warehouses with a large variety. The warehouses have a sound storage system, where goods are stacked in an orderly manner in accordance with categories with correct labeling, and the entry and exit of inventories are recorded in the registration cards timely and accurately.

(2) Fixed assets – equipment assets

There are a total of 474 sets of machinery and equipment among 437 items. The main equipment includes 40 lifting equipment, 71 lathe equipment, 115 welding machine equipment, 15 construction machinery vehicles and 233 other auxiliary production equipment of various kinds. Among them, 30 sets of equipment are damaged seriously and subject to retirement, while the remaining equipment functions normally. The corporate equipment is under fair maintenance.

A total of 43 vehicles comprise 22 light and medium-duty trucks, 2 semi-trailer trucks, 4 medium-sized general passenger vehicles, 5 Trumpchi mini-general passenger vehicles, 3 Forland general passenger vehicles, 2 Buick general passenger vehicles, 2 Toyota small cars, 1 JAC light passenger vehicle and 2 heavy-duty semi-trailer tractors. Among them, 1 general passenger vehicle and 2 light-duty general trucks are seriously damaged and subject to retirement, while the remaining vehicles are running normally and have their annual inspection passed.

There are a total of 397 sets of electronic and office equipment among 397 items, which are primarily for daily office use of various departments. They mainly include computers, air conditioners, printers, copiers, projectors, cameras, monitoring systems, water heaters, water purifiers, drawing instruments and other electronic and office equipment distributed in various departments of the enterprise. Among them, 27 sets of electronic and office equipment are seriously damaged and subject to retirement, while the remaining electronic and office equipment all functions normally.

(3) Intangible assets

The intangible assets recorded in the valuation scope are purchased software, including 9 sets of software such as the optic fiber laser marking system (光纖激光打標系統) and ZWCAD design software (中望機械CAD設計軟件), etc.

The off-balance-sheet intangible assets included in the scope of valuation are patents, which are developed by the enterprise in the production process with a book value of 0, and the relevant costs have been included in the current profit and loss. They include 9 invention patents (8 of which are in the process of being accepted) and 30 utility model patents. In particular, among the off-balance-sheet assets declared by Port Equipment Company of 39 patents (8 of which are in the process of being accepted), the title owner or applicant of 26 patents (6 of which are in the process of being accepted) is jointly owned by Qingdao Port International Co., Ltd. and Qingdao Port Equipment Manufacturing Co., Ltd. The joint owners did not sign the license agreement. Based on the principle of "who develops, who owns, who benefits", the patent owner has the right to distribute the profits brought by the patent assets.

4. Overview of principal businesses of the enterprise

(1) Main products or services

Port Equipment Company possesses the Grade A manufacturing license as well as installation and maintenance qualification for a full range of port machinery products. The principal businesses of Port Equipment Company include container loading and unloading machinery, portal slewing crane, continuous loading and unloading process system for port bulk cargo, crane, steel structure manufacturing and installation, machinery repairs and maintenance, storage tank and pipeline installation, port machinery repairs and maintenance and technical upgrading and services. The main product categories of Port Equipment Company include: bridge crane, rail crane, tire crane, portal slewing crane, stacker-reclaimer, belt conveyor process, petrochemical engineering installation and other businesses, special equipment automation modification and upgrading services, spare parts services.

(2) Business models

1) Procurement model

Qingdao Port Equipment Manufacturing Co., Ltd. is affiliated to Shandong Port Group. The procurement of raw materials, equipment and goods is conducted through the three major platforms of Shandong Port Group, namely the Shandong Port Sunshine Huicai e-Platform (山東港口陽光慧採e平台), bidding and valuation system (招評標系統) and procurement and inventory management system (採購及庫存管理系統). Among them, raw materials, equipment and goods worth more than RMB500,000 are published on the Shandong Port Sunshine Huicai e-Platform, followed by online bidding on the bidding and valuation system. Meanwhile, raw materials, equipment and goods worth within RMB500,000 are purchased through price inquiry and comparison on the procurement and inventory management system, which has 3,469 registered suppliers. The continuous expansion of the list of suppliers can fully guarantee the supply of equipment, materials, spare parts and auxiliary consumables required for production. At present, the core technologies and production of key equipment and some important raw materials for product production are controlled by a few foreign suppliers, the bidding of which is participated by domestic agents. Port Equipment Company also attaches great importance to supply chain management, and has entered into strategic cooperation agreements with Schmersal, BROMMA and SEW. At present, the company is actively seeking cooperation with manufacturers to reduce intermediaries and procurement costs.

2) Production model

Based on the contracts or orders signed by the market development department, the production management department calculates the project cost budget form to be uploaded to the project number application system for project number application. Production plan form is prepared for key projects to be uploaded to the TB software, through which the production plan and progress are directly sent and fed back to various departments. In terms of the implementation of production plan, the production and operation department inspects and supervises the actual completion of production plan. Daily production coordination meetings are arranged to timely formulate measures to improve production efficiency for projects that fail to complete in accordance with the schedule, so as to ensure that orders are performed in accordance with users' requirements.

(3) Sales model

① Order production. Port cranes are special equipment with a high unit selling price, which generally adopt the sales-based production model. The manufacturing enterprise has no prototype and no inventory, and the production period is worked out using the delivery time as the final node.

② Personalized design. Port cranes require personalized design for each product due to different loading capacities, production capacities, types of goods handled and operation modes of users' ports. As a result, research and development costs will be incurred for each order.

③ Single or small batch production. As an important production element of terminals, port cranes, whether newly constructed for terminals or for the renewal of old equipment, are manufactured in small batches. Raw materials and supporting parts reserves, production and manufacturing, fine processing, installation, commissioning and transportation are all designed as a single solution.

In conclusion, the production organization of a port crane enterprise adopts the final delivery time as the end point, and works out backward the whole process of installation and commissioning, assembly, welding and processing, CNC cutting and drawing distribution. Small-batch and multi-model cross-production is the norm.

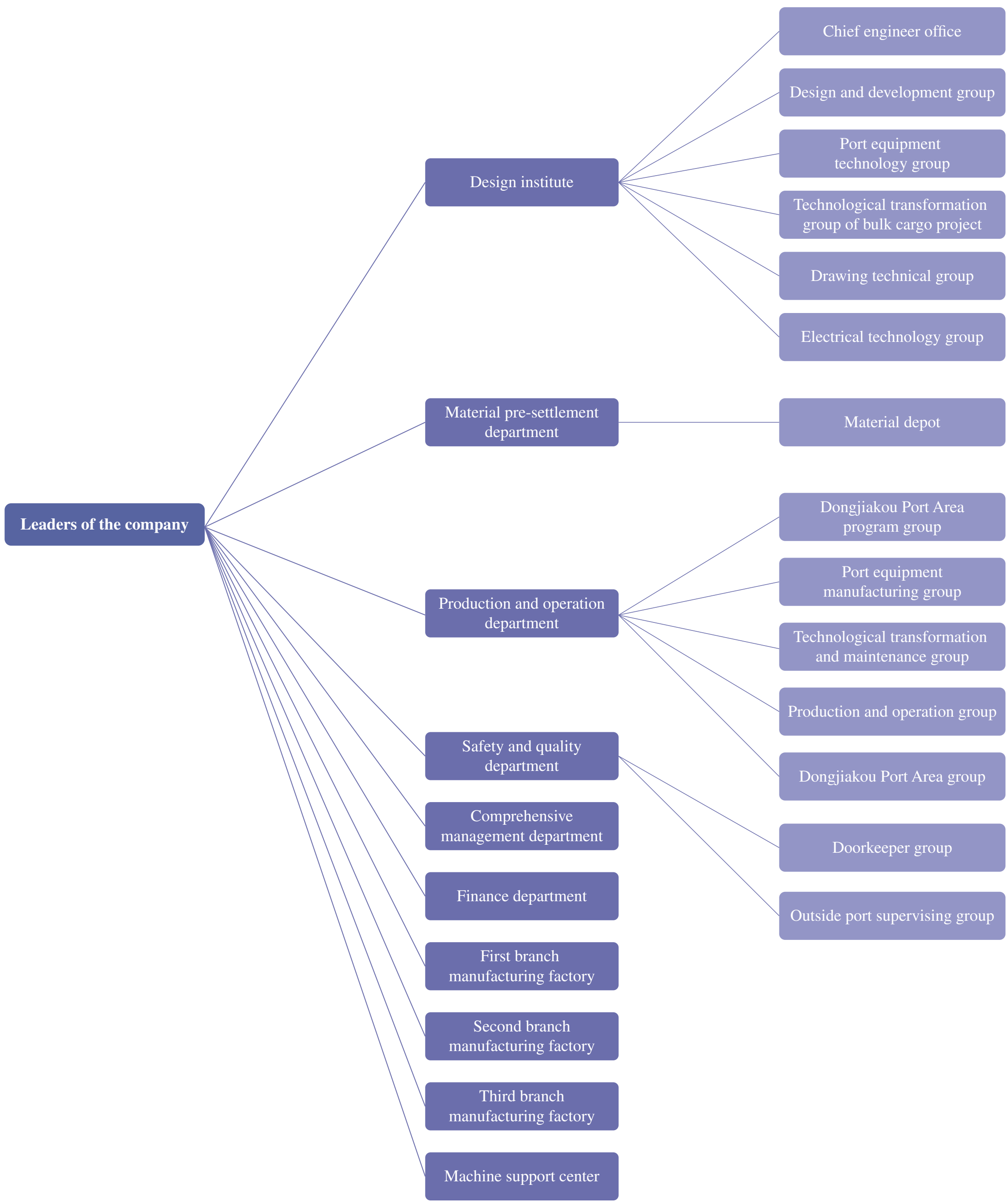
(4) R&D model

Product development: Qingdao Port Equipment Manufacturing Co., Ltd. has set up a special research and development department, and established a design and R&D team dominated by postgraduates with the new product research and development and manufacturing capability, closely follows the market demand, advances the industry trend, and upgrades the previous equipment while developing new products. The equipment company works closely with Beijing, Shanghai, Wuhan and other first-class port machinery design institutes and universities, establishing a complete set of R&D and design system through learning exchange and experience precipitation, and has developed and designed a number of equipment projects with independent intellectual property rights, standing in the forefront of the equipment technology industry.

5. Organizational structure and human resources of the enterprise

Qingdao Port Equipment Manufacturing Co., Ltd. has 339 employees on duty. Among them, 53 have undergraduate qualification or above, accounting for 16%, 143 have junior college qualification, accounting for 42%; 89 have high school and technical secondary school qualification, accounting for 26%; 54 have junior high school qualification or below, accounting for 16%. According to the length of service, 88 people have less than 10 years of service, accounting for 26%; 147 people have 11 to 20 years, accounting for 44%; 52 people have 21 to 30 years, accounting for 15%; 52 people have over 31 years, accounting for 15%.

Port Equipment Company has design institute, material pre-settlement department, production and operation department, safety and quality department, comprehensive management department, finance department, first branch manufacturing factory, second branch manufacturing factory, third branch manufacturing factory, machine support center and other departments. The specific organizational structure is as follows:



6. *Statement of financial position and operating results*

Statement of financial position

Unit: RMB0'000

Item	**2021.12.31**	**2022.2.28**
Current assets	142,932.17	153,096.77
Non-current assets	3,929.91	3,777.50
Including: long-term equity investment		
Investment real estate		
Fixed assets	3,304.61	3,235.40
Construction in process		
Intangible assets	27.27	25.82
Other	598.02	516.28
Total assets	146,862.08	156,874.27
Current liabilities	129,596.84	133,866.96
Non-current liabilities	11,352.00	11,342.67
Total liabilities	140,948.84	145,209.63
Owner's equity	5,913.23	11,664.64

Operating results table

Unit: RMB0'000

Item	**The year of 2021**	**In January-February 2022**
I. Revenue	74,626.03	16,658.06
Less: Cost of sales	65,667.47	14,440.21
Taxes and surcharges	74.48	9.44
Selling expenses	564.61	14.31
General and administrative expenses	2,346.60	311.56
Research and development expenses	2,196.28	695.30
Financial expenses	1,120.94	357.03
Credit impairment losses	1,621.99	-285.66
Asset impairment losses	712.20	-42.86
Add: Other income	38.59	0.57
II. Operating profit	360.06	1,159.30
Add: Non-operating income	5.01	0.35
Less: Non-operating expenses	93.81	
III. Total profit	271.26	1,159.65
Less: Income tax expense	-12.57	81.74
IV. Net profit	283.83	1,077.91

The financial data of Port Equipment Company listed in the above table for 2021 and January to February of 2022 were audited by Grant Thornton International Ltd. (Special General Partnership) which issued the unqualified audit report Zhi Tong Zhuan Zi (2022) No. 370C014192.

(III) Other users of the valuation report as agreed in the asset valuation engagement contract

According to the provisions of the asset valuation engagement contract, there is no other report user involved in this report.

(IV) Relationship between the client and the appraised entity

The appraised entity is Qingdao Port Equipment Manufacturing Co., Ltd., which is a wholly-owned subsidiary of the client, Qingdao Port International Co., Ltd.

II. PURPOSE OF VALUATION

According to the Decision of Qingdao Port International Co., Ltd. on Agreeing to Promote the Project Audit and Evaluation of the Proposed Transfer of 51% Equity Interests in Qingdao Port Equipment Manufacturing Co., Ltd. to Shandong Port Equipment Group Co., Ltd. on 20 January 2022, Qingdao Port International Co., Ltd. proposes to transfer of the equity interests of Qingdao Port Equipment Manufacturing Co., Ltd. held by Qingdao Port International Co., Ltd. to make a capital contribution, it is necessary to evaluate the value of the total shareholders' equity of Qingdao Port Equipment Manufacturing Co., Ltd. providing value reference for the economic behavior.

III. VALUATION OBJECT AND VALUATION SCOPE

(I) Valuation object

The valuation object is the value of the total shareholders' equity of Qingdao Port Equipment Manufacturing Co., Ltd.

(II) Scope of valuation

The scope of valuation is all assets and liabilities (audited) on the valuation benchmark date declared by Qingdao Port Equipment Manufacturing Co., Ltd., of which the book value of total assets was RMB1,568.7427 million, the book value of liabilities was RMB1,452.0963 million, and the book value of net assets was RMB116.6464 million. The book value has been audited by Grant Thornton International Ltd. (Special General Partnership) which issued an unqualified audit report of Zhi Tong Zhuan Zi (2022) No. 370C014192. The carrying value of various assets and liabilities is shown in the following table:

Summary form of asset appraisal declaration

Unit: RMB0'000

Item name	**Book value**
Current assets	153,096.77
Non-current assets	3,777.50
Including: long-term equity investment	–
Investment real estate	–
Fixed assets	3,235.40
Construction in process	–
Intangible assets	25.82
Land use right	–
Other	516.28
Total assets	156,874.27
Current liabilities	133,866.96
Non-current liabilities	11,342.67
Total liabilities	145,209.63
Net assets	11,664.64

1. The scope of asset valuation shall be subject to the valuation declaration form provided by the appraised entity. The client and the appraised entity have promised that the valuation object and scope are consistent with the valuation object and scope involved in the economic behavior, without duplication or omission.

2. *Off-balance-sheet assets declared by the enterprise*

The off-balance-sheet assets included in the valuation scope are patents, which are developed by the enterprise in the production process. The book value is 0, and the relevant costs have been included in the current profit and loss. They include 9 invention patents (8 of which are in the process of being accepted) and 30 utility model patents, specifically as follows:

No.	Name	Application date	Type	Patent No./ application No.	Statutory life in years	Quantity	Ownership status	Patent holder
1	A type of stacker-reclaimer bucket wheel body processing tooling	2021.12.30	Invention patent	202111645322.8	20	1	Public	Qingdao Port Equipment Manufacturing Co., Ltd.
2	A type of flood light installation structure same like elephant nose	2021.10.29	Utility model patent	CN216190471U	10	1	Authorization	Qingdao Port Equipment Manufacturing Co., Ltd.
3	Ship uploading hopper guide device	2021.7.29	Utility model patent	CN216155032U	10	1	Authorization	Qingdao Port Equipment Manufacturing Co., Ltd.
4	Double-electric anchor device and bridge running gear	2021.7.29	Utility model patent	202121748112.7	10	1	Authorization	Qingdao Port Equipment Manufacturing Co., Ltd.
5	Self-adaptive load vehicles, methods, equipment and storage media	2021.7.12	Invention patent	202110784597.3	20	1	Physical review	Qingdao Port Equipment Manufacturing Co., Ltd.
6	A type of self-inspected and loaded flat trailer	2021.6.28	Utility model patent	202121443325.9	10	1	Authorization	Qingdao Port Equipment Manufacturing Co., Ltd.
7	A type of workpiece linkage dual-blocking device	2021.6.16	Utility model patent	202121336303.2	10	1	Authorization	Qingdao Port Equipment Manufacturing Co., Ltd.
8	A type of workpiece turnover device	2021.6.16	Utility model patent	202121336465.6	10	1	Authorization	Qingdao Port Equipment Manufacturing Co., Ltd.
9	A type of straight-line measurement device for wheels	2021.5.17	Utility model patent	202121056079.1	10	1	Authorization	Qingdao Port Equipment Manufacturing Co., Ltd.
10	A type of carbon dioxide gas protective welding gun	2021.5.17	Utility model patent	202121054343.8	10	1	Authorization	Qingdao Port Equipment Manufacturing Co., Ltd.

No.	Name	Application date	Type	Patent No./ application No.	Statutory life in years	Quantity	Ownership status	Patent holder
11	Dual protection door linkage device	2021.5.14	Utility model patent	202121032127.3	10	1	Authorization	Qingdao Port Equipment Manufacturing Co., Ltd.
12	Clamping device	2021.5.14	Utility model patent	202121031441.X	10	1	Authorization	Qingdao Port Equipment Manufacturing Co., Ltd.
13	A type of wind-proof anchor system for shore container cranes	2021.2.8	Utility model patent	ZL 2021 2 0349948.3	10	1	Authorization	Qingdao Port Equipment Manufacturing Co., Ltd.
14	A type of stacker-reclaimer center hopper	2021.1.15	Utility model patent	ZL 2020 2 0110625.9	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
15	Floating conveyor belt trenching device	2021.1.14	Utility model patent	ZL 2020 2 0098062.6	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
16	A type of wind-proof anchor system	2021.1.5	Utility model patent	ZL 2021 2 0013745.7	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
17	Automatic releasing system for container trucks	2021.1.5	Utility model patent	ZL 2021 2 0013542.8	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
18	A type of wind-proof anchor device for cranes	2020.12.31	Utility model patent	ZL 2020 2 3291051.4	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.

No.	Name	Application date	Type	Patent No./ application No.	Statutory life in years	Quantity	Ownership status	Patent holder
19	A type of air compressor based on remote control of the Internet of Things	2020.12.31	Utility model patent	ZL 2020 2 3291031.7	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
20	A type of analog motor alignment platform	2020.12.28	Utility model patent	ZL 2020 2 3211708.1	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
21	A type of automatic welding system for bridge crane	2020.10.27	Utility model patent	ZL 2020 2 2420238.3	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
22	Mold for replacement of lockhole board of lifting sling	2020.10.27	Utility model patent	ZL 2020 2 2417278.2	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
23	A type of heavy-duty detachable universal wheel	2020.8.19	Utility model patent	ZL 2020 2 1738119.6	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
24	Lifting sling assembly truck	2020.8.13	Utility model patent	ZL 2020 2 1683618.X	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.

No.	Name	Application date	Type	Patent No./ application No.	Statutory life in years	Quantity	Ownership status	Patent holder
25	A type of grinding machine for surface painting of steel structures	2020.6.5	Invention patent	202010505792.3	20	1	Public	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
26	A type of cable installation structure for reclaimer	2020.6.5	Utility model patent	ZL 2020 2 1018005.4	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
27	A type of cable installation structure for reclaimer	2020.6.5	Invention patent	202010505791.9	20	1	Public	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
28	A type of grinding machine for surface painting of steel structures	2020.6.5	Utility model patent	ZL 2020 2 1018006.9	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
29	A type of semi-automatic shore container crane	2020.6.5	Utility model patent	ZL 2020 2 1016478.0	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
30	A type of central collector and a type of slewing crane with such central collector	2020.6.5	Utility model patent	ZL 2020 2 1018004.X	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.

No.	Name	Application date	Type	Patent No./ application No.	Statutory life in years	Quantity	Ownership status	Patent holder
31	A type of bucket wheel reclaimer	2020.6.3	Utility model patent	ZL 2020 2 0994020.6	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
32	A type of automatic tire crane bridge positioning system	2020.5.11	Utility model patent	ZL 2020 2 0767056.0	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
33	A type of portable milling machine	2020.3.18	Utility model patent	ZL 2020 2 0350233.5	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
34	Inspection device for parallel lifting of bridge cranes and lifting sling connection	2019.8.22	Utility model patent	ZL 2019 2 1372475.8	10	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
35	Special experimental platform for container lifting sling	2019.4.12	Invention patent	201910296037.6	20	1	Public	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
36	Diesel engine cylinder head valve grinding machine	2019.3.21	Invention patent	201910218739.2	20	1	Public	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.

No.	Name	Application date	Type	Patent No./ application No.	Statutory life in years	Quantity	Ownership status	Patent holder
37	Container lifting sling cable and wire fixture	2018.5.10	Invention patent	201810443164.X	20	1	Public	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
38	Supporting device for lifting and installation of horizontal beams on the gantry of bridge cranes	2017.6.13	Invention patent	ZL 2017 1 0442253.8	20	1	Authorization	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.
39	A type of eccentric adjuster used between hinges	2017.5.8	Invention patent	201710317819.4	20	1	Public	Qingdao Port International Co., Ltd., Qingdao Port Equipment Manufacturing Co., Ltd.

The off-balance-sheet assets declared by Port Equipment Company have 39 patents (8 of which are in the process of being accepted), of which 26 patents (6 of which are in the process of being accepted) are jointly owned or applied by Qingdao Port International Co., Ltd. and Qingdao Port Equipment Manufacturing Co., Ltd..

3. *Quote the reports issued by other institutions*

The financial statement data of Port Equipment Company from 2021 to February 2022 are quoted from the audit of Grant Thornton International Ltd. (Special General Partnership) which issued an unqualified audit report of Zhi Tong Zhuan Zi (2022) No. 370C014192.

IV. VALUE TYPE

Appraisal value types include market value and value types other than market value. Value types, other than market value, generally include (but are not limited to) investment value, value in use, liquidation value, residual value, etc. The purpose of this appraisal is to provide value reference for making a capital contribution without special restrictions on market conditions, so the market value is selected as the value type of this appraisal. The market value mentioned in this asset valuation report refers to the estimated value of the valuation object in normal and fair transactions on the valuation benchmark date when the voluntary buyer and the voluntary seller act rationally and are not forced to do so.

V. VALUATION BENCHMARK DATE

The valuation benchmark date is 28 February 2022.

The valuation benchmark date is determined by the client and is consistent with the valuation benchmark date agreed in the asset valuation engagement contract.

VI. BASIS OF VALUATION

The bases of economic behavior, laws and regulations, valuation standards, asset ownership and valuation pricing in this valuation are as follows:

(I) Basis of economic behavior

1. Decision of Qingdao Port International Co., Ltd. on Agreeing to Promote the Project Audit and Evaluation of the Proposed Transfer of 51% Equity Interests in Qingdao Port Equipment Manufacturing Co., Ltd. to Shandong Port Equipment Group Co., Ltd. (20 January 2022).

(II) Legal and regulatory basis

1. Asset Valuation Law of the People's Republic of China (Order No. 46 of the President of the People's Republic of China);

2. Measures for Financial Supervision and Administration of Asset Valuation Industry (Order No. 97 of the Ministry of Finance of the People's Republic of China, considered and approved at the meeting of the Ministry of Finance on 2 January 2019);

3. Law of the People's Republic of China on State-owned Assets of Enterprises (Order No. 5 of the President of the People's Republic of China);

4. Company Law of the People's Republic of China (adopted at the 5th meeting of the Standing Committee of the 8th session of the National People's Congress on 29 December 1993 and amended several times in 1999, 2004, 2005, 2013 and 2018);

5. Securities Law of the People's Republic of China (adopted at the 6th meeting of the Standing Committee of the 9th session of the National People's Congress on 29 December 1998 and amended for the second time at the 15th meeting of the Standing Committee of the 13th session of the National People's Congress on 28 December 2019);

6. The Civil Code of the People's Republic of China (adopted at the 3rd meeting of the 13th session of the National People's Congress on 28 May 2020 and implemented on 1 January 2021);

7. Measures for the Administration of Valuation of State-owned Assets (Order No. 91 of the State Council of 1991, amended by Order No. 732 of the State Council of the People's Republic of China on 29 November 2020);

8. Implementation Rules for the Administrative Measures for Valuation of State-owned Assets (Guo Zi Ban Fa [1992] No. 36) issued by the former State-owned Assets Administration Bureau;

9. Notice of the Opinions on Reforming the Administrative Management Approach of Valuation of State-owned Assets and Strengthening the Supervision and Administration of Asset Valuation (Guo Ban Fa [2001] No. 102);

10. Provisions on Certain Issues Concerning the Administration of Valuation of State-owned Assets (Order No. 14 of the Ministry of Finance);

11. Notice of the Ministry of Finance on Issuing the Administrative Measures for the Filing of State-owned Asset Valuation Projects (Cai Qi [2001] No. 802);

12. Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (promulgated by Order No. 378 of the State Council of the People's Republic of China on 27 May 2003; amended for the first time pursuant to the Decision of the State Council on Repealing and Amending Certain Administrative Regulations on 8 January 2011; amended for the second time pursuant to the Decision of the State Council on Amending Certain Administrative Regulations on 2 March 2019);

13. Measures for the Supervision and Administration of Transactions of State-owned Assets of Enterprises (Order No. 32 of SASAC and the Ministry of Finance);

14. Interim Measures for the Administration of Valuation of State-owned Assets of Enterprises (Order No. 12 of SASAC of the State Council in 2005);

15. Notice on Strengthening the Administration of Valuation of State-owned Assets of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);

16. Guidelines for the Filing of State-owned Asset Valuation Projects of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);

17. Notice on Promoting the Transfer of State-owned Property Rights of Enterprises (Guo Zi Fa Chan Quan [2014] No. 95);

18. Notice of Shandong SASAC on Issuing the Guidelines for Asset Valuation Management of Provincial Enterprises (Lu Guo Zi Chan Quan [2018] No. 1);

19. Notice of Shandong Provincial People's Government State-owned Assets Supervision and Administration Commission on Further Regulating the Supervision of State-owned Asset Transactions of Enterprises (Lu Guo Zi [2020] No. 2);

20. Enterprise Income Tax Law of the People's Republic of China (adopted at the 5th meeting of the 10th session of the National People's Congress on 16 March 2007, amended for the first time pursuant to the Decision on Amending the Enterprise Income Tax Law of the People's Republic of China at the 26th meeting of the Standing Committee of the 12th session of the National People's Congress on 24 February 2017, and amended for the second time pursuant to the Decision on Amending Four Laws Including the Electric Power Law of the People's Republic of China at the 7th meeting of the Standing Committee of the 13th session of the National People's Congress on 29 December 2018);

21. Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (adopted at the 197th executive meeting of the State Council on 28 November 2007 and amended for the first time pursuant to the Decision of the State Council on Amending Certain Administrative Regulations promulgated by Order No. 714 of the State Council of the People's Republic of China on 23 April 2019);

22. Provisional Regulations on Value-added Tax of the People's Republic of China (Order No. 538 of the State Council of the People's Republic of China) (amended and adopted at the 34th executive meeting of the State Council on 5 November 2008, came into effect on 1 January 2009, and amended for the second time pursuant to the Decision of the State Council on Repealing the Provisional Regulations on Business Tax of the People's Republic of China and Revising the Provisional Regulations on Value-added Tax of the People's Republic of China on 19 November 2017);

23. Rules for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China (the Rules was promulgated by Order No. 50 of the Ministry of Finance and State Administration of Taxation on 18 December 2008, and amended pursuant to the Decision on Amending the Rules for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China and the Rules for the Implementation of the Provisional Regulations on Business Tax of the People's Republic of China (Order No. 65 of the Ministry of Finance and State Administration of Taxation) promulgated on 28 October 2011);

24. Notice on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (Cai Shui [2016] No. 36);

25. Announcement on Relevant Policies for Deepening the Value-added Tax Reform (Announcement No. 39 of 2019 of the Ministry of Finance, the General Administration of Taxation and the General Administration of Customs);

26. Vehicle Purchase Tax Law of the People's Republic of China (Order No. 19 of the President of the People's Republic of China);

27. Announcement on Extension of the Implementation Period of Certain Preferential Tax Policies (Announcement No. 6 of 2021 of the Ministry of Finance and the State Administration of Taxation on 15 March 2021);

28. Announcement on Further Improving Policies for the Pre-tax Deduction of Research and Development Expenses (Announcement No. 13 of 2021 of the Ministry of Finance and the State Administration of Taxation on 31 March 2021);

29. Notice on Matters Concerning Exemption from Local Water Conservancy Construction Fund (Lu Cai Shui [2021] No. 6) issued by the Shandong Provincial Department of Finance;

30. Patent Law of the People's Republic of China (amended for the fourth time pursuant to the Decision on Amending the Patent Law of the People's Republic of China at the 22nd meeting of the Standing Committee of the 13th session of the National People's Congress on 17 October 2020).

(III) Basis of valuation standards

1. Basic Standards for Asset Valuation (Cai Zi [2017] No. 43);

2. Code of Professional Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);

3. Practicing Standards for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

4. Practicing Standards for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

5. Practicing Standards for Asset Valuation – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);

6. Practicing Standards for Asset Valuation – Use of Experts' Work and Related Reports (Zhong Ping Xie [2017] No. 35);

7. Practicing Standards for Asset Valuation – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

8. Practicing Standards for Asset Valuation – Asset Valuation Methods (Zhong Ping Xie [2019] No. 35);

9. Practicing Standards for Asset Valuation – Enterprise Value (Zhong Ping Xie [2018] No. 38);

10. Practicing Standards for Asset Valuation – Intangible Assets (Zhong Ping Xie [2017] No. 37);

11. Practicing Standards for Asset Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

12. Guidelines for Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

13. Guidelines for Valuation of Intellectual Property Assets (Zhong Ping Xie [2017] No. 44);

14. Guidelines for Business Quality Control of Asset Valuation Institutions (Zhong Ping Xie [2017] No. 46);

15. Guiding Opinions on Types of Value in Asset Valuation (Zhong Ping Xie [2017] No. 47);

16. Guiding Opinions on Legal Ownership of Asset Valuation Targets (Zhong Ping Xie [2017] No. 48);

17. Guiding Opinions on Valuation of Patent Assets (Zhong Ping Xie [2017] No. 49);

18. Expert Guidelines for Asset Valuation No. 8 – Verification in Asset Valuation (Zhong Ping Xie [2019] No. 39);

19. Expert Guidelines for Asset Valuation No. 10 – Reasonable Performance of Asset Valuation Procedures during the COVID-19 Pandemic (Zhong Ping Xie [2020] No. 6);

20. Expert Guidelines for Asset Valuation No. 12 – Measurement of Discount Rate in the Valuation of Enterprise Value by Income Method (Zhong Ping Xie [2020] No. 38);

21. Terminology of Asset Valuation Standards 2020 (Zhong Ping Xie [2020] No. 31);

22. Guidelines for Internal Governance of Valuation Institutions (Zhong Ping Xie [2010] No. 121).

(IV) Basis of asset ownership

1. Business licenses and articles of association of corporate legal person;

2. Supporting information for patent ownership;

3. Motor vehicle licenses and registration certificates;

4. Information such as major equipment purchase contracts and invoices;

5. Other title documents.

(V) Basis of valuation pricing

1. Asset Valuation Declaration Form and Income Forecast Form provided by the appraised entity;

2. Regulations on Construction Cost Management of Infrastructure Projects (Cai Jian [2016] No. 504);

3. Notice of the National Development and Reform Commission on Further Decontrolling the Prices of Professional Services for Construction Projects (Fa Gai Jia Ge [2015] No. 299);

4. Notice on Continuing the Implementation of the New Charging Standards for Construction Cost Consulting Services (Lu Jia Fei Fa [2007] No. 205) issued by the Shandong Provincial Department of Construction;

5. Notice of the Shandong Provincial Association of Production Safety Management on the Announcement of Shandong Province Safety Valuation Guiding Price (Trial) (Lu An Guan Xie Zi [2006] No. 4);

6. Provisions on the Standards for Compulsory Retirement of Motor Vehicles (Ministry of Commerce, National Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection Order [2012] No. 12);

7. The loan prime rate (LPR) published by the National Interbank Funding Center under authorization on 21 February 2022;

8. 2022 Mechanical and Electrical Products Quotation Manual;

9. The historical annual audit reports, future annual business plans, profit forecast and other information provided by the appraised entity;

10. Procurement contracts and construction contracts signed between the appraised entity and relevant entities;

11. On-site survey records and other relevant valuation information collected by valuers;

12. Financial statements, financial, accounting and operating information, as well as relevant agreements, contracts, invoices and other financial information provided by the appraised entity;

13. Statistical information, technical standards and price information published by relevant departments of the State, as well as information on price inquiry and pricing parameters collected by the company;

14. Other information related to the asset valuation.

VII. VALUATION APPROACH

(I) Brief introduction of the valuation method

The basic methods of enterprise valuation include asset-based method, income method and market method.

The asset-based method in the enterprise valuation is also known as the cost method, which refers to the valuation method in determining the value of the assets and liabilities on the balance sheet and those recognized off the balance sheet based on the balance sheet on the valuation benchmark date of the appraised entity.

The income method in enterprise valuation refers to the valuation method that capitalizes or discounts the expected income to determine the value of the valuation object. The specific methods commonly used in the income method include the dividend discount method and the cash flow discount method. Income method measures the value of enterprises from the perspective of their profitability, and is based on the expected utility theory of economics.

The market method in enterprise valuation refers to the valuation method of comparing the valuation object with comparable listed companies or comparable transaction cases to determine the value of the valuation object. The two specific methods commonly used in the market method are the comparison method of listed companies and the comparison method of transaction cases.

(II) Selection of valuation methods

Asset-based method is based on the balance sheet, which is a method to reasonably evaluate the value of various assets and liabilities on the balance sheet and those recognized off the balance sheet of the enterprise to determine the value of the valuation object. In combination with the current valuation, the appraised entity can provide and the valuers can also collect information from outside to meet the requirements of the asset-based method, so that a comprehensive inventory and valuation of the assets and liabilities of the appraised entity can be conducted. Therefore, the asset-based method is applicable to this valuation;

The basis of the income method is the expected utility theory of economics, that is, for investors, the value of the enterprise lies in the expected income that the enterprise can produce in the future. Although the income method does not directly use the real market reference to illustrate the current fair market value of the valuation object, but it appraises assets from the perspective of their expected profitability, the fundamental basis of the current fair market value of the assets, which can fully reflect the overall value of the enterprise, and the valuation conclusion is reliable and persuasive. From the point of view of the applicable conditions of the income method, since the enterprise has independent profitability and the management of the appraised entity provides the future annual earnings forecast data, that the future profitability of the enterprise can be reasonably estimated based on the historical operational data of the enterprise and its internal and external operating environment, and that the risk of future income can be reasonably quantified, the income method is applicable to this valuation;

Because the appraised entity is a non-listed company, its business structure, operating model, enterprise size, asset allocation and usage, business stage, growth, operating risk, financial risk and other factors are quite different from those of listed companies in the same industry. Moreover, there were few trading, acquisition and merger cases of comparable enterprises in the same industry in the PRC around the valuation benchmark date, so that it was difficult to obtain reliable operational and financial data of comparable transactions and calculate the appropriate value ratio. As a result, the market method is not applicable to this valuation.

Therefore, this valuation uses the asset-based method and the income method for valuation.

(III) Introduction of the specific valuation methods

I) The Asset-based method

The asset-based method in enterprise valuation refers to the valuation method to reasonably evaluate the value of various assets and liabilities on the balance sheet and those recognized off the balance sheet of the enterprise to determine the value of the valuation object based on the balance sheet of the appraised entity as at the valuation benchmark date. The valuation process of various assets and liabilities is described as follows:

1. Valuation of current assets and liabilities

The current assets of the appraised entity include monetary funds, bills receivable, accounts receivable, receivables financing, prepayment, other receivables, inventory, contract assets and other current assets; liabilities include short-term borrowing, bills payable, accounts payable, contract liabilities, employee compensation payable, taxes payable, other payables, other current liabilities, long-term employee compensation payable, and expected liabilities.

(1) Monetary funds: including bank deposits and other monetary funds, to determine the assessed value through verifying bank statements, bank letters, other monetary fund vouchers, etc.

(2) Bills receivable: refers to the commercial bills received by an enterprise for the sale of products or providing labor services. All the bills receivable included in the scope of valuation are commercial acceptance bills. For the bills receivable, the appraiser checked the book records, checked the bills receivable register, and made an inventory check of the bills receivable. For bills receivable of larger amounts, the valuer also checked the corresponding sales contract and the delivery order (delivery list) and other original records. If verified, the assessed value is confirmed by the verified book value.

(3) Accounts receivable and other receivables: the assessed value shall be determined by the possible recoverable amount of each payment after verification. If there is good reason to believe that all amounts can be recovered, the assessed value shall be calculated as the total amount of receivables. For those that may not be recovered in full, when it is difficult to determine the irrecoverable amounts, the assessed value shall be calculated after deducting the risk loss based on the estimated irrecoverable amounts with reference to the aging analysis method as well as the analysis of the specific amount, time and reason of arrears, the recovery of the amount, the current status of the debtor's funds, credit, operation and management, etc., learnt from historical data and on-site investigation. For those items which are found to be irrecoverable, the assessed value shall be calculated as zero, and the "bad debt provision" item on the book shall be calculated as zero value.

(4) Receivables financing: refers to the commercial bills received by enterprises due to the sale of products or the provision of labor services. The receivables financing included in the valuation scope are all bank acceptance bills. For the receivables financing, the appraiser checked the book records, checked the bill register, and made an inventory check of the bills. For some of the receivables financing with a large amount, the valuer also checked the corresponding sales contract and delivery order (delivery list) and other original records. If verified, the assessed value is confirmed by the verified book value.

(5) Prepayment: determine the assessed value according to the value of the assets or rights formed by the corresponding goods that can be recovered. For goods or rights that are recoverable, the verified book value shall be taken as the assessed value.

(6) Inventory

Purchased inventory: it mainly includes material procurement (in-transit materials) and raw materials, etc. For purchased inventory with short inventory time, strong liquidity and little market price change, the verified book value shall be taken as the assessed value; for purchased inventory with long inventory time, poor liquidity and large market price change, the assessed value shall be confirmed by the market price as at the valuation benchmark date.

The performance cost of the contract: the related labor cost, material cost, engineering cost of the unfinished project acceptance. For the contract performance cost with a high degree of completion, the valuer shall determine the appraisal value by the market method according to the total amount without tax settlement, the unrecognized income and the estimated subsequent cost amount provided by the enterprise. That is, when income is not yet recognized for the performance cost of the contract, its assessed value shall be determined by deducting the estimated subsequent costs, sales taxes, sales expenses, income tax and the appropriate proportion of the after-tax income. For the contract performance cost with low completion degree, the assessed value is confirmed according to the book value as the change in value is not significant due to the short period of time after any material expense has been spent. For the contract performance cost where the contact has been cancelled, due to the low completion degree of contract performance cost and that the product is verified to be the general contract performance cost, the enterprise can use it for the production of subsequent projects. This valuation confirms the assessed value according to the book value.

(7) Contract assets: based on the verification of the above contract assets, the valuers, with the help of historical data and on-site investigation, specifically analyze the amount of arrears, the time and reason of arrears, the recovery of funds, the debtor's funds, credit, and the status of operation and management, and adopt the aging analysis method to estimate the risk loss. If there is sufficient reason to believe that all the current accounts of the appraised entity can be recovered, the risk loss is assessed as 0; for the amount that is not expected to be recovered in full but there is no conclusive evidence to prove that it cannot be recovered or cannot be recovered in full, on the basis of analyzing the business content one by one and referring to the method used by the appraised entity to calculate impairment provision, a certain proportion of risk loss is determined by aging analysis, and the assessed value is determined by deducting the risk loss from the book balance. The impairment provision of the appraised entity is assessed as zero.

(8) Other current assets: the items to be accounted for are the rent paid in advance and the input VAT retained by the enterprise. On the basis of the verification, the valuer confirms the authenticity of the amount by consulting the lease contract, and calculates the accuracy of the amortized amount through the amortized time. The valuer has obtained the recent tax return documents of the appraised entity, spot checked the relevant accounting vouchers, and learned about the relevant tax situation of the appraised entity from the relevant personnel. If verified, the assessed value is confirmed by the verified book value.

(9) Liabilities: the assessed value of all kinds of liabilities shall be determined on the basis of the amount of liabilities actually required by the appraised entity subject to verification.

2. Valuation of non-current assets

(1) Equipment assets

Three major categories of equipment assets are included in the scope of valuation, namely machinery equipment, transportation equipment and electronic equipment.

According to the Basic Standards for Asset Appraisal and the Practicing Standards for Asset Appraisal – Asset Appraisal Methods, the asset appraisal methods included in this appraisal mainly include three basic methods: cost method, income method and market method.

The market method is to determine the price of the assets to be appraised according to the price of the reference objects similar or comparable to the materials to be appraised on the open market. The income method is an evaluation method that converts the net profit or net cash flow brought by future assets into the present value at a certain discount rate by predicting the profitability of assets. As a single equipment cannot be operated independently and the profit cannot be calculated separately, and there are few similar transaction cases in the secondary market, the market method and income method are not used for this valuation.

The valuation of machinery and equipment mainly adopts the replacement cost method. The replacement cost method for machinery and equipment valuation is a method to determine the appraised value of machinery and equipment on the basis of determining the comprehensive newness rate by estimating the renewal and replacement cost for new machinery and equipment. The replacement cost of equipment generally includes all reasonable direct and indirect expenses required for the re-purchase or construction of new assets with the same functions as the valuation object, such as the purchase price of the equipment, transportation and miscellaneous fees, basic fees for the equipment, installation and commissioning fees, preliminary and other expenses, capital cost, etc. The calculation formula adopted in this valuation is:

Appraised value = replacement cost × comprehensive newness rate

1) Machinery equipment

In this valuation, all machinery and equipment included in the scope of valuation are domestic equipment.

① Determination of full replacement cost

Replacement cost = purchase price of equipment + transportation and miscellaneous fees + installation and commissioning fees + basic fees for the equipment + preliminary and other expenses + capital cost – deductible value-added tax input tax

(A) Purchase price of equipment

For equipment that is still in circulation in the prevailing market, its purchase price is determined directly based on the prevailing market price. For equipment that has been eliminated, is no longer produced by the manufacturers, or is no longer in circulation in the market, the purchase price is determined by comparing similar equipment with the equipment to be appraised, and comprehensively considering the differences in performance, technical parameters, use functions and other aspects between the two.

(B) Transportation and miscellaneous fees

Transportation and miscellaneous fees are calculated based on the purchase price of the equipment, taking into account factors such as the distance between the manufacturer and the place where the equipment is located, the weight of the equipment and its shape and dimensions.

(C) Installation and commissioning fees

Based on the purchase price, the equipment is charged at different installation rates according to its features, weight and installation difficulty.

For small-scale equipment that does not need to be installed, installation and commissioning fees are not considered.

(D) Basic fees

Basic fees of equipment are calculated based on the purchase price and different installation rates with reference to the characteristics of the equipment and the industry quota. If the equipment is not accounted for on a separate basis or it was built together with the building during construction, the duplicate basic fees of equipment will not be considered when calculating the replacement cost of the equipment.

(E) Preliminary and other expenses

Preliminary and other expenses include survey and design fees, construction supervision, project bidding agency service fees, environmental impact assessment fees, construction unit management fees, construction cost consulting service fees, etc., which are calculated based on the standards for other expenses of the construction project where the equipment is located and the characteristics of the equipment. The calculation basis is the sum of the equipment purchase price, transportation and miscellaneous fees, basic fees and installation and commissioning fees.

(F) Capital cost

According to the reasonable construction period of the construction project, the capital cost is calculated based on an even investment throughout the construction period using the applicable loan interest rate as at the valuation benchmark date.

Capital cost = (equipment purchase price + transportation and miscellaneous fees + installation and commissioning fees + basic fees + other expenses) × loan interest rate × construction period × 1/2

(G) Deductible value-added tax

According to the relevant regulations, the value-added tax on machinery and equipment is calculated at 13%, the value-added tax on freight rate, basic fees and installation fees is calculated at 9%, and the value-added tax on other expenses is calculated at 6%, less any deductible value-added tax. No value-added tax is charged upon construction unit management fees and capital cost, and no deduction is applicable.

② Determination of comprehensive newness rate

For large-scale and critical equipment, the comprehensive newness rate is determined by weighing of the surveyed newness rate and the theoretical newness rate:

Comprehensive newness rate = surveyed newness rate × 0.6 + theoretical newness rate × 0.4

(A) Surveyed newness rate

The determination of surveyed newness rate is mainly based on the actual conditions of the equipment of the enterprise. The surveyed newness rate is determined based on the technical status, working environment and maintenance of the equipment by rating different parts of the equipment in accordance with the actual on-site surveyed conditions.

(B) Theoretical newness rate

Theoretical newness rate is determined based on the economic life (or remaining useful life) and used life of the equipment.

Theoretical newness rate = (economic life – used life)/economic life × 100%

For equipment with used life exceeding its economic life, the following formula is used:

Theoretical newness rate = remaining useful life/(used life + remaining useful life) × 100%

③ Determination of appraised value

Appraised value of machinery and equipment = replacement cost × comprehensive newness rate

2) Valuation of vehicles

➢ Replacement cost method

① Vehicle replacement cost

The replacement cost of vehicles consists of three parts, namely purchase price excluding value-added tax, vehicle purchase tax and other reasonable expenses (such as inspection fee, license fee, handling fee, etc.). The purchase price is mainly determined with reference to the market price of the latest transactions of similar vehicle models. The calculation formula is as follows:

Vehicle replacement cost = vehicle purchase price + vehicle purchase tax + other related expenses – deductible value-added tax input tax

where: vehicle purchase tax is 10% of the vehicle market price (excluding value-added tax).

② Determination of comprehensive newness rate

The newness rate of transportation vehicles is determined as comprehensive newness rate. The calculation formula is as follows:

Comprehensive newness rate = theoretical newness rate × 40% + surveyed newness rate × 60%

Life-based newness rate = (prescribed service life – serviced life)/prescribed service life × 100%

Mileage-based newness rate = (prescribed mileage – mileage traveled)/prescribed mileage × 100%

Theoretical newness rate is taken as the lower of life-based newness rate and mileage-based newness rate.

Comprehensive newness rate = mileage-based newness rate × 40% + surveyed newness rate × 60%

Surveyed newness rate is rated in an on-site survey.

③ Determination of appraised value of vehicles

Appraised value = vehicle replacement cost × comprehensive newness rate

➢ Market comparison approach

(1) Definition and basic principles of market comparison approach

Basic meaning: According to the principle of substitution, the vehicle to be appraised is compared with similar vehicle transactions in a relatively recent period, followed by adjustment for relevant factors before arriving at the price of the appraised vehicle as at the valuation benchmark date.

The market comparison approach is based on the principle of substitution, and therefore is realistic and convincing. The market comparison approach is appropriate for the valuation of prices of assets which are involved in recurring transactions in more developed markets.

(2) Basic formula of market comparison approach

Vehicle transaction cases of strong correlation and substitution potential are selected within the same supply and demand range as the valuation object from the recent second-hand vehicle transaction market. The market price of the vehicle to be appraised is then arrived at by analyzing and comparing factors affecting the market price of second-hand vehicles, such as useful life, serviced mileage and surveyed conditions of vehicles, followed by correction based on the conditions of the valuation object and the comparable cases. The calculation formula is as follows:

Comparable price = comparable case price × vehicle life correction coefficient
× vehicle mileage correction coefficient
× surveyed vehicle condition correction coefficient
× transaction price correction coefficient

(3) Appraised value of vehicle using market method = average comparable price
= Σ (corrected unit price of vehicle)/number of comparable cases

3) Valuation of electronic equipment

① Determination of replacement cost of electronic equipment

Electronic and office equipment are mainly computers, printers, air conditioners, etc., the delivery, installation and commissioning of which are responsible by distributors. The replacement cost is directly determined by the market purchase price.

② Determination of newness rate

For small equipment such as electronic equipment and air-conditioning equipment, the newness rate is mainly determined based on their economic life.

③ Determination of appraised value

Appraised value = replacement cost of electronic equipment × newness rate

For vehicles and electronic equipment that were purchased at an earlier time and have ceased production with no comparable prices, the valuation is mainly conducted through market method by inquiring about second-hand transaction prices.

For retired equipment and vehicles that have no continued use value, their appraised value is determined based on their recoverable value.

(1) Intangible Assets – other intangible assets

The valuer consulted the relevant purchase contract, payment vouchers, etc., and conducted a necessary review of its integrity and authenticity; then understood from the management of the enterprise, confirmed the advanced degree of software, judged on its remaining useful life, and analyzed the correctness and rationality of the amortization of the appraised entity. Purchased software shall be evaluated according to the market price excluding tax.

(2) Intangible assets – patents

It is not easy to find reference transactions in the market for patents of the appraised entity, and the research and development cost of the product has no obvious correlation with the benefits it can generate. At present, the patents have been put into operation producing stable benefits, and the operation status of the technical products for the next few years can be predicted. Therefore, it is decided to use the present value method of income for valuation.

Present value method of income: present value method of income is a valuation method to determine the assessed value by estimating the expected income of the appraised entity during the future life period, and discounting it at an appropriate discount rate.

The future income brought by intangible assets is determined by the method of income sharing: the excess income brought by intangible assets is determined according to the expected income brought by the application of intangible assets by the enterprise and the contribution rate of such intangible assets.

The basic formula is as follows:

$$P = \sum_{i=1}^{n} \frac{D \cdot R_i}{(1 + r)^i}$$

where:

P: appraisal value of intangible assets value;

D: the share rate of intangible assets;

R_i: share base, that is, sales revenue or cash flow;

r: discount rate;

n: earnings forecast period;

i: earnings years.

The valuers have collected the patent certificate and other information and understood from the technical personnel of the enterprise the research and development background, functional characteristics, uses and properties of different technologies, the relationship between individual technologies, and their contribution to the existing business value of the enterprise from enterprise technology. Through the analysis of the enterprise technology and finance leaders, the patents within the valuation scope have been applied to the production and operation of the enterprise and are a combination of intangible assets. That is, in the daily operation process of the enterprise, it is possible to use every patent within the scope of this valuation, so it is evaluated as a whole technology package.

The actual user of the patent is the appraised entity. Considering that part of the patent property rights are jointly held, and the fact that no licensing agreement has been signed between the joint holders, the valuation focuses on the actual user of patent assets who applies technology to generate income. First of all, it predicts the future earnings of technology products, then calculates the joint contribution of the patented technology in accordance with the method of sharing and discounts the same to give the total value of the patented technology. Afterwards, the contribution rate of each entity is determined reasonably based on the category and quantity of the technology held by each entity. Finally, the value of the patent assets held by each entity is calculated according to its contribution rate and the total value of technology.

1) By predicting the income of related products and business, select the appropriate sharing rate, discount rate and income life to measure the value of the patent assets brought by the related products and business benefits.

2) The appraisal value of patent assets is obtained through the calculation of the value of patent assets brought by the related products and business benefits of the above company.

3) Based on the principle of "who develops, who owns and who benefits", the sharing weight of the overall value of the patent assets enjoyed by the patent owner is measured. The weight is determined based on the type of patents and the number of patents held by each holder.

① Count the number of patents held by the holders;

② The value weight of each type of patent is given according to the patent category;

Since the technical content of invention patents, utility model patents and appearance design patents is different, their value quantities are also different. Through communication with the enterprise technology department, each patent is given a certain value weight. In particular:

Patent category	**Patent of invention**	**Utility model**	**Appearance design**
Value quantities	2	1	0.5

③ Calculate the value weight of a certain holder based on the above quantities and weights; note that the value is distributed equally for shared patents.

④ Calculate the value of the patent assets held by each subject based on the weight and the total valuation of the patent asset group.

The distribution weight of each holder of patent property rights is obtained according to the above process:

Corporate name	**Port Equipment Company**	**Qingdao Port**	**Total**
Weight ratio	66.30%	33.70%	100.00%

4) On the basis of measuring the overall value of the patent assets, it is then multiplied by the value sharing weight of each company to give the value of the patent assets of each company.

(3) Deferred income tax assets

It is verified that this account refers to the deferred income tax assets formed in the accounting records by the provision for credit impairment, the provision for after-sales maintenance and the provision for Party organization work funds. The valuers investigated and understood the causes and formation process of the differences. The appraisal value is determined by recalculating the amount of deductible temporary difference.

II) Income method

The income method valuation adopts the cash flow discount method. The selected cash flow caliber is the free cash flow of the enterprise, and the entire equity value of shareholders is indirectly obtained through the valuation of the overall value of the enterprise.

This valuation is based on the free cash net cash flow of the enterprise in the coming years, and the value of the overall operating assets of the enterprise is calculated by adding them up after applying the appropriate discount rate. The value of the total shareholder's equity is then obtained by adding the value of the surplus assets and non-operating assets and subtracting the interest-bearing debt.

1. Valuation model: this valuation selects the cash flow discount method, which takes the enterprise free cash flow as the quantitative indicator of the enterprise's expected income, and uses the matching weighted average capital cost model (WACC) to calculate the discount rate.

2. Calculation formula

E = V – D formula 1

V = P + C_1 + C_2 + E' formula 2

where:

E: value of the total shareholders' equity;

V: enterprise value;

D: appraisal value of the interest-bearing debt;

P: appraisal value of operating assets;

C_1: assessed value of surplus assets after deducting excess liabilities;

C_2: appraisal value of non-operating assets after deducting non-operating liabilities;

E': (not taken into account in the cash flow) long-term equity investment valuation.

Among them, the assessed value of operating assets (P) in formula 2 is obtained according to the following formula:

$$P = \sum_{t=1}^{n} \left[R_t \times (1 + r)^{-t}\right] + \frac{R_{n+1}}{(r - g)} \times (1 + r)^{-n}$$ formula 3

The first half of the above formula is the value for the specific forecast period, and the second half is the value for the perpetual period (final value).

in formula 3:

R_t: free cash flow of the enterprise for tranche t in the specific forecast period;

t: number of tranches in the specific forecast period, i.e. 1, 2, 3, ..., n;

r: discount rate;

R_{n+1}: free cash flow of the enterprise for the perpetual period;

g: growth rate for the perpetual period, and in this valuation, g=0;

n: the last year for the specific forecast period.

2. *Identification of the key parameters in the model*

1) Determination of expected earnings

This time, the enterprise's free cash flow will be taken as the quantitative indicator of the enterprise's expected earnings.

Corporate free cash flow is the total cash flow before paying cash to the corporate claimant and after paying operating expenses and income tax. The calculation formula is follows:

Corporate free cash flow = net profit after tax + depreciation and amortization + interest expense × (1 – tax rate T) – capital expenditure – changes in working capital

Based on the comprehensive analysis of the development of the industry and combined with the business undertaking volume of the appraised entity in 2021 as well as the orders on hand signed between November 2021 and February 2022, it is expected that from 2023 to 2027, revenue of the principal business of the appraised entity will increase to a certain extent at an estimated annual ratio of approximately 5%, on the basis of the income level of 2022.

The forecasts of the revenue from the principal business of Port Equipment Company from March 2022 to 2027 are as follows:

Unit: RMB0'000

Project	From March to December in 2022	2023	2024	2025	2026	2027
Total revenue	103,076.23	125,685.00	131,969.20	138,567.70	145,496.00	145,496.00

2) Determination of the income period

The period of income in the enterprise valuation usually refers to the number of years in which the enterprise obtains income in the future. In order to reasonably predict the future income of the enterprise, the income period of the enterprise can be divided into limited periods and unlimited periods according to the characteristics of the production and operation of the enterprise and relevant laws and regulations, deeds and contracts.

Due to the normal operation of the appraised entity on the valuation benchmark date, there is no limit on the service life of the core assets that affect the continuous operation of the enterprise, the production and operation period of the enterprise, and the period of the investors' ownership, etc., and they can be used permanently by way of continuation. So this assessment uses the perpetual period as the income period. Among them, the first stage is from 1 March 2022 to 31 December 2027, where the earnings are changing according to the operating situation and business plan of the appraised entity; the second stage of perpetual operation starts from 1 January 2028, where the appraised entity will maintain a stable level of profitability.

3) Determination of the discount rate

There are many methods and ways to determine the discount rate. According to the principle that the amount of income is consistent with the caliber of the discount rate, the caliber of the amount of income of this valuation is the free cash flow of the enterprise, and the discount rate is determined by the weighted average capital cost (WACC), which is 10.24%.

4) Determination of the assessed value of the interest-bearing debts

The interest-bearing debt of the appraised entity is a short-term loan, which shall be confirmed according to its market value.

5) Determination of the assessed value of surplus assets and non-operating assets (liabilities)

Surplus assets refer to the excess assets not directly related to the earnings of the enterprise and more than required by the operation of the enterprise, and generally refer to excess monetary funds, deferred income tax assets, etc.; non-operational assets (liabilities) refer to the assets (liabilities) not directly related to the business activities of the enterprise and are not included in the scope of the earnings forecast. Appraisal of such assets is conducted separately.

VIII. IMPLEMENTATION PROCESS AND SITUATION OF VALUATION PROCEDURES

According to the provisions of relevant state departments on asset appraisal and the general principles of accounting, the relevant legal provisions and standardization requirements of relevant state departments, and as agreed in the asset valuation engagement contract with the client, Shandong Zhong Ping Heng Xin Asset Appraisal Co., Ltd. has verified and reviewed the legal documents and accounting records and relevant information provided by the client, and conducted necessary property rights inspection, field inspection and check of relevant assets, necessary market investigation, transaction price comparison and other necessary asset appraisal procedures such as financial analysis. The detailed process of the asset appraisal is as follows:

1. Accept the entrustment and take the preparation stage

(1) Shandong Zhong Ping Heng Xin Asset Appraisal Co., Ltd. accepted the entrustment of the client to engage in the asset appraisal project in March 2022. After accepting the entrustment, Shandong Zhong Ping Heng Xin Asset Appraisal Co., Ltd. carefully discussed with the client on the appraisal purpose, the appraisal object and the appraisal scope, the valuation benchmark date, the characteristics of the entrusted appraisal assets and other issues affecting the asset appraisal plan.

(2) According to the characteristics of the entrusted appraisal assets, the valuers arranged the asset appraisal declaration schedule accordingly, designed the main asset questionnaire, the main business profit questionnaire, etc., conducted business training for the cooperative personnel of the client to participate in the asset appraisal, and filled in the asset appraisal inventory form and various questionnaires.

(3) Design of the valuation scheme

According to the understanding of the characteristics of the assets, the valuers formulated the valuation implementation plan, determined the appraisal personnel, and formed the asset appraisal on-site working group.

(4) Preparation of valuation information

The valuers collected and sorted out the market transaction price information of the appraisal object and the property right certificate documents of the appraisal object.

2. On-site inventory stage

(1) Verification of the authenticity and legality of the evaluated object

According to the declaration details of the assets and liabilities provided by the client and the appraised entity, the valuer shall adopt different verification methods to verify the physical assets and monetary claims and debts, so as to confirm the authenticity and accuracy of the assets and liabilities.

For monetary funds, we investigated by checking journals and reviewing bank statements.

For the creditor's rights and debts, the valuers shall determine the authenticity of the assets by checking the general ledger, subsidiary ledger and spot checking the contract vouchers.

For the inventory, the valuer shall check the general ledger and subsidiary ledger, and consult the relevant account book records and original vouchers to confirm the true existence of the inventory and the property rights. For contract performance cost, by inquiring about the contract performance cost accounting process, the valuer reviewed the original documents, accounting vouchers and subsidiary ledger of the contract performance cost, spot-checked and reviewed the formation of contract performance cost and transfer business, investigated the value structure of contract performance cost, so as to confirm the integrity of the carrying forward of contract performance cost and amount accuracy.

For other current assets, the valuer shall confirm the authenticity of the amount by consulting the lease contract, and calculate the accuracy of the amortization amount through the amortized time. The valuers have obtained the recent tax declaration documents of the appraised entity, and randomly checked the relevant accounting vouchers to confirm the authenticity of the VAT amount.

The investigation of fixed assets adopts the principle of combining key and general assets, focusing on the investigation of important equipment assets. The valuer consulted the equipment purchase contract and invoice and other accounting data, so as to determine the authenticity of the assets.

For the intangible assets, the valuers shall collect and verify the information related to the valuation and verify the ownership situation, etc.

For the deferred income tax assets, the valuers shall verify the causes and determine the authenticity of the assets.

(2) Investigation of the actual status of the assets

The inventory was randomly checked, and the internal control inventory system, inventory passing in and out and storage accounting system and regular inventory system of the enterprise were checked. Through consulting the recent inventory entry and exit lists, the inventory turnover was mastered, and the quality of the inventory was mainly investigated. The key engineering projects of the contract performance cost accounting were randomly checked, and the site investigation was conducted with the cooperation of the production personnel of the appraised entity, and the project progress and acceptance situation were inquired.

The investigation of equipment operation status adopts the principle of combining key points and general ones, focusing on the investigation of mechanical equipment for production. It was mainly carried out by consulting the operation records of the equipment and observing the operation status of the equipment on site under the cooperation of the equipment management personnel of the appraised entity. The important equipment questionnaire has been improved on the basis of the survey.

(3) Investigation of the value composition of physical assets

According to the characteristics of the assets of the appraised entity, investigate the rationality and compliance of the value composition of the assets. Focus on checking the authenticity, accuracy, integrity and compliance of the book amount of inventory and fixed assets. Check the relevant accounting vouchers, accounting books and engineering construction contracts, procurement contracts and other materials.

(4) Investigation of the income, costs and other production and operation situation of relevant units

Collect the previous annual profit and loss accounting data of relevant units, calculate and analyze; investigate the actual operation of each unit and business, income, cost, expense and future development trend through interviews and other methods, and prepare for the future cash flow forecast.

By collecting relevant information, the market environment, the future competition and development trend of the business of the appraised entity are analyzed and forecast.

3. Selection of valuation methods, collection of market information and estimation

According to the work plan formulated on the basis of the characteristics of this project and the pricing principle and valuation model determined in combination with the actual situation, after defining the evaluation parameters and price standards and referring to the historical data provided by the enterprise, the valuers started the evaluation and estimation work on site.

4. Valuation and summary stage

(1) Determination of the valuation results

According to the field survey and the necessary market survey and calculation conducted by the valuers of Shandong Zhong Ping Heng Xin Asset Appraisal Co., Ltd., determine the results of the asset-based method and the income present value method of the entrusted assets.

(2) Analysis of valuation results and writing of valuation report

Prepare the valuation report of relevant assets in accordance with the standardized requirements of Shandong Zhong Ping Heng Xin Asset Appraisal Co., Ltd.. The valuation results and relevant asset valuation report shall be reviewed in three levels according to the procedures stipulated by Shandong Zhong Ping Heng Xin Asset Appraisal Co., Ltd.. After the final review by the signing asset appraiser, the project team shall complete and submit the report.

(3) Sorting out and filing of working papers

IX. VALUATION ASSUMPTIONS

(I) General assumptions:

1. Transaction assumption

The transaction assumption assumes that all assets to be appraised are in the process of transaction, and the valuers conduct the valuation based on a simulated market according to the transaction conditions, etc. of the assets to be appraised.

2. Open market assumption

The open market assumption is an assumption about the conditions of the market for proposed asset to enter and what kind of influence the asset will receive under such market conditions. The open market refers to the fully developed and perfect market conditions, which is a competitive market with voluntary buyers and sellers. In this market, buyers and sellers have equal status and have the opportunity and time to obtain sufficient market information. Both buyers and sellers conduct their transactions under voluntary, rational, non-mandatory or unrestricted conditions.

3. Continuous use assumption

The continuous use assumption is an assumption about the conditions of the market for proposed asset to enter and the asset status under such market conditions. First, the appraised assets are in use status. Second, it is assumed that the assets in use will continue to be used. Under the assumption of continuous use, the scope of use of the valuation results is limited without considering the conversion of the use of assets or the best use conditions.

4. Going concern assumption for the enterprise

The going concern assumption is an appraisal assumption made by taking the overall assets of the enterprise as the valuation object. That is, the enterprise, as the main body of operation, will continue to operate under the external environment in accordance with the business objectives. The enterprise operator is responsible and capable of assuming the responsibility. The enterprise operates legally and can obtain appropriate profits to maintain its continuous operation ability.

5. Information authenticity assumption

As for the information and materials provided by the client and relevant parties on the basis of the valuation conclusion, the asset appraiser assumes that these are credible and has conducted necessary verification according to the appraisal procedure, but the asset appraiser does not make any guarantee for the authenticity, legality and integrity of these information and materials.

(II) Valuation assumptions of the income method:

1. There are no material changes in the relevant prevailing laws, regulations and policies of the State and the macroeconomic situation of the State, there are no material changes in the political, economic and social environment of the regions where the parties to this transaction are located; and there are no material adverse effects caused by other unpredictable and force majeure factors.

2. It is assumed that the operator of the company is responsible and the company's management is capable to shoulder its duties.

3. Unless otherwise stated, it is assumed that the company is fully compliant with all relevant laws and regulations.

4. It is assumed that the accounting policies to be adopted by the company in the future are basically consistent with the accounting policies adopted in the preparation of the valuation report in material aspects.

5. It is assumed that the business scope and mode of the company are consistent with the current direction based on the existing management mode and management level.

6. There are no material changes in interest rates, exchange rates, tax bases and tax rates, and policy-based levies.

7. It is assumed that the enterprise's forecast annual cash flow will be generated evenly.

8. It is assumed that the products or services of the enterprise will maintain the current market competitiveness after the valuation benchmark date.

9. According to Cai Shui [2021] No. 13, since 1 January 2021, for research and development expenses actually incurred by manufacturing enterprises in carrying out research and development activities, where intangible assets have not been formed and included in the profit or loss of the current period, 100% of the actually incurred amount are allowed for pre-tax deduction, on the basis of actual deduction pursuant to the provisions. The document does not specify the implementation expiration date, and will continue to be implemented in the absence of a new policy document. Therefore, the appraisal is based on the assumption that the incentive and preferential policies will continue to be implemented.

10. The lease contracts for major assets such as and materials warehouse, office building, plant and land of Port Equipment Company were signed with the connected parties, Qingdao Port and Shandong Port Qingdao Port Group Co., Ltd., both of which will expire on 31 December 2022. As Port Equipment Company is a wholly-owned subsidiary of Qingdao Port and an indirect holding subsidiary of Shandong Port Qingdao Port Group Co., Ltd., given the operation needs of Port Equipment Company, it needs to lease the above assets continuously, therefore the appraisal is based on the assumption that the contract will be renewed after the expiration of the lease contract.

According to the requirements of using the asset-based method and the income method, the valuer determines that these assumptions are valid on the the valuation benchmark date, and deduces the corresponding valuation conclusion based on these assumptions. If the economic environment changes greatly in the future or other assumptions are not valid, the valuation results will change greatly.

X. EVALUATION CONCLUSION

(I) Valuation conclusion under the asset-based method

Under the assumption of going concern on the valuation benchmark date, after the asset-based method evaluation, for Qingdao Port Equipment Manufacturing Co., Ltd., the book value of total assets is RMB1,568.7427 million, the appraised value is RMB1,601.7590 million, representing an appreciation of RMB33.0163 million or 2.10%; the book value of total liabilities is RMB1,452.0963 million, the appraised value is RMB1,452.0963 million, with no appreciation or depreciation; the book value of the net assets is RMB116.6464 million, the appraised value is RMB149.6627 million, representing an appreciation of RMB33.0163 million or 28.30%.

Summary table of the valuation results under the asset-based method

Amount unit: RMB0'000

Item name	Book value	Assessed value	Appreciation or depreciation	Appreciation rate %
Current assets	153,096.77	152,973.98	-122.79	-0.08
Non-current assets	3,777.50	7,201.92	3,424.42	90.65
Including: Long-term equity investment	–	–	–	–
Investment properties	–	–	–	–
Fixed assets	3,235.40	3,346.67	111.27	3.44
Construction in progress	–	–	–	–
Intangible assets	25.82	3,388.77	3,362.95	13,025.29
Land use rights	–	–	–	–
Others	516.28	466.48	-49.80	-9.65
Total assets	156,874.27	160,175.90	3,301.63	2.10
Current liabilities	133,866.96	133,866.96	–	–
Non-current liabilities	11,342.67	11,342.67	–	–
Total liabilities	145,209.63	145,209.63	–	–
Net assets	11,664.64	14,966.27	3,301.63	28.30

In this appraisal, the appraisal results of some assets have changed against the book value, mainly due to:

1) The valuation of current assets increased, which was mainly due to the increase in accounts receivable and other receivables as a result of the different treatment of provision for bad debts, and the fluctuation of the market value of raw materials leading to the appreciation of raw materials.

2) The valuation of fixed assets increased, which was mainly due to the fact that the depreciation life of assets is longer than the economic useful life, resulting in the appreciation of equipment assets, including machinery and equipment, vehicles and electronic equipment.

3) The valuation of intangible assets increased, which was mainly due to the fact that the patent-related expenses of the appraised entity have been included in the profit or loss of the current period while the income method was adopted for this valuation, resulting in the appreciation of patent.

4) The valuation of intangible assets increased, which was mainly due to the increase in market price, and the fact that the greater replacement cost against the acquisition cost leading to the appreciation of other intangible assets such as software.

In this appraisal, there has been no change in the valuation results of the liabilities against the book value.

(II) Valuation conclusion under the income method

Under the premise of continuing operation assumption on the valuation benchmark date, the value of the total shareholder's equity of Qingdao Port Equipment Manufacturing Co., Ltd. is RMB198.9975 million, with an appreciation of RMB82.3511 million compared with the book value of the net assets of RMB116.6464 million, and the appreciation rate is 70.60%.

(III) Determination of the valuation conclusion

The asset-based method is to evaluate the fair market value of assets from the perspective of asset replacement. It can only reflect the value of enterprise assets, but cannot comprehensively and reasonably reflect the comprehensive profitability of various assets and the growth of the enterprise, and cannot cover the value of intangible assets such as orders on hand, customer resources, goodwill and human resources.

The income method evaluates the enterprise value by discounting the expected income, not only considering the assets measured by the enterprise in accordance with the accounting principles, but also considering the resources actually owned or controlled by the enterprise that cannot be reflected in the balance sheet, such as contract execution, customer resources, sales network, potential projects, enterprise qualifications, human resources, etc., the contribution to the enterprise of which is reflected in the net cash flow of the enterprise. Therefore, the evaluation conclusion under the income method can better reflect the overall growth and profitability under the enterprise. As the result, the valuation results under the income method have been adopted as the final appraisal conclusion.

That is, on the premise of continuous operation on the valuation benchmark date, the value of the total shareholder's equity of Qingdao Port Equipment Manufacturing Co., Ltd. is RMB198.9975 million after the valuation.

XI. SPECIAL NOTES

The following matters cannot be assessed and estimated by the valuers of the Company based on their professional level and ability, but they may indeed affect the appraisal conclusion, so the users of this appraisal report should pay special attention to them:

(I) The "appraisal value" in this report refers to the fair valuation opinion we put forward for the purpose listed in this report under the condition that the current use of the appraised assets remains unchanged and continues to be valid, as well as under the conditions and the external economic environment on the valuation benchmark date, and we are not responsible for other purposes.

(II) The valuation conclusion in the report reflects the market value of the appraisal object in accordance with the principles of open market and for the purpose of the valuation, which does not consider the relevant expenses and taxes to be borne in the process of property right registration or ownership change of such assets, make any tax adjustment provision for the appraisal appreciation of the assets. The valuation conclusion should not be considered as a guarantee of any realizable price of the valuation object.

(III) During the effective use period of the asset appraisal conclusion, if the quantity of assets and the pricing standard change, appropriate adjustments should be made, and the appraisal conclusion cannot be directly used.

(IV) In this asset valuation report, if there is a tail difference between the total amount and the sum of the sub-item values of all the data in the table or text expression with the amount unit of RMB10,000, it is caused by rounding and is not a measurement or calculation error. Users of the report are requested to pay attention to this matter.

(V) Limit of asset appraisal procedures, handling methods and its impact on the appraisal conclusion:

In this valuation, the asset appraiser did not conduct technical testing on the technical parameters and performance of various equipment on the valuation benchmark date. The asset appraiser made a judgment through on-site investigation on the premise that the relevant technical data and operation records provided by the appraised entity are true and effective.

(VI) The nature, amount and relationship with the valuation object of the guarantee, lease and its contingent liabilities (contingent assets) and other items:

1. There is no guarantee and pledge and other rights restrictions of the appraised entity.

2. The site, plant, office building and staff dormitory of Port Equipment Company are all leased assets. Details of such operating leases are as follows:

Lessee	Lessor	Address	Asset name	Lease period	Area	Annual rental including tax
					(m^2)	*(RMB0'000)*
Port Equipment Company	Qingdao Port International Co., Ltd.	Qingdao Port Qianwan Port Area	Material depot	2021.1.1-2022.12.31	8,086.18	63.38
Port Equipment Company	Shandong Port Qingdao Port Group Co., Ltd.	Qingdao Port Dagang Port Area	Houses, land	2022.1.1-2022.12.31	78,205.38	462.11
Port Equipment Company	Shandong Port Qingdao Port Group Co., Ltd.	No. 28, Ganghuan Road, Shibei District, Qingdao	Office building	2022.1.1-2022.12.31	2,916.10	80.50
Port Equipment Company	Qingdao One Stop Fast Rent Real Estate Agency Co., Ltd.	Puji New Area, Shibei District, Qingdao	Dormitory	2021.7.12-2022.7.11	270.00	9.50
Port Equipment Company	Qingdao One Stop Fast Rent Real Estate Agency Co., Ltd.	Puji New Area, Shibei District, Qingdao	Dormitory	2021.8.8-2022.8.7	180.00	6.54

Lessee	Lessor	Address	Asset name	Lease period	Area	Annual rental including tax
					(m^2)	*(RMB0'000)*
Port Equipment Company	Qingdao One Stop Fast Rent Real Estate Agency Co., Ltd.	Puji New Area, Shibei District, Qingdao	Dormitory	2021.5.15-2022.5.14	540.00	19.01
Total					90,197.66	641.04

As Port Equipment Company is a wholly-owned subsidiary of Qingdao Port and a holding sub-subsidiary of Shandong Port Qingdao Port Group Co., Ltd., considering the operation needs of Port Equipment Company and the need to continuously lease the above assets, the current appraisal is conducted on the assumption that the contract will be renewed after the expiration of the lease contract, and the users of the report are reminded to pay attention to the impact of this matter on the appraisal conclusion.

(VII) The subsequent events that may affect the valuation conclusion between the valuation benchmark date and the date of the valuation report:

From the valuation benchmark date to the issue date of the valuation report, there was no significant event that affected the valuation premise and the valuation conclusion and required adjustment to the valuation conclusion.

(VIII) The defects that may have a significant impact on the valuation conclusion in the economic behavior corresponding to this asset valuation:

1. A total of 30 items (sets) of machinery and equipment included in the valuation scope are seriously damaged in the retired state. The enterprise has issued a statement of equipment retirement, involving the original book value of RMB68,642.17 and the net book value of RMB45,145.33. For retired equipment, the assessed value is determined according to the recoverable price.

2. A total of 3 vehicles included in the valuation scope are seriously damaged in the retired state. The enterprise has issued a statement of vehicle retirement, involving the original book value of RMB52,657.34 and the net book value of RMB44,414.93. For retired vehicles, the assessed value is determined according to the recoverable price.

3. A total of 27 items (sets) of electronic and office equipment included in the valuation scope are seriously damaged and are in the retired state. The enterprise has issued a statement of electronic and office equipment retirement, involving the original book value of RMB2,363.20 and the net book value of RMB1,006.34. For retired electronic and office equipment, the assessed value is determined according to the recoverable price.

XII. RESTRICTIONS ON THE USE OF ASSET VALUATION REPORT

(I) This valuation report can only be used for the purpose and use specified herein;

(II) If the client or other users of the asset valuation report fail to use the asset valuation report in accordance with the laws, administrative regulations and the scope of use specified in the asset valuation report, the asset valuation institution and its asset valuers shall not be liable;

(III) Except for the client, other users of the asset valuation report as entrusted in the asset valuation engagement contract and users of the asset valuation report as prescribed by the laws and administrative regulations, no other institution or individual shall be a user of the asset valuation report;

(IV) The users of the asset valuation report shall correctly understand the valuation conclusion, which is not equivalent to the realizable price of the valuation target, and the valuation conclusion shall not be deemed as a guarantee for the realizable price of the valuation target;

(V) This valuation report shall be submitted to the state-owned assets supervision and administration department or the relevant charging department of the enterprise for examination, and it can be officially used after filing;

(VI) If all or part of the contents of the asset valuation report are extracted, quoted or disclosed in the public media, the valuation institution shall review the relevant contents, unless otherwise provided by laws, regulations and relevant parties;

(VII) The valuation conclusion revealed in this appraisal report is only valid for the economic behavior corresponding to the project, and the validity period of the asset appraisal conclusion shall be one year from the valuation benchmark date, that is, from 28 February 2022 to 27 February 2023. When the purpose of the valuation is realized within the validity period, the valuation conclusion should be used as the reference basis for the value. The asset valuation should be renewed after more than a year.

XIII. ASSET VALUATION REPORT DATE

The asset valuation report is dated 8 October 2022, which is the date on which the valuation conclusion was formed.

SUMMARY OF ASSET VALUATION REPORT IN RELATION TO THE VALUE OF THE TOTAL SHAREHOLDERS' EQUITY OF SHANDONG PORT EQUIPMENT GROUP CO., LTD. INVOLVED IN THE PROPOSED CAPITAL INCREASE

Hui De Ping Bao Zi [2022] No. 006

Shandong Port Equipment Group Co., Ltd.:

Shandong Huide Assets Appraisal Co., Ltd. (山東匯德資產評估有限公司), entrusted by your company, adhering to the principles of independence, objectivity and impartiality, adopting the asset-based method and following the necessary appraisal procedures in accordance with the provisions of laws, administrative regulations and asset appraisal standards, evaluated the market value of the total shareholders' equity interests in Shandong Port Equipment Group Co., Ltd. (山東港口裝備集團有限公司) ("**Equipment Group**") involved in the proposed capital increase of Equipment Group as at 28 February 2022. The main contents of the appraisal report are summarized as follows:

I. Economic behavior: Qingdao Port International Co., Ltd. (青島港國際股份有限公司) ("**Qingdao Port International**") will make capital contribution to Equipment Group with the 51% equity interests in Qingdao Port Equipment Manufacturing Co., Ltd. (青島港口裝備製造有限公司) ("**Qingdao Port Equipment**").

In response to the above economic behavior, the transaction consideration for the 51% equity interests in Qingdao Port Equipment and the total shareholders' equity of Equipment Group shall be determined. As such, Equipment Group engages our company to assess the value of the total shareholders' equity of Equipment Group.

II. Valuation purpose: The purpose of this valuation is to determine the market value on the valuation benchmark date of the total shareholders' equity of Equipment Group, and to provide the value reference opinion for Equipment Group to implement the capital increase.

III. Valuation target: The valuation target is the value of total shareholders' equity of Equipment Group as at the valuation benchmark date.

IV. Valuation scope: The scope of valuation involved is all the assets and liabilities reported by Equipment Group after special audit as at the valuation benchmark date.

V. Value type: Market value.

VI. Valuation benchmark date: 28 February 2022.

VII. Evaluation method: Asset-based method.

VIII. Valuation conclusion: After the implementation of the valuation procedures, as at the valuation benchmark date, the valuation conclusion under the asset-based method on the assumption of going concern for the total shareholders' equity to be appraised is as follows:

The book value and appraised value of the total assets amounted to RMB472.5733 million and RMB537.6326 million, respectively, representing an appreciation of RMB65.0593 million or 13.77% over the book value; the book value and appraised value of the total liabilities amounted to RMB26.3097 million and RMB26.3097 million, respectively, with no appreciation or depreciation; the book value and appraised value of the net assets (total shareholders' equity) amounted to RMB446.2636 million and RMB511.3229 million, respectively, representing an appreciation of RMB65.0593 million or 14.58%. Details are as follows:

Summary of asset valuation results

Appraised entity: Shandong Port Equipment Group Co., Ltd. *Unit: RMB0'000*

Item		**Book value**	**Appraised value**	**Appreciation/ depreciation amount**	**Appreciation rate (%)**
		A	*B*	*C = B-A*	*D = C/A×100%*
Current assets	1	29,675.95	29,675.95	–	–
Non-current assets	2	17,581.38	24,087.31	6,505.93	37.00
Including: Long-term equity investments	3	16,603.16	23,107.51	6,504.34	39.18
Fixed assets	4	66.49	68.08	1.59	2.39
Right-of-use assets	5	645.72	645.72	–	–
Long-term prepaid expenses	6	266.00	266.00	–	–
Total assets	7	47,257.33	53,763.26	6,505.93	13.77
Current liabilities	8	2,231.41	2,231.41	–	–
Non-current liabilities	9	399.55	399.55	–	–
Total liabilities	10	2,630.97	2,630.97	–	–
Net assets	11	44,626.36	51,132.29	6,505.93	14.58

For details of the valuation conclusion, please refer to the valuation breakdown table under the asset-based method.

IX. Special notes:

The following matters are beyond the professional level and capability of assessment and estimation of our company's valuers. However, the matters may affect the valuation conclusion. The users of this valuation report should pay special attention in this regard:

(I) Incomplete or defective ownership information

1. The subsidiary – Rizhao Port Ship Machinery Industry Co., Ltd. (日照港船機工業有限公司) (hereinafter referred to as "**Rizhao Ship Machinery**")

   Rizhao Ship Machinery has 1 building applied for valuation, which is a steel structure plant of port machinery with a gross floor area of 1,854.36 square meters, with no building ownership certificate. "Ri Guo Yong (2012) No. 117759" is the ownership certificate number of the land where the registered owner is Rizhao Port Machinery Engineering Co., Ltd., a subsidiary of Rizhao Ship Machinery. The book value of the steel structure plant of port machinery is RMB3,186,589.93 and the appraised value is RMB3,849,141.00.

2. The sub-subsidiary – Rizhao Port Machinery Engineering Co., Ltd. (日照港機工程有限公司) (hereinafter referred to as "**Port Machinery Engineering**"), a subsidiary of Rizhao Ship Machinery

   Port Machinery Engineering has 6 buildings included in the scope of valuation with a total area of 10,749.97 square meters. As at the valuation benchmark date, there was no building ownership certificate. Details are as follows:

No.	**Name of building**	**Area** *(m^2)*	**Book value** *(RMB Yuan)*	**Rights holder**
1	Machining workshop	1,149.97	25,230.00	Port Machinery Engineering
2	Steel structure production plant	6,200.00	3,098,697.44	Port Machinery Engineering
3	Plant with span	330.00	121,777.15	Port Machinery Engineering
4	Steel structure plant	3,000.00	1,809,620.25	Port Machinery Engineering
5	Waiting room	34.00	5,100.75	Port Machinery Engineering
6	Changing room	36.00	14,046.30	Port Machinery Engineering

3. The sub-subsidiary – Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd. (日照港達船舶重工有限公司) (hereinafter referred to as "**Kingda Shipbuilding**"), a subsidiary of Rizhao Ship Machinery

   Kingda Shipbuilding has 9 buildings included in the scope of valuation with a total area of 30,563.68 square meters. As at the valuation benchmark date, there was no building ownership certificate. Details are as follows:

<table>
<tr><th>No.</th><th>Name of building</th><th>Area
(m²)</th><th>Book value
(RMB Yuan)</th><th>Appraised value
(RMB Yuan)</th><th>Rights holder</th></tr>
<tr><td>1</td><td>Plant</td><td>18,084.00</td><td rowspan="6">27,514,285.30</td><td>26,340,171.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>2</td><td>Office building</td><td>2,923.20</td><td>5,240,338.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>3</td><td>Transformers</td><td>232.80</td><td>217,204.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>4</td><td>Guarding room</td><td>107.28</td><td>65,445.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>5</td><td>Loft building</td><td>1,080.00</td><td>927,708.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>6</td><td>Acetylene room</td><td>256.00</td><td>220,477.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>7</td><td>Warehouse</td><td>3,087.60</td><td>15,855,859.98</td><td>2,652,213.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>8</td><td>Dormitory</td><td>4,519.20</td><td>488,263.32</td><td>18,281,542.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>9</td><td>2-storey office building</td><td>273.60</td><td>53,127.58</td><td>498,785.00</td><td>Kingda Shipbuilding</td></tr>
</table>

4. The subsidiary – Shandong Luhai Heavy Industry Co., Ltd. (山東陸海重工有限公司) (hereinafter referred to as "**Luhai Heavy Industry**")

   The Mita lorry of Luhai Heavy Industry included in the scope of this valuation is actually a Toyota pick-up truck, which has not obtained the "Vehicle Driving License of the People's Republic of China". As at the valuation benchmark date, the above vehicle has been retired and could not be used.

5. The subsidiary – Yantai Port Motor Vehicle Comprehensive Performance Inspection Co., Ltd. (煙台海港機動車綜合性能檢測有限公司) (hereinafter referred to as "**Motor Vehicle Inspection**")

Motor Vehicle Inspection has 4 buildings included in the valuation. As at the valuation benchmark date, there was no building ownership certificate. Details are as follows:

No.	**Name of building**	**Gross floor area** *(m^2)*	**Book value** *(RMB Yuan)*	**Appraised value** *(RMB Yuan)*
1	Inspection line warehouse	75.18	173,391.91	185,287.00
2	Expansion of environmental inspection line workshop for motor vehicles	415.75		1,107,921.00
3	Expansion of environmental inspection line auxiliary facilities for motor vehicles	384.38	2,154,803.89	1,221,309.00
4	External inspection shed	101.50		66,754.00
Total		976.81	2,328,195.80	2,581,271.00

In respect of each of the above assets, the appraised entity has issued a letter of undertaking to prove that all assets are owned by it and there is no dispute on title. The calculation of replacement cost for the buildings without ownership certificate as at the valuation benchmark date does not include the relevant license handling fees. In addition, for buildings that have not obtained ownership certificates, when it is necessary to handle the property registration in the future, should there be any inconsistency with the gross floor area as determined by the real estate surveying department, the valuation conclusion of this project shall be adjusted based on the area stated in the certificates.

According to the undertaking of the appraised entity, except for the above matters, it is confirmed that there are no title defects in other assets and liabilities included in the scope of valuation.

(II) Uncertainties such as pending matters and legal disputes

1. The sub-subsidiary – Kingda Shipbuilding, and Jiangsu Huaxia Heavy Industry Co., Ltd. (hereinafter referred to as "**Jiangsu Huaxia Heavy Industry**") entered into the Procurement Contract on 23 January 2017, pursuant to which, Kingda Shipbuilding shall pay RMB7.16 million to Jiangsu Huaxia Heavy Industry. Upon the expiration of the delivery period as agreed in the contract, despite repeated urging, Jiangsu Huaxia Heavy Industry failed to deliver the goods as of the date of the valuation report, and the payment of RMB5.7065 million already paid by Kingda Shipbuilding has not yet been recovered. In this regard, Kingda Shipbuilding filed an arbitration with the Rizhao Arbitration Commission, which issued an arbitral award in July 2018 (Ri Zhong Zi (2018) No. 53). The arbitration tribunal requested the other party for a refund of RMB5.7065 million. Jiangsu Huaxia Heavy Industry has been in bankruptcy and liquidation due to poor operation. Kingda Shipbuilding has declared its creditor's rights, but it has no priority to receive compensation.

2. As Rizhao Huayong Shipping Co., Ltd. (hereinafter referred to as "**Rizhao Huayong**") did not pay the maintenance fee for "Huayong Tuo 10" of RMB500,000 to Kingda Shipbuilding, Kingda Shipbuilding filed a lawsuit with the court in April 2018 (Lu 72 Min Chu (2018) No. 494). The trial ruled that Rizhao Huayong, the defendant, shall pay Kingda Shipbuilding, the plaintiff, the maintenance fee of RMB542,000 and the interest thereof.

In March 2019, Rizhao Huayong used the "Huayong Tuo 10" towing fee of RMB500,000 owed by Shandong Harbor to cover the ship repair payment due to Kingda Shipbuilding, which however was unable to enter the enforcement procedure as Shandong Harbor raised a written objection. In July 2020, Rizhao Huayong filed an objection for enforcement to the high court, which had not handed down the judgment as of the date of the valuation report.

This valuation does not take into account the impact of the above-mentioned litigation matters on the valuation conclusion. Except for the above matters, other assets and liabilities included in the scope of valuation do not involve any legal, economic and other pending matters.

(III) Important use of expert work and relevant reports

The book values involved in this valuation have been audited by Shandong Tianpingxin Certified Public Accountants Co., Ltd. (山東天平信有限責任會計師事務所) engaged by the client, which has issued an unqualified audit report (Lu Tianpingxin Shen Zi (2022) No. 033). The audited assets subject to valuation comprise five categories, including current assets, long-term equity investment, fixed assets, right-of-use assets and long-term prepaid expenses, with total assets of RMB472.5733 million, while the liabilities subject to valuation are current liabilities and non-current liabilities, with total liabilities of RMB26.3097 million, and the net assets amount to RMB446.2636 million.

(IV) Significant subsequent events

According to the undertaking of Equipment Group, from the valuation benchmark date to the date of issuance of the valuation report, there is no significant event that affects the valuation premise and the valuation conclusion and requires adjustment to the valuation conclusion.

(V) Limitations of the valuation procedures, remedial measures taken by the valuation institution and the impact on the valuation conclusion

During the valuation process, the valuers observed the exterior appearance of the buildings and structures under valuation, and observed the interior decoration and usage of the buildings as far as possible, but did not conduct any structural and material tests. When conducting survey on the equipment, due to the limitation of testing methods and the fact that some equipments were in operation, the valuers mainly relied on the appearance as observed by them, the recent testing information provided by the appraised entity and the inquiries to relevant operators in order to make judgments.

(VI) Nature, amount and the relationship with the valuation target of mortgage, guarantee, lease and contingent liabilities (contingent assets)

1. Leasing of office buildings of Equipment Group:

Pursuant to the Building Leasing Contract entered into between Equipment Group and Shandong Port International Trade Group Co., Ltd. (山東港口國際貿易集團有限公司) on 11 December 2020, Equipment Group leased 23/F, T2, No. 877 Lijiang West Road, Qingdao Development Zone (青島市開發區灕江西路877號T2樓23層), with a leased area of 1,668.84 square meters for a term commencing from 1 September 2020 to 31 August 2025.

2. *Leasing of land of Rizhao Ship Machinery:*

Pursuant to the Asset Leasing Contract entered into between Rizhao Ship Machinery and Rizhao Jinqiao Energy Conservation Technology Co., Ltd. (日照金橋節能科技有限公司), a connected party, Rizhao Jinqiao Energy Conservation Technology Co., Ltd. leased the land use right located at Linyi South Road, Rizhao City (日照市臨沂南路) to Rizhao Ship Machinery for use, with a leased area of 121,272 square meters. The contract tentatively provided that the land lease term was from 1 July 2020 to 30 June 2022, and the annual rent was RMB2,760,000. Upon expiry of the lease term, the contract shall be terminated. If Rizhao Ship Machinery needs to renew the lease, it shall put forward the same within 30 days upon expiry of the lease term. The lease contract shall then be re-entered into subject to the consent of the lessor. The dry dock, ship platform works and mobile paint spraying room of Rizhao Ship Machinery were all located on the leased land. The impact of the lease on the valuation conclusion of relevant assets has not been considered in this valuation.

3. *Leasing of office premises of Rizhao Ship Machinery:*

According to the Building Lease Agreement of Rizhao International Trade Center entered into between Rizhao Ship Machinery and Shandong Port Industry City Integration Development Rizhao Co., Ltd. (山東港口產城融合發展日照有限公司), Rizhao Ship Machinery leased the 17th, 18th and 19th floors of Block C of Rizhao International Trade Center (日照國際商貿中心C座第17、18、19層), with a leased area of 1,999.92 square meters. The lease term of the 17th floor is from 20 April 2021 to 19 April 2023, and the lease term of the 18th and 19th floors is from 26 March 2021 to 25 March 2023, with a two-year rent-free period.

4. *Leasing of land and terminal shoreline of Kingda Shipbuilding*

According to the Supplementary Agreement to the Land and Terminal Shoreline Lease Contract entered into between Kingda Shipbuilding and Rizhao Port Co., Ltd. (日照港股份有限公司), a connected party, on 3 April 2019, Kingda Shipbuilding's current factory land and terminal shoreline were leased for use. The land lease area was 11.3 mu with a lease term from 1 October 2017 to 30 September 2022 at an annual rent of RMB339,000. The terminal shoreline was 270 meters long with a lease term from 1 October 2017 to 30 September 2022 at an annual rent of RMB788,400. The buildings (structures) of Kingda Shipbuilding included in the scope of valuation are all located on the above-mentioned leased land. The impact of the lease on the valuation conclusion of relevant assets has not been considered in this valuation.

5. *Leasing of properties of Motor Vehicle Inspection*

According to the Tenancy Agreement No. GF-2000-0602 entered into between Motor Vehicle Inspection and Yantai Port Group Co., Ltd. (煙台港集團有限公司) (now renamed as Shandong Port Yantai Port Group Co., Ltd. (山東港口煙台港集團有限公司)), a connected party, Shandong Port Yantai Port Group Co., Ltd. leased the property located at No. 15 Huanhai Road (1,058.75 square meters), the site with area of 7,000 square meters and the 500 meters of exclusive channel on the east to Motor Vehicle Inspection for a lease term from 1 January 2013 to 1 January 2023, during which the rent has been waived. The self-built inspection line warehouse, inspection line workshop and auxiliary facilities of Motor Vehicle Inspection are located in the above-mentioned leased site. The impact of the lease on the valuation conclusion of relevant assets has not been considered in this valuation.

According to the undertaking of Equipment Group, other than the above matters, there are no mortgages, guarantees, leases and contingent liabilities (contingent assets) of other assets included in the scope of this valuation.

(VII) The defects in the economic behavior corresponding to the asset valuation may have a significant impact on the valuation conclusion.

According to the undertaking of Equipment Group, it is confirmed that the economic behavior corresponding to the valuation will not have a significant impact on the valuation conclusion.

(VIII) The valuation conclusion has not considered the possible changes in tax payment obligations resulting from the increase or decrease of the appraised value.

(IX) The valuation results have not considered the premium or discount caused by factors such as controlling interests, and have not considered the impact of the liquidity of the appraised equity on the valuation results.

(X) *Land resumption and relocation of Port Machinery Engineering*

Rizhao Port Group Co., Ltd. (日照港集團有限公司) (hereinafter referred to as "**Rizhao Port Group**") entered into the State-owned Land Resumption Agreement with the Rizhao Natural Resources and Planning Bureau (日照市自然資源和規劃局) in January 2019, pursuant to which, the state-owned construction land with an area of 1,650,000 square meters to the south of Huanghai First Road (黃海一路) and to the east of Port Railway (港口鐵路) was included in the government reserve. The compensation for the above land, buildings and attachments was RMB1,014.75 million.

Port Machinery Engineering, a subsidiary of Rizhao Ship Machinery, has one existing land use right with the title certificate number of Ri Guo Yong (2012) No. 117759 and a land area of 52,820 square meters, which is currently used as the production plant of Port Machinery Engineering. The land and attachments are within the scope of the aforesaid land resumption of Rizhao Port Group, which have not yet been resumed and relocated as at the valuation benchmark date.

The State-owned Land Resumption Agreement contains no details of compensation. Despite rounds of communication, the relevant parties have not yet provided details of compensation and the corresponding evaluation report on the compensation for resumption and relocation. As discussed with the client, since the State-owned Land Resumption Agreement remains effective, the compensation price of the land use rights and buildings and structures on the ground of Port Machinery Engineering has been taken as RMB32.4843 million, which is determined by multiplying the ratio of the land area of Port Machinery Engineering (52,820 square meters) to the total land area (1,650,000 square meters) by the total compensation amount, and such compensation price has been taken as the appraised value.

In particular, one steel structure plant of Port Machinery, with a gross floor area of 1,854.36 square meters and built by Rizhao Ship Machinery, the parent company of Port Machinery Engineering, is located on the land of Port Machinery Engineering to be resumed by the government. In order to maintain the completeness of the scope of valuation, the valuers estimated the appraised value of the plant. As at the valuation benchmark date, the net appraised value of the plant was RMB3,849,141.00. In this valuation, the above compensation apportioned to Port Machinery Engineering less the appraised value of the plant has been taken as the appraised value of the land use rights and the attachments erected thereon of Port Machinery Engineering.

(XI) The asset valuation report has been prepared based on the valuation-related information provided by the client, the appraised entity and the relevant parties. It is the responsibility of the client, the appraised entity and the relevant parties to provide the necessary information and ensure the authenticity, legality and completeness of such information. The responsibility of the valuation professionals is to analyze and estimate the value of the valuation target for specific purposes as at the valuation benchmark date and express professional opinions in this regard. The valuation professionals have conducted necessary verification and disclosure of the information and its sources, but do not provide any guarantee for the authenticity, legality and completeness of the above information. It is beyond the scope of practice of the valuation professionals to confirm the information and its sources or express opinions in this regard.

(XII) In the valuation, we have referred to and adopted the historical financial statements and financial statements as at the valuation benchmark date of the appraised entity as well as the financial reports and transaction data of the comparable companies we found on iFinD. Our estimation has relied to a considerable extent on the above financial statement data and transaction data, and we have assumed that the above financial statement data and transaction data are true and reliable. The fact that our estimation has relied on the data of those financial statements does not represent any assurance that we will give as to the correctness and completeness of such financial information or that there are no other requirements for such information which are in conflict with our use of such data.

(XIII) The future profit forecast of the investees involved in the valuation is based on the profit forecast formulated by the management. We have reviewed the above-mentioned profit forecast as necessary and made appropriate adjustments based on the information obtained during the valuation process. The valuation assumptions adopted in the valuation of the investees under the income method are a relatively reasonable forecast of the future operation of the valuation target under the current conditions. If there are various unpredictable and unavoidable factors that may affect the realization of the assumptions in the future, the realization of the profit forecast will be affected. We would like to remind the client and other relevant parties, that we do not guarantee the realization of the above assumptions, nor we assume the obligations to realize or help realize the above assumptions.

(XIV) As of the date of this valuation report, the epidemic prevention and control work in China is still severe. With the active cooperation of the client, the asset inventory in the valuation was conducted through on-site operation, remote video and other methods according to different situations. There is no major event that affects the asset inventory due to the needs of epidemic prevention and control.

X. Validity period of the valuation conclusion: According to the provisions of the Practicing Standards for Asset Valuation – Asset Valuation Report, "Normally, an asset valuation report can only be used when the period between the valuation benchmark date and the date of realization of economic behavior does not exceed one year". The validity period of the valuation conclusion is one year from the valuation benchmark date, i.e. from 28 February 2022 to 27 February 2023. If there are material changes in the asset conditions and market conditions as compared with those as at the valuation benchmark date, the client shall engage the valuation institution to perform a valuation update or re-valuation.

XI. Date of the asset valuation report: The official submission date of this valuation report is 16 May 2022, which is the date on which the valuation conclusion was formed.

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

TEXT OF ASSET VALUATION REPORT
IN RELATION TO
THE VALUE OF THE TOTAL SHAREHOLDERS' EQUITY OF
SHANDONG PORT EQUIPMENT GROUP CO., LTD.
INVOLVED IN THE PROPOSED CAPITAL INCREASE
Hui De Ping Bao Zi [2022] No.006

Shandong Port Equipment Group Co., Ltd.:

Shandong Huide Assets Appraisal Co., Ltd. (山東匯德資產評估有限公司), entrusted by your company, adhering to the principles of independence, objectivity and impartiality, adopting the asset-based method and following the necessary appraisal procedures in accordance with the provisions of laws, administrative regulations and asset appraisal standards, evaluated the market value of the total shareholders' equity of Shandong Port Equipment Group Co., Ltd. (山東港口裝備集團有限公司) ("**Equipment Group**") involved in the proposed capital increase of Equipment Group as at 28 February 2022. The main contents of the appraisal report are summarized as follows:

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

The client of the asset valuation and the appraised entity are both Equipment Group, and other users of valuation report are the users of the valuation report specified by national laws and regulations.

(I) Overview of the client

1. Registration situation

Company name: Shandong Port Equipment Group Co., Ltd.

Unified social credit code: 91370211MA3RMHJG5N

Type of company: Other limited liability company

Registered address: Room 219-6, Jiudingfeng Building, No. 888 Changbaishan Road, Qingdao Area, China (Shandong) Pilot Free Trade Zone

Legal representative: Chen Fuxiang

Registered capital: RMB448,682,460.17

Date of establishment: 27 March 2020

Term of operation: Long-term

Business scope: licensed items: port operation; manufacturing of special equipment; special equipment design; installation, transformation and repair of special equipment; inspection and detection of special equipment; construction works; construction engineering design; road cargo transportation (excluding dangerous goods). (For projects that need to be approved according to law, business activities can only be carried out after being approved by relevant departments, and the specific business items shall be subject to the approval documents or licenses of relevant departments) general items: material handling equipment manufacturing; manufacturing of offshore engineering platform equipment; manufacturing of deep-sea oil drilling equipment; mining machinery manufacturing; research and development of offshore wind power related systems; metal structure manufacturing; metal tool manufacturing; sales of special equipment; sales of intelligent port handling equipment; sales of material handling equipment; sales of offshore engineering equipment; repair of special equipment; general equipment repair; sales of mining machinery; sales of offshore wind power related equipment; metal structure sales; ship refitting; ship repair; machinery and equipment leasing; transportation equipment leasing service; container leasing service; container manufacturing; container sales; manufacturing of metal packaging containers and materials; sales of metal packaging containers and materials; sales of building materials; metal material manufacturing; sales of metal materials; engineering management services; external contracted projects; general cargo warehousing services (excluding hazardous chemicals and other items requiring approval); sales of building decoration materials; retail of hardware products; conference and exhibition services; information technology consulting services; shipbuilding; motor vehicle repair and maintenance; import and export of goods; technology import and export; advertising. (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. *Historical evolution*

(1) Establishment of the company

Equipment Group was established on 27 March 2020 with Shandong Port Group Co., Ltd. (山東省港口集團有限公司) as its investor, holding 100% of its shares. At the time of establishment, the enterprise had a registered capital of RMB300,000,000. The shareholding structure was as follows:

No.	Name of shareholder	Capital contribution *(RMB0'000)*	Percentage of shareholding
1	Shandong Port Group Co., Ltd.	30,000.00	100.00%
Total		**30,000.00**	**100.00%**

(2) First capital increase

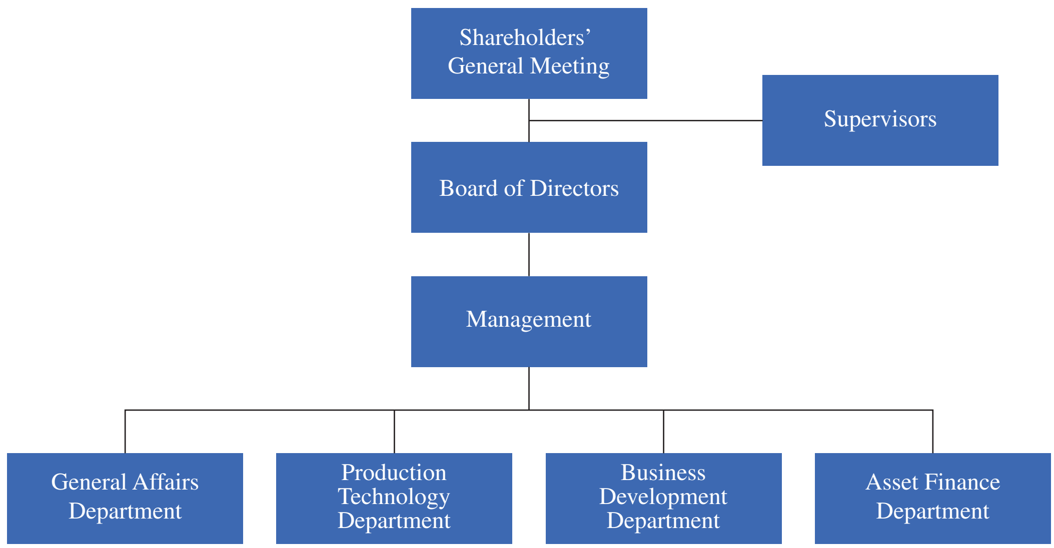
With the approval of the Approval on the Implementation Plan for the Integration of Equipment Segment (Lu Gang Tou [2020] No. 79) of Shandong Port Group Co., Ltd. (山東省港口集團有限公司), Shandong Port Rizhao Port Group Co., Ltd. (山東港口日照港集團有限公司) increased the capital of Shandong Port Equipment Group Co., Ltd. (山東港口裝備集團有限公司) with its 51% equity interests in Rizhao Port Ship Machinery Industry Co., Ltd. (日照港船機工業有限公司), and Shandong Port Yantai Port Group Co., Ltd. (山東港口煙台港集團有限公司) increased the capital of Equipment Group with its 51% equity interests in Shandong Luhai Heavy Industry Co., Ltd. (山東陸海重工有限公司) and 100% equity interests in Yantai Port Motor Vehicle Comprehensive Performance Inspection Co., Ltd. (煙台海港機動車綜合性能檢測有限公司). Upon completion of the capital increase, Shandong Port Group Co., Ltd. (山東省港口集團有限公司) held 66.86% of the shares, with a subscribed capital of RMB300,000,000 and paid-up capital of RMB300,000,000. Shandong Port Rizhao Port Group Co., Ltd. (山東港口日照港集團有限公司) held 31.61% of the shares, with a subscribed capital of RMB141,806,455.97 and paid-up capital of RMB141,806,455.97. Shandong Port Yantai Port Group Co., Ltd. (山東港口煙台港集團有限公司) held 1.53% of the shares, with a subscribed capital of RMB6,876,004.2 and paid-up capital of RMB6,876,004.2. The shareholding structure was as follows:

No.	**Name of shareholder**	**Capital contribution** *(RMB0'000)*	**Percentage of shareholding**	**Method of capital contribution**
1	Shandong Port Group Co., Ltd.	30,000.00	66.86%	Cash
2	Shandong Port Rizhao Port Group Co., Ltd.	14,180.645597	31.61%	Equity interests
3	Shandong Port Yantai Port Group Co., Ltd.	687.60042	1.53%	Equity interests
Total		**44,868.246017**	**100.00%**	

As at 28 February 2022, being the valuation benchmark date, there was no change in the above-mentioned shareholding structure.

3. *Organizational structure and human resources*

(1) Organizational structure



(2) Human resources

As at the valuation benchmark date, the number of registered employees of Equipment Group was 17 (excluding subsidiaries). Their employment type, age distribution and education background are as follows:

1) Type of employment

Type of employment	**Number (person)**	**Percentage of total number of employees**
Senior management	2	11.76%
Management	15	88.24%
Total	17	100.00%

2) Age distribution of employees

Age range	**Number**	**Percentage of total number of employees**
Under 30 years old	2	11.76%
31-40 years old	10	58.83%
41-50 years old	3	17.65%
Over 50 years old	2	11.76%
Total	17	100.00%

3) Education background of employees

Education level	Number	Percentage of total number of employees
Postgraduate and above	2	11.76%
Undergraduate	15	88.24%
Total	17	100.00%

4. External investment

Equipment Group currently has 3 long-term investment entities, all of which are holding subsidiaries. Details of the long-term investment entities are as follows:

Name of investee	Date of investment	Percentage of shareholding	Book value *(RMB Yuan)*	Remarks
Rizhao Port Ship Machinery Industry Co., Ltd.	2020/12/21	51%	159,408,363.46	Normal operation
Shandong Luhai Heavy Industry Co., Ltd.	2020/12/21	51%	5,230,765.72	Normal operation
Yantai Port Motor Vehicle Comprehensive Performance Inspection Co., Ltd.	2020/12/21	100%	1,392,507.54	Normal operation
Total			66,031,636.72	

*(1) Long-term investment entity – Rizhao Port Ship Machinery Industry Co., Ltd. (日照港船機工業有限公司) (hereinafter referred to as "**Rizhao Ship Machinery**")*

1) Particulars of registration

Name: Rizhao Port Ship Machinery Industry Co., Ltd.

Unified social credit code: 91371100MA3MJJ3W99

Corporate type: Other limited liability company

Legal address: No. 500 Shanghai Road, Economic Development Zone, Rizhao City, Shandong Province

Legal representative: Liu Qiang

Registered capital: RMB500,000,000

Date of establishment: 2 January 2018

Term of operation: Long-term

Business scope: Design, research and development, manufacturing, installation, maintenance and general contracting of port handling process system and equipment; design, manufacture and installation of steel structures; vessel design, manufacture and repair; containers and metal packaging containers manufacturing; processing of machinery parts; research and development, processing and sales of painted metal plates, energy-saving and thermal insulation materials for new buildings, and new wall and roof materials; design, manufacture and installation of modular buildings and integrated houses; design and installation of refrigerated storage and industrial plants; steel structure, anti-corrosion, electromechanical installation projects; import and export of general goods. Contracting of overseas engineering projects that are compatible with its strength, size and performance, and dispatching labor personnel required for the implementation of the above overseas projects. (For projects subject to approval in accordance with the laws, business activities shall be conducted only after approved by the relevant departments).

2) Historical evolution

A. Establishment of the company in January 2018

Rizhao Ship Machinery was restructured and organized by Rizhao Port Group Co., Ltd. (日照港集團有限公司) in accordance with the Relevant Provisions on the Establishment of Limited Liability Company by Restructuring Enterprises of the Company Law. At the time of establishment, the registered capital was RMB500,000,000 and the paid-up capital was RMB0. In August 2018, Rizhao Port Group Co., Ltd. (日照港集團有限公司) contributed RMB50,000,000, accounting for 10% of the registered capital. The shareholding structure at the time of establishment was as follows:

Name of shareholder	**Capital contribution** *(RMB0'000)*	**Paid-up capital contribution** *(RMB0'000)*	**Percentage of shareholding**
Rizhao Port Group Co., Ltd.	50,000.00	5,000.00	100%

B. In 2020, Rizhao Port Group Co., Ltd. (日照港集團有限公司) increased its paid-up capital contribution by RMB317,344,990.73, and the paid-up capital changed to RMB367,344,990.73.

C. In May 2021, the shareholder Rizhao Port Group Co., Ltd. (日照港集團有限公司) was renamed as Shandong Port Rizhao Port Group Co., Ltd. (山東港口日照港集團有限公司).

D. Change of shareholding in December 2021

In December 2021, Shandong Port Rizhao Port Group Co., Ltd. (山東港口日照港集團有限公司) injected its 51% equity interests in Rizhao Ship Machinery to Equipment Group. The shareholding structure after the change was as follows:

No.	**Name of shareholder**	**Capital contribution** *(RMB0'000)*	**Paid-in capital contribution** *(RMB0'000)*	**Percentage of shareholding**
1	Shandong Port Equipment Group Co., Ltd.	25,500.00	18,734.59	51%
2	Shandong Port Rizhao Port Group Co., Ltd.	24,500.00	17,999.91	49%
Total		50,000.00	36,734.50	100%

As at 28 February 2022, being the valuation benchmark date, there was no change in the above-mentioned shareholding structure.

3) Principal businesses

Rizhao Ship Machinery is principally engaged in the businesses of port handling process equipment, vessel and marine equipment, steel structure and equipment facilities; design, research and development, production and installation of new building materials and industrial products, etc.

4) External investment

Rizhao Ship Machinery currently has two long-term investment entities, one of which is a wholly-owned subsidiary and the other is a holding subsidiary. The long-term investment entities are both accounted for using the cost method. Details of long-term investment entities are as follows:

Unit: RMB Yuan

No.	Name of investee	Date of investment	Percentage of shareholding	Investment cost	Book value
1	Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.	2018/7/1	60.00%	–	
2	Rizhao Port Machinery Engineering Co., Ltd.	2018/7/1	100.00%	14,891,832.96	14,891,832.96

A. Long-term investment entity I: Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd. (日照港達船舶重工有限公司) (hereinafter referred to as "**Kingda Shipbuilding**")

(A) Particulars of registration

Name: Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.

Unified social credit code: 91371100666711909U

Corporate type: Limited liability company (Sino-foreign joint venture)

Legal address: Shanghai Road South, East Haibin 5th Road, Rizhao City

Legal representative: Xu Sanhua

Registered capital: RMB75,000,000

Date of establishment: 7 November 2007

Term of operation: From 7 November 2007 to 19 September 2037

Business scope: Shipbuilding business (30,000 tons or less); design and construction of offshore platforms, design and installation of facilities; vessel repairing business; old vessel renovation and maintenance; marine machinery manufacturing; steel structure engineering; trade agency. (For projects subject to approval in accordance with the laws, business activities shall be conducted only after approved by the relevant departments).

(B) Shareholding structure as at the valuation benchmark date

No.	Name of shareholder	Capital contribution *(RMB0' 000)*	Paid-in capital contribution *(RMB0' 000)*	Percentage of shareholding
1	Rizhao Port Ship Machinery Industry Co., Ltd.	4,500.00	4,500.00	60%
2	Chuwa Bussan Co., Ltd.	3,000.00	3,000.00	40%
Total		7,500.00	7,500.00	100%

(C) Overview of principal businesses

Kingda Shipbuilding currently possesses the production qualifications of Grade I Class III steel general ships and Grade I steel fishing vessels, Grade B steel fishing vessels design qualification and marine fishery platform design and construction qualification, and is a research and development and manufacturing base for marine fishery equipment in Shandong Province. Main business scope: shipbuilding business, vessel repairing business, old vessel renovation and maintenance, marine machinery manufacturing, steel structure engineering, trade agency, with self-operated import and export rights.

(D) The financial position and operations of Kingda Shipbuilding in recent years were as follows:

Statement of financial position

Unit: RMB0'000

Item	**2019/12/31**	**2020/12/31**	**2021/12/31**	**2022/2/28**
Current assets	28,259.84	20,867.56	11,270.18	12,785.13
Non-current assets	8,818.95	9,505.67	9,541.55	9,505.38
Total assets	37,078.79	30,373.22	20,811.72	22,290.50
Current liabilities	39,595.77	48,010.33	38,661.09	40,260.59
Non-current liabilities		406.00	584.00	584.00
Total liabilities	39,595.77	48,416.33	39,245.09	40,844.59
Net assets	-2,516.99	-18,043.11	-18,433.37	-18,554.09

Statement of operations

Unit: RMB0'000

Item	**2019**	**2020**	**2021**	**January to February 2022**
1. Revenue	10,964.09	10,867.16	14,922.15	1,103.18
Less: Cost of sales	9,923.57	10,550.02	13,539.61	1,101.97
Taxes and surcharges	62.77	97.44	72.41	8.95
General and administrative expenses	868.70	647.59	802.17	110.29
Research and development expenses			654.52	21.70
Financial expenses	151.48	302.64	170.32	25.74
Asset impairment losses	863.88	-1,156.93	370.22	33.97
Add: Other income	5.32	58.44	3.05	
2. Operating profit	-900.99	484.84	-684.05	-131.50
Add: Non-operating income	96.23	0.50	334.07	
Less: Non-operating expenses			20.38	
3. Total profit	-804.75	485.34	-370.36	-131.50
Less: Income tax expenses				
4. Net profit	-804.75	485.34	-370.36	-131.50

B. Long-term investment entity II: Rizhao Port Machinery Engineering Co., Ltd. (日照港機工程有限公司) (hereinafter referred to as "**Port Machinery Engineering**")

(A) Particulars of registration

Name: Rizhao Port Machinery Engineering Co., Ltd.

Unified social credit code: 913711001683711399

Corporate type: Limited liability company (sole proprietorship of legal person invested or controlled by natural person)

Legal address: No. 126 Huanghai First Road, Rizhao City

Legal representative: Yin Yanxin

Registered capital: RMB69,000,000

Date of establishment: 16 March 2005

Term of operation: From 16 March 2005 to 16 March 2025

Business scope: mechanical and electrical equipment (excluding special equipment), line equipment, pipeline installation, steel structure engineering construction; manufacturing and sales of belt conveyor machinery (excluding special equipment) and accessories; manufacturing, repairs, sales and technical services of port machinery equipment (excluding special equipment) and accessories; installation and repairs of crane machinery; container repairs; import and export of general goods, except for goods the operation of which is restricted or the import or export of which is prohibited by the State. (For the above projects subject to approval in accordance with the laws, business activities shall be conducted only after approved by the relevant departments).

(B) Shareholding structure as at the valuation benchmark date

Name of shareholder	Capital contribution *(RMB0'000)*	Paid-up capital contribution *(RMB0'000)*	Percentage of shareholding
Rizhao Port Ship Machinery Industry Co., Ltd.	6,900.00	6,900.00	100%

(C) Overview of principal businesses

Port Machinery Engineering is principally engaged in the design, research and development, manufacturing, installation and maintenance of bulk material transportation systems, large-scale process equipment, port handling machinery and ancillary equipment, etc.

(D) The financial position and operations of Port Machinery Engineering in recent years were as follows:

Statement of financial position

Unit: RMB0'000

Item	2019/12/31	2020/12/31	2021/12/31	2022/2/28
Current assets	19,745.09	30,634.39	45,971.98	50,509.33
Non-current assets	4,104.83	4,029.84	4,395.57	4,385.13
Total assets	23,849.92	34,664.23	50,367.55	54,894.46
Current liabilities	20,962.58	30,898.23	45,487.79	49,492.18
Non-current liabilities	–	–	–	–
Total liabilities	20,962.58	30,898.23	45,364.81	49,492.18
Net assets	2,887.34	3,766.00	5,002.74	5,402.28

Statement of operations

Unit: RMB0'000

Item	2019	2020	2021	January to February 2022
1. Revenue	21,916.86	31,843.97	78,266.56	8,576.87
Less: Cost of sales	20,058.82	27,638.15	74,248.53	7,834.28
Taxes and surcharges	95.81	219.93	358.35	
General and administrative expenses	746.45	825.35	1,139.30	126.73
Research and development expenses	0.00	0.00	135.68	5.28
Financial expenses	33.45	40.95	307.71	27.54
Asset impairment losses	20.64	136.02	263.32	17.79
Add: Gains on disposal of assets	-3.99	-0.97		
Other income		10.54	2.11	0.11
2. Operating profit	957.69	2,993.14	1,815.78	565.35
Add: Non-operating income	0.74	0.61	1.80	1.95
Less: Non-operating expenses	0.00	0.62	13.69	4.78
3. Total profit	958.44	2,993.13	1,803.88	562.52
Less: Income tax expenses	0.00	0.00	759.70	175.90
4. Net profit	958.44	2,993.13	1,044.18	386.61

5) Financial position and operating results of Rizhao Ship Machinery

The financial position and operations of Rizhao Ship Machinery in recent years were as follows:

Statement of financial position

Unit: RMB0'000

Item	2019/12/31	2020/12/31	2021/12/31	2022/2/28
Current assets	35,798.71	37,687.51	44,519.52	41,465.84
Non-current assets	34,459.56	7,795.77	7,950.23	7,921.88
Total assets	70,258.27	45,483.28	52,469.75	49,387.72
Current liabilities	52,702.85	5,665.76	12,960.15	10,041.73
Non-current liabilities				
Total liabilities	52,702.85	5,665.76	12,960.15	10,041.73
Net assets	17,555.42	39,817.53	39,509.61	39,345.99

Statement of operations

Unit: RMB0'000

Item	**2019**	**2020**	**2021**	**January to February 2022**
1. Revenue	11,917.95	27,477.37	11,105.66	3,601.44
Less: Cost of sales	10,835.25	25,084.87	9,211.32	3,216.24
Taxes and surcharges	323.76	274.52	17.02	13.26
General and administrative expenses	1,991.64	1,982.51	1,794.02	302.61
Research and development expenses			207.67	72.01
Financial expenses	929.83	981.95	232.75	33.67
Asset impairment losses	-713.94	171.91	96.91	129.75
Add: Gains on disposal of assets				
Other income	18.04	15.13	137.16	2.16
2. Operating profit	-1,430.55	-1,003.26	-316.87	-163.93
Add: Non-operating income	3.13	8.07	17.01	0.32
Less: Non-operating expenses		0.36	8.06	0.00
3. Total profit	-1,427.42	-995.55	-307.92	-163.61
Less: Income tax expenses				
4. Net profit	-1,427.42	-995.55	-307.92	-163.61

(2) *Long-term investment entity – Shandong Luhai Heavy Industry Co., Ltd. (山東陸海重工有限公司) (hereinafter referred to as "**Luhai Heavy Industry**")*

1) Particulars of registration

Name: Shandong Luhai Heavy Industry Co., Ltd.

Unified social credit code: 91370684MA3QNPHE2J

Corporate type: Other limited liability company

Legal address: No. 1 Harbin Road, Penglai Economic and Technological Development Zone, Yantai City, Shandong Province

Legal representative: Wang Kepeng

Registered capital: RMB60,000,000

Date of establishment: 8 October 2019

Term of operation: Long-term

Business scope: general items: sales of special equipment; sales of material handling equipment; handling; manufacturing of material handling equipment; manufacturing of pumps and vacuum equipment; repair of special equipment; general equipment repair; electrical equipment repair; sales of offshore engineering equipment; manufacturing of offshore engineering equipment; sales of offshore wind power-related equipment; sales of lamps; motor vehicle repair and maintenance; road freight transportation of ordinary freight vehicles each with a total mass of 4.5 tons or less (excluding network freight and dangerous goods); used car distribution. (Except for the projects that need to be approved according to law, business activities shall be carried out independently according to law with the business license) licensed items: special equipment manufacturing; installation, transformation and repair of special equipment; construction works. (For the projects that need to be approved according to law, business activities can only be carried out with the approval by relevant departments. The specific business projects shall be subject to the approval documents or permits of relevant departments).

2) Historical evolution

A. Establishment of the company

Luhai Heavy Industry is an other limited liability company jointly invested and established by Yantai Port Group Co., Ltd. (煙台港集團有限公司) (now renamed as Shandong Port Yantai Port Group Co., Ltd. (山東港口煙台港集團有限公司)) and Jiangsu Xiangwang Group Co., Ltd. (江蘇象王集團股份有限公司). The registered capital at the time of establishment was RMB60,000,000. The shareholding structure at the time of establishment was as follows:

No.	**Name of shareholder**	**Capital contribution** *(RMB0'000)*	**Percentage of shareholding** *(%)*
1	Shandong Port Yantai Port Group Co., Ltd.	3,060.00	51.00
2	Jiangsu Xiangwang Group Co., Ltd.	2,940.00	49.00
Total		6,000.00	100.00

B. First equity transfer in June 2020

In June 2020, the company held a shareholders' general meeting to approve the transfer of 49% shares of Luhai Heavy Industry held by Jiangsu Xiangwang Group Co., Ltd., a shareholder, to Shandong Port Yantai Port Group Co., Ltd..

Upon the equity transfer, the shareholding structure of Luhai Heavy Industry was as follows:

No.	Name of shareholder	Capital contribution *(RMB0'000)*	Percentage of shareholding *(%)*
1	Shandong Port Yantai Port Group Co., Ltd.	6,000.00	100.00
Total		6,000.00	100.00

C. Second equity transfer in December 2021

In December 2021, the shareholders' general meeting of Luhai Heavy Industry resolved to approve Shandong Port Yantai Port Group Co., Ltd. (山東港口煙台港集團有限公司) to inject its 51% equity interests in Luhai Heavy Industry to Equipment Group.

Upon completion of the equity change, the shareholding structure of Luhai Heavy Industry is as follows:

No.	Name of shareholder	Capital contribution *(RMB0'000)*	Paid-in capital contribution *(RMB0'000)*	Percentage of shareholding *(%)*
1	Shandong Port Yantai Port Group Co., Ltd.	2,940.00	500.00	49.00
2	Shandong Port Equipment Group Co., Ltd.	3,060.00	520.00	51.00
Total		6,000.00	1,020.00	100.00

3) Main businesses of the company

The principal businesses of Luhai Heavy Industry include: manufacturing of various types of grabs; design and manufacture of passenger embarkation equipment such as hydraulic lifting bridge and rail-mounted boarding elevator; manufacturing of port equipment such as terminal lighting (high-pole lights and tower lamps), and funnel, flat cars and simple cranes; repairs, installation, inspection and relocation of various cranes; part repairs and overhaul of mobile machinery at various ports.

4) The financial position and operations of Luhai Heavy Industry in recent years were as follows:

Statement of financial position

Unit: RMB0'000

Item	**2019/12/31**	**2020/12/31**	**2021/12/31**	**2022/2/28**
Current assets	1,020.29	3,664.45	8,326.01	8,473.51
Non-current assets	–	12.39	308.12	304.07
Total assets	1,020.29	3,676.84	8,634.14	8,777.58
Current liabilities	0.29	2,651.20	7,500.22	7,577.76
Non-current liabilities	–	–	–	–
Total liabilities	0.29	2,651.20	7,500.22	7,577.76
Net assets	1,020.00	1,025.64	1,133.92	1,199.82

Statement of operations

Unit: RMB0'000

Item	**2020**	**2021**	**January to February 2022**
1. Revenue	3,337.39	9,532.07	2,207.49
Less: Cost of sales	2,754.27	8,101.29	1,945.70
Taxes and surcharges	29.04	48.36	8.38
Selling and distribution expenses	–	–	–
General and administrative expenses	550.14	914.99	167.91
Research and development expenses	–	277.99	–
Financial expenses	-2.05	3.68	–
Credit impairment losses	–	-43.53	-6.25
Other income	–	2.44	0.37
2. Operating profit	5.99	144.68	79.62
Add: Non-operating income	0.01	1.52	0.06
Less: Non-operating expenses	0.01	1.89	–
3. Total profit	5.99	144.31	79.68
Less: Income tax expenses	0.35	36.08	19.92
4. Net profit	5.64	108.23	59.76

*(3) Long-term investment entity – Yantai Port Motor Vehicle Comprehensive Performance Inspection Co., Ltd. (煙台海港機動車綜合性能檢測有限公司) (hereinafter referred to as "**Motor Vehicle Inspection**")*

1) Particulars of registration

Name: Yantai Port Motor Vehicle Comprehensive Performance Inspection Co., Ltd.

Unified social credit code: 913706027326339709

Corporate type: Limited liability company (sole proprietorship of legal person invested or controlled by non-natural person)

Legal address: No. 15 Huanhai Road, Zhifu District

Legal representative: Wang Kepeng

Registered capital: RMB2,387,000

Date of establishment: 14 November 2001

Term of operation: Long-term

Business scope: Comprehensive performance inspection of motor vehicles; motor vehicle safety technical inspection (validity period is subject to license); vehicle exhaust test; inspection and testing of non-road mobile machinery; environmental monitoring. (For projects subject to approval in accordance with the laws, business activities shall be conducted only after approved by the relevant departments).

2) Historical evolution

A. Establishment of the company

Motor Vehicle Inspection was invested and established by Yantai Port Group Co., Ltd. (煙台港集團有限公司) (now renamed as Shandong Port Yantai Port Group Co., Ltd. (山東港口煙台港集團有限公司)) in November 2001. The capital contribution and shareholding percentage of shareholder at the time of establishment were as follows:

No.	Name of shareholder	Capital contribution *(RMB0'000)*	Method of capital contribution	Percentage of shareholding *(%)*
1	Shandong Port Yantai Port Group Co., Ltd.	38.70	Cash	100.00
Total		38.70	Cash	100.00

B. Capital increase of the company in December 2016

In December 2016, the registered capital of Motor Vehicle Inspection increased from RMB0.387 million to RMB2.387 million. The additional registered capital was contributed by the shareholder Shandong Port Yantai Port Group Co., Ltd. (山東港口煙台港集團有限公司). Upon completion of the capital increase, the shareholding structure of Motor Vehicle Inspection was as follows:

No.	Name of shareholder	Capital contribution *(RMB0'000)*	Method of capital contribution	Percentage of shareholding *(%)*
1	Shandong Port Yantai Port Group Co., Ltd.	238.70	Cash	100.00
Total		238.70	Cash	100.00

C. Equity Change of the company in January 2022

In January 2022, the shareholder Shandong Port Yantai Port Group Co., Ltd. injected the entire equity interests it held into Equipment Group, and the shareholder of the company was changed to Equipment Group. Upon the equity change, the shareholding structure of Motor Vehicle Inspection is as follows:

No.	Name of shareholder	Capital contribution *(RMB0'000)*	Paid-in capital contribution *(RMB0'000)*	Percentage of shareholding *(%)*
1	Shandong Port Equipment Group Co., Ltd.	238.70	238.70	100.00
Total		238.70	238.70	100.00

As at 28 February 2022, being the valuation benchmark date, there was no change in the shareholding structure of Motor Vehicle Inspection.

3) Main businesses of the company

Motor Vehicle Inspection mainly provides car wash, pre-inspection, vehicle inspection and parking services for vehicles after inspection.

4) The financial position and operations of Motor Vehicle Inspection in recent years were as follows:

Statement of financial position

Unit: RMB0'000

Item	2020/12/31	2021/12/31	2022/2/28
Current assets	24.19	20.80	7.56
Non-current assets	477.96	449.68	443.56
Total assets	502.15	470.48	451.12
Current liabilities	362.90	329.73	310.73
Non-current liabilities	–	–	–
Total liabilities	362.90	329.73	310.73
Net assets	139.25	140.75	140.39

Statement of operations

Unit: RMB0'000

Item	2020	2021	January to February 2022
1. Revenue	421.21	414.80	52.30
Less: Cost of sales	412.21	403.73	51.45
Taxes and surcharges	0.39	0.36	0.04
Selling and distribution expenses	–	–	–
General and administrative expenses	1.89	2.25	–
Financial expenses	–	7.36	1.18
Other income	1.57	0.37	–
2. Operating profit	1.38	1.47	-0.36
Add: Non-operating income	–	0.03	–
Less: Non-operating expenses	–	–	–
3. Total profit	1.38	1.50	-0.36
Less: Income tax expenses	–	–	–
4. Net profit	1.38	1.50	-0.36

5. Overview of the main businesses of Equipment Group

Equipment Group is a Grade I entity directly under Shandong Port Group Co., Ltd. (hereinafter referred to as "**Shandong Port Group**"), and is the main segment support and industrial expansion base for Shandong Port Group to build a world-class marine port and promote intelligent equipment. The company was established in March 2020, and currently has three subsidiaries, namely Luhai Heavy Industry, Rizhao Ship Machinery and Motor Vehicle Inspection, specializing in products and services such as container loading and unloading machinery, portal slewing crane, port continuous loading and unloading machinery, marine engineering and vessel repair crane, vessel repair and manufacturing, storage tank and pipeline installation, steel structure manufacturing and installation, manufacture of grabs, belt conveyor, port machinery repairs and maintenance, etc., and providing integrated solutions for intelligent machinery and equipment of the whole port logistics chain, with the capacity to undertake large-scale, non-standard, batch port equipment and facilities.

Equipment Group itself is a holding management platform and has no actual business operation. It controls three companies, namely Rizhao Ship Machinery, Luhai Heavy Industry and Motor Vehicle Inspection. Details of the subsidiaries are set out above.

6. *Principal accounting policies*

Equipment Group adopts the Accounting Standards for Business Enterprises – Basic Standards and 42 specific accounting standards issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises issued thereafter. As at the valuation benchmark date, the company's main tax types and tax rates were:

Tax type	Tax rate	Remark
Enterprise income tax	25%	
Value-added tax	6%	General taxpayer
Urban maintenance and construction tax	7%	
Education surcharge	3%	
Local education surcharge	2%	

7. *Financial position and operations of Equipment Group in recent years*

Statement of financial position (on a single entity basis)

Unit: RMB0'000

Item	2020/12/31	2021/12/31	2022/2/28
Current assets	222.08	293.03	29,675.95
Non-current assets	16,637.89	17,592.16	17,581.38
Total assets	16,859.97	17,885.19	47,257.33
Current liabilities	933.39	2,301.93	2,231.41
Non-current liabilities	0.00	399.55	399.55
Total liabilities	933.39	2,701.48	2,630.97
Net assets	15,926.58	15,183.71	44,626.36

Statement of operations (on a single entity basis)

Unit: RMB0'000

Item	2020	2021	January to February 2022
1. Revenue	0.00	713.21	0.00
Less: Cost of sales	299.45	22.52	4.65
Taxes and surcharges	3.83	0.87	7.44
General and administrative expenses	296.26	1,403.74	144.67
Financial expenses	-0.64	33.31	0.59
Asset impairment losses	0.00	0.00	0.00
Add: Investment income	0.00	0.00	0.00
Gains on disposal of assets	0.00	0.00	0.00
Other income	0.00	0.00	0.00
2. Operating profit	-299.45	-747.23	-157.35
Add: Non-operating income	0.00	4.36	0.00
Less: Non-operating expenses	1.72	0.00	0.00
3. Total profit	-301.17	-742.87	-157.35
Less: Income tax expenses	0.00	0.00	0.00
4. Net profit	-301.17	-742.87	-157.35

Statement of financial position (combined)

Unit: RMB0'000

Item	2020/12/31	2021/12/31	2022/2/28
Current assets	60,661.92	75,206.70	114,090.08
Non-current assets	20,367.17	22,144.98	22,049.04
Total assets	81,029.09	97,351.68	136,139.12
Current liabilities	56,083.54	71,923.11	81,087.16
Non-current liabilities	406.00	983.55	983.55
Total liabilities	56,489.54	72,906.67	82,070.72
Net assets	24,539.55	24,445.01	54,068.40

Statement of operations (combined)

Unit: RMB0'000

Item	**2020**	**2021**	**January to February 2022**
1. Revenue	75,092.83	109,519.37	15,323.96
Less: Cost of sales	67,467.00	100,702.95	13,936.97
Taxes and surcharges	859.83	497.38	38.07
General and administrative expenses	4,480.04	5,773.44	852.20
R&D expenses	0.00	1,275.87	98.99
Financial expenses	1,108.03	427.11	88.72
Asset impairment losses	-929.73	773.97	119.83
Add: Investment income	-178.63	0.00	0.00
Gains on disposal of assets	-0.97	0.00	0.00
Other income	85.68	145.12	2.64
2. Operating profit	2,013.74	213.77	191.82
Add: Non-operating incom	9.19	356.99	2.33
Less: Non-operating expenses	94.48	42.22	4.78
3. Total profit	1,928.45	528.54	189.37
Less: Income tax expenses	0.35	795.78	195.82
4. Net profit	1,928.10	-267.24	-6.45

The 2020 financial data were audited by SHINEWING Certified Public Accountants (Special General Partnership), which issued an unqualified audit report (No. XYZH/2021 JNAA60440). The data of 2021 and from January to February 2022 were audited by Shandong Tianpingxin Certified Public Accountants Co., Ltd. (山東天平信有限責任會計師事務所), which issued a standard unqualified audit report (Lu Tianpingxin Shen Zi (2022) No. 033).

(II) Overview of other users of the valuation report as agreed in the valuation engagement contract

Other users of the valuation report are users of the valuation report as prescribed by national laws and regulations.

(III) Relationship between the client and the appraised entity

Equipment Group is both the client and the appraised entity.

II. PURPOSE OF VALUATION

Qingdao Port International Co., Ltd. (青島港國際股份有限公司) ("**Qingdao Port International**") will make capital contribution to Equipment Group with the 51% equity interests in Qingdao Port Equipment Manufacturing Co., Ltd. (青島港口裝備製造有限公司) ("**Qingdao Port Equipment**").

In response to the above economic behavior, the transaction consideration for the 51% equity interests in Qingdao Port Equipment and the total shareholders' equity of Equipment Group shall be determined. As such, Equipment Group engages our company to assess the value of the total shareholders' equity of Equipment Group.

The purpose of this valuation is to determine the market value of the total shareholders' equity of Equipment Group as at the valuation benchmark date, and to provide value reference opinions for the proposed capital increase of Equipment Group.

III. VALUATION TARGET AND SCOPE OF VALUATION

(I) Valuation target and scope of valuation

The valuation target is the value of total shareholders' equity of Equipment Group as at the valuation benchmark date. The scope of valuation involved is the assets and liabilities reported by Equipment Group after special audit as at the valuation benchmark date. The book value of total assets, total liabilities and net assets was RMB472.5733 million, RMB26.3097 million and RMB446.2636 million, respectively. The specific contents of assets and liabilities shall be subject to the valuation declaration form completed by Equipment Group based on the data (after special audit) of all assets and liabilities. All asset and liability items included in the declaration form and recognized by Equipment Group are within the scope of this valuation. The book value of each type of assets and liabilities appraised as at the valuation benchmark date was as follows:

Unit: RMB0'000

Type of assets	Book value	Percentage of total assets (%)	Type of liabilities	Book value	Percentage of liabilities (%)
Cash at bank and on hand	2.56	0.01	Accounts payable	852.55	32.40
Other receivables	29,668.93	62.78	Employee benefits payable	263.84	10.03
Other current assets	4.46	0.01	Taxes payable	13.23	0.50

Type of assets	Book value	Percentage of total assets (%)	Type of liabilities	Book value	Percentage of liabilities (%)
Total current assets	29,675.95	62.80	Other payables	924.05	35.12
Long-term equity investments	16,603.16	35.13	Current portion of non-current liabilities	177.75	6.76
Fixed assets	66.49	0.14	Total current liabilities	2,231.41	84.81
Right-of-use assets	645.72	1.37	Lease liabilities	399.55	15.19
Long-term prepaid expenses	266.00	0.56	Total non-current liabilities	399.55	15.19
Total non-current assets	17,581.38	37.20	Total liabilities	2,630.97	100.00
Total assets	47,257.33	100.00	Net assets	44,626.36	

The above data were audited by Shandong Tianpingxin Certified Public Accountants Co., Ltd., which issued an unqualified audit report (Lu Tianpingxin Shen Zi (2022) No. 033).

(II) Overview of assets and liabilities

1. The main assets of Equipment Group are current assets, long-term equity investments, fixed assets, right-of-use assets and long-term prepaid expenses. The main assets are summarized as follows:

(1) Current assets

Current assets include cash at bank and on hand, other receivables and other current assets, with a book value of RMB296,759,506.34.

1) The book value of cash at bank and on hand as at the valuation benchmark date was RMB25,607.85, which was bank deposits.

2) As at the valuation benchmark date, the book balance of other receivables was RMB296,689,287.67, the provision for bad debts was RMB0, and the net book value of other receivables was RMB296,689,287.67, which was the deposit of Shandong Port Group Fund Settlement Center.

3) The book value of other current assets as at the benchmark date was RMB44,610.82, which was value-added tax to be deducted.

(2) Long-term equity investments

The book value of long-term equity investments as at the valuation benchmark date was RMB166,031,636.72, which was the equity investments of Equipment Group in three investees. For details, please refer to the overview of the investees above.

(3) Fixed assets

Fixed assets are equipment assets with an original book value of RMB760,982.31 and a net book value of RMB664,880.38. They include vehicles and electronic equipment.

(4) Right-of-use assets

The book value of right-of-use assets was RMB6,457,241.96, representing the rental fee for 23/F, T3, Shandong Port West Coast Building (山東港口西海岸大廈T3樓23層).

(5) Long-term prepaid expenses

The book value of long-term prepaid expenses was RMB2,660,000.03, representing the balance after amortization of office building decoration expenses.

2. The liabilities of Equipment Group include current liabilities and non-current liabilities. The major liabilities are summarized as follows:

The book value of current liabilities was RMB22,314,114.54, including 5 items of accounts payable, employee benefits payable, taxes payable, other payables and current portion of non-current liabilities.

The book value of non-current liabilities was RMB3,995,536.64, representing the lease liabilities.

(III) The type, quantity and legal ownership of recorded in the book or unrecorded intangible assets declared by the enterprise

1. Intangible assets recorded in the book

As of the valuation benchmark date, Equipment Group had no intangible assets recorded in the book.

2. Intangible assets not recorded in the book

As at the valuation benchmark date, Equipment Group did not declare unrecorded intangible assets in the book.

(IV) Type and quantity of off-balance sheet assets declared by the enterprise

As at the valuation benchmark date, Equipment Group did not declare off-balance sheet assets.

(V) Type, quantity and book value of assets involved in citing the report conclusions issued by other agencies

The client and the appraised entity have undertaken that the valuation target and scope of the valuation are consistent with the valuation target and scope of the valuation involved in the economic behavior, and have been audited by Shandong Tianpingxin Certified Public Accountants Co., Ltd., which has issued an unqualified audit report (Lu Tianpingxin Shen Zi (2022) No. 033). The audited assets to be valued include five items, namely current assets, long-term equity investments, fixed assets, right-of-use assets and long-term prepaid expenses, with total assets of RMB472.5733 million. The liabilities to be valued include current liabilities and non-current liabilities, with total liabilities of RMB26.3097 million, while the net assets amount to RMB446.2636 million.

IV. TYPE OF VALUE

(I) Type of value

The market value under the premise of going concern is adopted as the selected type of value in this valuation.

(II) Definition of type of value

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

Going concern in this report means that the production and operation activities of Equipment Group will continue in their current status and there will be no material changes in the foreseeable future.

Unless otherwise specified, the "market value" in this report refers to the market value of the valuation target in the property (asset) trading market in China (Mainland) customs area.

(III) Reasons for selecting the type of value

Taking into account factors such as the purpose of valuation, market conditions and the conditions of the valuation target, the adoption of market value, as compared with other types of value, can better reflect the fairness and reasonableness of both parties of the transaction, so that the valuation results can meet the needs of the purpose of valuation.

V. VALUATION BENCHMARK DATE

(I) As agreed in the asset valuation engagement contract, the valuation benchmark date is 28 February 2022.

(II) The valuation benchmark date was determined by Equipment Group based on the following specific conditions:

1. The valuation benchmark date is consistent with the timing of the accounting statements to facilitate the use of accounting information.

2. The valuation benchmark date is close to the valuation date, reducing the adjustment of actual quantity, and increasing the accuracy and transparency of market price inquiry and credit investigation.

3. This valuation benchmark date is as close as possible to the realization date of the valuation purpose, which is conducive to ensuring that the valuation results can effectively serve the valuation purpose.

(III) The price standards adopted in this valuation are all effective price standards as at the valuation benchmark date.

During the period close to the valuation benchmark date selected, there were no significant fluctuations in the international and domestic markets, and the prices of various goods, production materials and labor services were basically stable. The market exchange rate of RMB against foreign currencies was within the normal range of fluctuations. Therefore, the selection of the valuation benchmark date will not materially affect the valuation results owing to different time points of various market prices.

VI. BASIS OF VALUATION

(I) Basis of behavior

1. Approval on the Implementation Plan for the Integration of Equipment Segment.

(II) Legal basis

1. Asset Valuation Law of the People's Republic of China (adopted at the 26th meeting of the Standing Committee of the 12th session of the National People's Congress of the People's Republic of China on 2 July 2016);

2. The Civil Code of the People's Republic of China (adopted at the 3rd meeting of the 13th session of the National People's Congress on 28 May 2020);

3. Company Law of the People's Republic of China (amended at the 6th meeting of the Standing Committee of the 13th session of the National People's Congress on 26 October 2018);

4. Law of the People's Republic of China on State-owned Assets of Enterprises (Order No. 5 of the President of the People's Republic of China);

5. Measures for the Administration of Valuation of State-owned Assets (Order No. 91 of the State Council of 1991, as amended pursuant to Order No. 732 of the State Council of 2020);

6. Implementation Rules for the Administrative Measures for Valuation of State-owned Assets (Guo Zi Ban Fa [1992] No. 36 issued by the former State-owned Assets Administration Bureau);

7. Notice of the Opinions on Reforming the Administrative Management Approach of Valuation of State-owned Assets and Strengthening the Supervision and Administration of Asset Valuation (Guo Ban Fa [2001] No. 102);

8. Provisions on Certain Issues Concerning the Administration of Valuation of State-owned Assets (Order No. 14 of the Ministry of Finance);

9. Notice of the Ministry of Finance on Issuing the Administrative Measures for the Filing of State-owned Asset Valuation Projects (Qi [2001] No. 802);

10. Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council of 2003, as amended for the second time pursuant to the Decision of the State Council on Amending Certain Administrative Regulations on 2 March 2019);

11. Measures for the Supervision and Administration of Transactions of State-owned Assets of Enterprises (Order No. 32 of SASAC and the Ministry of Finance);

12. Interim Measures for the Administration of Valuation of State-owned Assets of Enterprises (Order No. 12 of SASAC of the State Council in 2005);

13. Notice on Relevant Issues Concerning Strengthening the Administration of Valuation of State-owned Assets of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);

14. Notice on Relevant Matters Concerning the Review of Valuation Report of State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);

15. Guidelines for the Filing of State-owned Asset Valuation Projects of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);

16. Notice on Relevant Matters Concerning Promoting the Transfer of State-owned Property Rights of Enterprises (Guo Zi Fa Chan Quan [2014] No. 95);

17. Notice on Matters Concerning the Transfer of Transactions of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan Gui [2022] No. 39);

18. Measures for Financial Supervision and Administration of the Asset Valuation Industry (Order No. 86 of the Ministry of Finance issued on 21 April 2017, as amended pursuant to the Decision of the Ministry of Finance on Revising the Administrative Measures for the Practicing License and Supervision of Accounting Firms and Another Departmental Regulations issued on 2 January 2019);

19. Notice of Shandong SASAC on Issuing the Guidelines for Asset Valuation Management of Provincial Enterprises (Lu Guo Zi Chan Quan [2018] No. 1);

20. Regulations on the Supervision and Administration of State-owned Assets of Enterprises in Shandong Province (adopted at the 27th meeting of the Standing Committee of the 11th session of the People's Congress of Shandong Province on 25 November 2011);

21. Urban Real Estate Administration Law of the People's Republic of China (as amended for the third time pursuant to the Decision on Amending the Land Administration Law of the People's Republic of China and the Urban Real Estate Administration Law of the People's Republic of China at the 12th meeting of the Standing Committee of the 13th session of the National People's Congress on 26 August 2019);

22. Urban and Rural Planning Law of the People's Republic of China (as amended pursuant to the Decision on Amending Eight Laws Including the Construction Law of the People's Republic of China at the 10th meeting of the Standing Committee of the 13th session of the National People's Congress on 23 April 2019);

23. Land Administration Law of the People's Republic of China (as amended for the third time pursuant to the Decision on Amending the Land Administration Law of the People's Republic of China and the Urban Real Estate Administration Law of the People's Republic of China at the 12th meeting of the Standing Committee of the 13th session of the National People's Congress on 26 August 2019);

24. Provisional Regulations of the People's Republic of China on the Grant and Transfer of the Right to Use State-owned Urban Land (promulgated by Order No. 55 of the State Council of the People's Republic of China on 19 May 1990, as amended pursuant to the Decision of the State Council on Amending and Repealing Certain Administrative Regulations on 29 November 2020);

25. Enterprise Income Tax Law of the People's Republic of China (as amended for the second time pursuant to the Decision on Amending Four Laws Including the Electric Power Law of the People's Republic of China at the 7th meeting of the Standing Committee of the 13th session of the National People's Congress on 29 December 2018) and its implementing regulations;

26. Provisional Regulations on Value-added Tax of the People's Republic of China (Order [2017] No. 691 of the State Council);

27. Rules for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China (Orders No. 50, No. 65 of the Ministry of Finance and State Administration of Taxation of the People's Republic of China);

28. Announcement on Relevant Policies for Deepening the Value-added Tax Reform (Announcement No. 39 of 2019 of the Ministry of Finance, the General Administration of Taxation and the General Administration of Customs);

29. Provisional Regulations of the People's Republic of China on Urban Maintenance and Construction Tax (as amended and adopted at the 34th executive meeting of the State Council on 5 November 2008 (Guo Fa [1985] No. 19));

30. Notice of the Ministry of Finance and the State Administration for Industry and Commerce on Several Issues Concerning Strengthening the Evaluation and Management of Capital Contribution in Non-monetary Assets (Cai Qi [2009] No. 46);

31. Patent Law of the People's Republic of China (Order No. 8 of the President of the People's Republic of China);

32. Implementation Rules of the Patent Law of the People's Republic of China (Order No. 306 of the State Council of the People's Republic of China);

33. Other relevant laws and regulations.

(III) Basis of standards

1. Basic Standards for Asset Valuation (Cai Zi [2017] No. 43);

2. Code of Professional Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);

3. Practicing Standards for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

4. Practicing Standards for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

5. Practicing Standards for Asset Valuation – Asset Valuation Methods (Zhong Ping Xie [2019] No. 35);

6. Practicing Standards for Asset Valuation – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);

7. Practicing Standards for Asset Valuation – Use of Experts' Work and Related Reports (Zhong Ping Xie [2017] No. 35);

8. Practicing Standards for Asset Valuation – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

9. Practicing Standards for Asset Valuation – Enterprise Value (Zhong Ping Xie [2018] No. 38);

10. Practicing Standards for Asset Valuation – Intangible Assets (Zhong Ping Xie [2017] No. 37);

11. Practicing Standards for Asset Valuation – Real Estate (Zhong Ping Xie [2017] No. 38);

12. Practicing Standards for Asset Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

13. Guidelines for Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

14. Guidelines for Business Quality Control of Asset Valuation Institutions (Zhong Ping Xie [2017] No. 46);

15. Guiding Opinions on Types of Value in Asset Valuation (Zhong Ping Xie [2017] No. 47);

16. Guiding Opinions on Legal Ownership of Asset Valuation Targets (Zhong Ping Xie [2017] No. 48);

17. Guiding Opinions on Valuation of Patent Assets (Zhong Ping Xie [2017] No. 49);

18. Provisional Measures for Unified Coding Management of Asset Valuation Reports of China Appraisal Society (Zhong Ping Xie [2018] No. 44);

19. Terminology of Asset Valuation Standards 2020 (Zhong Ping Xie [2020] No. 31);

20. Expert Guidelines for Asset Valuation No. 12 – Measurement of Discount Rate in the Valuation of Enterprise Value by Income Method (Zhong Ping Xie [2020] No. 38);

21. Expert Guidelines for Asset Valuation No. 8 – Verification in Asset Valuation (Zhong Ping Xie [2019] No. 39);

22. Standard for Real Estate Appraisal (GBT50291-2015);

23. Regulations on Urban Land Valuation (GB/T18508-2014);

24. Accounting Standards for Business Enterprises – Basic Standards, specific standards, application guidelines and interpretations for accounting standards (promulgated by the Ministry of Finance in 2006).

(IV) Basis of ownership

1. Real Estate Title Certificate of the People's Republic of China;

2. Motor Vehicle Driving License of the People's Republic of China;

3. Patent Certificate of the People's Republic of China;

4. Invoices for inventories and major equipment purchases;

5. Other title documents.

(V) Basis of pricing

1. Financial statements and audit reports of previous years provided by the appraised entity;

2. Information such as project settlement provided by the appraised entity;

3. Financial and operating information such as relevant agreements, contracts and invoices provided by the appraised entity;

4. The loan prime rate (LPR) and foreign exchange rate published by the National Interbank Funding Center under the authorization of the People's Bank of China on 21 February 2022;

5. Provisions on the Standards for Compulsory Retirement of Motor Vehicles (Ministry of Commerce, National Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection Order [2012] No. 12);

6. The Law of the People's Republic of China on Vehicle Purchase Tax (Order of the President No. 19 of the 13th Session);

7. Construction and Installation Project Construction Period Quota (Jian Biao [2016] No. 161);

8. Shandong Province Water Conservancy and Hydropower Construction Project Budget Quota;

9. Regulations on the Preparation of Investment Estimates for Water Transportation Engineering Construction Projects (JTS 115-2014);

10. Quota for Coastal Port Hydraulic Construction Projects (JTS/T 276-1-2019);

11. Ship Machinery Shift Fee Quota for Coastal Port Projects (JTS/T 276-2-2019);

12. Coastal Port Project Reference Quota (JTS/T 276-3-2019);

13. Consumption Quota for Construction Projects in Shandong Province (Lu Jian Biao Zi [2016] No. 39) and the price list for auxiliary items;

14. Consumption Quota for Installation Projects in Shandong Province (Lu Jian Biao Zi [2016] No. 39) and the price list for auxiliary items;

15. Consumption Quota for Municipal Projects of Shandong Province (Lu Jian Biao Zi [2016] No. 39) and the price list for auxiliary items;

16. Reference to the Standard for the Rating of Condition of Buildings (Cheng Zhu An (1984) No. 678);

17. Reference to the Notice of the Ministry of Finance on Issuing the Regulations on the Construction Cost Management of Basic Construction Projects (Cai Jian [2016] No. 504);

18. Reference to the Notice of the State Planning Commission and the Ministry of Construction on Issuing the Regulations on the Management of Charges for Project Survey and Design (Ji Jia Ge [2002] No. 10);

19. Reference to the Notice of the National Development and Reform Commission and the Ministry of Construction on Issuing the Regulations on the Management of Construction Project Supervision and Related Service Charges (Fa Gai Jia Ge [2007] No. 670);

20. Reference to the Notice of the State Planning Commission on Issuing the Interim Measures for the Administration of Bidding Agency Service Charges (Ji Jia Ge [2002] No. 1980);

21. Notice of the National Development and Reform Commission on Further Decontrolling the Prices of Professional Services for Construction Projects (Fa Gai Jia Ge [2015] No. 299);

22. Material price information of the cities where the assets are located;

23. Market inquiry information;

24. National macro and industry statistical analysis data;

25. Profit forecast and relevant information provided by the appraised entity;

26. State-owned Land Resumption Agreement;

27. RoyalFlush iFinD database;

28. On-site survey records and other relevant valuation information collected by valuers.

(VI) Other references

1. Asset Valuation Quality Control System and Quality Control Standards and Valuation Business Management System of Shandong Huide Assets Appraisal Co., Ltd.;

2. Various Asset Valuation Declaration Forms provided by the appraised entity;

3. Interview records of relevant personnel of the appraised entity;

4. Explanation on Matters Related to Asset Valuation prepared by the appraised entity;

5. Letter of undertaking of the client and letter of undertaking of the appraised entity;

6. On-site records checked and verified by the valuers, information collected during the on-site survey, and the relevant information collected during the selection of parameters in the valuation process;

7. Other relevant information provided by the appraised entity.

VII. VALUATION METHOD

(I) Selection of valuation method

According to the relevant provisions of the Practicing Standards for Asset Valuation – Enterprise Value and the Practicing Standards for Asset Valuation – Asset Valuation Methods, asset valuation professionals shall analyze the applicability of the three basic approaches, namely the market method, the income method and the cost method, according to the valuation purpose, the valuation target, the type of value, the applicable conditions of valuation methods and the collection of information, and select the valuation method in accordance with the laws.

The valuation method adopted in this valuation is: asset-based method. The reasons for selecting the valuation method are as follows:

1. Applicability analysis of the income method: the income method is a general term of various valuation methods to determine the value of the valuation target by capitalizing or discounting its expected income. The application of the income method is subject to: (1) the future income of the valuation target being able to be reasonably expected and measured in currencies; (2) the risk corresponding to the expected income being able to be measured; (3) the income period being able to be determined or reasonably expected. Equipment Group itself is a holding management platform and has no actual business operation. It controls three companies, namely Rizhao Ship Machinery, Luhai Heavy Industry and Motor Vehicle Inspection. In this valuation, the equity value of the three subsidiaries is assessed individually by adopting appropriate valuation methods. Therefore, the income method is not adopted for the valuation of Equipment Group.

2. Applicability analysis of the market method: the market method, also known as the comparison method and the market comparison method, refers to the general term for the valuation methods to determine the value of the valuation target by comparing the valuation target with comparable reference objects and based on the market price of the comparable reference objects. The market method for valuation of enterprise value usually includes transaction case comparison method and listed company comparison method. The conditions precedent for the application of the market method are: (1) the comparable reference objects of the valuation target have a public market and active trading; (2) the necessary information of the transactions can be obtained. Investigation and analysis reveal that it is difficult to accurately quantify and revise the degree of similarity between the comparable listed companies or transaction cases in the port equipment industry and the valuation target. Therefore, it is difficult to accurately consider the accuracy of the valuation results under the market method, and the market method is not adopted in this valuation.

3. Reasons for selecting the cost method for valuation: for valuation of enterprise value, the cost method is also known as the asset-based method. The asset-based method is a valuation method to determine the value of the valuation target by reasonably assessing the value of various assets and liabilities on and off the balance sheet of the enterprise based on the balance sheet. The assets and liabilities of Equipment Group on and off the balance sheet as at the valuation benchmark date can be identified, so that the valuers can collect the information required by the asset-based method externally, and can conduct a comprehensive inspection and valuation of the assets and liabilities of Equipment Group. Therefore, the asset-based approach is applicable to this valuation.

Based on the above analysis, the asset-based method is adopted for the valuation of the total shareholders' equity of Equipment Group.

(II) Introduction to valuation methods

1. Asset-based method

The asset-based method in the valuation of enterprise value refers to the valuation method to determine the value of the valuation target by assessing the value of on-balance sheet and identifiable off-balance sheet assets and liabilities based on the balance sheet of the appraised entity as at the valuation benchmark date.

The asset-based method is adopted for the valuation of enterprise value. The value of each asset shall be determined by adopting appropriate specific valuation methods according to its specific conditions. The selected valuation methods may differ from the specific valuation methods when it is considered as an individual asset valuation target, and its contribution to the enterprise value shall be taken into account. Specific valuation methods for various assets and liabilities are as follows:

(1) Specific valuation methods for current assets

The current assets of Equipment Group included in the scope of valuation include cash at bank and on hand, bills receivable, accounts receivable, prepayments, inventories, other receivables and other current assets.

1) Cash at bank and on hand: bank deposits. The appraised value is determined based on the verified book value by verifying bank statements, bank confirmations, etc.

2) Other receivables: on the basis of verification, the appraised value is determined according to the amount that may be recovered. The receivables of the Equipment Group are the deposit principal and interests deposited in the capital settlement center of Shandong Port Group, an associate unit of the group, and there is no risk of recovery. The appraisal value is determined according to the verified book value.

3) Other current assets

Other current assets are input tax to be deducted, and the appraised value is determined based on the verified book value.

(2) Specific valuation methods for non-current assets

The non-current assets of Equipment Group included in the scope of valuation include long-term equity investment, fixed assets, right-of-use assets and long-term prepaid expenses.

1) Valuation methods for long-term equity investment

For long-term equity investment under control (or with conditions for commencement of valuation) and investees in normal operation, the valuation of the investees is conducted in an overall manner on the same valuation benchmark date, and the appraised value of long-term equity investment is determined by multiplying the net assets of the investees in the overall valuation by the shareholding ratio. For the selection of specific valuation methods and the valuation estimation process, please refer to the valuation descriptions of the investees.

No.	Name of investee	Level	Ratio	Valuation method		Remark
1	Rizhao Port Ship Machinery Industry Co., Ltd.	Subsidiary	51%	Asset-based method	–	
1-1	Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.	Sub-subsidiary	60%	Asset-based method	Income method	Subsidiaries of Rizhao Ship Machinery
1-2	Rizhao Port Machinery Engineering Co., Ltd.	Sub-subsidiary	100%	Asset-based method	Income method	
2	Shandong Luhai Heavy Industry Co., Ltd.	Subsidiary	51%	Asset-based method	Income method	
3	Yantai Port Motor Vehicle Comprehensive Performance Inspection Co., Ltd.	Subsidiary	100%	Asset-based method	–	

2) Valuation methods for equipment assets

Equipment assets included in the scope of valuation include vehicles and electronic equipment. According to the purpose of this valuation, based on the principle of continuous use, the market price, the characteristics of equipment and the information collected, the applicability analysis of the valuation methods for equipment assets is as follows:

Since the appraised assets or asset portfolio cannot generate income independently, the income method is not applicable;

For electronic equipment, since there is a lack of transaction cases with similar indicators such as the quantity, use, new or old condition, work intensity, current status, etc., to those of the appraised assets on the market, the market method is not applicable;

For vehicles, the adoption of the market method requires comparative analysis of the vehicle conditions of the appraised vehicles against the vehicles in the transaction cases. Each used vehicle usually has its unique price, which is closely related to the vehicle conditions. However, it is not possible to know the vehicle conditions in the transaction cases inquired on the market, and the relevant comparison parameters are difficult to quantify. The market method is not applicable;

Therefore, only the replacement cost method is adopted for this valuation.

Appraised value = full replacement cost × comprehensive newness rate

A. Valuation methods of vehicles

(A) Determination of full replacement cost of vehicles

By analyzing and determining the purchase price of new vehicles on the valuation benchmark date through market inquiry and other methods, deducting the deductible value-added tax as required, the full replacement cost of the appraised vehicles is determined. The calculation formula is:

Full replacement cost = purchase price + vehicle purchase tax + other expenses – deductible value-added tax

Vehicle purchase tax = vehicle selling price (before tax) × tax rate of 10%

Deductible value-added tax = [purchase price (after tax)/(1 + 13%)] × 13%

Other expenses include business transaction fees, vehicle inspection fees and license fees, which are calculated at RMB300.00.

(B) Determination of comprehensive newness rate

The theoretical newness rate is determined based on the lower of the vehicle's mileage and useful life with reference to the standards for mandatory retirement of vehicles issued by the State, and adjusted based on the vehicle's manufacturing quality, working conditions and on-site inspection. Based on on-site inspection and technical appraisal, the valuers compare the appraised vehicles against their status when new, and determine the newness rate of the appraised vehicles based on a comprehensive analysis of various factors affecting the appraised value, including the technical conditions, used life, daily maintenance and mileage of the appraised vehicles.

a. Determination of theoretical newness rate

(a) Life-based newness rate

According to the relevant provisions of the Provisions on the Standards for Compulsory Retirement of Motor Vehicles of the Ministry of Commerce (Ministry of Commerce, National Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection Order [2012] No. 12), this type of vehicles has no mandatory retirement life. The appraised vehicles are official vehicles of the company. Taking into account the actual conditions of the vehicles, they generally have 12 to 15 years of economic useful life.

Generally speaking, the depreciation and loss of vehicles in their first five years is faster, and the depreciation and loss after their first five years is slower. The theoretical newness rate calculated using the double balance method can better reflect the actual depreciation of vehicles and is closer to the market. The double balance progressive decrease method for vehicles is a method of accelerated depreciation by changing the distribution of depreciation amount of vehicles over the years without shortening the economic useful life and changing the net residual value. More depreciation amount is allocated to the early stage of vehicles, while less depreciation amount is allocated to the later stage of use.

The calculation formula of life-based newness rate is:

Life-based newness rate = (1-d)^n × 100%

where: d = 2/N = the double of average annual depreciation rate of vehicles

N = economic useful life of vehicles

n = actual used life of vehicles

(b) Mileage-based newness rate

According to the relevant provisions of the Provisions on the Standards for Compulsory Retirement of Motor Vehicles of the Ministry of Commerce (Ministry of Commerce, National Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection Order [2012] No. 12), the State shall guide the retirement of small ordinary passenger vehicles with a mileage of 600,000 kilometers and special operation vehicles with a mileage of 500,000 kilometers. In this valuation, 600,000 kilometers and 500,000 kilometers are used as the guiding mileages of retirement for non-operating small ordinary passenger vehicles and special operation vehicles, respectively.

$$\text{Mileage-based newness rate} = \frac{\text{guiding mileage of retirement} - \text{mileage}}{\text{guiding mileage of retirement}} \times 100\%$$

(c) Theoretical newness rate

The theoretical newness rate is the lower of the life-based newness rate and the mileage-based newness rate.

Theoretical newness rate = MIN (life-based newness rate, mileage-based newness rate)

b. On-site surveyed newness rate

The professional technicians will conduct technical appraisal on each part of the appraised vehicles, review the operation records, accident and malfunction records, overhaul or transformation information of the appraised vehicles, and discuss with the management personnel and operators to comprehensively consider the physical loss of the appraised vehicles in order to determine the surveyed newness rate of the appraised vehicles.

c. Comprehensive newness rate

The comprehensive newness rate is the weighted average of the theoretical newness rate and the on-site surveyed newness rate. The weight ratio of theoretical newness rate is taken as 0.4, and the weight ratio of on-site surveyed newness rate is taken as 0.6. The comprehensive newness rate is:

Comprehensive newness rate = theoretical newness rate × 0.4 + on-site surveyed newness rate × 0.6

B. Valuation of electronic equipment

(A) Determination of full replacement cost of electronic equipment

Electronic equipment is mainly computers, printers, air conditioners and office furniture used by enterprises, the delivery, installation and commissioning of which are responsible by distributors. The replacement cost is directly determined by the market purchase price.

Full replacement price = purchase price – deductible value-added tax

(B) Determination of newness rate

Electronic equipment is mainly determined by comprehensive newness rate.

Comprehensive newness rate = life-based newness rate × 40% + surveyed newness rate × 60%

where:

Life-based newness rate = (economic useful life – used life) ÷ economic useful life × 100%

3) Valuation methods for right-of-use assets

Right-of-use assets refer to the right of an enterprise as the lessee to use the leased assets during the lease term. The right-of-use assets included in the scope of this valuation are the right to use the leased office buildings. According to the requirements of accounting standards, the initial accounting cost is the lease liability + lease prepayments – lease incentives + initial direct costs + estimated dismantling/removal/recovery/restoration costs; the lease liability shall be initially measured at the present value of the lease payments that have not been paid at the beginning of the lease term.

Based on the leasing matters as understood from the lessee and the lease contracts collected, the current market rent level is comparable to the rent level in the signed lease contracts. In this valuation, after verifying the initial recognition, depreciation calculation and capitalization rate of the right-of-use assets, the appraised value is then determined based on the audited book value.

4) Valuation methods for long-term prepaid expenses

Long-term prepaid expenses are the decoration expenses of leased office buildings, which are determined according to the original amount and the proportion of the remaining beneficial period to the total amortization period.

(3) Specific valuation methods for liabilities

The liabilities of Equipment Group included in the scope of valuation include current liabilities and non-current liabilities. Current liabilities include accounts payable, employee benefits payable, tax payable, other payables and non-current liabilities due within one year. Non-current liabilities are lease liabilities.

After verifying various liabilities within the scope of valuation, and determining whether each debt is actually assumed by the appraised entity on the benchmark date and whether there is any creditor, the appraised value is then determined based on the amount of liabilities actually required to be paid on the valuation benchmark date. For liabilities that are not actually assumed, they are calculated as zero value.

VIII. IMPLEMENTATION PROCESS AND STATUS OF VALUATION PROCEDURES

The whole valuation work is carried out in the following four stages:

(I) Valuation preparation stage

To negotiate with the client, clarify the basic matters about the valuation business, comprehensively analyze and evaluate own professional competence, independence and business risks; to accept the engagement, sign the asset valuation engagement contract, and clarify the valuation purpose, scope of valuation and valuation benchmark date; to determine the person in charge of the project, form the valuation project team, and prepare the valuation plan; to guide the appraised entity to complete the asset valuation declaration form and prepare the information required for the valuation.

(II) On-site investigation and collection of valuation information stage

Based on the specific conditions of this valuation business, and in accordance with the requirements of the valuation procedures and standards and other relevant regulations, the valuers conduct on-site investigation through inquiry, verification, supervision, spot check, etc., in order to obtain valuation information from various possible ways, verify the scope of valuation, understand the current status of the valuation target, and pay attention to the legal ownership of the valuation target.

1. Verification of current assets and liabilities

(1) Verification of physical current assets

The valuers first investigate the accounting methods of inventories of the enterprise, verify the composition of the book value of inventories by spot checking the accounting documents, and then work with the warehouse management personnel of the enterprise to spot check the accounts, sales records and declaration schedule of the warehouses provided by the warehouses and sales departments, and make adjustments based on the entry and exit from the valuation benchmark date to the inventory date to verify the actual quantity of inventories on the valuation benchmark date. At the same time of stock-taking, the warehouse environment, physical stacking and label status, and the defective products, sub-standard products, less popular products and slow-moving products among inventories are observed and recorded.

(2) Inspection of non-physical current assets and liabilities

Non-physical current assets and liabilities are inspected mainly by checking the general ledger of the enterprise's financial accounts, sub-ledger of each item and accounting documents, with a focus on bills receivable, letter of confirmation or alternative audit of bank deposits, current accounts and bank borrowings, and aging analysis of receivables. For liabilities, the authenticity of liabilities, the correctness of book balance and whether they are actually required to be assumed by the enterprise are confirmed by letter of confirmation, verification of corresponding original documents, contracts and agreements, etc.

2. Inspection of long-term equity investments

Relevant investment agreements, business license of investees, their articles of association, financial statements as at the valuation benchmark date and other information are collected from the appraised entity. The accounting method of equity investment of the enterprise is investigated. The valuation declaration form is checked to verify whether the book value and investment ratio are consistent. For companies that need to be individually assessed, inspection procedures for relevant assets and liabilities are performed.

3. *Inspection of buildings (structures)*

Based on the building valuation items provided by the appraised enterprise and the number, area, structural type and other conditions of the items listed in the declaration form, the buildings and structures are verified one-by-one, and the relevant drawings are reviewed to correct the inconsistencies between the declaration form and the actual situation. Apart from checking whether the number and content of the buildings are consistent with the declaration form, the structure, decoration facilities and supporting facilities of the buildings are the main inspection items. During the inspection, the area of major buildings is checked. For underground concealed works such as terminals, their structural characteristics are understood through drawing review, while the status of asset maintenance and management is understood by consulting asset management personnel.

4. *Inspection of equipment assets*

According to the valuation schedule provided, the equipment is checked and verified on a random basis. For the missing parts and the inaccurate parts of the schedule, the equipment is checked and rectified together with the finance and equipment departments of the enterprise. The contents of onsite inspection mainly include: onsite checking whether the name, the specification and model, the manufacturer and the quantity of the equipment are consistent with the declaration form; understanding the working conditions, existing conditions and maintenance conditions of the equipment, and fully understanding the historical changes and operating conditions of the equipment through extensive communication with enterprise management personnel and operators; for important equipment, understanding from the equipment management personnel the problems existing in the use of the equipment, which is used as a reference for evaluating the newness rate of such equipment.

5. *Inspection of construction in progress*

For construction in progress, the valuers mainly understand the specific contents, commencement date, settlement method, actual completion progress and quantity of works, actual payment, etc., of the construction in progress and inspect the actual situation of the works on-site.

6. *Inspection of intangible assets*

For intangible assets, according to the items listed in the valuation declaration form, the formation methods are investigated, and the relevant purchase contracts, invoices, rights certificates and other information are collected to understand the original recorded value, the content included, and the amortization policy of the enterprise.

7. Inspection of long-term prepaid expenses

Based on the items listed in the valuation declaration form, the relevant information and the correctness of the book balance are checked against the specific reasons to incur the long-term prepaid expenses.

8. Inspection of right-of-use assets

(1) Obtain the declaration form for right-of-use asset valuation and the declaration form for lease liability valuation, verify the arithmetic correctness, and check whether it is consistent with the general ledger and the breakdown;

(2) Obtain the lease contracts, check the main contents therein such as the amount of lease payments, payment method, lease period and disposal of related assets after end of lease period, verify the appropriateness of measurement of right-of-use assets and lease liabilities, and understand the composition of the book value of right-of-use assets;

(3) Verify whether the depreciation of right-of-use assets meets the requirements of the accounting policies of the enterprise, whether the calculation of interest expenses of lease liabilities for each period during the lease term is appropriate, and whether the relevant accounting treatment is proper. Based on the items listed in the valuation declaration form, the relevant information and the correctness of the book balance are checked against the specific reasons to incur the various expenses.

9. Verification of profit and loss financial indicators

(1) For the verification of revenue, understand the accuracy of reported data, the trend of revenue changes, the trend of product price changes and the main factors that cause price changes, etc.;

(2) Verify and understand the costs and expenses, understand the composition of main costs based on historical data and forecast tables, and verify fixed cost and variable cost items separately. Mainly understand the principle of cost division of the enterprise for each period, the pattern, basis and documents of fixed expenses as well as the basis of occurrence, the pattern of occurrence and the main factors that cause price changes for variable expenses, etc.;

(3) Understand the tax policies, basis of provision and whether there are preferential policies, etc.

10. Investigation on business and operation

The valuers investigate the business operations of the enterprise mainly by collecting and analyzing the historical operation and future operation plan of the enterprise and conducting interviews with the management. The main contents collected and understood are as follows:

(1) Understand the historical composition of equity capital and changes in equity capital of the enterprise, and analyze the reasons for changes in equity capital;

(2) Understand the historical composition of annual revenue of the enterprise and analyze the reasons for the changes in sales revenue;

(3) Understand the historical composition and changes of annual costs of the enterprise;

(4) Understand the composition of major other business income of the enterprise and analyze its contribution to the enterprise's profits;

(5) Understand the historical annual profits of the enterprise and analyze the main reasons for the changes in profits;

(6) Collect and understand various financial indicators of the enterprise and analyze the reasons for the changes in such indicators;

(7) Understand the business plan and investment plan of the enterprise in the future years;

(8) Understand the tax and other preferential policies enjoyed by the enterprise;

(9) Collect relevant information on the industry of the appraised entity to understand the current situation of the industry, regional market conditions and future development trends.

(III) Evaluation and estimation stage

The valuation information collected is analyzed, summarized and sorted as necessary to form the basis for evaluation and estimation. Based on the relevant conditions such as the valuation target, value type and the collection of valuation information, the applicable valuation method as well as the corresponding formula and parameters are selected for analysis, calculation and judgment to form the preliminary valuation results.

(IV) Preparation and submission of valuation report stage

Based on the preliminary valuation results of various types of assets, the relevant valuation descriptions are prepared. On the basis of verifying and confirming that the relevant valuation descriptions and the valuation results of specific asset items are accurate and that there is no duplication or omission in the valuation work, an asset valuation summary analysis is conducted according to the asset valuation descriptions, the final valuation conclusions are determined and an asset valuation report is prepared. Necessary internal audit on the valuation report and the implementation of valuation procedures is conducted in accordance with relevant laws, regulations, asset valuation standards and the internal quality control system of the valuation institution. Necessary communication with the client or relevant parties approved by the client is conducted in respect of the relevant contents of the valuation report. A formal asset valuation report is then submitted to the client in accordance with the requirements of the asset valuation engagement contract.

IX. VALUATION ASSUMPTIONS

Due to the changes in the operating environment of the enterprise and the changing factors affecting the value of assets, it is necessary to establish a number of assumptions so that the asset valuers can make a judgment on the value of the assets which fully support our valuation conclusion. This valuation is based on the following premises and assumptions:

(I) General assumptions

1. Transaction assumption

The transaction assumption assumes that all assets to be appraised are in the process of transaction, and the valuers conduct the valuation based on a simulated market using the transaction conditions of the assets to be appraised. The transaction assumption is the most fundamental premise for asset valuation.

2. Open market assumption

The open market assumption assumes that both parties to an asset transaction or a proposed asset transaction in the market are in equal position and have opportunities and time to obtain sufficient market information, so as to make rational judgments on the functions, purposes and transaction prices of the assets. The open market assumption is based on the fact that assets can be publicly traded in the market.

3. Going concern assumption for the enterprise

The going concern assumption for the enterprise assumes that the appraised enterprise operates in a legal manner and there will be no unforeseeable factors that will render it unable to operate as a going concern.

(II) Special assumptions

1. As a basic assumption and premise, this valuation is based on the specific valuation purpose(s) as stated in the asset valuation report.

2. Assumption of no material change: It is assumed that there are no material changes in the relevant prevailing laws and regulations of the State and the macroeconomic situation of the State, and there are no unforeseeable material changes in the external economic environment such as interest rates, exchange rates, tax bases and tax rates, and policy-based levies.

3. Assumption of no adverse impact: It is assumed that there are no other force majeure factors and unforeseeable factors that will have a material adverse impact on the assets and liabilities to be appraised of the appraised entity.

4. Assumption of consistent direction: It is assumed that the business scope and mode of the appraised entity are consistent with the current direction in terms of the existing management mode and management level, without taking into account the changes in operation capacity that may be caused by the adjustment of management and operation strategy in the future.

5. Assumption of consistent policies: It is assumed that the accounting policies to be adopted by the appraised entity in the future are basically consistent with the accounting policies adopted at the time this report is being prepared in all material aspects.

6. Assumption of continuous use of assets: It is assumed that the appraised assets will continue to be used in accordance with the current use and the mode, scale, frequency and environment of use, without taking into account the respective optimal use of each asset.

7. Assumption of data authenticity: It is assumed that the financial reports and transaction data of the comparable companies relied on by the valuers are true and reliable. The relevant basic information and financial information provided by the appraised entity and the client are true, accurate and complete.

8. Assumption of stable cash flow: It is assumed that the net cash flow of each appraised entity is evenly distributed every year.

9. The scope of valuation is only based on the valuation declaration form provided by the appraised entity, without taking into account the contingent assets and contingent liabilities that may exist outside the list provided by the appraised entity.

In the event of any inconsistency with the aforesaid assumptions, the valuation results will generally become invalid.

X. VALUATION CONCLUSION

After the implementation of the valuation procedures, as at the valuation benchmark date, the valuation conclusion under the asset-based method based on the assumption of going concern for the total shareholders' equity to be appraised is as follows:

The book value and appraised value of the total assets amounted to RMB472.5733 million and RMB537.6326 million, respectively, representing an appreciation of RMB65.0593 million or 13.77% over the book value; the book value and appraised value of the total liabilities amounted to RMB26.3097 million and RMB26.3097 million, respectively, with no appreciation or depreciation; the book value and appraised value of the net assets (total shareholders' equity) amounted to RMB446.2636 million and RMB511.3229 million, respectively, representing an appreciation of RMB65.0593 million or 14.58%. Details are as follows:

Summary of asset valuation results

Appraised entity: Shandong Port Equipment Group Co., Ltd. *Unit: RMB0'000*

Item		Book value	Appraised value	Appreciation/ depreciation amount	Appreciation rate (%)
		A	*B*	*C = B-A*	*D = C/A×100%*
Current assets	1	**29,675.95**	**29,675.95**	**–**	**–**
Non-current assets	2	**17,581.38**	**24,087.31**	**6,505.93**	**37.00**
Including: Long-term equity investments	3	16,603.16	23,107.51	6,504.34	39.18
Fixed assets	4	66.49	68.08	1.59	2.39
Right-of-use assets	5	645.72	645.72	–	–
Long-term prepaid expenses	6	266.00	266.00	–	–
Total assets	7	**47,257.33**	**53,763.26**	**6,505.93**	**13.77**
Current liabilities	8	2,231.41	2,231.41	–	–
Non-current liabilities	9	399.55	399.55	–	–
Total liabilities	10	**2,630.97**	**2,630.97**	**–**	**–**
Net assets	11	**44,626.36**	**51,132.29**	**6,505.93**	**14.58**

This represents the appraised value of the total shareholders' equity of Equipment Group of RMB511.3229 million (RMB five hundred and eleven million, three hundred and twenty-two thousand, nine hundred).

Analysis on the main reasons for the appreciation or depreciation in the valuation under the asset-based method

The appraised value of the net assets (total shareholders' equity) under the asset-based method is appreciated by RMB65.0593 million, mainly due to the following reasons:

1. The appraised value of long-term equity investments is appreciated by RMB65.0434 million or 39.18%. The reason for the appreciation is that the long-term equity investments are accounted for using the cost method, which are taken as the initial investment costs. The profits (or losses) of the investees in recent years and their appreciation or depreciation in this valuation have not been reflected in the long-term equity investment account of the parent company, resulting in the valuation appreciation.

2. The appraised value of equipment assets is appreciated by RMB0.0159 million or 2.39%, which is mainly due to the difference between the economic useful life and the depreciation period provided for equipment assets in this valuation, resulting in a slight appreciation in the appraised net value.

XI. SPECIAL NOTES

The following matters are beyond the professional level and capability of evaluation and estimation of the company's valuers. However, these matters may indeed affect the valuation conclusion. Users of this valuation report should pay special attention in this regard:

(I) Incomplete or defective ownership information

1. Rizhao Ship Machinery, a subsidiary

Rizhao Ship Machinery has 1 building applied for valuation, which is a steel structure plant of port machinery with a gross floor area of 1,854.36 square meters, with no building ownership certificate. The book value is RMB3,186,589.93 and the appraised value is RMB3,849,141.00.

2. Port Machinery Engineering, a sub-subsidiary (a subsidiary of Rizhao Ship Machinery)

Port Machinery Engineering has 6 buildings included in the scope of valuation with a total area of 10,749.97 square meters. As at the valuation benchmark date, there was no building ownership certificate. Details are as follows:

No.	Name of building	Area *(m^2)*	Book value *(RMB yuan)*	Rights holder
1	Machining workshop	1,149.97	25,230.00	Port Machinery Engineering
2	Steel structure production plant	6,200.00	3,098,697.44	Port Machinery Engineering
3	Plant with span	330.00	121,777.15	Port Machinery Engineering
4	Steel structure plant	3,000.00	1,809,620.25	Port Machinery Engineering
5	Waiting room	34.00	5,100.75	Port Machinery Engineering
6	Changing room	36.00	14,046.30	Port Machinery Engineering

3. Kingda Shipbuilding, a sub-subsidiary (a subsidiary of Rizhao Ship Machinery)

Kingda Shipbuilding has 9 buildings included in the scope of valuation with a total area of 30,563.68 square meters. As at the valuation benchmark date, there was no building ownership certificate. Details are as follows:

<table>
<tr><th>No.</th><th>Name of building</th><th>Area
(m²)</th><th>Book value
(RMB yuan)</th><th>Appraised value
(RMB yuan)</th><th>Rights holder</th></tr>
<tr><td>1</td><td>Plant</td><td>18,084.00</td><td rowspan="6">27,514,285.30</td><td>26,340,171.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>2</td><td>Office building</td><td>2,923.20</td><td>5,240,338.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>3</td><td>Transformers</td><td>232.80</td><td>217,204.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>4</td><td>Guarding room</td><td>107.28</td><td>65,445.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>5</td><td>Loft building</td><td>1,080.00</td><td>927,708.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>6</td><td>Acetylene room</td><td>256.00</td><td>220,477.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>7</td><td>Warehouse</td><td>3,087.60</td><td>15,855,859.98</td><td>2,652,213.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>8</td><td>Dormitory</td><td>4,519.20</td><td>488,263.32</td><td>18,281,542.00</td><td>Kingda Shipbuilding</td></tr>
<tr><td>9</td><td>2-storey office building</td><td>273.60</td><td>53,127.58</td><td>498,785.00</td><td>Kingda Shipbuilding</td></tr>
</table>

4. Luhai Heavy Industry, a subsidiary

The Mita lorry of Luhai Heavy Industry included in the scope of this valuation is actually a Toyota pick-up truck, which has not obtained the "Vehicle Driving License of the People's Republic of China". As at the valuation benchmark date, the above vehicle has been retired and could not be used.

5. Motor Vehicle Inspection, a subsidiary

Motor Vehicle Inspection has 4 buildings included in the valuation. As at the valuation benchmark date, there was no building ownership certificate. Details are as follows:

No.	Name of Building	Gross floor area (m^2)	Book value (RMB yuan)	Appraised value (RMB yuan)
1	Inspection line warehouse	75.18	173,391.91	185,287.00
2	Expansion of environmental inspection line workshop for motor vehicles	415.75		1,107,921.00
3	Expansion of environmental inspection line auxiliary facilities for motor vehicles	384.38	2,154,803.89	1,221,309.00
4	External inspection shed	101.50		66,754.00
Total		976.81	2,328,195.80	2,581,271.00

In respect of each of the above assets, the appraised entity has issued a letter of undertaking to prove that all assets are owned by it and there is no dispute on title. The calculation of replacement cost for the buildings without ownership certificate as at the valuation benchmark date does not include the relevant license handling fees. In addition, for buildings that have not obtained ownership certificates, when it is necessary to handle the property registration in the future, should there be any inconsistency with the gross floor area as determined by the real estate surveying department, the valuation conclusion of this project shall be adjusted based on the area stated in the certificates.

According to the undertaking of the appraised entity, except for the above matters, it is confirmed that there are no title defects in other assets and liabilities included in the scope of valuation.

(II) Uncertainties such as pending matters and legal disputes

1. The sub-subsidiary – Kingda Shipbuilding, and Jiangsu Huaxia Heavy Industry Co., Ltd. (hereinafter referred to as "**Jiangsu Huaxia Heavy Industry**") entered into the Procurement Contract on 23 January 2017, pursuant to which,

Kingda Shipbuilding shall pay RMB7.16 million to Jiangsu Huaxia Heavy Industry. Upon the expiration of the delivery period as agreed in the contract, despite repeated urging, Jiangsu Huaxia Heavy Industry failed to deliver the goods as of the date of the valuation report, and the payment of RMB5.7065 million already paid by Kingda Shipbuilding has not yet been recovered. In this regard, Kingda Shipbuilding filed an arbitration with the Rizhao Arbitration Commission, which issued an arbitral award in July 2018 (Ri Zhong Zi (2018) No. 53). The arbitration tribunal requested the other party for a refund of RMB5.7065 million. Jiangsu Huaxia Heavy Industry has been in bankruptcy and liquidation due to poor operation. Kingda Shipbuilding has declared its creditor's rights, but it has no priority to receive compensation.

2. As Rizhao Huayong Shipping Co., Ltd. (hereinafter referred to as "**Rizhao Huayong**") did not pay the maintenance fee for "Huayong Tuo 10" of RMB500,000 to Kingda Shipbuilding, Kingda Shipbuilding filed a lawsuit with the court in April 2018 (Lu 72 Min Chu (2018) No. 494). The trial ruled that Rizhao Huayong, the defendant, shall pay Kingda Shipbuilding, the plaintiff, the maintenance fee of RMB542,000 and the interest thereof.

In March 2019, Rizhao Huayong used the "Huayong Tuo 10" towing fee of RMB500,000 owed by Shandong Harbor to cover the ship repair payment due to Kingda Shipbuilding, which however was unable to enter the enforcement procedure as Shandong Harbor raised a written objection. In July 2020, Rizhao Huayong filed an objection for enforcement to the high court, which had not handed down the judgment as of the date of the valuation report.

This valuation does not take into account the impact of the above-mentioned litigation matters on the valuation conclusion. Except for the above matters, other assets and liabilities included in the scope of valuation do not involve any legal, economic and other pending matters.

(III) Important use of expert work and relevant reports

The book values involved in this valuation have been audited by Shandong Tianpingxin Certified Public Accountants Co., Ltd. (山東天平信有限責任會計師事務所) engaged by the client, which has issued an unqualified audit report (Lu Tianpingxin Shen Zi (2022) No. 033). The audited assets subject to valuation comprise five categories, including of current assets, long-term equity investment, fixed assets, right-of-use assets and long-term prepaid expenses, with total assets of RMB472.5733 million, while the liabilities subject to valuation are current liabilities and non-current liabilities with total liabilities of RMB26.3097 million, and the net assets amount to RMB446.2636 million.

(IV) Significant subsequent events

According to the undertaking of Equipment Group, from the valuation benchmark date to the date of issuance of the valuation report, there is no significant event that affects the valuation premise and the valuation conclusion and requires adjustment to the valuation conclusion.

(V) Limitations of the valuation procedures, remedial measures taken by the valuation institution and the impact on the valuation conclusion

During the valuation process, the valuers observed the exterior appearance of the buildings and structures under valuation, and observed the interior decoration and usage of the buildings as far as possible, but did not conduct any structural and material tests. When conducting survey on the equipment, due to the limitation of testing methods and the fact that some equipments were in operation, the valuers mainly relied on the appearance as observed by them, the recent testing information provided by the appraised entity and the inquiries to relevant operators in order to make judgments.

(VI) Nature, amount and the relationship with the subject of valuation of mortgage, guarantee, lease and contingent liabilities (contingent assets)

1. Leasing of office buildings of Equipment Group:

Pursuant to the Building Leasing Contract entered into between Equipment Group and Shandong Port International Trade Group Co., Ltd. (山東港口國際貿易集團有限公司) on 11 December 2020, Equipment Group leased 23/F, T2, No. 877 Lijiang West Road, Qingdao Development Zone (青島市開發區灕江西路877號T2樓23層), with a leased area of 1,668.84 square meters for a term commencing from 1 September 2020 to 31 August 2025.

2. Leasing of land of Rizhao Ship Machinery:

Pursuant to the Asset Leasing Contract entered into between Rizhao Ship Machinery and Rizhao Jinqiao Energy Conservation Technology Co., Ltd. (日照金橋節能科技有限公司), a connected party, Rizhao Jinqiao Energy Conservation Technology Co., Ltd. leased the land use right located at Linyi South Road, Rizhao City (日照市臨沂南路) to Rizhao Ship Machinery for use, with a leased area of 121,272 square meters. The contract tentatively provided that the land lease term was from 1 July 2020 to 30 June 2022, and the annual rent was RMB2.76 million. The dry dock, ship platform works and mobile paint spraying room of Rizhao Ship Machinery were all located on the leased land. The impact of the lease on the valuation conclusion of relevant assets has not been considered in this valuation.

3. Leasing of office premises of Rizhao Ship Machinery:

According to the Building Lease Agreement of Rizhao International Trade Center entered into between Rizhao Ship Machinery and Shandong Port Industry City Integration Development Rizhao Co., Ltd. (山東港口產城融合發展日照有限公司), Rizhao Ship Machinery leased the 17th, 18th and 19th floors of Block C of Rizhao International Trade Center (日照國際商貿中心C座第17、18、19層), with a leased area of 1,999.92 square meters. The lease term of the 17th floor is from 20 April 2021 to 19 April 2023, and the lease term of the 18th and 19th floors is from 26 March 2021 to 25 March 2023, with a two-year rent-free period.

4. Leasing of land and terminal shoreline of Kingda Shipbuilding

According to the Supplementary Agreement to the Land and Terminal Shoreline Lease Contract entered into between Kingda Shipbuilding and Rizhao Port Co., Ltd. (日照港股份有限公司), a connected party, on 3 April 2019, Kingda Shipbuilding's current factory land and terminal shoreline were leased for use. The land lease area was 11.3 mu with a lease term from 1 October 2017 to 30 September 2022 at an annual rent of RMB339,000. The terminal shoreline was 270 meters long with a lease term from 1 October 2017 to 30 September 2022 at an annual rent of RMB788,400. The buildings (structures) of Kingda Shipbuilding included in the scope of valuation are all located on the above-mentioned leased land. The impact of the lease on the valuation conclusion of relevant assets has not been considered in this valuation.

5. Leasing of properties of Motor Vehicle Inspection

According to the Tenancy Agreement No. GF-2000-0602 entered into between Motor Vehicle Inspection and Yantai Port Group Co., Ltd. (煙台港集體有限公司) (now renamed as Shandong Port Yantai Port Group Co., Ltd. (山東港口煙台港集團有限公司)), a connected party, Shandong Port Yantai Port Group Co., Ltd. leased the property located at No. 15 Huanhai Road (1,058.75 square meters), the site with area of 7,000 square meters and the 500 meters of exclusive channel on the east to Motor Vehicle Inspection for a lease term from 1 January 2013 to 1 January 2023, during which the rent has been waived. The self-built inspection line warehouse, inspection line workshop and auxiliary facilities of Motor Vehicle Inspection are located in the above-mentioned leased site. The impact of the lease on the valuation conclusion of relevant assets has not been considered in this valuation.

According to the undertaking of Equipment Group, other than the above matters, there are no mortgages, guarantees, leases and contingent liabilities (contingent assets) of other assets included in the scope of this valuation.

(VII) The defects in the economic behavior corresponding to the asset valuation that may have a significant impact on the valuation conclusion.

According to the undertaking of Equipment Group, it is confirmed that the economic behavior corresponding to the valuation will not have a significant impact on the valuation conclusion.

(VIII) The valuation conclusion has not considered the possible changes in tax payment obligations resulting from the increase or decrease of the appraised value.

(IX) The valuation results have not considered the premium or discount caused by factors such as controlling interests, and have not considered the impact of the liquidity of the appraised equity on the valuation results.

(X) Land resumption and relocation of Port Machinery Engineering

Rizhao Port Group Co., Ltd. (日照港集團有限公司) (hereinafter referred to as "**Rizhao Port Group**") entered into the State-owned Land Resumption Agreement with the Rizhao Natural Resources and Planning Bureau (日照市自然資源和規劃局) in January 2019, pursuant to which, the state-owned construction land with an area of 1,650,000 square meters to the south of Huanghai First Road (黃海一路) and to the east of Port Railway (港口鐵路) was included in the government reserve. The compensation for the above land, buildings and attachments was RMB1,014.75 million.

Port Machinery Engineering, a subsidiary of Rizhao Ship Machinery, has one existing land use right with the title certificate number of Ri Guo Yong (2012) No. 117759 and a land area of 52,820 square meters, which is currently used as the production plant of Port Machinery Engineering. The land and attachments are within the scope of the aforesaid land resumption of Rizhao Port Group, which have not yet been resumed and relocated as at the valuation benchmark date.

The State-owned Land Resumption Agreement contains no details of compensation. Despite rounds of communication, the relevant parties have not yet provided details of compensation and the corresponding evaluation report on the compensation for resumption and relocation. As discussed with the client, since the State-owned Land Resumption Agreement remains effective, the compensation price of the land use rights and buildings and structures on the ground of Port Machinery Engineering has been taken as RMB32.4843 million, which is determined by multiplying the ratio of the land area of Port Machinery Engineering (52,820 square meters) to the total land area (1,650,000 square meters) by the total compensation amount, and such compensation price has been taken as the appraised value.

In particular, one steel structure plant of Port Machinery, with a gross floor area of 1,854.36 square meters and built by Rizhao Ship Machinery, the parent company of Port Machinery Engineering, is located on the land of Port Machinery Engineering to be resumed by the government. In order to maintain the completeness of the scope of valuation, the valuers estimated the appraised value of the plant. As at the valuation benchmark date, the net appraised value of the plant was RMB3,849,141.00. In this valuation, the above compensation apportioned to Port Machinery Engineering less the appraised value of the plant has been taken as the appraised value of the land use rights and the attachments erected thereon of Port Machinery Engineering.

(XI) The asset valuation report has been prepared based on the valuation-related information provided by the client, the appraised entity and the relevant parties. It is the responsibility of the client, the appraised entity and the relevant parties to provide the necessary information and ensure the authenticity, legality and completeness of such information. The responsibility of the valuation professionals is to analyze and estimate the value of the valuation target for specific purposes as at the valuation benchmark date and express professional opinions in this regard. The valuation professionals have conducted necessary verification and disclosure of the information and its sources, but do not provide any guarantee for the authenticity, legality and completeness of the above information. It is beyond the scope of practice of the valuation professionals to confirm the information and its sources or express opinions in this regard.

(XII) In the valuation, we have referred to and adopted the historical financial statements and financial statements as at the valuation benchmark date of the appraised entity as well as the financial reports and transaction data of the comparable companies we found on iFinD. Our estimation has relied to a considerable extent on the above financial statement data and transaction data, and we have assumed that the above financial statement data and transaction data are true and reliable. The fact that our estimation has relied on the data of those financial statements does not represent any assurance that we will give as to the correctness and completeness of such financial information or that there are no other requirements for such information which are in conflict with our use of such data.

(XIII) The future profit forecast of the investees involved in the valuation is based on the profit forecast formulated by the management. We have reviewed the above-mentioned profit forecast as necessary and made appropriate adjustments based on the information obtained during the valuation process. The valuation assumptions adopted in the valuation of the investees under the income method are a relatively reasonable forecast of the future operation of the valuation target under the current conditions. If there are various unpredictable and unavoidable factors that may affect the realization of the assumptions in the future, the realization of the profit forecast will be affected. We would like to remind the client and other relevant parties, that we do not guarantee the realization of the above assumptions, nor we assume the obligations to realize or help realize the above assumptions.

(XIV) As of the date of this valuation report, China's epidemic prevention and control work is still severe. With the active cooperation of the client, the asset inventory in the valuation was conducted through on-site operation, remote video and other methods according to different situations. There is no major event that affects the asset inventory due to the needs of epidemic prevention and control.

XII. RESTRICTION ON THE USE OF THE VALUATION REPORT

(I) This valuation report can only be used by users of the valuation report specified in the asset valuation engagement contract, and can only be used for the purpose and use specified in the asset valuation engagement contract.

(II) If the client or other users of the asset valuation report fail to use the asset valuation report in accordance with the laws, administrative regulations and the scope of use specified in the asset valuation report, the asset valuation institution and its asset valuers shall not be liable.

(III) Except for the client, other users of the asset valuation report as agreed in the asset valuation engagement contract and users of the asset valuation report as prescribed by the laws and administrative regulations, no other institution or individual shall be a user of the asset valuation report.

(IV) Users of the asset valuation report shall correctly understand the valuation conclusion, which is not equivalent to the realizable price of the valuation target, and the valuation conclusion shall not be deemed as a guarantee for the realizable price of the valuation target.

(V) If all or part of the contents of the asset valuation report are extracted, quoted or disclosed in the public media, the valuation institution shall review the relevant contents. Without such reviewing by the valuation institution, the contents of the valuation report shall not be extracted, quoted or disclosed in the public media, unless otherwise provided by laws and regulations and agreed by the relevant parties.

(VI) The asset valuation report shall be signed by the asset valuers, sealed by the valuation institution and filed with the state-owned assets supervision and administration institution of the client before it can be officially used.

(VII) The valuation conclusion is an objective and fair reflection of the market value of the total shareholders' equity of Equipment Group on the valuation benchmark date of 28 February 2022. The valuation conclusion shall not be used directly if significant events occur after the valuation benchmark date.

(VIII) Validity period of the valuation conclusion: According to the provisions of the Practicing Standards for Asset Valuation – Asset Valuation Report, "Normally, an asset valuation report can only be used when the period between the valuation benchmark date and the date of realization of economic behavior does not exceed one year". The validity period of the valuation conclusion is one year from the valuation benchmark date, i.e. from 28 February 2022 to 27 February 2023. If there are material changes in the asset conditions and market conditions as compared with those as at the valuation benchmark date, the client shall engage the valuation institution to perform a valuation update or re-valuation.

XIII. DATE OF VALUATION REPORT

The official submission date of this valuation report is 16 May 2022, which is the date on which the valuation conclusion was formed.

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

pwc 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 EQUIPMENT MANUFACTURING CO., LTD.

PwC ZT Te Shen Zi (2022) No. 5702
(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 8 October 2022 prepared by Shandong Zhongping Hengxin Assets Appraisal Co., Ltd. in respect of the appraisal of the fair value of the 100% equity interests in Qingdao Port Equipment Manufacturing Co., Ltd. (the "**Disposal Company**") as at 28 February 2022 is based. The Valuation is set out in Appendix III of the circular of Qingdao Port International Co., Ltd. (the "**Company**") dated 18 November 2022 (the "**Circular**") in connection with the transferring by the Company of its 51% equity interests in the Disposal Company to make a registered capital contribution to Shandong Port Equipment Group Co., Ltd. in exchange for 16.56% equity interests of the enlarged share capital in Shandong Port Equipment Group Co., Ltd.. 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 "**Hong Kong 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, including the bases and assumptions set on pages 22 to 24 of the Circular on which the discounted future estimated cash flows are based. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the discounted future estimated cash flows and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting Accountant's Responsibilities

It is our responsibility, pursuant to paragraph 29(2) of Appendix 1B of the Hong Kong Listing Rules, to express an opinion on the calculations of the discounted future estimated cash flows.

We conducted our work in accordance with China Standard on Other Assurance Engagements No.3101, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. This standard requires that we comply with ethical requirements and plan and perform our work to form the opinion.

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Reporting Accountant's Responsibilities (Con'd)

This assurance engagement involved performing procedures to obtain sufficient appropriate evidence as to whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the bases and assumptions set out on pages 22 to 24 of the Circular. The extent of procedures selected depends on the Reporting Accountant's judgement and our assessment of the engagement risk. Within the scope of our work, we, amongst others, reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated cash flows have been prepared using a set of bases and assumptions that include hypothetical assumptions about future events and management's actions that cannot be confirmed and verified in the same way as past results and that are not necessarily expected to occur. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the discounted future estimated cash flows since other anticipated events frequently do not occur as expected and the variation may be material. 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.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the bases and assumptions adopted by the directors of the Company as set out on pages 22 to 24 of the Circular.

Restriction on Use

This report is intended solely for the board of directors of the Company in connection with the requirement in paragraph 29(2) of Appendix 1B of the Hong Kong Listing Rules and should not be used for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers Zhong Tian LLP
CPA: Jia Na

Shanghai, the People's Republic of China
18 November 2022
CPA: Lv Yongzheng

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

pwc 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 RIZHAO KINGDA SHIPBUILDING HEAVY INDUSTRY CO., LTD.

PwC ZT Te Shen Zi (2022) No. 5701
(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 of Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd. ("**Kingda Shipbuilding**"), a subsidiary of Shandong Port Equipment Group Co., Ltd. (the "**Target Company**") on which the business valuation (the "**Valuation**") dated 16 May 2022 prepared by Shandong Huide Assets Appraisal Co., Ltd. in respect of the appraisal of the fair value of the 100% equity interests in the Target Company as at 28 February 2022 is based. The Valuation is set out in Appendix IV of the circular of Qingdao Port International Co., Ltd. (the "**Company**") dated 18 November 2022 (the "**Circular**") in connection with the acquisition by the Company of a 16.56% equity interests of the enlarged share capital in the Target Company by transferring 51% equity interests in Qingdao Port Equipment Manufacturing Co., Ltd. to make a registered capital contribution to the Target Company. The Valuation of Kingda Shipbuilding 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 "**Hong Kong 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, including the bases and assumptions set on pages 25 to 26 of the Circular on which the discounted future estimated cash flows are based. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the discounted future estimated cash flows and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting Accountant's Responsibilities

It is our responsibility, pursuant to paragraph 29(2) of Appendix 1B of the Hong Kong Listing Rules, to express an opinion on the calculations of the discounted future estimated cash flows.

We conducted our work in accordance with China Standard on Other Assurance Engagements No.3101, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. This standard requires that we comply with ethical requirements and plan and perform our work to form the opinion.

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PwC ZT Te Shen Zi (2022) No. 5701
(Page 2 of 2)

Reporting Accountant's Responsibilities (Con'd)

This assurance engagement involved performing procedures to obtain sufficient appropriate evidence as to whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the bases and assumptions set out on pages 25 to 26 of the Circular. The extent of procedures selected depends on the Reporting Accountant's judgement and our assessment of the engagement risk. Within the scope of our work, we, amongst others, reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated cash flows have been prepared using a set of bases and assumptions that include hypothetical assumptions about future events and management's actions that cannot be confirmed and verified in the same way as past results and that are not necessarily expected to occur. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the discounted future estimated cash flows since other anticipated events frequently do not occur as expected and the variation may be material. 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 Target Company.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the bases and assumptions adopted by the directors of the Company as set out on pages 25 to 26 of the Circular.

Restriction on Use

This report is intended solely for the board of directors of the Company in connection with the requirement in paragraph 29(2) of Appendix 1B of the Hong Kong Listing Rules and should not be used for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
18 November 2022

CPA: Jia Na
CPA: Lv Yongzheng

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

pwc 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 RIZHAO PORT MACHINERY ENGINEERING CO., LTD.

PwC ZT Te Shen Zi (2022) No. 5699
(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 of Rizhao Port Machinery Engineering Co., Ltd. ("**Port Machinery Engineering**"), a subsidiary of Shandong Port Equipment Group Co., Ltd. (the "**Target Company**") on which the business valuation (the "**Valuation**") dated 16 May 2022 prepared by Shandong Huide Assets Appraisal Co., Ltd. in respect of the appraisal of the fair value of the 100% equity interests in the Target Company as at 28 February 2022 is based. The Valuation is set out in Appendix IV of the circular of Qingdao Port International Co., Ltd. (the "Company") dated 18 November 2022 (the "**Circular**") in connection with the acquisition by the Company of a 16.56% equity interests of the enlarged share capital in the Target Company by transferring 51% equity interests in Qingdao Port Equipment Manufacturing Co., Ltd. to make a registered capital contribution to the Target Company. The Valuation of Port Machinery Engineering 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 "**Hong Kong 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, including the bases and assumptions set on pages 25 to 26 of the Circular on which the discounted future estimated cash flows are based. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the discounted future estimated cash flows and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting Accountant's Responsibilities

It is our responsibility, pursuant to paragraph 29(2) of Appendix 1B of the Hong Kong Listing Rules, to express an opinion on the calculations of the discounted future estimated cash flows.

We conducted our work in accordance with China Standard on Other Assurance Engagements No.3101, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. This standard requires that we comply with ethical requirements and plan and perform our work to form the opinion.

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PwC ZT Te Shen Zi (2022) No. 5699
(Page 2 of 2)

Reporting Accountant's Responsibilities (Con'd)

This assurance engagement involved performing procedures to obtain sufficient appropriate evidence as to whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the bases and assumptions set out on pages 25 to 26 of the Circular. The extent of procedures selected depends on the Reporting Accountant's judgement and our assessment of the engagement risk. Within the scope of our work, we, amongst others, reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated cash flows have been prepared using a set of bases and assumptions that include hypothetical assumptions about future events and management's actions that cannot be confirmed and verified in the same way as past results and that are not necessarily expected to occur. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the discounted future estimated cash flows since other anticipated events frequently do not occur as expected and the variation may be material. 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 Target Company.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the bases and assumptions adopted by the directors of the Company as set out on pages 25 to 26 of the Circular.

Restriction on Use

This report is intended solely for the board of directors of the Company in connection with the requirement in paragraph 29(2) of Appendix 1B of the Hong Kong Listing Rules and should not be used for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers Zhong Tian LLP CPA: Jia Na

Shanghai, the People's Republic of China CPA: Lv Yongzheng
18 November 2022

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

pwc 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 SHANDONG LUHAI HEAVY INDUSTRY CO., LTD.

PwC ZT Te Shen Zi (2022) No. 5700
(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 of Shandong Luhai Heavy Industry Co., Ltd. ("**Luhai Heavy Industry**"), a subsidiary of Shandong Port Equipment Group Co., Ltd. (the "**Target Company**") on which the business valuation (the "**Valuation**") dated 16 May 2022 prepared by Shandong Huide Assets Appraisal Co., Ltd. in respect of the appraisal of the fair value of the 100% equity interests in the Target Company as at 28 February 2022 is based. The Valuation is set out in Appendix IV of the circular of Qingdao Port International Co., Ltd. (the "**Company**") dated 18 November 2022 (the "**Circular**") in connection with the acquisition by the Company of a 16.56% equity interests of the enlarged share capital in the Target Company by transferring 51% equity interests in Qingdao Port Equipment Manufacturing Co., Ltd. to make a registered capital contribution to the Target Company. The Valuation of Luhai Heavy Industry 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 "**Hong Kong 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, including the bases and assumptions set on pages 25 to 26 of the Circular on which the discounted future estimated cash flows are based. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the discounted future estimated cash flows and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting Accountant's Responsibilities

It is our responsibility, pursuant to paragraph 29(2) of Appendix 1B of the Hong Kong Listing Rules, to express an opinion on the calculations of the discounted future estimated cash flows.

We conducted our work in accordance with China Standard on Other Assurance Engagements No.3101, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. This standard requires that we comply with ethical requirements and plan and perform our work to form the opinion.

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PwC ZT Te Shen Zi (2022) No. 5700
(Page 2 of 2)

Reporting Accountant's Responsibilities (Con'd)

This assurance engagement involved performing procedures to obtain sufficient appropriate evidence as to whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the bases and assumptions set out on pages 25 to 26 of the Circular. The extent of procedures selected depends on the Reporting Accountant's judgement and our assessment of the engagement risk. Within the scope of our work, we, amongst others, reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated cash flows have been prepared using a set of bases and assumptions that include hypothetical assumptions about future events and management's actions that cannot be confirmed and verified in the same way as past results and that are not necessarily expected to occur. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the discounted future estimated cash flows since other anticipated events frequently do not occur as expected and the variation may be material. 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 Target Company.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the bases and assumptions adopted by the directors of the Company as set out on pages 25 to 26 of the Circular.

Restriction on Use

This report is intended solely for the board of directors of the Company in connection with the requirement in paragraph 29(2) of Appendix 1B of the Hong Kong Listing Rules and should not be used for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers Zhong Tian LLP CPA: Jia Na

Shanghai, the People's Republic of China CPA: Lv Yongzheng
18 November 2022

山东港口 SHANDONG PORT GROUP | 青岛港国际股份有限公司 QINGDAO PORT INTERNATIONAL CO.,LTD.

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 Qingdao Port Equipment Share Transfer Agreement and the Shandong Port Equipment Group Capital Increase Agreement

Reference is hereby made to (i) the valuation report (the "**Valuation Report I**") prepared by Shandong Zhong Ping Heng Xin Asset Appraisal Co., Ltd. ("**Zhong Pin Heng Xin**"), in relation to the valuation of entire equity interests in Qingdao Port Equipment Manufacturing Co., Ltd.* (青島港口裝備製造有限公司); and (ii) the valuation report (the "**Valuation Report II**", together with Valuation Report I, the "**Valuation Reports**") prepared by Shandong Huide Asset Appraisal Co., Ltd. ("**Shandong Huide**"), in relation to the valuation of entire equity interests in Shandong Port Equipment Group Co., Ltd.* (山東港口裝備集團有限公司) as of the valuation assessment date (i.e. 28 February 2022). The valuation on Qingdao Port Equipment Manufacturing Co., Ltd.* (青島港口裝備製造有限公司), Rizhao Kingda Shipbuilding Heavy Industry Co., Ltd.* (日照港達船舶重工有限公司), Rizhao Port Machinery Engineering Co., Ltd.* (日照港機工程有限公司) and Shandong Luhai Heavy Industry Co., Ltd.* (山東陸海重工有限公司) adopted the income method, and therefore constitutes profit forecasts (the "**Profit Forecasts**") 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 report, and have reviewed the valuation responsible by Zhong Pin Heng Xin and Shandong Huide. We have also considered the letter dated 18 November 2022 issued by PricewaterhouseCoopers Zhong Tian LLP, the reporting accountant, in relation to whether the Profit Forecasts are properly prepared based on the assumptions set out in the Valuation Reports in terms of the arithmetical accuracy of the calculations. We have noticed that the calculations in the Profit Forecasts are accurate and comply with the bases and assumptions set out in the Valuation Reports.

Based on the above, we believe the Profit Forecasts are made after due and careful enquiry.

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

(I) SUMMARY OF THE CHANGE IN THE USE OF PROCEEDS FROM THE H SHARE PLACING

1. Basic Information on the Original Use of Proceeds from the H Share Placing

As of 30 September 2022, details of the original use of proceeds from the H Share Placing are set out as below:

Unit: RMB0'000

No.	Use of Proceeds for Investment Projects	Proceeds Proposed to be Invested	Cumulative Proceeds Already Invested	Balance of the Proceeds (including interests)
1	Acquisition of the 51% equity interests in Haiye Oil Terminal	53,661	0	55,868
	In Total	–	0	55,868

2. Proposed Changes in the Use of Proceeds from the H Share Placing

Based on the actual situation for the use of proceeds from H Share Placing and after prudent consideration, the Company proposed to use the remaining proceeds from the H Share Placing of approximately RMB558.68 million (including accumulated interests income) for the investment in engineering construction, including Dongjiakou Port Area terminal and oil storage and other construction projects.

Details of the proposed use of proceeds from the H Share Placing after the proposed changes are set out as below:

Unit: RMB0'000

No.	Use of Proceeds for Investment Projects	Proceeds Proposed to be Invested	Cumulative Proceeds Already Invested
1	The reserved funds for the Company's overseas terminal acquisition and investment and the operation fund for the terminal projects management company established by the Company and COSCO SHIPPING Ports to operate and manage overseas terminal projects	38,916	38,916
2	Investment in engineering construction	55,868	–
	In Total	–	38,916

(II) REASONS OF AND BENEFITS FOR THE PROPOSED CHANGE IN THE USE OF PROCEEDS FROM THE H SHARE PLACING

As for the acquisition of 51% equity interest in Haiye Oil Terminal, due to changes in international and domestic conditions and policies that may have an impact on the liquid bulk business of Haiye Oil Terminal, the Company needs to further evaluate the impacts of such changes on the acquisition. Hence, the parties need to further discuss the details of the transaction, and there is uncertainty about whether and when the transaction can be completed. In view of such uncertainty, after prudent consideration, the Company proposed to use the remaining proceeds from the H Share Placing of approximately RMB558.68 million for the investment in engineering construction, including Dongjiakou Port Area terminal and oil storage and other construction projects to improve the efficiency of the use of proceeds from the H Share Placing and enhance the profitability of the Company.

(III) SHAREHOLDERS' APPROVAL AT THE EXTRAORDINARY GENERAL MEETING

According to the requirements of the relevant laws and regulations of China and Hong Kong Listing Rules, the implementation of the above proposed changes is subject to the approval at the upcoming EGM.

Mr. ZHANG Baohua (張保華, "Mr. ZHANG"), aged 54, graduated from Tianjin Normal University with a master's degree in law and is a senior political worker and an engineer. He currently serves as a member of the Party Committee of the Company, the deputy secretary to the Party Committee and the director of Qingdao Port Group, the chairman of the board of Qingdao Qianwan Container Terminal Co., Ltd. (青島前灣集裝箱碼頭有限責任公司, "**QQCT**"), the director of Qingdao Qianwan United Container Terminal Co., Ltd. (青島前灣聯合集裝箱碼頭有限責任公司, "**QQCTU**"), the director and the general manager of Qingdao Port International Container Development Co., Ltd. (青島港國際集裝箱發展有限公司, "**Container Development**"). Mr. ZHANG successively served as an assistant political worker of the political work section of Rizhao Port Authority (now known as Shandong Port Rizhao Port Group Co., Ltd. (山東港口日照港集團有限公司), "**Rizhao Port Group**"), the political worker of the discipline inspection commission, and the deputy director of the general office of Rizhao Port Authority, etc. from July 1994 to June 2003. He successively served as the secretary to the board of directors and the director of the general office of Rizhao Port Group, etc. from June 2003 to August 2011. He served as the general party branch secretary and general manager of Rizhao Jurong Port Terminals Co., Ltd. (日照港裕廊碼頭有限公司) (now known as Rizhao Port Jurong Co., Ltd. (日照港裕廊股份有限公司), a company listed on the Hong Kong Stock Exchange, with stock code of 06117) from May 2011 to November 2013. He successively served as the manager, the deputy secretary to the Party Committee, and secretary to the Party Committee of the Second Port Branch of Rizhao Port Co., Ltd. (a company listed on the Shanghai Stock Exchange, with stock code of 600017) from November 2013 to December 2017. He served as a member of the Party Committee and the deputy general manager of Rizhao Port Group from October 2017 to January 2020. He served as the chairman and a non-executive director of the board of Rizhao Port Jurong Co., Ltd. from February 2018 to April 2020. He served as the supervisor of Rizhao Port Co., Ltd. from September 2018 to January 2020. He served as a member of the Party Committee and the executive deputy general manager of Qingdao Port Group from January 2020 to September 2022. He has been a member of the Party Committee of the Company since March 2020. He has been the chairman of the board of QQCT and the director of QQCTU since March 2022. He has been the director and the general manager of Container Development since May 2022. He has been the deputy secretary to the Party Committee and the director of Qingdao Port Group since September 2022. Mr. ZHANG has almost 30 years of working experience in port industry and is experienced in managing large-scale port enterprises.

Mr. XUE Baolong (薛寶龍, "Mr. XUE"), aged 52, graduated from China University of Petroleum (East China), with an on-the-job university diploma in oil and gas storage and transportation engineering and is an economist. He currently serves as a member of the Party Committee of the Company, a member of the Party Committee and the deputy general manager of Qingdao Port Group, the secretary to the Party Committee and the executive director of Qingdao Port International Oil Port Co., Ltd. (青島港國際油港有限公司, "**Qingdao Port Oil Port**"), the secretary to the Party Committee and vice chairman of the board of Qingdao Shihua Crude Oil Terminal Co., Ltd. (青島實華原油碼頭有限公司, "**Qingdao Shihua**"), the secretary to the Party Committee and chairman of the board of Shandong Port Lianhua Pipeline Petroleum Transportation Co., Ltd. (山東港聯化管道石油輸送有限公司, "**Shandong Port**

Lianhua"), the director of Container Development, the chairman of the board of Shandong Port Qingdao Port Shihua Energy Development Co., Ltd. (山東港口青港實華能源發展有限公司), and directors and senior executives of other consolidated companies or equity holding companies in the liquid bulk sector of the Company. Mr. XUE successively served as the party branch secretary and the deputy director of the labour export office, the deputy section chief of the business section of Oil Port Company of Qingdao Port Authority (now known as Qingdao Port Group), etc. from July 1990 to December 2009. He successively served as the manager of the security and technology department and the manager of the engineering technology department of Qingdao Shihua from December 2009 to July 2016. He successively served as the assistant to general manager, a member of the Party Committee, and the deputy general manager of Qingdao Shihua from July 2016 to July 2017, from July 2016 to April 2019, and from July 2017 to March 2021 separately. He successively served as a member of the Party Committee and the deputy general manager of Shandong Port Lianhua from January 2018 to April 2019 and from January 2018 to March 2021 separately. He served as the deputy general manager of Shandong Qingdong Pipeline Co., Ltd. and the deputy general manager of Qingdao Petro China Storage Company Limited from May 2018 to April 2019. He served as the deputy secretary to the Party Committee of Qingdao Shihua and Shandong Port Lianhua, etc. from April 2019 to March 2021. He served as the general manager of Qingdao Port Oil Port from June 2020 to August 2021. He served as the general manager of Qingdao Shihua and Shandong Port Lianhua from March 2021 to August 2021. Mr. XUE has over 30 years of working experience in port industry and is experienced in managing large-scale port enterprises.

Mr. ZHU Tao (朱濤, "Mr. ZHU"), aged 49, graduated from Shanghai Jiao Tong University with a master's degree in business administration and is an economist. He currently serves as an executive director and the managing director, the chairman of the risk management committee, and a member of the executive committee and the investment and strategic planning committee of COSCO SHIPPING Ports Limited (中遠海運港口有限公司, a company listed on the Hong Kong Stock Exchange, with stock code of 01199). Mr. ZHU served as the business deputy manager and business manager of the dispatching division of the liner department of COSCO Container Lines Co., Ltd. (中遠集裝箱運輸有限公司, "**COSCO Container Lines**", now known as COSCO SHIPPING Lines Co., Ltd. (中遠海運集裝箱運輸有限公司), "**COSCO Shipping Container Lines**"), the deputy head of the business division of the coastal transportation department of the COSCO Container Lines, the manager of the east and south China operating department of Sino-Japan trade division of the COSCO Container Lines, the deputy general manager and chairman of the labour union of Shanghai Panasia Shipping Co., Ltd. (上海泛亞航運有限公司), the deputy general manager of Americas trading division of the COSCO Container Lines, the general manager of COSCO Container Lines (Netherlands) B.V., the director of the general manager's office of the COSCO Container Lines, the general manager and deputy secretary to the Party Committee of Shanghai Panasia Shipping Co., Ltd., and the deputy general manager and a member of the Party Committee of the COSCO Shipping Container Lines etc.

Subject to the approval of their appointments as Directors by the Shareholders at the EGM, the Company will enter into a service contract with each of Mr. ZHANG, Mr. XUE and Mr. ZHU. The remuneration (including the basic salary and performance-based bonus) of each of Mr. ZHANG, Mr. XUE and Mr. ZHU will be determined by the Board, respectively, with reference to their duties and responsibilities within the Company, the Company's remuneration policy and the prevailing market conditions.

Save as disclosed above, Mr. ZHANG, Mr. XUE and Mr. ZHU (i) currently do not, nor did they in the past three years, hold any directorships in any other listed companies; (ii) do not hold any other major positions in the Company and its subsidiaries; (iii) do not have any relationship with any Director, supervisor, senior management or substantial or controlling shareholder of the Company (as defined under the Hong Kong Listing Rules); and (iv) do not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Save as disclosed in this circular, each of Mr. ZHANG, Mr. XUE and Mr. ZHU has confirmed that there are no matters in relation to their nomination that need to be brought to the attention of the Shareholders, and there is no other information that is required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules in relation to their nomination.

山东港口 SHANDONG PORT GROUP | 青岛港国际股份有限公司 QINGDAO PORT INTERNATIONAL CO.,LTD.

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)

NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING OF 2022

NOTICE IS HEREBY GIVEN that the second extraordinary general meeting of Qingdao Port International Co., Ltd. (the "**Company**") for the year 2022 (the "**EGM**") will be held at the Conference Room, Shandong Port Tower, No. 7 Gangji Road, City North District, Qingdao, Shandong Province, the PRC on Friday, 23 December 2022 at 10:00 a.m. for the purposes of considering and, if thought fit, passing the following resolutions. Unless otherwise defined, terms used in this notice shall have the same meanings as those used in the circular of the Company dated 18 November 2022 (the "**Circular**"). In addition, a circular containing details of the following resolutions is required to be dispatched to the Shareholders on or before 18 November 2022. The Shareholders and potential investors should refer to the Circular for further details of the resolutions below.

AS ORDINARY RESOLUTIONS

1. To consider and approve the Qingdao Port Equipment Share Transfer Agreement and the Shandong Port Equipment Group Capital Increase Agreement and the transactions contemplated thereunder

2. To consider and approve the 2023 SDP Goods and Services Agreement and the transactions contemplated thereunder (including the proposed annual caps)

3. To consider and approve the 2023 SDP Financial Services Agreement and the transactions contemplated thereunder (including the proposed annual caps)

4. To consider and approve the 2023 COSCO SHIPPING Goods and Services Agreement and the transactions contemplated thereunder (including the proposed annual caps)

5. To consider and approve the changes in the use of proceeds from the H Share Placing

6. To consider and approve:

   6.01 the election of Mr. ZHANG Baohua as an executive director of the Company

   6.02 the election of Mr. XUE Baolong as a non-executive director of the Company

   6.03 the election of Mr. ZHU Tao as a non-executive director of the Company

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

Qingdao, the PRC, 18 November 2022

Notes:

1. **CLOSURE OF REGISTER FOR H SHARES AND 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, 20 December 2022 to Friday, 23 December 2022 (both days inclusive), during which no H Share transfer will be registered. The Shareholders of H Shares whose names appear on the register of members of H Shares of the Company on Tuesday, 20 December 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, 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, 19 December 2022 for registration.

2. **PROXY**

   Shareholders of H Shares entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote in their stand. A proxy need not be a Shareholder.

   The instrument appointing a proxy must be in writing under the hand of a Shareholder of H Shares or his attorney duly authorized in writing. If the Shareholder of H Shares is a corporate body, the proxy form must be either executed under its common seal or under the hand of its director(s) or duly authorized attorney(s). If the proxy form is signed by an attorney of the Shareholder of H Shares, the power of attorney authorizing that attorney to sign or any other authorization document must be notarized.

   The proxy form together with the power of attorney or any other authorization document (if any) must be lodged at the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by hand or by post 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, 22 December 2022 (as the case may be) in order to be valid. Shareholders of H Shares can still attend and vote at the EGM in person after completion and return of the proxy form.

3. **CONTACT DETAILS OF THE COMPANY**

Contact Address:	General Office of the Board, Qingdao Port International Co., Ltd., No. 7 Gangji Road, City North District, Qingdao, Shandong Province, the PRC
Postcode:	266011
Contact Person:	Ms. Du

Telephone: (86 532) 8298 3083

Fax: (86 532) 8282 2878

4. PROCEDURES FOR VOTING AT THE EGM

According to Rule 13.39(4) of the Hong Kong Listing Rules, any vote of Shareholders at the EGM must be taken by poll.

5. OTHER BUSINESS

Shareholders (in person or by proxy) attending the EGM are responsible for their own transportation and accommodation expenses. Shareholders or their proxies attending the EGM shall present their identity documents.

As at the date of this notice, the executive director of the Company is Mr. SU Jianguang; the non-executive directors of the Company are Mr. LI Wucheng and Ms. WANG Fuling; and the independent non-executive directors of the Company are Ms. LI Yan, Mr. JIANG Min and Mr. LAI Kwok Ho.