
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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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 CONTINUING CONNECTED TRANSACTIONS AND
MAJOR TRANSACTIONS**
**(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS
AND**
**NOTICE OF THE SECOND EXTRAORDINARY
GENERAL MEETING OF 2023**

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



A letter from the Board is set out on pages 8 to 45 of this circular. A letter from the Independent Board Committee is set out on pages 46 to 47 of this circular. A letter from Somerley Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 48 to 70 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 Wednesday, 20 December 2023 at 10:30 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 22 November 2023. 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 10:30 a.m. on Tuesday, 19 December 2023). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

22 November 2023

CONTENTS

| | <i>Pages</i> |
|--|--------------|
| DEFINITIONS | 1 |
| LETTER FROM THE BOARD | 8 |
| I. INTRODUCTION | 8 |
| II. PROPOSED CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS | 9 |
| III. PROPOSED CONTINUING CONNECTED TRANSACTIONS | 29 |
| IV. GENERAL INFORMATION | 40 |
| V. BOARD CONFIRMATION | 42 |
| VI. RECOMMENDATIONS | 43 |
| VII. CLOSURE OF REGISTER OF MEMBERS AND ASCERTAINING OF ELIGIBILITY FOR ATTENDING THE EGM | 44 |
| VIII. EGM | 44 |
| IX. OTHER INFORMATION | 45 |
| LETTER FROM THE INDEPENDENT BOARD COMMITTEE | 46 |
| LETTER FROM SOMERLEY CAPITAL | 48 |
| APPENDIX I FINANCIAL INFORMATION OF THE GROUP | 71 |
| APPENDIX II GENERAL INFORMATION | 73 |
| NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING OF 2023 | EGM-1 |

DEFINITIONS

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

| | |
|---|--|
| “2024 COSCO SHIPPING Goods and Services Agreement” | the goods and services framework agreement dated 27 October 2023 entered into between the Company and COSCO SHIPPING in relation to (i) the sales of goods and services by the Group to COSCO SHIPPING Group and the Relevant Connected Subsidiaries; (ii) the purchase of goods and services by the Group from COSCO SHIPPING Group and the Relevant Connected Subsidiaries; and (iii) the provision of asset lease services by the Group to COSCO SHIPPING Group and the Relevant Connected Subsidiaries |
| “2024 SDP Financial Services Agreement” | the financial services framework agreement dated 27 October 2023 entered into between the Company and Shandong Port Group in relation to the provision of financial services by Shandong Port Group to the Group |
| “2024 SDP Framework Agreements” | the 2024 SDP Goods and Services Agreement and the 2024 SDP Financial Services Agreement |
| “2024 SDP Goods and Services Agreement” | the goods and services framework agreement dated 27 October 2023 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 |
| “Board” | the board of Directors |
| “Company” | Qingdao Port International Co., Ltd.* (青島港國際股份有限公司), a joint stock company established in the PRC with limited liability in November 2013 |

DEFINITIONS

| | |
|-------------------------------|--|
| “COSCO SHIPPING” | China COSCO Shipping Corporation Limited* (中國遠洋海運集團有限公司), a limited liability company established in the PRC in 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 holds approximately 21% equity interests in the Company and is a substantial shareholder and a 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 2024 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 funds with Shandong Port Group under the 2024 SDP Financial Services Agreement |
| “Director(s)” | the director(s) of the Company |
| “EGM” | the 2023 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 10:30 a.m. on Wednesday, 20 December 2023 |
| “Finance Company” | Shandong Port Group Finance Co., Ltd.* (山東港口集團財務有限責任公司, formerly known as Qingdao Port Finance Co., Ltd.* (青島港財務有限責任公司)), a company established in July 2014 in the PRC with limited liability. As at the Latest Practicable Date, the Company holds 34.63% equity interests in it |
| “Group” | the Company together with its branches and subsidiaries |

DEFINITIONS

| | |
|--------------------------------------|--|
| “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 (stock code: 06198) and are traded in Hong Kong dollars |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Listing Rules” | the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange |
| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Independent Board Committee” | the independent board committee of the Board comprising of Ms. LI Yan, Mr. JIANG Min and Mr. LAI Kwok Ho, all of whom are independent non-executive Directors to advise and provide recommendations to the Independent Shareholders in respect of (a) 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 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (b) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement and the respective proposed annual caps contemplated thereunder |

DEFINITIONS

| | |
|--|--|
| “Independent Financial Adviser” or “Somerville Capital” | Somerley Capital Limited, a licensed corporation 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 provide advices to the Independent Board Committee and the Independent Shareholders on (a) 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 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (b) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement and the respective proposed annual caps 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 |
| “Laizhou OST” | China Ocean Shipping Tally Laizhou Co., Ltd.* (萊州中理外輪理貨有限公司), a company established in the PRC with limited liability in September 2005 and a non-wholly owned subsidiary with 80% equity interests indirectly to be held by the Company after the Proposed Restructuring |
| “Latest Practicable Date” | 17 November 2023, 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) |
| “NFRA” | National Financial Regulatory Administration* (國家金融監督管理總局) of the PRC, which was officially established on the basis of the China Banking and Insurance Regulatory Commission* (中國銀行保險監督管理委員會) in May 2023 |
| “PBOC” | the People’s Bank of China* (中國人民銀行) |

DEFINITIONS

| | |
|-----------------------------------|--|
| “PRC” | the People’s Republic of China, and for the purpose of this circular, excluding the Hong Kong, the Macau Special Administrative Region and Taiwan |
| “Proposed Restructuring” | having the same meaning as disclosed in the announcement of the Company dated 30 June 2023 (among which) in relation to the potential major transaction and connected transaction involving the proposed restructuring (https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0630/2023063001874.pdf) |
| “Qingdao OST” | Qingdao Ocean Shipping Tally Co., Ltd.* (青島外輪理貨有限公司), a company established in the PRC with limited liability in September 2008 and a non-wholly owned subsidiary of the Company, in which the Company holds 84% equity interests and China Ocean Shipping Tally Co., Ltd.* (中國外輪理貨有限公司) holds 16% equity interests, respectively, as at the Latest Practicable Date |
| “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 in 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 |
| “Relevant Connected Subsidiaries” | Qingdao OST, Weihai Shipping Agency, Weihai OST, Yantai Port and Laizhou OST |
| “RMB” | Renminbi, the lawful currency of the 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 2024 SDP Financial Services Agreement |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |

DEFINITIONS

| | |
|-----------------------------|--|
| “Shandong Port Group” | Shandong Port Group Co., Ltd.* (山東省港口集團有限公司), a company established in 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 |
| “Unsecured Credit Services” | the provision of loan services, entrusted loan services, bills acceptance and discounting services, issuance of letter of credit, letter of guarantee and financing guarantee services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement |
| “Weihai OST” | China Ocean Shipping Tally Weihai Co., Ltd.* (威海中理外輪理貨有限公司), a company established in the PRC with limited liability in February 2008 and a non-wholly owned subsidiary and is indirectly owned as to 84% equity interests by the Company and indirectly owned as to 16% equity interests by COSCO SHIPPING, respectively, as at the Latest Practicable Date |
| “Weihai Shipping Agency” | China Weihai Shipping Vessel Agency Co., Ltd.* (中國威海海外輪代理有限公司), a company established in the PRC with limited liability in April 1987 and a non-wholly owned subsidiary is directly owned as to 55% equity interests by the Company and indirectly owned as to 45% equity interests by COSCO SHIPPING, respectively, as at the Latest Practicable Date |
| “Yantai Port” | Yantai Port Co., Ltd.* (煙台港股份有限公司), a joint stock company established in the PRC with limited liability in December 2009 and a non-wholly owned subsidiary with 67.56% equity interests to be held directly by the Company and 10% equity interests held indirectly by the COSCO SHIPPING, respectively, after the Proposed Restructuring |
| “%” | percent |

DEFINITIONS

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

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

LETTER FROM THE BOARD



Qingdao Port International Co., Ltd.

青島港國際股份有限公司

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

(Stock Code: 06198)

Executive Directors:

Mr. SU Jianguang (*Chairman*)

Mr. ZHANG Baohua (*General Manager*)

Non-executive Directors:

Mr. LI Wucheng (*Vice Chairman*)

Mr. ZHU Tao

Ms. WANG Fuling

Mr. XUE Baolong

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

22 November 2023

To the Shareholders,

Dear Sir or Madam,

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

AND

(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to the announcement of the Company dated 27 October 2023, in relation to, among other things, (i) the 2024 SDP Goods and Services Agreement and the transactions contemplated thereunder (including the respective proposed annual caps); (ii) the 2024 SDP Financial Services Agreement and the transactions contemplated thereunder (including the respective proposed annual caps); and (iii) the 2024 COSCO SHIPPING Goods and Services Agreement and the transactions contemplated thereunder (including the respective proposed annual caps).

LETTER FROM THE BOARD

The purposes of this circular are, among other matters:

- (1) to provide details in respect of the 2024 SDP Goods and Services Agreement and the proposed annual caps for the three years ending 31 December 2026;
- (2) to provide details in respect of the 2024 SDP Financial Services Agreement and the proposed annual caps for the three years ending 31 December 2026;
- (3) to provide details in respect of the 2024 COSCO SHIPPING Goods and Services Agreement and the proposed annual caps for the three years ending 31 December 2026;
- (4) to set out the recommendations from the Independent Board Committee in respect of (a) 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 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (b) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement and the respective proposed annual caps contemplated thereunder;
- (5) to set out the advice from the Independent Financial Adviser in respect of (a) 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 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (b) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and
- (6) to provide the Shareholders with other information required under the Hong Kong Listing Rules.

II. PROPOSED CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS

On 27 October 2023 (after trading hours), the Company entered into the 2024 SDP Goods and Services Agreement and the 2024 SDP Financial Services Agreement with Shandong Port Group.

LETTER FROM THE BOARD

1. 2024 SDP Goods and Services Agreement

A. *Principal terms*

Date: 27 October 2023 (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 2024 SDP Goods and Services Agreement will come into effect from 1 January 2024 to 31 December 2026.

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, tugboats, etc., and services such as construction engineering, comprehensive logistic, 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 fuel oil (retail), etc., and services such as stevedoring, storage, transportation, supply of electricity, tugging, etc.

LETTER FROM THE BOARD

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 2024 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.

LETTER FROM THE BOARD

In particular, detailed pricing policies for the primary goods and services under the 2024 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, tugboats, 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 services | To be determined with reference to the prevailing market price after arm's 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 arm's length negotiation. |
|------------------------------|--|

Notes:

1. 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.
2. 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

| | |
|-------------------|---|
| 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. |
|-------------------|---|

LETTER FROM THE BOARD

| | |
|--|--|
| Stevedoring services, transportation services, storage services | <p>To be determined with reference to the market price according to the following procedures:</p> <ol style="list-style-type: none">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; and3. the department responsible for relevant business will review the final price agreed with the client to ensure the price is fair and reasonable. |
| Tugging services | <p>To be determined in accordance with <i>the Measures of Port Charges and Calculations</i> (《港口收費計費辦法》) promulgated by the Ministry of Transport and the NDRC, with reference to the government guided price.</p> |
| Supply services of electricity | <p>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.</p> |
| <i>Asset lease services provided by the Group to Shandong Port Group/Shandong Port Group to the Group</i> | |
| Asset lease | <p>To be determined with reference to the rental price of the same or similar kinds of assets located in similar areas as well as the historical rental prices of such assets after arm's length negotiation.</p> |

LETTER FROM THE BOARD

B. Proposed annual caps

The table below sets out the historical annual caps for the year ended 31 December 2022, together with the actual transaction amounts for the year ended 31 December 2022 and the historical annual caps for the year ending 31 December 2023, together with the actual transaction amounts for the nine months ended 30 September 2023 and the proposed annual caps for the three years ending 31 December 2026 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 2024 SDP Goods and Services Agreement.

| Transaction type | Historical annual caps for the year ended 31 December 2022/actual transaction amounts for the year ended 31 December 2022 <i>(RMB million)</i> | Historical annual caps for the year ending 31 December 2023/actual transaction amounts for the nine months ended 30 September 2023 <i>(RMB million)</i> | | |
|---|--|---|--|--|
| Purchase of goods and services by the Group from Shandong Port Group | 3,600/2,453 | 9,000/1,950 | | |
| Sales of goods and services by the Group to Shandong Port Group | 1,800/1,536 | 2,400/1,000 | | |
| Lease services by the Group to Shandong Port Group | 20/13 | 40/20 | | |
| Lease services by Shandong Port Group to the Group | 300/116 | 350/130 | | |
| Transaction type | Proposed annual caps for the year ending 31 December 2024 <i>(RMB million)</i> | Proposed annual caps for the year ending 31 December 2025 <i>(RMB million)</i> | Proposed annual caps for the year ending 31 December 2026 <i>(RMB million)</i> | |
| Purchase of goods and services by the Group from Shandong Port Group | 7,000 | 7,700 | 8,500 | |
| Sales of goods and services by the Group to Shandong Port Group | 3,100 | 3,400 | 3,700 | |
| Provision of asset lease services by the Group to Shandong Port Group | 100 | 110 | 120 | |
| Provision of asset lease services by Shandong Port Group to the Group | 600 | 660 | 730 | |

LETTER FROM THE BOARD

In arriving at the respective 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 2023 was approximately RMB1,950 million, whilst the transaction size is expected to reach RMB3,500 million in 2023 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 2022 accounted for approximately 41.7% 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 2023. 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 development needs of the Group's production and operation, the Group will invest a considerable amount in engineering construction and the purchase of port machinery and equipment in 2024, which is expected to increase by RMB1,000 million compared with 2023;
- (iii) following the anticipated completion of the Proposed Restructuring in 2024, the target companies to be acquired have a similar business to the Company and have previously procured goods and services from Shandong Port Group. The scale of these transactions, involving services like construction engineering and products such as port machinery, will experience a significant increase due to the renovation of existing terminals, construction of new terminals and waterways, and the replacement of machinery and equipment driven by policy encouragement and market demand. Consequently, it is expected that the annual increment of such transactions between the Group and Shandong Port Group resulting from the completion of the Proposed Restructuring will be approximately RMB2,500 million; and
- (iv) as the Group's business expands, it is expected that the annual scale of such transactions will increase by approximately 10% from 2024 to 2026.

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 2023 was approximately RMB1,000 million, whilst the transaction size is expected to reach RMB1,500 million in 2023;

LETTER FROM THE BOARD

- (ii) according to the development needs of the Group's production and operation, the transaction scale of provision of the services such as stevedoring, logistics, etc., by the Group to Shandong Port Group will increase in 2024, which is expected to increase by RMB300 million compared with 2023;
- (iii) considering that the target companies to be acquired following the expected completion of the Proposed Restructuring in 2024 are engaged in the same principal business as the Company and have already sold goods and services to Shandong Port Group prior to the Proposed Restructuring, and based on the historical transaction amount between those target companies and Shandong Port Group of approximately RMB1,360 million for the nine months ended 30 September 2023, it is expected that the annual increment of such transactions between the Group and Shandong Port Group resulting from the completion of the Proposed Restructuring will be approximately RMB1,300 million; and
- (iv) as the Group's business expands, it is expected that the annual scale of such transactions will increase by approximately 10% from 2024 to 2026.

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 2023 was approximately RMB20 million, whilst the transaction size is expected to reach RMB30 million in 2023;
- (ii) it is expected that the transaction scale of the provision of asset lease services by the Group to Shandong Port Group in 2024 will increase by RMB10 million;
- (iii) it is expected that the annual increment of such transactions between the Group and Shandong Port Group resulting from the completion of the Proposed Restructuring will be approximately RMB60 million; and
- (iv) as the Group's business expands, it is expected that the annual scale of such transactions will increase by approximately 10% from 2024 to 2026.

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 2023 was approximately RMB130 million, whilst the transaction size is expected to reach RMB200 million in 2023;
- (ii) it is expected that the transaction scale of the provision of asset lease services by Shandong Port Group to the Group will increase by RMB50 million in 2024;
- (iii) it is expected that the annual increment of such transactions between the Group and Shandong Port Group resulting from the completion of the Proposed Restructuring will be approximately RMB350 million; and
- (iv) as the Group's business expands, it is expected that the annual scale of such transactions will increase by approximately 10% from 2024 to 2026.

LETTER FROM THE BOARD

C. Reasons for and Benefits of Entering into the 2024 SDP Goods and Services Agreement

The Company has entered into goods and services framework agreement with Shandong Port Group in 2022, which is valid from 1 January 2023 to 31 December 2023. Please refer to the announcement of the Company dated 28 October 2022 and the circular of the Company dated 18 November 2022 for details. As Shandong Port Group is the indirect controlling shareholder of the Company, any 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 2024 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 and in-depth cooperation, mutual understanding, efficient communication, high business relevance, strong complementarity and good cooperation experience with each other, and also have natural cooperation advantages due to geographical reasons in some business areas, which enables both parties to provide high-quality and reliable products, convenient and efficient services, which are conducive to promoting mutual benefits 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 2024 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 2024 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.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that the 2024 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 respective proposed annual caps contemplated thereunder) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2. 2024 SDP Financial Services Agreement

A. *Principal terms*

Date: 27 October 2023 (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 2024 SDP Financial Services Agreement will come into effect from 1 January 2024 to 31 December 2026.

Transaction type: (1) **Deposit Services**

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

(2) **Credit Services, including:**

(i) *Unsecured Credit Service*

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.

LETTER FROM THE BOARD

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.

B. Proposed annual caps

The table below sets out the historical annual caps for the year ended 31 December 2022, together with maximum outstanding balance for the year ended 31 December 2022 and the historical annual caps for the year ending 31 December 2023, together with maximum outstanding balance for the nine months ended 30 September 2023 and the proposed annual caps for the three years ending 31 December 2026 in respect of (i) the Deposit Services, and (ii) the Credit Services provided by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement.

| Transaction type | Historical annual caps for the year ended 31 December 2022 | Maximum outstanding balance for the year ended 31 December 2022 | Historical annual caps for the year ending 31 December 2023 | Maximum outstanding balance for the nine months ended 30 September 2023 |
|---------------------------|--|---|---|---|
| | (RMB million) | (RMB million) | (RMB million) | (RMB million) |
| Deposit Services | 20,000 | 11,300 | 18,000 | 14,200 |
| Credit Services | 16,000 | 4,500 | 18,000 | 4,500 |
| among which: | | | | |
| Secured Credit Services | 4,000 | 900 | 3,000 | 900 |
| Unsecured Credit Services | 12,000 | 3,600 | 15,000 | 3,600 |

LETTER FROM THE BOARD

| Transaction type | Proposed annual caps for the year ending 31 December 2024 (RMB million) | Proposed annual caps for the year ending 31 December 2025 (RMB million) | Proposed annual caps for the year ending 31 December 2026 (RMB million) |
|---------------------------|--|--|--|
| Deposit Services | 18,000 | 20,000 | 22,000 |
| Credit Services | 11,000 | 12,000 | 13,000 |
| among which: | | | |
| Secured Credit Services | 950 | 950 | 950 |
| Unsecured Credit Services | 10,050 | 11,050 | 12,050 |

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

Deposit Services

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

- (i) the maximum outstanding balance of the deposits of the Group for the nine months ended 30 September 2023 deposited with Finance Company was approximately RMB14,200 million;
- (ii) in 2024, with the Group's financing activities and the advancement of joint venture and cooperation projects, it will drive the continuous growth of cash inflow from operating activities, which is expected to increase the scale of deposit funds by RMB900 million;
- (iii) considering that Shandong Port Group has already provided the deposit services to the target companies prior to the Proposed Restructuring, and based on the historical transaction amount between those target companies and Shandong Port Group of approximately RMB2,700 million for the nine months ended 30 September 2023, it is expected that the annual increment of scale of deposit funds resulting from the completion of the Proposed Restructuring in 2024 will be approximately RMB2,900 million; and
- (iv) as the Group's business expands, it is expected that the scale of deposit funds will annually increase by approximately 10% from 2024 to 2026.

LETTER FROM THE BOARD

Credit Services

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

- (i) the maximum outstanding balance of credit services for the nine months ended 30 September 2023 was approximately RMB4,500 million;
- (ii) based on the market demand and in response to favorable conditions set by the state to support the development of significant transportation infrastructure projects, the Group formulates its investment plan aiming at seizing policy empowerment to improve its competitiveness in the transportation industry. Under such investment plan, the Group will accelerate the construction and innovation of infrastructure projects, mainly including purchasing of port assets like tugboats, bridge cranes and gantries and construction of terminal engineering projects like dry bulk terminals, liquid chemical terminals and crude oil storage tanks to further boost port handling capacity. As such, it is expected that there will be an additional demand for loan services of RMB3,000 million;
- (iii) considering that Shandong Port Group has already provided the credit services to the target companies prior to the Proposed Restructuring, and based on the historical transaction amount between those target companies and Shandong Port Group of approximately RMB2,970 million for the nine months ended 30 September 2023, it is expected that the annual increment of scale of the loan services resulting from the completion of the Proposed Restructuring in 2024 will be approximately RMB3,500 million; and
- (iv) as the Group's business expands, it is expected that the scale of credit services will annually increase by approximately 10% from 2024 to 2026.

C. Reasons for and benefits of entering into the 2024 SDP Financial Services Agreement

The Company has entered into the financial services framework agreement with Shandong Port Group in 2022, which is valid from 1 January 2023 to 31 December 2023. Please refer to the announcement of the Company dated 28 October 2022 and the circular of the Company dated 18 November 2022 for details. As Shandong Port Group is the indirect controlling shareholder of the Company, any 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 2024 SDP Financial Services Agreement with Shandong Port Group to regulate the transactions in accordance with the requirements under the Hong Kong Listing Rules.

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 and credit 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 holds 34.63% equity interests in Finance Company and will be financially benefited from the financial performance of Finance Company. In addition, the Group has adopted various measures and guidelines to monitor the risk of Deposit Services under the 2024 SDP Financial Services Agreement. As per the articles of association of Finance Company, the shareholders of Finance Company undertake to provide more funding to Finance Company in light of its actual needs to address payment difficulties in the event that Finance Company 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 the 2024 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 respective 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 2024 SDP Framework Agreements are conducted in compliance with the Hong Kong Listing Rules.

2024 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 2024 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.

LETTER FROM THE BOARD

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 2024 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 2024 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 2024 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 2024 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 2024 SDP Financial Services Agreement.

2024 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 2024 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 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 interests and rates for the Credit Services 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;

LETTER FROM THE BOARD

- (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 principal in charge of accounting of the Company for review;
- (iv) the principal in charge of accounting of the Company would approve the application, if assessed to be in compliance with the terms set out in the 2024 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 (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 (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 Finance Company:

- (i) as a shareholder of Finance Company, the Company is entitled to understand the operation conditions and financial conditions, read and copy the financial reports of Finance Company by having access to its financial accounting report, such that the Company may monitor the operation conditions and financial conditions of Finance Company at any time and respond to possible barriers to the recovery in time;
- (ii) Finance Company only provides financial related services to the internal member entities within Shandong Port Group. Finance Company 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 Group's deposits in Finance Company;
- (iii) since the inception of Finance Company, Finance Company has not previously defaulted on any repayment obligation;

LETTER FROM THE BOARD

- (iv) the corporate governance, internal control, risk management, economic function and support to its customers of Finance Company is subject to be reviewed and assessed by NFRA according to *Measures for the Supervision and Rating of Financial Companies of Enterprise Groups (Jingui [2023] No. 1)* (《企業集團財務公司監管評級辦法》(金規([2023])1號)) annually to ensure its good operation condition and strong risk management capabilities. Thus, with the supervision and regulation by NFRA, the Directors are of the view that the interest of the Company can be safeguarded;
- (v) the articles of association of Finance Company requires that the shareholders of Finance Company shall provide a written undertaking to provide more funding and assistance to Finance Company in light of its actual needs to address payment difficulties in the event that Finance Company experiences any urgent payment difficulties; and
- (vi) Shandong Port Group, being the controlling shareholder of Finance Company, maintains strong financial condition (i.e., its total assets as at 31 December 2022 was approximately RMB252,040 million, its net assets value as at 31 December 2022 was approximately RMB104,972 million, revenue generated by Shandong Port Group for the year ended 31 December 2022 was approximately RMB137,386 million and it recorded net profits for the year ended 31 December 2022 of approximately RMB6,514 million. The Directors are of the view that Shandong Port Group, being the controlling shareholder of Finance Company, 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 Finance Company.

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;

LETTER FROM THE BOARD

(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 2024 SDP Framework Agreements and explore the best price of services available to the Group. 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 2024 SDP Framework Agreements 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 2024 SDP Framework Agreements 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 2024 SDP Framework Agreements 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.

LETTER FROM THE BOARD

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 Group's interests in the transactions under the 2024 SDP Framework Agreements and ensure that the terms of the specific agreements under the 2024 SDP Framework Agreements 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 2024 SDP Framework Agreements

2024 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 2024 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 respective 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 2024 SDP Goods and Services Agreement exceeds 5%, such transactions and their respective 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 the respective proposed 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 2024 SDP Goods and

LETTER FROM THE BOARD

Services Agreement is higher than 0.1% and less than 5%, such transactions and their respective proposed annual caps contemplated thereunder are subject to the reporting, announcement and annual review, and are exempt from circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

2024 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 2024 SDP Financial Services Agreement constitute continuing connected transactions of the Company.

(i) Deposit Services

As the highest applicable percentage ratio (as defined under the Hong Kong Listing Rules) in respect of the respective proposed annual caps of Deposit Services received by the Group from Shandong Port Group as set out in the 2024 SDP Financial Services Agreement exceeds 25%, the Deposit Services in respect of the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder are subject to the reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Deposit Services in respect of the 2024 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 2024 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 the highest applicable percentage ratio (as defined under the Hong Kong Listing Rules) in respect of the respective proposed annual caps of Secured Credit Services received by the Group from Shandong Port Group as set out in the 2024 SDP Financial Services Agreement is higher than 0.1% and less than 5%, the Secured Credit Services in respect of the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder are subject to the reporting, announcement and annual review, and are exempt from circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

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 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (ii) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder.

The Company has appointed Independent Financial Adviser 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 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (ii) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder.

III. PROPOSED CONTINUING CONNECTED TRANSACTIONS

On 27 October 2023 (after trading hours), the Company entered into the 2024 COSCO SHIPPING Goods and Services Agreement with COSCO SHIPPING.

1. 2024 COSCO SHIPPING Goods and Services Agreement

A. *Principal terms*

| | |
|--------------------------|--|
| Date: | 27 October 2023 (after trading hours) |
| Parties: | (1) the Company; and (ii) COSCO SHIPPING (including the Relevant Connected Subsidiaries). |
| Terms: | Without prejudice to the representations and warranties made by the parties and subject to the completion of the relevant legal process, the 2024 COSCO SHIPPING Goods and Services Agreement will come into effect from 1 January 2024 to 31 December 2026. |
| Transaction type: | <i>Sales of goods and services by the Group to COSCO SHIPPING Group and the Relevant Connected Subsidiaries</i> |

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

LETTER FROM THE BOARD

Purchase of goods and services by the Group from COSCO SHIPPING Group and the Relevant Connected Subsidiaries

The Group shall purchase goods and services from COSCO SHIPPING Group and the Relevant Connected Subsidiaries, 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 COSCO SHIPPING Group and Relevant Connected Subsidiaries

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

Pricing policy:

The pricing policies for each of the goods and services under the 2024 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 (including the Relevant Connected Subsidiaries) 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.

LETTER FROM THE BOARD

In particular, detailed pricing policies for the primary goods and services under the 2024 COSCO SHIPPING Goods and Services Agreement are set out as below:

| Goods and Services Involved | Pricing Policy |
|---|---|
| <i>Sales of goods and services by the Group to COSCO SHIPPING Group (including the Relevant Connected Subsidiaries)</i> | |
| 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 supply services 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: <ol style="list-style-type: none">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; and3. the department responsible for relevant business will review the final price agreed with the client to ensure the price is fair and reasonable. |
| <i>Purchase of goods and services by the Group from COSCO SHIPPING Group (including the Relevant Connected Subsidiaries)</i> | |
| 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 arm's length negotiation and taking into consideration the requirements from the customers on shipping services, including shipping schedule and port of destination of the customers, etc. |

LETTER FROM THE BOARD

Notes:

1. 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.
2. 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.

Provision of asset lease services by the Group to COSCO SHIPPING Group (including the Relevant Connected Subsidiaries)

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

B. Proposed annual caps

(i) Transactions between the Group and COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement

The table below sets out the historical annual caps, together with the actual transaction amounts for the two years ended 31 December 2022, the historical annual caps for the year ending 31 December 2023, together with actual transaction amounts for the nine months ended 30 September 2023, and the proposed annual caps for the three years ending 31 December 2026 in respect of (i) the sales of goods and services by the Group to COSCO SHIPPING Group; (ii) the purchase of goods and services by the Group from COSCO SHIPPING Group; and (iii) the provision of asset lease services by the Group to COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement.

| Transaction type | Historical annual caps/actual transaction amounts for the year ended 31 December | | Historical annual caps for the year ending 31 December 2023/actual transaction amounts for the nine months ended 30 September 2023 |
|--|--|-----------------------|--|
| | 2021 (RMB million) | 2022 (RMB million) | (RMB million) |
| Sales of goods and services by the Group to COSCO SHIPPING Group | 1,005/691 | 1,110/879 | 1,500/670 |
| Purchase of goods and services by the Group from COSCO SHIPPING Group | 520/373 | 578/343 | 800/150 |
| Provision of asset lease services by the Group to COSCO SHIPPING Group | 60/35 | 60/28 | 60/20 |

LETTER FROM THE BOARD

| Transaction type | Proposed annual caps for the year ending 31 December 2024 <i>(RMB million)</i> | Proposed annual caps for the year ending 31 December 2025 <i>(RMB million)</i> | Proposed annual caps for the year ending 31 December 2026 <i>(RMB million)</i> |
|--|---|---|---|
| Sales of goods and services by the Group to COSCO SHIPPING Group | 1,500 | 1,650 | 1,800 |
| Purchase of goods and services by the Group from COSCO SHIPPING Group | 600 | 660 | 730 |
| Provision of asset lease services by the Group to COSCO SHIPPING Group | 60 | 60 | 60 |

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

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

- (i) the historical amounts of such transactions between the Group and COSCO SHIPPING Group for the two years ended 31 December 2022 and for nine months ended 30 September 2023 were approximately RMB691 million, RMB879 million and RMB670 million, respectively, and it is expected that the transaction amounts will reach approximately RMB1,000 million for the year ending 31 December 2023;
- (ii) according to the development needs of the Group's production and operation, it is expected that the transaction scale of sales of products such as fuel oil (retail) as well as the provision of services such as stevedoring, logistics, etc., to COSCO SHIPPING Group will increase by approximately RMB200 million in 2024;
- (iii) following the anticipated completion of the Proposed Restructuring in 2024, the target companies to be acquired have a similar business to the Company and have previously sold goods and services to COSCO SHIPPING Group with the historical transaction amount of approximately RMB84 million. The scale of these transactions will further increase significantly driven by policy encouragement, market demand and coordinated development of port companies within Shandong Port Group after the completion of the Proposed Restructuring. Consequently, it is expected that the annual increment of such transactions resulting from the completion of the Proposed Restructuring will be approximately RMB300 million; and

LETTER FROM THE BOARD

- (iv) as the Group's business expands, it is expected that the annual scale of such transactions will increase by approximately 10% from 2024 to 2026.

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

- (i) the historical amounts of such transactions between the Group and COSCO SHIPPING Group for the two years ended 31 December 2022 and for the nine months ended 30 September 2023 were approximately RMB373 million, RMB343 million and RMB150 million, respectively, and it is expected that the transaction amounts will reach approximately RMB250 million for the year ending 31 December 2023;
- (ii) taking into account the completion of the Proposed Restructuring and the continuous development of the Group's full logistics business, the scale of such transactions is expected to increase by approximately RMB350 million in 2024; and
- (iii) as the Group's business expands, it is expected that the annual scale of such transactions will increase by approximately 10% from 2024 to 2026.

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

- (i) the historical transaction amount of asset lease services by the Group to COSCO SHIPPING Group for the two years ended 31 December 2022 and for the nine months ended 30 September 2023 were approximately RMB35 million, RMB28 million and RMB20 million, respectively, and it is expected that the transaction amounts will reach approximately RMB30 million for the year ending 31 December 2023;
- (ii) it is expected that the annual increment of such transactions resulting from the completion of the Proposed Restructuring will be approximately RMB30 million; and
- (iii) given the relatively fixed number of sites, equipment and facilities available for rental, the expected transaction amount of asset lease services by the Group to COSCO SHIPPING Group is expected to remain at the same level from 2024 to 2026.

LETTER FROM THE BOARD

(ii) *Transactions between the Group and the Relevant Connected Subsidiaries under the 2024 COSCO SHIPPING Goods and Services Agreement*

The table below sets out the proposed annual caps for the three years ending 31 December 2026 in respect of (i) the sales of goods and services by the Group to the Relevant Connected Subsidiaries; (ii) the purchase of goods and services by the Group from the Relevant Connected Subsidiaries; and (iii) the provision of asset lease services by the Group to the Relevant Connected Subsidiaries under the 2024 COSCO SHIPPING Goods and Services Agreement.

| Transaction type | Proposed annual caps for the year ending 31 December 2024 <i>(RMB million)</i> | Proposed annual caps for the year ending 31 December 2025 <i>(RMB million)</i> | Proposed annual caps for the year ending 31 December 2026 <i>(RMB million)</i> |
|---|---|---|---|
| Sales of goods and services by the Group to the Relevant Connected Subsidiaries | 350 | 400 | 450 |
| Purchase of goods and services by the Group from the Relevant Connected Subsidiaries | 200 | 220 | 240 |
| Provision of asset lease services by the Group to the Relevant Connected Subsidiaries | 400 | 400 | 400 |

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

Sales of goods and services by the Group to the Relevant Connected Subsidiaries

- (i) the historical amounts of such transactions between the Group and the Relevant Connected Subsidiaries for the nine months ended 30 September 2023 was approximately RMB52 million, and it is expected that the transaction amounts will reach approximately RMB70 million for the year ending 31 December 2023;
- (ii) considering that the target companies to be acquired following the expected completion of the Proposed Restructuring in 2024 are engaged in the same principal business as the Company and have already sold goods and services to the Relevant Connected Subsidiaries prior to the Proposed Restructuring, and based on the historical transaction amount between those target companies and the Relevant Connected Subsidiaries of approximately RMB219 million for the nine months ended 30 September 2023, it is expected that the annual increment of such transactions resulting from the completion of the Proposed Restructuring will be approximately RMB280 million; and

LETTER FROM THE BOARD

- (iii) as the Group's business expands, it is expected that the annual scale of such transactions will increase by approximately 10% from 2024 to 2026.

Purchase of goods and services by the Group from the Relevant Connected Subsidiaries

- (i) the historical amounts of such transactions between the Group and the Relevant Connected Subsidiaries for the nine months ended 30 September 2023 was approximately RMB6 million, and it is expected that the transaction amounts will reach approximately RMB10 million for the year ending 31 December 2023;
- (ii) considering that the target companies to be acquired following the expected completion of the Proposed Restructuring in 2024 are engaged in the same principal business as the Company and have already purchased goods and services from the Relevant Connected Subsidiaries prior to the Proposed Restructuring, and based on the historical transaction amount between those target companies and the Relevant Connected Subsidiaries of approximately RMB133 million for the nine months ended 30 September 2023, it is expected that the annual increment of such transactions resulting from the completion of the Proposed Restructuring will be approximately RMB190 million; and
- (iii) as the Group's business expands, it is expected that the annual scale of such transactions will increase by approximately 10% from 2024 to 2026.

Provision of asset lease services by the Group to the Relevant Connected Subsidiaries

- (i) it is expected that the annual increment of such transactions resulting from the completion of the Proposed Restructuring will be approximately RMB400 million; and
- (ii) given the relatively fixed number of sites, equipment and facilities available for rental, the transaction amount of asset lease services by the Group to the Relevant Connected Subsidiaries is expected to remain at the same level from 2024 to 2026.

LETTER FROM THE BOARD

C. Reasons for and Benefits of Entering into the 2024 COSCO SHIPPING Goods and Services Agreement

(i) Transactions between the Group and COSCO SHIPPING Group under the 2024 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 2023 to 31 December 2023. Please refer to the announcement of the Company dated 28 October 2022 and the circular of the Company dated 18 November 2022 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 2024 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 Group 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 reliable products with high-quality and convenient and efficient services, which are conducive to promoting mutual benefits and win-win results in cooperation.

(ii) Transactions between the Group and Relevant Connected Subsidiaries under the 2024 COSCO SHIPPING Goods and Services Agreement

The Company has entered into a goods and services agreement with Qingdao OST for the period from 1 January 2023 to 31 December 2023. Please refer to the announcement of the Company dated 28 October 2022. After the completion of the Proposed Restructuring, save for Qingdao OST, Weihai Shipping Agency, Weihai OST, which are already connected subsidiaries of the Company, each of Yantai Port and Laizhou OST will become a connected subsidiary of the Company under Rule 14A.16 of the Hong Kong Listing Rules as a result of the corresponding shareholdings held by COSCO SHIPPING Group. Given (i) the transactions between the Group and the Relevant Connected Subsidiaries will be continuing; and (ii) as there is a related relationship between the Relevant Connected Subsidiaries, it would be more feasible and reasonable as well as reducing the management costs to enter into one framework agreement with COSCO SHIPPING Group rather than entering into several agreements with each of the Relevant Connected Subsidiaries, the Company shall enter into the 2024 COSCO SHIPPING Goods and Services Agreement to regulate the transactions in accordance with the requirements under the Hong Kong Listing Rules.

The Directors (including the independent non-executive Directors) are of the view that the 2024 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 respective proposed annual caps contemplated thereunder) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

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 2024 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 2024 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 2024 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 2024 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 2024 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 2024 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.

LETTER FROM THE BOARD

3. Hong Kong Listing Rule Implications

(i) Transactions between the Group and COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement

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 2024 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 respective proposed annual caps of the sales of goods and services by the Group to COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement is higher than 5%, such transactions and the respective 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 respective proposed annual caps of (i) the purchase of goods and services by the Group from COSCO SHIPPING Group, and (ii) the provision of asset lease services by the Group to COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement exceeds 0.1% and less than 5%, such transactions and the respective proposed annual caps contemplated thereunder are subject to the reporting, announcement and annual review, and are exempt from circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(ii) Transactions between the Group and Relevant Connected Subsidiaries under the 2024 COSCO SHIPPING Goods and Services Agreement

After the completion of the Proposed Restructuring, as (i) Qingdao OST is indirectly owned as to 16% equity interests by COSCO SHIPPING and directly owned as to 84% equity interests by the Company, respectively; (ii) Weihai Shipping Agency is indirectly owned as to 45% equity interests by COSCO SHIPPING and indirectly owned as to 55% equity interests by the Company, respectively; (iii) Weihai OST is indirectly owned as to 16% equity interests by COSCO SHIPPING and indirectly owned as to 84% equity interests by the Company, respectively; (iv) Yantai Port will be indirectly owned as to 10% equity interests by COSCO SHIPPING and directly owned as to 67.56% equity interests by the Company, respectively; and (v) Laizhou OST will be indirectly owned as to 20% equity interests by COSCO SHIPPING and indirectly owned as to 80% equity interests by the Company, respectively, therefore each of Qingdao OST, Weihai Shipping Agency, Weihai OST, Yantai Port and Laizhou OST is a connected subsidiary of the Company under Rule 14A.16 of the Hong Kong Listing Rules. Accordingly, the transactions between the Group and the Relevant Connected Subsidiaries under the 2024 COSCO SHIPPING Goods and Services Agreement constitute connected transactions of the Company.

LETTER FROM THE BOARD

As the highest applicable percentage ratio (as defined under the Hong Kong Listing Rules) in respect of each of the respective proposed annual caps of (i) the sales of goods and services by the Group to the Relevant Connected Subsidiaries; (ii) the purchase of goods and services by the Group from the Relevant Connected Subsidiaries; and (iii) the provision of asset lease services by the Group to the Relevant Connected Subsidiaries under the 2024 COSCO SHIPPING Goods and Services Agreement exceeds 0.1% and less than 5%, such transactions and the respective proposed annual caps contemplated thereunder are subject to the reporting, announcement and annual review, 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 resolution relating to the sales of goods and services by the Group to COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement and the respective proposed annual caps contemplated thereunder.

The Company has appointed Independent Financial Adviser 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 2024 COSCO SHIPPING Goods and Services Agreement and the respective proposed annual caps contemplated thereunder.

IV. 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 services of containers, iron ore, coal, crude oil and other goods and port ancillary services. As at the Latest Practicable Date, the ultimate beneficial owner of the Company is Shandong SASAC.

Information of Shandong Port Group

Shandong Port Group, an indirect controlling shareholder of the Company, is a company established in the PRC with limited liability in August 2019. It is principally engaged in ports operation management, ports industry investment, ports infrastructure construction, ports and shipping supporting services, coastline and land resources storage, development and utilization, ocean and coastal shipping. As at the Latest Practicable Date, the ultimate beneficial owner of Shandong Port Group is Shandong SASAC.

LETTER FROM THE BOARD

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. 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. As at the Latest Practicable Date, COSCO SHIPPING indirectly holds approximately 21% equity interests in the Company, the ultimate beneficial owner of COSCO SHIPPING is the State-owned Assets Supervision and Administration Commission of the State Council.

Information of Qingdao OST

Qingdao OST is a company established in the PRC with limited liability in September 2008 and a connected subsidiary of the Company. It is principally engaged in tally business in respect of cargos and containers of international and domestic shipping lines. As at the Latest Practicable Date, Qingdao OST is owned as to 84% equity interests and 16% equity interests by the Company and China Ocean Shipping Tally Co., Ltd.* (中國外輪理貨有限公司), respectively, and the ultimate beneficial owner of Qingdao OST is Shandong SASAC.

Information of Weihai Shipping Agency

Weihai Shipping Agency is a company established in the PRC with limited liability in April 1987 and a connected subsidiary of the Company. It is principally engaged in the business of freight forwarding. As at the Latest Practicable Date, Weihai Shipping Agency is directly owned as to 55% equity interests by the Company and indirectly owned as to 45% equity interests by COSCO SHIPPING, respectively, and the ultimate beneficial owner of Weihai Shipping Agency is Shandong SASAC.

Information of Weihai OST

Weihai OST is a company established in the PRC with limited liability in February 2008 and a connected subsidiary of the Company. It is principally engaged in tally business in respect of cargos and containers of international and domestic shipping lines. As at the Latest Practicable Date, Weihai OST is indirectly owned as to 84% equity interests by the Company and indirectly owned as to 16% equity interests by COSCO SHIPPING, respectively, and the ultimate beneficial owner of Weihai OST is Shandong SASAC.

Information of Yantai Port

Yantai Port is a joint stock company established in the PRC in December 2009 and a non-wholly owned subsidiary with 67.56% equity interests held by Shandong Port Yantai Port Group Co., Ltd.* (山東港口煙台港集團有限公司). It is principally engaged in handling services of containers, liquid bulk cargo, dry-bulk and break-bulk cargoes, port ancillary services and other services. After the completion of the Proposed Restructuring, it will become a connected subsidiary of the Company and will be directly owned as to 67.56% equity interests by the Company and indirectly owned as to 10% equity interests by COSCO SHIPPING, respectively. As at the Latest Practicable Date, the ultimate beneficial owner of Yantai Port is Shandong SASAC.

LETTER FROM THE BOARD

Information of Laizhou OST

Laizhou OST is a company established in the PRC with limited liability in September 2005. It is principally engaged in tally business in respect of cargos and containers of international and domestic shipping lines. After the completion of the Proposed Restructuring, it will become a connected subsidiary of the Company and will be indirectly owned as to 80% equity interests by the Company and indirectly owned as to 20% equity interests by COSCO SHIPPING, respectively. As at the Latest Practicable Date, the ultimate beneficial owner of Laizhou OST is Shandong SASAC.

V. BOARD CONFIRMATION

The Board (including the independent non-executive Directors) is of the view that (a) 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 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (b) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement and the respective 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, Mr. ZHANG Baohua, Ms. WANG Fuling and Mr. XUE Baolong has abstained from voting at the Board meeting of the Company considering (i) the 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (ii) the 2024 SDP Financial Services Agreement and the respective 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.

Mr. ZHU Tao has abstained from voting at the Board meeting of the Company considering the 2024 COSCO SHIPPING Goods and Services Agreement and the respective proposed annual caps contemplated thereunder, due to the potential conflict of interests as a result of his directorships or positions in COSCO SHIPPING Group and/or certain subsidiaries of COSCO SHIPPING 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.

LETTER FROM THE BOARD

VI. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders (where applicable), which is set out on pages 46 to 47 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) 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 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (b) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement and the respective proposed annual caps contemplated thereunder.

The letter of advice from Somerley 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 48 to 70 of this circular.

The Independent Board Committee, after taking into account the advice and recommendation from Somerley Capital, has come to the view that (a) 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 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (b) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement and the respective 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, 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 (a) 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 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (b) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2024

LETTER FROM THE BOARD

COSCO SHIPPING Goods and Services Agreement and the respective 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, and are in the interests 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.

VII. 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 Friday, 15 December 2023 to Wednesday, 20 December 2023 (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 Wednesday, 20 December 2023 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 Thursday, 14 December 2023 for registration.

VIII. 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 Wednesday, 20 December 2023 at 10:30 a.m. together with the relevant proxy form has been despatched to the Shareholders on 22 November 2023 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 10:30 a.m. on Tuesday, 19 December 2023 (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) the 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; and (b) the 2023 SDP Financial Services Agreement and the respective 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 2024 COSCO SHIPPING Goods and Services Agreement and the respective proposed annual caps contemplated thereunder at the EGM.

LETTER FROM THE BOARD

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) the 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (b) the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the 2024 COSCO SHIPPING Goods and Services Agreement and the respective proposed annual caps contemplated thereunder at the EGM.

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

IX. OTHER INFORMATION

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

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



Qingdao Port International Co., Ltd.

青島港國際股份有限公司

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

(Stock Code: 06198)

22 November 2023

To the Independent Shareholders

Dear Sir or Madam,

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

AND

(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 22 November 2023 (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) 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 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (b) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement and the respective 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, and are in the interest of the Company and the Shareholders as a whole. Detailed information of the above-mentioned agreements and the transactions contemplated thereunder are set out in the “Letter from the Board” on pages 8 to 45 of the Circular.

Somerley Capital has been appointed as independent financial adviser to advise us on (a) 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 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (b) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the sales of goods and services by the Group to COSCO SHIPPING Group

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

under the 2024 COSCO SHIPPING Goods and Services Agreement and the respective proposed annual caps contemplated thereunder. Details of the relevant advice and recommendation of Somerley 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 48 to 70 of the Circular.

The Board has considered and approved the matters mentioned above. After taking into account the advice and recommendation of Somerley Capital, we consider that (a) 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 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (b) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the respective proposed annual caps contemplated thereunder; and (c) the sales of goods and services by the Group to COSCO SHIPPING Group under the 2024 COSCO SHIPPING Goods and Services Agreement and the respective proposed annual caps contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned, respectively, and are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote for the resolutions in relation to matters mentioned above at the EGM.

Yours faithfully,

For and on behalf of
Independent Board Committee

LI Yan
Independent
non-executive Director

JIANG Min
Independent
non-executive Director

LAI Kwok Ho
Independent
non-executive Director

LETTER FROM SOMERLEY CAPITAL

The following is the text of the letter of advice from Somerley Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED
20th Floor China Building
29 Queen's Road Central
Hong Kong

22 November 2023

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

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

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with (a) the purchase of goods and services by the Group from Shandong Port Group (the “**SDP Purchases**”) and the sales of goods and services by the Group to Shandong Port Group (the “**SDP Sales**”) under the 2024 SDP Goods and Services Agreement and the respective proposed annual caps contemplated thereunder; (b) the provision of Deposit Services by Shandong Port Group to the Group under the 2024 SDP Financial Services Agreement and the proposed annual caps contemplated thereunder; and (c) the sales of goods and services by the Group to COSCO SHIPPING Group (the “**COSCO Sales**”) under the 2024 COSCO SHIPPING Goods and Services Agreement and the proposed annual caps contemplated thereunder, details of which are set out in the letter from the Board (“**Letter from the Board**”) of the circular of the Company dated 22 November 2023 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 27 October 2023, the Company entered into (i) the 2024 SDP Goods and Services Agreement with Shandong Port Group in respect of, among others, the SDP Sales and the SDP Purchases; (ii) 2024 SDP Financial Services Agreement with Shandong Port Group in respect of, among others, the Deposit Services; and (iii) the 2024 COSCO SHIPPING Goods and Services Agreement with COSCO SHIPPING in respect of, among others, the COSCO Sales, for a term of three years commencing from 1 January 2024 to 31 December 2026 and set the proposed annual caps for the transactions contemplated thereunder.

LETTER FROM SOMERLEY CAPITAL

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 2024 SDP Goods and Services Agreement and the 2024 SDP Financial 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 respective proposed annual caps of each of (i) the SDP Purchases; (ii) the SDP Sales; and (iii) the Deposit Services exceeds 5%, such transactions and their 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.

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 2024 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 COSCO Sales 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.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. LI Yan, Mr. JIANG Min and Mr. LAI Kwok Ho, has been established to advise the Independent Shareholders on (i) the SDP Purchases; (ii) the SDP Sales; (iii) the Deposit Services; and (iv) the COSCO Sales (the "Non-exempt CCTs) and their respective proposed annual caps and as to voting. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company, Shandong Port Group, COSCO SHIPPING or their respective core connected persons or associates. In the past two years prior to this engagement, saved for our engagement as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to the Proposed Restructuring as defined and disclosed in the announcement of the Company dated 30 June 2023, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with the engagement in relation to the Proposed Restructuring and this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Shandong Port Group, COSCO SHIPPING or their respective core connected persons or associates in the past two years prior to this appointment. Accordingly, we are considered eligible to give independent advice on the Non-exempt CCTs and their respective proposed annual caps.

In formulating our opinion and advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company, which we have assumed to be true, accurate and complete in all material aspects.

LETTER FROM SOMERLEY CAPITAL

We have reviewed the information of the Company, among other things, (i) the annual reports of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”) and 2022 (the “**2022 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2023 (the “**2023 Interim Report**”); (ii) the announcement of the Company dated 27 October 2023 in relation to, among others, (a) the SDP Purchases; (b) the SDP Sales; (c) the Deposit Services; and (d) the COSCO Sales and their respective proposed annual caps; and (iii) other information contained in the Circular. We also have sought and received confirmation from the Company that no material facts have been omitted from the information supplied and opinions expressed to us were not misleading in any material aspects. We consider that the information we have received is sufficient for us to reach our opinion and give our advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, Shandong Port Group, COSCO SHIPPING or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Circular were true at the time they were made and at the date of the Circular and will continue to be true up to the time of the EGM, and Shareholders will be informed of any material change as soon as possible.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Information of the parties

1.1. 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 services of containers, iron ore, coal, crude oil and other goods and port ancillary services. As at the Latest Practicable Date, the ultimate beneficial owner of the Company is Shandong SASAC.

Set out below is the summary of the financial information of the Group for the years ended 31 December 2021 and 2022 and the six months ended 30 June 2022 and 2023 as extracted from the 2022 Annual Report and the 2023 Interim Report:

| | For the six months ended 30 June | | For the year ended 31 December | |
|--|-------------------------------------|--|-----------------------------------|--|
| | 2023 (RMB'000) (Unaudited) | 2022 (RMB'000) (Unaudited) (Restated) | 2022 (RMB'000) (Audited) | 2021 (RMB'000) (Audited) (Restated) |
| Revenue | 9,157,526 | 9,946,340 | 19,262,765 | 16,792,663 |
| Total Profit | 3,532,397 | 3,428,818 | 6,555,653 | 5,835,399 |
| Net profit attributable to shareholders of the Company | 2,563,527 | 2,312,589 | 4,525,175 | 3,982,212 |

LETTER FROM SOMERLEY CAPITAL

For the two years ended 31 December 2021 and 2022

For the years ended 31 December 2021 and 2022, the Group recorded a revenue of approximately RMB16,792.7 million and RMB19,262.8 million respectively, representing an increase of approximately 14.7%. As disclosed in the 2022 Annual Report, the increase in revenue was mainly due to the increase in revenue from segments of logistics and port value-added services, container handling and ancillary services and liquid bulk handling and ancillary services.

The Group's total profit for the year ended 31 December 2022 amounted to approximately RMB6,555.7 million, representing an increase of approximately 12.3% as compared to that of approximately RMB5,835.4 million for the prior year, mainly due to the increase in profit from the segment of container handling and ancillary services.

Net profits attributable to shareholders of the Company amounted to approximately RMB4,525.2 million for the year ended 31 December 2022, representing an increase of approximately 13.6%, as compared to that of approximately RMB3,982.2 million for the previous year, mainly due to the increase in profit from the segment of container handling and ancillary services.

For the six months ended 30 June 2022 and 2023

For the six months ended 30 June 2022 and 2023, the Group recorded a revenue of approximately RMB9,946.3 million and RMB9,157.5 million respectively, representing a decrease of approximately 7.9%. As disclosed in the 2023 Interim Report, the decrease in revenue was mainly due to the decrease in the revenue from freight forwarding business of the logistics and port value-added services segment arising from reduction of ocean freight rates.

The Group's total profit for the six months ended 30 June 2023 amounted to approximately RMB3,532.4 million, representing an increase of approximately 3.0% as compared to that of approximately RMB3,428.8 million for the same period in the prior year, mainly due to the increase in the gross profit from the container handling and ancillary services segment, metal ore, coal and other cargo handling and ancillary services segment, and port ancillary services segment and the increase in the Group's investment income from joint ventures and associated companies.

Net profits attributable to shareholders of the Company amounted to approximately RMB2,563.5 million for the six months ended 30 June 2023, representing an increase of approximately 10.8%, as compared to that of approximately RMB2,312.6 million for the same period in prior year, mainly due to the increase in the profit from the container handling and ancillary services segment, and metal ore, coal and other cargo handling and ancillary services segment.

LETTER FROM SOMERLEY CAPITAL

Set out below is the summary of the financial position of the Group as at 31 December 2021 and 2022 and 30 June 2023 as extracted from the 2022 Annual Report and the 2023 Interim Report:

| | As at 30 June 2023 | As at 31 December | |
|---|-----------------------------------|--------------------------|-------------------|
| | 2022 | 2021 | 2021 |
| | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> |
| | <i>(Unaudited)</i> | <i>(Audited)</i> | <i>(Audited)</i> |
| | | <i>(Restated)</i> | <i>(Restated)</i> |
| Total assets | 60,262,450 | 57,475,893 | 62,219,585 |
| Total liabilities | 18,225,575 | 16,198,992 | 22,202,450 |
| Total equity attributable to shareholders of the Company | 38,151,804 | 37,399,537 | 35,550,885 |

As at 30 June 2023, the Group's total assets amounted to approximately RMB60,262.5 million, mainly comprised of (i) fixed assets of approximately RMB22,939.8 million, (ii) long-term equity investments of approximately RMB14,011.7 million, and (iii) cash at bank and on hand of approximately RMB10,630.8 million.

As at 30 June 2023, the Group's total liabilities amounted to approximately RMB18,225.6 million, mainly comprised of (i) other payables of approximately RMB5,906.3 million, (ii) employee benefits payable of approximately RMB3,117.6 million, (iii) other liabilities of approximately RMB2,208.0 million, (iv) borrowings of approximately RMB2,261.7 million, and (v) accounts payable of approximately RMB1,497.3 million.

As at 30 June 2023 and 31 December 2022, the Group's total equity attributable to shareholders of the Company amounted to approximately RMB38,151.8 million and RMB37,399.5 million, respectively, representing an increase of approximately 2.0%, mainly attributable to the increase in undistributed profits of approximately RMB815.5 million.

In our view, based on the above analysis, the Group has financed its growth prudently and retained a satisfactory financial position.

1.2. Information of Shandong Port Group

As stated in the Letter from the Board, Shandong Port Group, an indirect controlling shareholder of the Company, is a company established in the PRC with limited liability in August 2019. It is principally engaged in ports operation management, ports industry investment, ports infrastructure construction, ports and shipping supporting services, coastline and land resources storage, development and utilization, ocean and coastal shipping. As at the Latest Practicable Date, the ultimate beneficial owner of Shandong Port Group is Shandong SASAC.

LETTER FROM SOMERLEY CAPITAL

1.3. Information of 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 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, the ultimate beneficial owner of COSCO SHIPPING is the Stated-owned Assets Supervision and Administration Commission of the State Council.

1.4. Information of Finance Company

As advised by the management of the Company, Finance Company is a company established on 22 July 2014 in the PRC with limited liability and the Company holds 34.63% equity interests in it as of the Latest Practicable Date. It 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 Shandong Port Group and its member companies

We understood from the management of the Company that Finance Company is subject to several rules and measures on supervision, management and risk control set out in the Measures for the Supervision and Rating of Financial Companies of Enterprise Groups (Jingui [2023] No. 1) (《企業集團財務公司監管評級辦法》(金規[2023]1號)) promulgated by the NFRA which regulates the operation of non-bank financial institutions which provide financial management services to the enterprise group member entities. We have been advised by the Management that, to the best knowledge of the Company, there is no record of material non-compliance with the relevant law, rules and regulations in the PRC applicable to Finance Company. From our review of the official website of CBIRC, we did not note any non-compliance record of Finance Company.

2. Reasons for and benefits of the Non-exempt CCTs

2.1. The SDP Purchases and the SDP Sales

As stated in the Letter from the Board of the Circular, the Company has entered into goods and services framework agreement with Shandong Port Group for the period from 1 January 2023 to 31 December 2023. Given the transactions between the Group and Shandong Port Group will be continuing, the Company shall enter into the 2024 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 and in-depth cooperation, mutual understanding, efficient communication, high business relevance, strong complementarity and good cooperation experience with each other, and also have natural cooperation advantages due to geographical reasons in some business areas, which enables both parties to provide high-quality and reliable products, convenient and efficient services, which are conducive to promoting mutual benefits and achieving high-quality development to each other.

LETTER FROM SOMERLEY CAPITAL

2.2. The Deposit Services

As stated in the Letter from the Board, the Company has entered into the financial services framework agreements with Shandong Port Group for the period from 1 January 2023 to 31 December 2023. Given the transactions between the Group and Shandong Port Group will be continuing, the Company shall enter into the 2024 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 and credit 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. Furthermore, as the Company holds 36.43% equity interests in Finance Company, it will be financially benefited from the financial performance of Finance Company.

2.3. The COSCO Sales

As stated in the Letter from the Board, the Company has entered into a goods and services framework agreement with COSCO SHIPPING for the period from 1 January 2023 to 31 December 2023. Given the transactions between the Group and COSCO SHIPPING Group will be continuing, the Company shall enter into the 2024 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 in cooperation.

Taking into account the above and the fact that (i) the principal terms of the respective agreements in governing the Non-exempt CCTs are on normal commercial terms (as discussed in the sections headed “3.1. Principal terms of the SDP Purchases and the SDP Sales under the 2024 SDP Goods and Services Agreement”, “4.1. Principal terms of the Deposit Services under the 2024 SDP Financial Services Agreement”, and “5.1. Principal terms of the COSCO Sales under the 2024 COSCO SHIPPING Goods and Services Agreement” below); (ii) the SDP Sales and the COSCO Sales generate revenue to the Group and Shandong Port Group and COSCO SHIPPING are reliable long-term customers of the Group; (iii) the SDP Purchases and the Deposit Services provide the Group with stable and reliable long-term suppliers for the supply of goods and services to the Group; (iv) the Non-exempt CCTs do not restrict the Group from selling/procuring goods/services to/from other customers/suppliers and offered the Group with flexibility to conduct business with Shandong Port Group and COSCO SHIPPING; and (v) the internal control measures in place to ensure that the Non-exempt CCTs are conducted in accordance with their terms and conditions (as discussed in the section headed “6. Internal control measure” below), we concur with the Directors that the Non-exempt CCTs, 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.

LETTER FROM SOMERLEY CAPITAL

3. The 2024 SDP Goods and Services Agreement

3.1. *Principal terms of the SDP Purchases and the SDP Sales under the 2024 SDP Goods and Services Agreement*

The following sets forth the principal terms of the 2024 SDP Goods and Services Agreement in respect of the SDP Purchases and the SDP Sales. For detailed terms of the 2024 SDP Goods and Services Agreement, please refer to the section headed “1. 2024 SDP Goods and Services Agreement” in the Letter from the Board.

| | |
|--------------------------|--|
| Date: | 27 October 2023 (after trading hours) |
| Parties: | (i) the Company; and (ii) 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 2024 SDP Goods and Services Agreement will come into effect from 1 January 2024 to 31 December 2026. |
| Transaction type: | <i>Purchase of goods and services by the Group from Shandong Port Group</i> |

The Group purchases goods and services from Shandong Port Group, including but not limited to, products such as port machinery, tugboats, 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 fuel oil (retail), etc. and services such as stevedoring, storage, transportation, supply of electricity, tugging, etc.

LETTER FROM SOMERLEY CAPITAL

Pricing policy:

The pricing policies for each of the goods and services under the 2024 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.

Our assessment of the terms of the SDP Purchases and the SDP Sales

As set out in the paragraphs headed “2. Reasons for and benefits of the Non-exempt CCTs” above, the entering into of the 2024 SDP Goods and Services Agreement is to extend the term of the goods and services framework agreement entered between the Company and Shandong Port Group, which expires on 31 December 2023, to allow the Group to, among others, continue to purchase/sell goods and services from/to Shandong Port Group. Based on our discussion with the Management and the review of the 2024 SDP Goods and Services Agreement, no changes were made to the material terms of the SDP Purchases and the SDP Sales.

In assessing the pricing policies of the SDP Purchases and the SDP Sales, we have obtained and reviewed five vouchers on random basis for each of the SDP Purchases and the SDP Sales during the year ended 31 December 2022 and the nine months ended 30 September 2023 (the “**Relevant Period**”).

LETTER FROM SOMERLEY CAPITAL

As set out above, SDP Purchases includes products such as port machinery, tugboats, etc. and services such as construction engineering, comprehensive logistic services, information technology, etc. The five selected vouchers of the SDP Purchases during the Relevant Period mainly involved the provision of (i) construction engineering services; (ii) port machinery; (iii) tugboats; and (iv) comprehensive logistics services, which represents major types of services provided by Shandong Port Group to the Group during the Relevant Period as advised by the management of the Company. As the sample contracts covered each major type of services provided by Shandong Port Group to the Group, we are of the view that the five selected vouchers are sufficient to access the fairness and reasonableness of the pricing policy of the SDP Purchases. From our review, we noted that the prices offered to the Group were (a) determined at the state-prescribed price, if the state-prescribed price is available; or (b) no less favorable to the Group than those offered by independent third party suppliers for similar services/products; or (c) determined through the bidding process and supplier was selected based on various factors, including but not limited to, the background, experience, qualifications and pricing of each of the bidder. As such, we are of the view that the pricing policies of the SDP Purchases are fair and reasonable so far as the Independent Shareholders are concerned.

As set out above, SDP Sales includes products such as fuel oil (retail), etc. and services such as stevedoring, storage, transportation, supply of electricity, tugging, etc. The five selected vouchers of the sales of goods and services by the Group to Shandong Port Group during the Relevant Period involved the provision of (i) stevedoring; (ii) storage; (iii) transportation; and (iv) tugging services, which represents major types of services provided by the Group to Shandong Port Group during the Relevant Period as advised by the management of the Company. As the sample contracts covered each major type of services provided by the Group to Shandong Port Group, we are of the view that the five selected vouchers are sufficient to access the fairness and reasonableness of the pricing policy of the SDP Sales. From our review, we noted that the prices offered by the Group were (a) determined at the state-prescribed price, if the state-prescribed price is available; or (b) no less favorable to the Group than those offered to independent third party customers for similar services/products. As such, we are of the view that the pricing policies of the SDP Sales are fair and reasonable so far as the Independent Shareholders are concerned.

Given that the prices of the SDP Sales and the 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 SDP Sales and the SDP Purchases are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM SOMERLEY CAPITAL

3.2. Proposed annual caps for the SDP Purchases

The table below sets forth the historical transaction amounts and the respective historical annual caps in relation to the SDP Purchases for the Relevant Period:

| | For the year ended 31 December 2022 (RMB million) | For the year ending 31 December 2023 (RMB million) |
|---------------------------------|--|---|
| <u>The SDP Purchases</u> | | |
| Actual transaction amount | 2,453 | 1,950 ^(Note) |
| Historical annual caps | 3,600 | 9,000 |

Note: The actual transaction amounts for the year ending 31 December 2023 represent the amounts for the nine months ended 30 September 2023.

The following table sets forth the proposed annual caps for the SDP Purchases contemplated under the 2024 SDP Goods and Services Agreement:

| | For the year ending 31 December | | |
|-------------------|--|----------------------|----------------------|
| | 2024 | 2025 | 2026 |
| | <i>(RMB million)</i> | <i>(RMB million)</i> | <i>(RMB million)</i> |
| The SDP Purchases | 7,000 | 7,700 | 8,500 |

As set out in the Letter from the Board, in arriving the proposed annual caps for the SDP Purchases, the following factors have been considered by the Directors:

- (i) the historical amounts of such transactions between the Group and Shandong Port Group for the nine month ended September 2023 was approximately RMB1,950 million, whilst the transaction size is expected to reach RMB3,500 million in 2023 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 2022 accounted for approximately 41.7% 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 2023. 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 development needs of the Group's production and operation, the Group will invest a considerable amount in engineering construction and the purchase of port machinery and equipment in 2024, which is expected to increase by RMB1,000 million compared with 2023;

LETTER FROM SOMERLEY CAPITAL

- (iii) following the anticipated completion of the Proposed Restructuring in 2024, the target companies to be acquired have a similar business to the Company and have previously procured goods and services from Shandong Port Group. The scale of these transactions, involving services like construction engineering and products such as port machinery, will experience a significant increase due to the renovation of existing terminals, construction of new terminals and waterways, and the replacement of machinery and equipment driven by policy encouragement and market demand. Consequently, it is expected that the annual increment of such transactions between the Group and Shandong Port Group resulting from the completion of the Proposed Restructuring will be approximately RMB2,500 million; and
- (iv) as the Group's business expands, it is expected that the annual scale of such transactions will increase by approximately 10% from 2024 to 2026.

As set out above, the transaction amount of the SDP Purchases is expected to reach RMB3,500 million in 2023. We have obtained and reviewed the development plan of the Group in its investment in engineering construction and the purchase of port machinery and equipment in 2023 and 2024. It is also expected that the completion of the Proposed Restructuring will result in the increase of the SDP Purchases as a result of the business expansion of the Group. On such bases, the Group has applied an annual growth rate of approximately 10% to cater for the growth in the Group's business from 2024 to 2026. We have reviewed the historical annual reports of the Company and noted that the compound annual growth rate of the Group's revenue was approximately 13.2% from 2017 to 2022.

Having considered the basis on which the proposed annual caps for the SDP Purchases are determined as described above, we are of the view that such proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned.

3.3. Proposed annual caps for the SDP Sales

The table below sets forth the historical transaction amounts and the respective historical annual caps in relation to the SDP Sales for the Relevant Period:

| | For the year ended 31 December 2022 (RMB million) | For the year ending 31 December 2023 (RMB million) |
|-----------------------------|--|---|
| <u>The SDP Sales</u> | | |
| Actual transaction amount | 1,536 | 1,000 ^(Note) |
| Historical annual caps | 1,800 | 2,400 |

Note: The actual transaction amounts for the year ending 31 December 2023 represents the amounts for the nine months ended 30 September 2023.

LETTER FROM SOMERLEY CAPITAL

The following table sets forth the proposed annual caps for the SDP Sales contemplated under the 2024 SDP Goods and Services Agreement:

| | For the year ending 31 December | | |
|---------------|--|----------------------|----------------------|
| | 2024 | 2025 | 2026 |
| | <i>(RMB million)</i> | <i>(RMB million)</i> | <i>(RMB million)</i> |
| The SDP Sales | 3,100 | 3,400 | 3,700 |

As set out in the Letter from the Board, in arriving the proposed annual caps for the SDP Sales, the following factors have been considered by the Directors:

- (i) the historical amounts of such transactions between the Group and Shandong Port Group for the nine months ended September 2023 was approximately RMB1,000 million, whilst the transaction size is expected to reach RMB1,500 million in 2023;
- (ii) according to the development needs of the Group's production and operation, the transaction scale of provision of the services such as stevedoring, logistics, etc., by the Group to Shandong Port Group will remarkably increase in 2024, which is expected to increase by RMB300 million compared with 2023;
- (iii) considering that the target companies to be acquired following the expected completion of the Proposed Restructuring in 2024 are engaged in the same principal business as the Company and have already sold goods and services to Shandong Port Group prior to the Proposed Restructuring, and based on the historical transaction amount between those target companies and Shandong Port Group of approximately RMB1,360 million for the nine months ended 30 September 2023, it is expected that the annual increment of such transactions between the Group and Shandong Port Group resulting from the completion of the Proposed Restructuring will be approximately RMB1,300 million; and
- (iv) as the Group's business expands, it is expected that the annual scale of such transactions will increase by approximately 10% from 2024 to 2026.

As set out above, the transaction amount of the SDP Sales is expected to reach RMB1,500 million in 2023. We have also obtained and reviewed the business plan of the Group, which was formulated based on its discussion with Shandong Port Group, regarding the SDP Sales for 2023 and 2024. It is also expected that the completion of the Proposed Restructuring will result in the increase of the SDP Sales as a result of the business expansion of the Group. On such bases, the Group has applied an annual growth rate of approximately 10% to cater for the growth in the Group's business from 2024 to 2026. We have reviewed the historical annual reports of the Company and noted that the compound annual growth rate of the Group's revenue was approximately 13.2% from 2017 to 2022.

Having considered the basis on which the proposed annual caps for the SDP Sales are determined as described above, we are of the view that such proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM SOMERLEY CAPITAL

4. The 2024 SDP Financial Services Agreement

4.1. *Principal terms of the Deposit Services under the 2024 SDP Financial Services Agreement*

The following sets forth the principal terms of the 2024 SDP Financial Services Agreement in respect of the Deposit Services. For detailed terms of the 2024 SDP Financial Services Agreement, please refer to the section headed “2. 2024 SDP Financial Services Agreement” in the Letter from the Board.

| | |
|--------------------------|--|
| Date: | 27 October 2023 (after trading hours) |
| Parties: | (i) the Company; and (ii) 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 2024 SDP Financial Services Agreement will come into effect from 1 January 2024 to 31 December 2026. |
| Transaction type: | <i>Deposit Services</i> The provision of Deposit Services by Shandong Port Group to the Group. |
| Pricing policy: | The pricing policies on provision of Deposit Services by Shandong Port Group to the Group shall be determined in accordance with the principles below: 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. |

LETTER FROM SOMERLEY CAPITAL

Our assessment of the terms of the Deposit Services

As set out in the paragraphs headed “2. Reasons for and benefits of the Non-exempt CCTs” above, the entering into of the 2024 SDP Financial Services Agreement is to extend the term of the financial services framework agreement entered between the Company and Shandong Port Group, which expires on 31 December 2023, to allow the Group to, among others, continue to deposit funds with Shandong Port Group and earn interests. Based on our discussion with the Management and the review of the 2024 SDP Financial Services Agreement, no changes were made to the material terms of the Deposit Services.

In assessing the pricing policies of the Deposit Services, we have reviewed, on a random basis, the vouchers of five deposits of the Group with Shandong Port Group during 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 Shandong Port Group 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.

Given that the deposit interest rates offered by Shandong Port Group to the Group were not less than those set by the PBOC and offered by major independent PRC commercial banks in similar period, we are of the view that the pricing policy of the Deposit Services is fair and reasonable so far as the Independent Shareholders are concerned.

4.2. Proposed annual caps for the Deposit Services

The table below sets forth the maximum outstanding balances of the Deposit Services provided by Shandong Port Group to the Group and the respective historical annual caps for the Relevant Period:

| | For the year ended 31 December 2022 (RMB million) | For the year ending 31 December 2023 (RMB million) |
|--------------------------------|--|---|
| <u>Deposit Services</u> | | |
| Maximum outstanding balances | 11,300 | 14,200 ^(Note) |
| Historical annual caps | 20,000 | 18,000 |

Note: The maximum outstanding balance for the year ending 31 December 2023 was recorded up to the nine months ended 30 September 2023.

LETTER FROM SOMERLEY CAPITAL

The following table sets forth the proposed annual caps for the Deposit Services contemplated under the 2024 SDP Financial Services Agreement:

| | For the year ending 31 December | | |
|------------------|---------------------------------|---------------|---------------|
| | 2024 | 2025 | 2026 |
| | (RMB million) | (RMB million) | (RMB million) |
| Deposit Services | 18,000 | 20,000 | 22,000 |

As set out in the Letter from the Board, in arriving the proposed annual caps for the Deposit Services, the following factors have been considered by the Directors:

- (i) the maximum outstanding balance of the deposits of the Group for the nine months ended 30 September 2023 deposited with Finance Company was approximately RMB14,200 million;
- (ii) in 2024, with the Group's financing activities and the advancement of joint venture and cooperation projects, it will drive the continuous growth of cash inflow from operating activities, which is expected to increase the scale of deposit funds by RMB900 million;
- (iii) considering that Shandong Port Group has already provided the deposit services to the target companies prior to the Proposed Restructuring, and based on the historical transaction amount between those target companies and Shandong Port Group of approximately RMB2,700 million for the nine months ended 30 September 2023, it is expected that the annual increment of scale of deposit funds resulting from the completion of the Proposed Restructuring in 2024 will be approximately RMB2,900 million; and
- (iv) as the Group's business expands, it is expected that the scale of deposit funds will increase by approximately 10% from 2024 to 2026.

As advised by the Management, the Group's financing activities and the advancement of joint venture and cooperation projects in 2024 is expected to drive the growth in cash inflow from operating activities. We noted from the 2023 Interim Report that the net cash flows from operating activities of the Group for six months were approximately RMB3,040.2 million, which were mainly derived from the operating profit of the Group. It is also expected that the completion of the Proposed Restructuring will result in the increase of deposit by approximately RMB2,900 million. As advised by the management of the Company, the deposits deposited with Finance Company would also be used to settle the SDP Purchases. Thus, the Company has taken into account the increase in the transaction amount of the SDP Purchases for 2024 when determining the expected net cash flow from operating activities of the Group for 2024. On such bases, the Group has applied an annual growth rate of

LETTER FROM SOMERLEY CAPITAL

approximately 10% to cater for the growth in the Group's business from 2024 to 2026. We have reviewed the historical annual reports of the Company and noted that the compound annual growth rate of the Group's revenue was approximately 13.2% from 2017 to 2022.

Having considered the basis on which the proposed annual caps for the Deposit Services are determined as described above, and the fact that the Deposit Services under the 2024 SDP Financial Services Agreement provide an option, but not an obligation, for the Group to deposit its cash with Finance Company, it would provide flexibility to the Group when sourcing deposit service providers with favourable terms in the future, we are of the view that such proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned.

5. The 2024 COSCO SHIPPING Goods and Services Agreement

5.1. *Principal terms of the COSCO Sales under the 2024 COSCO SHIPPING Goods and Services Agreement*

The following sets forth the principal terms of the 2024 COSCO SHIPPING Goods and Services Agreement in respect of the COSCO Sales. For detailed terms of the 2024 COSCO SHIPPING Goods and Services Agreement, please refer to the section headed "1. 2024 COSCO SHIPPING Goods and Services Agreement" in the Letter from the Board.

| | |
|--------------------------|--|
| Date: | 27 October 2023 (after trading hours) |
| Parties: | (i) the Company; and (ii) COSCO SHIPPING (including the Relevant Connected Subsidiaries). |
| Terms: | Without prejudice to the representations and warranties made by the parties and subject to the completion of the relevant legal process, the 2024 COSCO SHIPPING Goods and Services Agreement will come into effect from 1 January 2024 to 31 December 2026. |
| Transaction type: | <i>Sales of goods and services by the Group to COSCO SHIPPING Group and the Relevant Connected Subsidiaries</i> |

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

LETTER FROM SOMERLEY CAPITAL

Pricing policy:

The pricing policies for each of the goods and services under the 2024 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 (including the Relevant Connected Subsidiaries) 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.

LETTER FROM SOMERLEY CAPITAL

Our assessment of the terms of the COSCO Sales

As set out in the paragraphs headed “2. Reasons for and benefits of the Non-exempt CCTs” above, the entering into of the 2024 COSCO SHIPPING Goods and Services Agreement is to extend the term of the goods and services framework agreement entered between the Company and COSCO SHIPPING, which expires on 31 December 2023, to allow the Group to, among others, continue to sell goods and services to COSCO SHIPPING Group. Based on our discussion with the Management and the review of the 2024 COSCO SHIPPING Goods and Services Agreement, no changes were made to the material terms of the COSCO Sales.

In assessing the pricing policies of the COSCO Sales, we have obtained and reviewed five vouchers on random basis for the COSCO Sales during the Relevant Period.

As set out above, COSCO Sales includes products such as fuel oil (retail), and comprehensive port services such as stevedoring, logistics, water supply, electricity supply, etc. The five selected vouchers of the COSCO Sales during the Relevant Period involved the provision of comprehensive port services such as stevedoring, logistics and electricity supply, which represents major types of services provided by the Group to COSCO SHIPPING Group during the Relevant Period as advised by the management of the Company. As the sample contracts covered each major type of services provided by the Group to COSCO SHIPPING Group, we are of the view that the five selected vouchers are sufficient to assess the fairness and reasonableness of the pricing policy of the COSCO Sales. From our review, we noted that the prices offered by the Group were (a) determined at the state-prescribed price, if the state-prescribed price is available; or (b) no less favorable to the Group than those offered to independent third party customers for similar services/products. As such, we are of the view that the pricing policies of the COSCO Sales are fair and reasonable so far as the Independent Shareholders are concerned.

Given that the prices of the 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 policy of the COSCO Sales is fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM SOMERLEY CAPITAL

5.2. Proposed annual caps for the COSCO Sales

The table below sets forth the historical transaction amounts and the respective historical annual caps in relation to the COSCO Sales for the Relevant Period:

| | For the year ended 31 December 2022 (RMB million) | For the year ending 31 December 2023 (RMB million) |
|-------------------------------|--|---|
| <u>The COSCO Sales</u> | | |
| Actual transaction amount | 879 | 670 ^(Note) |
| Historical annual caps | 1,110 | 1,500 |

Note: The actual transaction amounts for the year ending 31 December 2023 represents the amounts for the nine months ended 30 September 2023.

The following table sets forth the proposed annual caps for the COSCO Sales contemplated under the 2024 COSCO SHIPPING Goods and Services Agreement:

| | For the year ending 31 December | | |
|-----------------|--|-------------------------------|-------------------------------|
| | 2024 (RMB million) | 2025 (RMB million) | 2026 (RMB million) |
| The COSCO Sales | 1,500 | 1,650 | 1,800 |

As set out in the Letter from the Board, in arriving the proposed annual caps for the COSCO Sales, the following factors have been considered by the Directors:

- (i) the historical amounts of such transactions between the Group and COSCO SHIPPING Group for the two years ended 31 December 2022 and for nine months ended 30 September 2023 were approximately RMB691 million, RMB879 million and RMB670 million, respectively, and it is expected that the transaction amounts will reach approximately RMB1,000 million for the year ending 31 December 2023;
- (ii) according to the development needs of the Group's production and operation, it is expected that the transaction scale of sales of products such as fuel oil (retail) as well as the provision of services such as stevedoring, logistics, etc., to COSCO SHIPPING Group will increase by approximately RMB200 million in 2024;

LETTER FROM SOMERLEY CAPITAL

- (iii) following the anticipated completion of the Proposed Restructuring in 2024, the target companies to be acquired have a similar business to the Company and have previously sold goods and services to COSCO SHIPPING Group with the historical transaction amount of approximately RMB84 million. The scale of these transactions will further increase significantly driven by policy encouragement, market demand and coordinated development of port companies within Shandong Port Group after the completion of the Proposed Restructuring. Consequently, it is expected that the annual increment of such transactions resulting from the completion of the Proposed Restructuring will be approximately RMB300 million; and
- (iv) as the Group's business expands, it is expected that the annual scale of such transactions will increase by approximately 10% from 2024 to 2026.

As set out above, the transaction amount of COSCO Sales is expected to reach RMB1,000 million in 2023. According to the Group's business expansion plan, such transaction scale is expected to increase by approximately RMB200 million in 2024. While forecasting the expected increase in provision of stevedoring services, logistics services and other related services to COSCO SHIPPING Group, the Company has discussed with COSCO SHIPPING on their demand for such services for the year ending 31 December 2024. We have obtained and reviewed the plan prepared by the Group based on its discussion with COSCO SHIPPING and understand that the demand of COSCO SHIPPING Group for the related goods and services will be increased for the year ending 31 December 2024. It is also expected that the completion of the Proposed Restructuring will result in the increase of the COSCO Sales as a result of the Group's expansion. On such bases, the Group has applied an annual growth rate of approximately 10% to cater for the growth in the Group's business from 2024 to 2026. We have reviewed the historical annual reports of the Company and noted that the compound annual growth rate of the Group's revenue was approximately 13.2% from 2017 to 2022.

Having considered the basis on which the proposed annual caps for the COSCO Sales are determined as described above, we are of the view that such proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned.

6. Internal control measures

The Company has established a comprehensive internal control system and adopted various internal control measures, including a management system on connected transactions and procurement and tender administration measures, to ensure that the Non-exempt CCTs are conducted in accordance with their terms and conditions. Details of the internal control measures of the Group are set out in the sections headed "II. PROPOSED CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS – 3. Measures to Ensure Compliance with the Hong Kong Listing Rules and Internal Control Measures" and "III. PROPOSED CONTINUING CONNECTED TRANSACTIONS – 2. Measures to Ensure Compliance with the Hong Kong Listing Rules" in the Letter from the Board.

LETTER FROM SOMERLEY CAPITAL

Pursuant to Rules 14A.55 to 14A.59 of the Hong Kong Listing Rules, the Non-exempt CCTs are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Non-exempt CCTs every year and confirm in the annual report that the transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) the Company's auditors must provide a letter to the Board (with a copy to be provided to the Hong Kong Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Non-exempt CCTs:
 - (i) have not been approved by the Board;
 - (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the Non-exempt CCTs involve the provision of goods or services by the Group;
 - (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing them; and
 - (iv) have exceeded the relevant annual caps;
- (c) the Company must allow, and ensure that the counterparties to the Non-exempt CCTs allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Non-exempt CCTs; and
- (d) the Company must promptly notify the Hong Kong Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required. The Hong Kong Stock Exchange may require the Company to re-comply with the announcement and Shareholders' approval requirements and may impose additional conditions.

In light of the reporting requirements attached to the Non-exempt CCTs, in particular, (i) the restriction of the transaction value by way of annual caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the relevant agreements in relation to the Non-exempt CCTs and the respective proposed annual caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Non-exempt CCTs and assist in safeguarding the interests of the Company and the independent Shareholders as a whole.

LETTER FROM SOMERLEY CAPITAL

OPINION AND RECOMMENDATIONS

Having taken into account the above principal factors and reasons, we consider that the entering into of (i) the 2024 SDP Goods and Services Agreement in relation to the SDP Purchases and the SDP Sales; (ii) the 2024 SDP Financial Services Agreement in relation to the Deposit Services; and (iii) the 2024 COSCO SHIPPING Goods and Services Agreement in relation to the COSCO Sales, including their respective proposed annual caps, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions in relation to the Non-exempt CCTs and their respective proposed annual caps to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Calvin Leung
Director

Mr. Calvin Leung is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 19 years of experience in the corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the years ended 31 December 2020, 2021, and 2022 and for the six months ended 30 June 2023 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 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>

Annual report of the Company for the year ended 31 December 2022 (pages 111 to 356)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042600195.pdf>

Interim report of the Company for the six months ended 30 June 2023 (pages 33 to 252)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0926/2023092600726.pdf>

2. STATEMENT OF INDEBTEDNESS

As of 31 October 2023, 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 RMB318 million; and (2) lease liability of approximately RMB392 million.

Save as aforesaid or otherwise disclosed herein, and apart from the Group's liabilities and the payables arising from the normal course of business, as of 31 October 2023, 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 Restructuring 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 2022, 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 the 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 (i) Mr. SU Jianguang, Mr. LI Wucheng, Mr. ZHANG Baohua, Ms. WANG Fuling and Mr. XUE Baolong of his/her directorships or positions in Shandong Port Group and/or certain subsidiaries of Shandong Port Group; and (ii) Mr. ZHU Tao of his directorships or positions in COSCO SHIPPING Group and/or certain subsidiaries of COSCO SHIPPING Group, as at the Latest Practicable Date, none of the Directors was a director or an employee of any shareholders of the Company or a company which has an interest or short position in Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

III. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, no Director or proposed 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 2022 (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

Shandong Port Group has been engaging in port operation and logistics business since its establishment in August 2019. Upon the completion of the gratuitous transfer on 23 January 2022, Shandong Port Group 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. SU Jianguang, Mr. LI Wucheng, Mr. ZHANG Baohua, Ms. WANG Fuling and Mr. XUE Baolong, the Directors of the Company, hold positions in Shandong Port Group and/or its certain subsidiaries.

COSCO SHIPPING Group is one of the largest shipping companies in the world, the port operation and investment and the logistics business of which are similar to and/or are likely to compete/compete with those of the Company. Mr. ZHU Tao, a Director of the Company, holds positions in COSCO SHIPPING Group and/or certain subsidiaries of COSCO SHIPPING Group.

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, nor any of their respective close associates, 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 2022, being the date to which the latest published audited accounts of the Group were made.

VIII. CONSENT OF EXPERT

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

| Name | Qualification |
|--------------------------|--|
| Somerley Capital Limited | a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |

As of the Latest Practicable Date, the above expert: (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 2022 (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) On 25 January 2022 (after trading hours), the absorption and merger agreement was entered by the Company and Shandong Port Group, Finance Company, Rizhao Port Group Finance Co., Ltd.* (日照港集團財務有限公司) and Rizhao Port Co., Ltd.* (日照港股份有限公司), pursuant to which, Rizhao Port Group Finance Co., Ltd. was merged with Finance Company by way of absorption and merger; on the same day, the capital increase agreement was entered by the Company and Shandong Port Group, Rizhao Port Co., Ltd. and Shandong Port Financial Holdings Limited* (山東港口金融控股有限公司, now renamed as Shandong Port Investment Holdings Limited* (山東港口投資控股有限公司)), pursuant to which, Shandong Port Group

and Shandong Port Financial Holdings Limited agreed to subscribe for RMB490.6325 million and RMB77.0299 million of the registered capital of Finance Company at the considerations of RMB797.0865 million and RMB125.1435 million, respectively;

- (b) On 16 May 2022 (after trading hours), the Company entered into an equity transfer agreement with Shandong Port Weihai Port Co., Ltd.* (山東港口威海港有限公司), pursuant to which, the Company purchased 51% equity interests in Shandong Weihai Port Development Co., Ltd.* (山東威海港發展有限公司) at a consideration of RMB984,446,600 from Shandong Port Weihai Port Co., Ltd.;
- (c) On 10 August 2022 (after trading hours), Qingdao Port International Logistics Co., Ltd.* (青島港國際物流有限公司), 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) entered into an equity transfer agreement, pursuant to which, Qingdao Port International Logistics Co., Ltd. transferred 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. at a consideration of RMB17,123,700;
- (d) On 28 October 2022 (after trading hours), (i) the Company and Shandong Port Equipment Group Co., Ltd.* (山東港口裝備集團有限公司) entered into the equity transfer agreement, and (ii) the Company and Shandong Port Group, Shandong Port Rizhao Port Group Co., Ltd.* (山東港口日照港集團有限公司), Shandong Port Yantai Port Group Co., Ltd.* (山東港口煙台港集團有限公司) and Shandong Port Equipment Group Co., Ltd. entered into the capital increase agreement, pursuant to which, the Company increased the capital of Shandong Port Equipment Group Co., Ltd. at the price of RMB101,488,725 for 51% of Qingdao Port Equipment Manufacturing Co., Ltd.* (青島港口裝備製造有限公司), a wholly-owned subsidiary of the Company;
- (e) On 30 June 2023(after trading hours), (i) the Company and Shandong Port Rizhao Port Group Co., Ltd. entered into the asset purchase agreement, pursuant to which, the Company conditionally agreed to purchase 100% equity interests in Rizhao Port Oil Terminal Co., Ltd.* (日照港油品碼頭有限公司), 50.00% equity interests in Rizhao Shihua Crude Oil Terminal Co., Ltd.* (日照實華原油碼頭有限公司) and 100% equity interests in Rizhao Gangrong Port Service Co., Ltd.* (日照港融港口服務有限公司) held by Shandong Port Rizhao Port Group Co., Ltd., and (ii) the Company and Shandong Port Yantai Port Group Co., Ltd. entered into the asset purchase agreement, pursuant to which, the Company conditionally agreed to purchase 67.56% equity interests in Yantai Port, 60.00% equity interests in Yantai Port Group Laizhou Port Co., Ltd.* (煙台港集團萊州港有限公司), 53.88% equity interests in Shandong United Energy Pipeline Transportation Co., Ltd.* (山東聯合能源管道輸送有限公司), 64.91% equity interests in Yantai Ganghang Investment

Development Co., Ltd.* (煙台港航投資發展有限公司) and 100% equity interests in Yantai Port Operation Guarantee Co., Ltd.* (煙台港運營保障有限公司) held by Shandong Port Yantai Port Group Co., Ltd.;

- (f) On 17 July 2023 (after trading hours), the Company and Qingdao Port (Group) Harbour Engineering Company Limited* (青島港(集團)港務工程有限公司) entered into the asset transfer agreement, pursuant to which, the Company transferred the phase I project asset of comprehensive logistics yard in Dongjiakou port area to Qingdao Port (Group) Harbour Engineering Company Limited for a total consideration of RMB103.0737 million (exclusive of value-added tax, and the price inclusive of value-added tax, was RMB112.4931 million); and
- (g) On 25 August 2023 (after trading hours), Qingdao Port International Logistics Co., Ltd., a wholly-owned subsidiary of the Company, (i) entered into the equity transfer agreement with Shandong Weihai Port Development Co., Ltd., and (ii) entered into the equity transfer agreement with Weihai Shichang Logistics Co., Ltd.* (威海世昌物流有限公司), pursuant to which, Qingdao Port International Logistics Co., Ltd. acquired 90% equity interests in Weihai Gangfeng Vessel Agency Co., Ltd.* (威海港豐船舶代理有限公司), 55% equity interests in Weihai Shipping Agency, 34% equity interests in Weihai Hailian Container Co., Ltd.* (威海海聯集裝箱有限公司) and 51% equity interests in Weihai International Logistics Park Development Co., Ltd.* (威海國際物流園發展有限公司) held by Shandong Weihai Port Development Co., Ltd., respectively, and 10% equity interests in Weihai Gangfeng Vessel Agency Co., Ltd. held by Weihai Shichang Logistics Co., Ltd. for a total consideration of RMB494.2784 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 2024 SDP Goods and Services Agreement;
- (b) the 2024 SDP Financial Services Agreement;
- (c) the 2024 COSCO SHIPPING Goods and Services Agreement;
- (d) the letter from the Board, the text of which is set out on pages 8 to 45 of this circular;
- (e) the letter from Independent Board Committee, the text of which is set out on pages 46 to 47 in this circular;
- (f) the letter from Somerley Capital, the text of which is set out on pages 48 to 70 of this circular; and
- (g) the written consents referred to in the section headed “Consent of Expert” in this appendix.

NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING OF 2023

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this notice.



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 2023

NOTICE IS HEREBY GIVEN that the second extraordinary general meeting of Qingdao Port International Co., Ltd. (the “**Company**”) for the year 2023 (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 Wednesday, 20 December 2023 at 10:30 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 22 November 2023 (the “**Circular**”). In addition, a circular containing detail of the following resolutions is required to be dispatched to the Shareholders on or before 22 November 2023. 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 2024 SDP Goods and Services Agreement and the transactions contemplated thereunder (including the respective proposed annual caps)
2. To consider and approve the 2024 SDP Financial Services Agreement and the transactions contemplated thereunder (including the respective proposed annual caps)
3. To consider and approve the 2024 COSCO SHIPPING Goods and Services Agreement and the transactions contemplated thereunder (including the respective proposed annual caps)

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

Qingdao, the PRC, 22 November 2023

NOTICE OF THE SECOND EXTRAORDINARY GENERAL MEETING OF 2023

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 Friday, 15 December 2023 to Wednesday, 20 December 2023 (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 Wednesday, 20 December 2023 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 Thursday, 14 December 2023 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 10:30 a.m. on Tuesday, 19 December 2023 (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 and Mr. ZHANG Baohua; the non-executive directors of the Company are Mr. LI Wucheng, Mr. ZHU Tao, Ms. WANG Fuling and Mr. XUE Baolong; and the independent non-executive directors of the Company are Ms. LI Yan, Mr. JIANG Min and Mr. LAI Kwok Ho.