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)

ANNOUNCEMENT

CONNECTED TRANSACTION IN RELATION TO THE EQUITY DISPOSAL

EQUITY DISPOSAL

On 26 June 2024 (after trading hours), the Company entered into the Equity Transfer Agreement with Qingdao Port Group, pursuant to which, Qingdao Port Group agreed to acquire 2.58% equity interests in Shipping Group held by the Company by cash.

HONG KONG LISTING RULES IMPLICATIONS

As Qingdao Port Group is the controlling shareholder of the Company, the Equity Disposal constitutes a connected transaction of the Company.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Hong Kong Listing Rules) of the Equity Disposal exceeds 0.1% but is less than 5%, the Equity Disposal is subject to the reporting and announcement requirements and is exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

I. INTRODUCTION

On 26 June 2024 (after trading hours), the Company entered into the Equity Transfer Agreement with Qingdao Port Group, pursuant to which, Qingdao Port Group agreed to acquire 2.58% equity interests in Shipping Group held by the Company by cash.

II. THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are summarized as below:

Date	26 June 2024 (after trading hours)
Parties	(1) Qingdao Port Group, as the purchaser; and (2) the Company, as the vendor
Target Equity Interest	2.58% equity interests in the Shipping Group held by the Company
Consideration	The total consideration for the Target Equity Interest was RMB61.4744 million, which was determined based on the appraised value using income approach for the Target Equity Interest on the valuation benchmark date (i.e. 31 March 2024) and after arm's length negotiation between the contracting parties. The valuation report was prepared by Beijing Pan-China Assets Appraisal Co., Ltd.* (北京天健興業資產評估有限公司), the independent valuer. The appraised value of 100% equity interests of Shipping Group was approximately RMB2,382.7284 million.
Payment Arrangement	The consideration of the Equity Disposal shall be paid by Qingdao Port Group to the Company's designated bank account by cash in one-off within 20 Working Days from the effective date of the Equity Transfer Agreement.
Closing Date	The closing date is the date of completion of the registration of industrial and commercial changes for the Equity Disposal. Both parties shall complete the transfer of rights and obligations within 20 Working Days after the Equity Transfer Agreement becomes effective.

Transitional Period	The gains and losses of the Target Equity Interest from the valuation benchmark date to the closing date will be enjoyed or borne by Qingdao Port Group proportionate to its shareholdings.
Effectiveness of the Equity Transfer Agreement	The Equity Transfer Agreement shall be formed by both contracting parties with the official seals and take effect upon completion of the respective internal consideration and approval procedures of both contracting parties.
Claims and Debts	The original claims and debts of Shipping Group will continue to be enjoyed and borne by Shipping Group after the Equity Disposal.

III. INFORMATION ON THE VALUATION REPORT AND EXPERT

As disclosed above, the consideration was determined on basis of the appraised value using income approach for the Target Equity Interest on the valuation benchmark date. The key information in the valuation report is set out in the appendix to this announcement.

Beijing Pan-China Assets Appraisal Co., Ltd., as the expert who has given its opinions and advice included in this announcement, is a qualified valuer in the PRC.

To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, as at the date of this announcement, Beijing Pan-China Assets Appraisal Co., Ltd. does not have any shareholding, directly or indirectly, in the Company and its subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company and its subsidiaries.

Beijing Pan-China Assets Appraisal Co., Ltd. has given and has not withdrawn its consent to the publication of this announcement with inclusion of its report and/or all reference to its name in the form and context in which it appears.

IV. REASONS FOR AND BENEFITS OF THE EQUITY DISPOSAL

The Equity Disposal is conducive to optimizing the Company's asset layout, focusing on the efficient development of the port business.

The Board (including the independent non-executive Directors) is of the view that although the Equity Transfer Agreement is not conducted in the ordinary and usual course of business of the Group, the terms of the Equity Transfer Agreement are arrived after arm's length negotiations between the contracting parties on normal commercial terms, are fair and reasonable and in the interests of the Company and its shareholders as a whole.

V. FINANCIAL IMPACT OF THE EQUITY DISPOSAL AND USE OF PROCEEDS

Before the completion of the Equity Disposal, the Company holds 2.58% equity interests of Shipping Group, and its financial statements are not consolidated into the financial statements of the Group. Upon the completion of the Equity Disposal, the Company will not hold the equity interests of Shipping Group. It is expected that the Company will recognize a one-off gain in its consolidated income statement of RMB24.8184 million resulting from the Equity Disposal, which is calculated and determined based on the proceeds from the Equity Disposal and the cost of equity interests to be disposed. The proceeds from the Equity Disposal will be used by the Group to supplement the daily operation capital of the Group.

VI. HONG KONG LISTING RULES IMPLICATIONS

As Qingdao Port Group is the controlling shareholder of the Company, the Equity Disposal constitutes a connected transaction of the Company.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Hong Kong Listing Rules) of the Equity Disposal exceeds 0.1% but is less than 5%, the Equity Disposal is subject to the reporting and announcement requirements and is exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Each of Mr. SU Jianguang, Mr. LI Wucheng, Mr. ZHANG Baohua, Mr. CUI Liang and Ms. WANG Fuling has abstained from voting on the resolution in relation to the Equity Transfer Agreement and the transaction contemplated thereunder at the Board meeting, due to the potential conflict of interests as a result of his/her directorship(s) or position(s) in Qingdao Port Group and/or certain associates of Qingdao Port Group pursuant to Rule 13.44 of the Hong Kong Listing Rules.

Save as disclosed above, as at the date of this announcement, none of the Directors has any material interest in the Equity Transfer Agreement and the transaction contemplated thereunder who is required to abstain from voting at the Board meeting.

VII. GENERAL INFORMATION

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 date of this announcement, the de facto controller of the Company is Shandong SASAC.

Qingdao Port Group

Qingdao Port Group is a company established in the PRC with limited liability in August 1988, which is the controlling shareholder of the Company and holds approximately 55.77% of the total issued shares of the Company directly and indirectly as at the date of this announcement. Qingdao Port Group mainly engages in comprehensive financial services, construction of public infrastructure and development of passenger liner home port. Shandong Port Group directly holds 100% equity interests in Qingdao Port Group. As at the date of this announcement, the de facto controller of Qingdao Port Group is Shandong SASAC.

Shipping Group

Shipping Group is a company established in the PRC with limited liability in March 2020 and a subsidiary of Shandong Port Group. It is mainly engaged in container transportation, oil transportation, dry bulk cargo transportation, passenger roll-on/roll-off (container) liner transportation and other businesses. As at the date of this announcement, the de facto controller of Shipping Group is Shandong SASAC. The audited total assets and net assets of Shipping Group as of 31 December 2023 were RMB3,292.7536 million and RMB1,500.5091 million, respectively. The Company has held the Target Equity Interest for more than one year.

The audited financial information of Shipping Group for the two financial years ended 31 December 2023 are as follows:

	For the year ended 31 December 2023 *(RMB0'000)*	For the year ended 31 December 2022 *(RMB0'000)*
Net profit before taxation	15,935.72	13,723.00
Net profit after taxation	10,942.55	9,963.56

DEFINITIONS

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

"Board"	the board of directors of the Company
"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
"Director(s)"	the director(s) of the Company
"Equity Disposal"	the transaction contemplated under the Equity Transfer Agreement
"Equity Transfer Agreement"	Shipping Group Equity Transfer Agreement in relation to Qingdao Port Group's proposed acquisition of 2.58% equity interests in Shipping Group held by the Company for RMB61.4744 million
"Group"	the Company and its branches and subsidiaries
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"PRC"	the People's Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan
"Qingdao Port Group"	Shandong Port Qingdao Port Group Co., Ltd.* (山東港口青島港集團有限公司), the controlling shareholder of the Company and a wholly-owned subsidiary of Shandong Port Group
"RMB"	Renminbi, the lawful currency of the PRC

"Shandong Port Group"	Shandong Port Group Co., Ltd.* (山東省港口集團有限公司), a company established in PRC with limited liability in August 2019 with Shandong SASAC as the de facto controller
"Shandong SASAC"	State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province* (山東省人民政府國有資產監督管理委員會)
"Shipping Group"	Shandong Port Shipping Group Co., Ltd. * (山東港口航運集團有限公司), a company established in PRC with limited liability in March 2020 with total 100% of equity interests held by Shandong Port Group directly and indirectly
"Target Equity Interest"	2.58% equity interests in Shipping Group held by the Company
"Working Days"	working days in the PRC
"%"	percent

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

** The Chinese name(s) of the PRC entities have been translated into English in this announcement 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.*

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

Qingdao, the PRC, 26 June 2024

As at the date of this announcement, the executive Directors are Mr. SU Jianguang and Mr. ZHANG Baohua; the non-executive Directors are Mr. LI Wucheng, Mr. ZHU Tao, Mr. CUI Liang and Ms. WANG Fuling; and the independent non-executive Directors are Ms. LI Yan, Mr. JIANG Min and Mr. LAI Kwok Ho.

APPENDIX - KEY INFORMATION IN THE VALUATION REPORT

The key information of the valuation report on Shipping Group is set out below:

Basic Information of Appraisal

Beijing Pan-China Assets Appraisal Co., Ltd. adopted the asset-based approach and the income approach to appraise the market value of the entire shareholders' equity of Shipping Group as at 31 March 2024. The date of the asset appraisal report is 11 May 2024, i.e. the date on which the conclusion of the asset appraisal was formed.

The scope of the appraisal is the audited assets and liabilities of Shipping Group as at the valuation reference date (i.e. 31 March 2024), of which the book value of total assets is RMB2,131.1902 million, the book value of liabilities is RMB503.0135 million and the book value of net assets is RMB1,628.1767 million. The valuation of long-term equity investments mainly represents long-term equity investments in subsidiaries, joint ventures and joint stock companies of Shipping Group, totaling 18, of which 2 investee units' appraisal conclusions adopted the asset-based method as the appraisal method, 15 investee units' appraisal conclusions adopted the income method as the appraisal method and the remaining one investee unit was newly established and has not been funded, with a book value and appraised value of RMB0.

After appraisal under the income approach, on the premise of going concern as at the valuation reference date (i.e. 31 March 2024), the book value of the audited total shareholders' equity of Shipping Group is RMB1,628.1767 million, and the value of the total shareholders' equity of Shipping Group after appraisal under the income approach is RMB2,382.7284 million, with an appreciation of appraisal value of RMB754.5517 million, representing a value-added ratio of 46.34%.

Assumptions of Appraisal

(i) General assumptions:

1. Transaction assumption: It is assumed that all assets to be appraised are already in the trading process, and the asset appraiser performs the valuation based on a simulated market such as the trading conditions of the assets to be appraised.

2. Open market assumption: The open market assumption is an assumption about the conditions of the market to which the asset is intended to enter and the effects that the asset would be exposed to under such market conditions. An open market means a fully developed and sound market conditions, a competitive market with willing buyers and sellers, where buyers and sellers are on an equal footing, have a chance to access to adequate market information and time, and where buyers and sellers transact under voluntary, rational, non-coercive or unrestricted conditions.

3. Continuous use assumption: The continuous use assumption is an assumption about the conditions under which the asset is intended to enter the market and the status of the asset under such market conditions. Firstly, the asset under appraisal is in use, and secondly, it is assumed that the asset in use will continue to be used. Under the continuous use assumption, no consideration is given to the conversion of the asset's use or the conditions for optimal utilization, and the scope of use of the valuation result is limited.

4. Enterprise going concern assumption: This is an appraisal assumption that views the assets of the enterprise as a whole as the object of appraisal. The enterprise, as a business entity, will continue to operate in accordance with its business objectives in the external environment in which it operates. The operator of the enterprise is responsible and capable of assuming responsibility; the enterprise operates legally and is able to make appropriate profits to maintain its ability to continue as a going concern.

5. Information authenticity assumption: The asset appraiser assumes that the information provided by the principal and relevant parties on which the valuation conclusion is based is reliable and has carried out the necessary verification in accordance with the valuation procedures, but the asset appraiser does not guarantee the authenticity, legitimacy and completeness of such information.

(ii) Appraisal assumptions for income approach:

1. There are no significant changes in relevant national laws, regulations and policies in force, and the national macroeconomic situation; there are no significant changes in the political, economic and social environment of the region in which the parties to this transaction are situated; and there are no significant adverse effects caused by other unpredictable and force majeure factors.

2. It is assumed that the enterprise continues to operate based on the actual condition of the assets at the valuation reference date.

3. It is assumed that the operator of the enterprise is responsible and that the management of the enterprise is capable of assuming its positions.

4. Unless otherwise stated, it is assumed that the enterprise is in full compliance with all relevant laws and regulations.

5. It is assumed that the accounting policies to be adopted by the enterprise in the future will be substantially the same in material respects as those used in the preparation of this report.

6. It is assumed that the scope and manner of operation of the enterprise will be consistent with the current direction, based on the existing management style and level.

7. There are no significant changes in interest rates, exchange rates, tax bases and rates, policy levies and etc.

8. There are no other human force majeure and unforeseen factors that have a significant adverse impact on the enterprise.

9. It is assumed that the enterprise's products or services will maintain the current competitive market situation after the valuation reference date.

10. Except for investments in fixed assets for which there is conclusive evidence at the valuation reference date that the production capacity will change after the period, the production capacity of the enterprise is estimated on the basis of the status as at the valuation reference date, assuming that the unit under appraisal will not carry out any significant investment activities in fixed assets that will affect its operations in the future income period.

11. It is assumed that the amount of the assessed entity's taxable income for future income period is substantially the same as the total profit, and that there are no significant permanent differences or adjustments for timing differences.

12. It is assumed that cash inflows and cash outflows from operations of the assessed entity in future income period will occur evenly and there will not be a concentration of income recognition at one point in the year.

13. It is assumed that an enterprise undertakes an orderly renewal of long-term assets, such as fixed assets, based on their normal economic life.

Selection of Appraisal Approach

The appraiser is of the view that the asset-based approach, which evaluates the fair market value of assets from the perspective of asset replacement, can only reflect the value of the enterprise's assets, but cannot comprehensively and reasonably reflect the comprehensive profitability of the assets and the growth of the enterprise, and cannot cover the value of intangible assets such as contracts in progress, customer resources, sales network, potential projects, corporate qualifications, human resources, etc. The income approach adopts the discounted expected income approach to appraise the value of the enterprise, which not only considers the assets of the enterprise measured in accordance with accounting principles, but also considers the resources actually owned or controlled by the enterprise that cannot be reflected in the balance sheet, such as contracts in progress, customer resources, sales network, enterprise qualifications , human resources, etc., whose contribution to the enterprise is reflected in the net cash flow of the enterprise. Therefore, the appraisal conclusion of the income approach can better reflect the overall profitability and growth of the enterprise.

The appraiser is of the view that the value of assets is usually not based on the cost of re-acquiring such assets but on the expectation of market participants on future earnings. After investigating the financial position of the appraised entities and analyzing their operating conditions, taking into account the object of this asset appraisal, the purpose of the appraisal, the applicable type of value, and after a comparative analysis, the appraiser is of the view that the appraisal conclusion of the income approach can reflect the intrinsic value of the enterprise in a more comprehensive and reasonable manner, and has adopted the results of the income approach as the final appraisal conclusion of the current appraisal.

Introduction to the Income Approach

The income approach adopts the discounted cash flow method, whereby the type of cash flow selected is the free cash flow of the enterprise, and the value of the entire shareholders' equity is obtained indirectly through the appraisal of the value of the enterprise as a whole. The appraisal is based on the net free cash flow of the enterprise in certain future years, which is discounted using an appropriate discount rate and then summed up to arrive at the value of the enterprise's operating assets as a whole, with addition of the value of surplus assets and non-operating assets less interest-bearing debt to arrive at the value of the entire shareholders' equity.

1. Appraisal model: The discounted cash flow method was selected for this appraisal, which takes the enterprise's free cash flow as a quantitative indicator of the enterprise's expected earnings and uses a matching weighted average cost of capital model (WACC) to calculate the discount rate.

2. Calculation formula

$E = V - D$ Equation 1

$V = P + C_1 + C_2 + E'$ Equation 2

In the above equation:

E: Value of total shareholders' equity;

V: Enterprise value;

D: Appraised value of interest-bearing debt;

P: Appraised value of operating assets;

C_1: Appraised value of surplus assets;

C_2: Appraised value of non-operating assets;

E': Appraised value of long-term equity investments (not taken into account in cash flows).

In particular, the appraised value of operating assets (P) in Equation 2 is derived according to the following formula:

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

The first half of the above equation is the value over the explicit projection period and the second half is the value over the perpetuity period (terminal value).

Equation 3:

R_t : Enterprise free cash flow in period t of the explicit projection period;

t: number of explicit projection period 1 , 2 , 3 , … , n;

r: discount rate;

R_{n+1} : Enterprise free cash flow in perpetuity period;

g: Growth rate in perpetuity period, g = 0 for this appraisal;

n: the end year of the explicit projection period.

3. Determination of key parameters in the model

(1) Determination of expected returns

This appraisal used enterprise free cash flow as a quantitative indicator of expected corporate earnings. The enterprise free cash flow is the total cash flow after paying operating expenses and income taxes and before paying cash to the corporate claimants.

The income forecast for this appraisal is based on the Shipping Group's audited accounting statements for the period from 2022 to March 2024, based on the operating results for the past 2 years, in accordance with the national macro policies, on the analysis of the current situation and prospects of the industry market where it operates and the strengths and weaknesses of the appraised entities, in particular the market environment and the future development prospects and potential, and on the basis of the appraised entities' strategic plan after a comprehensive analysis.

Scope of revenue forecast: The forecasted type is the Shipping Group's single statement type, and the forecasted scope is the Shipping Group's operating businesses, including the China-Korea liner transportation business (CKDD), the other container transportation business (PES) and the bulk cargo transportation business.

(2) Determination of the income period

The income period in enterprise appraisal usually refers to the number of years for which an enterprise will earn profit in the future. In order to reasonably predict the future earnings of an enterprise, the income period of an enterprise can be classified as limited or unlimited based on the characteristics of the enterprise's production and operation, as well as relevant laws and regulations, covenants and contracts.

A perpetuity period has been adopted as the income period for this appraisal. The first phase is from 1 April 2024 to 31 December 2029, during which the income position is under change in accordance with the assessed enterprise's operating conditions and business plans; the second phase is from 1 January 2030 onwards in perpetuity, during which the assessed enterprise will maintain a stable level of profitability.

(3) Determination of discount rate

In accordance with the principle of consistency in the amount of income and the discount rate, the amount of income for this appraisal is based on the free cash flow of the enterprise, and the discount rate is determined by selecting the weighted average cost of capital (WACC). The WACC formula is derived by reference to the cost of equity capital, the risk-free rate of return, the risk indicator for equity system, the market risk premium, the enterprise-specific risk adjustment factor and the income tax rate of the assessed enterprise. The annual yield of 10-year-maturity treasury bonds at the valuation reference date of 2.29% was used as the risk-free rate of return for this valuation. Enterprise-specific risks mainly arise from the risks of fluctuations in the shipping market, the operating conditions of the enterprise, its dependence on major customers and suppliers and financial risks.

(4) Appraisal results of operating assets

Based on the cash flows forecasted and discounted at the calculated discount rate, the value of the corporate operating assets is RMB154.5155 million. Details of the calculation results are set out in the table below:

Unit: RMB0'000

Items	April – December 2024	2025	2026	2027	2028	2029	perpetuity period
Corporate Free Cash Flow	1,257.18	-1,756.87	-1,051.13	1,901.56	2,533.07	2,515.86	2,042.95
Discount Period	0.38	1.25	2.25	3.25	4.25	5.25	
Discount Rate	10.18%	10.18%	10.18%	10.18%	10.18%	10.18%	10.18%
Discount Factor	0.96	0.89	0.80	0.73	0.66	0.60	5.90
Discounted Present Value	1,212.22	-1,556.17	-845.04	1,387.49	1,677.52	1,512.19	12,063.34
Total Present Value							15,451.55

(5) Determination of the appraised value of surplus assets C_1 and non-operating assets (liabilities) C_2

Surplus assets are those that are not directly related to the earnings of the enterprise and are in excess of what is required for the operation of the enterprise, generally referred to as additional currency funds, etc. Based on the calculation of the carrying amount of monetary funds less the monetary funds required for working capital as at the reference date, the amount exceeding the carrying amount of monetary funds was calculated to be RMB393.1425 million and the appraised value was RMB393.1425 million. Non-operating assets are those that are not directly related to the operating activities of the enterprise and are not included in the scope of the current earnings forecast, mainly including other receivables, leased-out fixed assets, other current assets, other payables and deferred income tax liabilities. Details are as follows:

Unit: RMB0'000

No.	Items	Carrying amount	Appraisal amount
I	**Non-operating assets**		
1	Other receivables	3,332.27	3,332.27
2	Fixed assets	6,661.06	7,221.62
3	Other current assets	8,012.60	8,012.60
II	**Non-operating liabilities**		
1	Dividends payable	987.44	987.44
2	Accounts payable	1,914.76	2,035.26
3	Deferred income tax liabilities	623.35	623.35

(6) Estimation and analysis of long-term equity investment E'

The valuation of long-term equity investments mainly represents long-term equity investments in subsidiaries, joint ventures and joint stock companies of Shipping Group, totaling 18, of which 2 investee units' appraisal conclusions adopted the asset-based method as the appraisal method, 15 investee units' appraisal conclusions adopted the income method as the appraisal method and the remaining one investee unit was newly established and has not been funded, with a book value and appraised value of RMB0. The total book value of long-term equity investments amounted to RMB1,269.4163 million, and the appraisal results summarized under the income approach amounted to RMB1,956.9898 million.

Appraisal Results of Income Approach

(1) Calculation of overall enterprise value
$B = P + C_1 + C_2 + E'$ = RMB2,653.8523 million

(2) Determination of the appraised value of interest-bearing debt
Interest-paying debt consists of the enterprise's long and short-term borrowings, which are determined at their market value. Interest-paying debt has a book value of RMB271.1240 million and an appraised value of RMB271.1240 million.

(3) Calculation of the total value of shareholders' equity interests
Based on the above appraisal work, the total value of shareholders' equity interests of Shipping Group was: E = B - D = RMB2,382.7284 million.