



## SOMERLEY CAPITAL LIMITED

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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.



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.



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



*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.



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:

	<b>As at 30 June 2023</b>	<b>As at 31 December</b>	
	<i>(RMB'000)</i>	<b>2022</b>	<b>2021</b>
	<i>(Unaudited)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</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.



### **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.



## **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.



### 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.

<b>Date:</b>	27 October 2023 (after trading hours)
<b>Parties:</b>	(i) the Company; and  (ii) Shandong Port Group.
<b>Terms:</b>	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.
<b>Transaction type:</b>	<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.





**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**”).



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.



### 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:

	<b>For the year ended 31 December 2022 (RMB million)</b>	<b>For the year ending 31 December 2023 (RMB million)</b>
<b><u>The SDP Purchases</u></b>		
Actual transaction amount	2,453	1,950 <sup>(Note)</sup>
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:

	<b>For the year ending 31 December</b>		
	<b>2024 (RMB million)</b>	<b>2025 (RMB million)</b>	<b>2026 (RMB million)</b>
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;



- (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:

	<b>For the year ended 31 December 2022 (RMB million)</b>	<b>For the year ending 31 December 2023 (RMB million)</b>
<b><u>The SDP Sales</u></b>		
Actual transaction amount	1,536	1,000 <sup>(Note)</sup>
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.



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
	(RMB million)	(RMB million)	(RMB million)
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.



#### 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.

<b>Date:</b>	27 October 2023 (after trading hours)
<b>Parties:</b>	(i) the Company; and  (ii) Shandong Port Group.
<b>Terms:</b>	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.
<b>Transaction type:</b>	<i>Deposit Services</i>  The provision of Deposit Services by Shandong Port Group to the Group.
<b>Pricing policy:</b>	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.



#### *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:

	<b>For the year ended 31 December 2022 (RMB million)</b>	<b>For the year ending 31 December 2023 (RMB million)</b>
<b><u>Deposit Services</u></b>		
Maximum outstanding balances	11,300	14,200 <sup>(Note)</sup>
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.



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

	<b>For the year ending 31 December</b>		
	<b>2024</b>	<b>2025</b>	<b>2026</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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





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.

<b>Date:</b>	27 October 2023 (after trading hours)
<b>Parties:</b>	(i) the Company; and  (ii) COSCO SHIPPING (including the Relevant Connected Subsidiaries).
<b>Terms:</b>	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.
<b>Transaction type:</b>	<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.



**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.



*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.



## 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:

	<b>For the year ended 31 December 2022 (RMB million)</b>	<b>For the year ending 31 December 2023 (RMB million)</b>
<b><u>The COSCO Sales</u></b>		
Actual transaction amount	879	670 <sup>(Note)</sup>
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:

	<b>For the year ending 31 December</b>		
	<b>2024 (RMB million)</b>	<b>2025 (RMB million)</b>	<b>2026 (RMB million)</b>
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;



- (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.



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.



## 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.*