TC CAPITAL
天財資本

27 November 2023

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS
AND
DISCLOSEABLE TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Supply of Goods and Services by the Group to Liaoning Port Group and its associates or subsidiary(ies) (as the case may be); (ii) the Purchase of Goods and Services from Liaoning Port Group and its associates or subsidiary(ies) (as the case may be); and (iii) the provision of Deposit Services by CMG Finance to the Group ((i), (ii) and (iii) together, the "**Non-exempt Continuing Connected Transactions**") and the proposed annual caps, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 27 November 2023 issued to the Shareholders (the "**Circular**"). Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 26 October 2023, the Company entered into the Supply of Goods and Services Agreement and the Purchase of Goods and Services Agreement with Liaoning Port Group in relation to the Supply of Goods and Services by the Group to Liaoning Port Group and its associates or subsidiary(ies) (as the case may be) and the Purchase of Goods and Services from Liaoning Port Group and its associates or subsidiary(ies) (as the case may be).

On 26 October 2023, the Company entered into the Financial Services Agreement with CMG Finance in relation to, among others, the provision of Deposit Services by CMG Finance to the Group.

TC Capital Group
天財資本集團

Suite 3508, 35/F, Tower 6, The Gateway, Harbour City,
9 Canton Road, Kowloon, Hong Kong
香港九龍廣東道 9 號海港城港威大廈第六座三十五樓 3508 室
www.tccapital.com.hk

As at the Latest Practicable Date, Liaoning Port Group indirectly held, in aggregate, approximately 54.26% shareholding interests of the Company through three of its subsidiaries, namely Yingkou Port Group Corporation Limited, Dalian Port Corporation Limited and Liaoning Gangwan Industry and Finance Investment Group Co., Ltd. (遼寧港灣產融投資集團有限公司). As such, Liaoning Port Group is an indirect holding company of the Company and is therefore a connected person of the Group as defined under Rule 14A.07 of the Listing Rules. The Supply of Goods and Services and the Purchase of Goods and Services constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios for the Supply of Goods and Services and the Purchase of Goods and Services are, on an annual basis, more than 5% and the proposed annual caps for such transactions are more than HK$10,000,000, the Supply of Goods and Services and the Purchase of Goods and Services are subject to the reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, the Company was a fellow subsidiary of CMG Finance and is therefore a connected person of the Company. The provision of Deposit Services constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios for the provision of Deposit Services are, on an annual basis, more than 5% and the proposed annual caps for such transactions are more than HK$10,000,000, the provision of Deposit Services is subject to the reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Liu Chunyan, Ms. Cheng Chaoying and Mr. Chan Wai Hei (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Supply of Goods and Services Agreement, the Purchase of Goods and Services Agreement and the provision of Deposit Services under the Financial Services Agreement (including the respective annual caps) are on normal commercial terms in the ordinary and usual course of business of the Group and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Non-exempt Continuing Connected Transactions at the EGM. We, TC Capital International Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company or any other parties that could reasonably be regarded as relevant to the independence of us. In the last two years, we have acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to an occasion as detailed in the circular of the Company dated 29 November 2021. Given (i) our independent role in the aforementioned engagement; and (ii) our fees for the aforementioned engagement represented an insignificant percentage of our revenue, we consider that the aforementioned engagement would not affect our independence to form our opinion in respect of the Non-exempt Continuing Connected Transactions.

BASIS OF OUR OPINION

In putting forth our recommendation, we have relied on the information, opinions, facts and representations supplied to us by the Directors and/or the representatives of the Company. We have reviewed, among other things, (i) the Supply of Goods and Services Agreement, the Purchase of Goods and Services Agreement and the Financial Services Agreement; (ii) the annual reports of the Company for the years ended 31 December 2021 and 2022 (the "**2021 Annual Report**" and the "**2022 Annual Report**" respectively) and the third quarterly report of the Company for the nine months ended 30 September 2023 (the "**2023 Third Quarterly Report**"); (iii) other information as set out in the Circular; and (iv) relevant market data and information available from public sources.

We have assumed that all such information, opinions, facts and representations provided to us by the Directors and/or the representatives of the Company, for which they are fully responsible, are true, accurate and complete in all respects. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the representatives of the Company. The Company has also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld or is misleading. We consider that we have taken sufficient and necessary steps (including review of framework agreements in respect of the Non-exempt Continuing Connected Transactions; comparing the prices of procuring and/or selling the goods and services from and/or to independent third parties and/or the State Prices with the prices of procuring and/or selling the goods and services from and/or to connected persons; and analysis on the estimated amounts of the Non-exempt Continuing Connected Transactions) on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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

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PRINCIPAL FACTORS AND REASONS CONSIDERED

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

A. Background information of the parties

1. Information on the Group

As stated in the Letter from the Board, the Group is principally engaged in oil/liquefied chemical terminal and the related logistics services (oil segment); container terminal and related logistics services (container segment); automobile terminal and related logistics services (automobile terminal segment); bulk and general cargo terminal and related logistics services (bulk and general cargo segment); bulk grain terminal and related logistics services (bulk grain segment); passenger and roll-on, roll-off terminal and related logistics services (passenger and ro-ro segment) and value-added and ancillary port operations (value-added services segment).

Set out below is certain financial information of the Group for the three years ended 31 December 2022 (**"FY2020"**, **"FY2021"** and **"FY2022"** respectively) and the nine months ended 30 September 2022 and 2023 (**"3Q2022"** and **"3Q2023"** respectively) as extracted from the 2021 Annual Report, the 2022 Annual Report and the 2023 Third Quarterly Report or provided by the Company:

	For the nine months ended 30 September		**For the year ended 31 December**		
	2023	**2022**	**2022**	**2021**	**2020**
	RMB million (Unaudited)	*RMB million* (Unaudited)	*RMB million* (Audited)	*RMB million* (Audited)	*RMB million* (Audited)
Revenue	8,641	8,651	11,981	12,348	12,125
Gross profit	2,562	2,292	3,097	3,829	4,246
Net profit attributable to shareholders of the parent company	1,074	1,124	1,280	1,916	2,053

	As at 30 September	**As at 31 December**		
	2023	**2022**	**2021**	**2020**
	RMB million (Unaudited)	*RMB million* (Audited)	*RMB million* (Audited)	*RMB million* (Audited)
Total assets	56,181	57,609	57,813	57,451
Total liabilities	13,571	15,867	16,760	16,950
Total equity attributable to owners of the parent company	39,372	38,646	37,946	37,234

As shown in the above table, the revenue of the Group slightly increased by approximately 1.8% to approximately RMB12,348 million for FY2021 as compared to that for FY2020. As stated in the 2021 Annual Report, such increase was mainly driven by the growth of logistics business such as containerised China-Europe train lines and import of automobile components, as well as the growth in the volume of general cargo business. However, the decrease in the volume of container, ore and grain business, as well as the fact that information companies were no longer included in the scope of consolidation, restrained the overall increase in operating revenue. The gross profit of the Group amounted to approximately RMB3,829 million for FY2021, representing a decrease of approximately 9.8% as compared to that for FY2020. The net profit attributable to shareholders of the parent company for FY2021 was approximately RMB1,916 million, representing a decrease of approximately 6.7% as compared to that for FY2020. As stated in the 2021 Annual Report, the decrease in the gross profit of the Group for FY2021 was mainly due to the combined effects of the decrease in the container throughput for foreign trade, ore and oil business with high gross profit margin, and the resumed increase of expenses related to social security, an increase in depreciation expenses, as well as the rising costs caused by efforts on prevention and control of the pandemic.

The revenue of the Group amounted to approximately RMB11,981 million for FY2022, representing a decrease of approximately 3.0% as compared to that for FY2021. As stated in the 2022 Annual Report, such decrease was mainly due to the decline in the revenue from oil products business as a result of some large refining and chemical integration projects in South China that have been put into production and the reduction in export quotas; and the decline in the revenue from bulk and general cargo business such as steels and ores as a result of the lower efficiency of steel enterprises affected by the international and domestic environment. However, the growth in the revenue from international container and bulk grain business, as well as the growth in container logistics service business such as China-Europe train lines and shipping export agency offset the decline in operating revenue. The gross profit of the Group amounted to approximately RMB3,097 million for FY2022, representing a decrease of approximately 19.1% as compared to that for FY2021. The net profit attributable to shareholders of the parent company for FY2022 was approximately RMB1,280 million, representing a decrease of approximately 33.2% as compared to that for FY2021. As stated in the 2022 Annual Report, the decrease in the gross profit of the Group for FY2022 was mainly due to the decline in the volume of high margin business in bulk and general cargos, oil products, domestic containers and tugboats, as well as the higher energy prices.

The revenue of the Group remained relatively stable and amounted to approximately RMB8,641 million for 3Q2023 as compared to that for 3Q2022. The gross profit of the Group amounted to approximately RMB2,562 million for 3Q2023, representing an increase of approximately 11.8% as compared to that for 3Q2022. As advised by the representatives of the Company, such increase in the gross profit of the Group was mainly due to the growth in the volume of container and oil products businesses with high gross profit margins, as well as the decrease in costs such as labour costs, labour expenses and depreciation expenses. The net profit attributable to shareholders of the parent company for 3Q2023 was approximately RMB1,074 million, representing a decrease of approximately 4.4% as compared to that for 3Q2022. The decrease in the net profit attributable to shareholders of the parent company was mainly due to the decrease in the financial results of joint ventures and associates operating bulk and general cargo business and the increase in credit impairment loss, and such decrease was partly offset by the growth of container, passenger and ro-ro and oil business volumes and the effectiveness of cost control measures.

The total equity attributable to owners of the parent company as at 31 December 2021 and 2022 and 30 September 2023 were approximately RMB37,946 million, RMB38,646 million and RMB39,372 million respectively, representing increases of approximately 1.9%, 1.8% and 1.9% as compared with those as at 31 December 2020, 2021 and 2022 respectively. The representatives of the Company advised us that such increases in the total equity attributable to owners of the parent company were mainly due to the profit-making position of the Group during FY2021, FY2022 and 3Q2023.

2. *Information on Liaoning Port Group*

As stated in the Letter from the Board, Liaoning Port Group is a limited liability company established in the PRC and is principally engaged in international and domestic cargo handling, transportation, transshipment, warehousing and other port business and logistics services, providing waiting and boarding facilities and services for passengers, tugboat business, port logistics and port information technology consulting services. It is owned by China Merchants Liaoning with 51% equity interests and is ultimately controlled by CMG.

3. *Information on CMG Finance*

As stated in the Letter from the Board, CMG Finance is beneficially wholly owned by CMG and incorporated in the PRC. Its principal business activities include (i) provision of financial advice, credit authentication and relevant consulting and agency services for members of the CMG Group (the "**CMG Group Members**"); (ii) assistance in collection and payment of transaction money for the CMG Group Members; (iii) provision of guarantees for the CMG Group Members; (iv) entrusted loan services between the CMG Group Members; (v) bills acceptances and discount services for the CMG Group Members; (vi) internal money transfer and settlement and relevant settlement and clearance arrangement between the CMG Group Members; (vii) internal money deposit services; (viii) loan and lease financing services for the CMG Group Members; (ix) inter-bank lending business for the CMG Group Members; (x) underwriting corporate bond of the CMG Group Members; and (xi) marketable securities investment (fixed income).

As advised by the representatives of the Company, CMG Finance is subject to several rules and measures on supervision, management and risk control set out in the Measures for the Administration of Finance Companies of Enterprise Groups* (《企業集團財務公司管理辦法》) (the "**Administrative Measures**") promulgated by the China Banking and Insurance Regulatory Commission (now merged to become the National Administration of Financial Regulation of the PRC* (國家金融監督管理總局)) (the "**NAFR**") on 13 October 2022 which regulates the operation of non-bank financial institutions that provide financial management services to the enterprise group member entities. Based on the assessment of the Company, CMG Finance has been in compliance with all the requirements set forth by the NAFR in FY2021, FY2022 and 3Q2023.

The table below sets forth the key financial ratio requirements under Article 34 of the Administrative Measures and an appendix to the Notice of Issuing the Measures for the Regulatory Ratings of Finance Companies of Group Enterprises* (《國家金融監督管理總局關於印發企業集團財務公司監管評級辦法的通知》) (the "**Notice**") despatched by the NAFR on 13 June 2023 and the respective financial ratios of CMG Finance as at 31 December 2021, 31 December 2022 and 30 September 2023 as provided by the Company:

	Requirements	**As at 31 December 2021** *(approximate %)*	**As at 31 December 2022** *(approximate %)*	**As at 30 September 2023** *(approximate %)*
Capital adequacy ratio *(Note 1)*	Not less than 10.5%	14%	14%	16%
Liquidity ratio	Not less than 25%	60%	54%	43%
Total non-group liabilities to net capital ratio *(Note 2)*	Not more than 100%	N/A	0%	1%
Investment balance to net capital ratio	Not more than 70%	20%	28%	54%
Self-owned fixed assets to net capital ratio	Not more than 20%	0%	0%	0%
Non-performing loan ratio *(Note 3)*	Not more than 5%	0%	0%	0%

Notes:

1. The capital adequacy ratio is the ratio of net capital to risk-weighted assets after capital floor and adjustments.

2. Total non-group liabilities to net capital ratio was required by the Administrative Measures since 2022.

3. The non-performing loan ratio is the ratio of the sum of substandard loans, doubtful loans, and loss class loans to various loans. The various loans mainly include loans, trade financing, bill financing, assets for re-sale bought back from non-financial institutions, overdrafts, various advances and etc.

As shown in the table above, CMG Finance complied with the relevant financial ratio requirements specified in the Administrative Measures and the appendix to the Notice as at 31 December 2021, 31 December 2022 and 30 September 2023.

B. The Non-exempt Continuing Connected Transactions

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

As stated in the Letter from the Board, the Directors believe that the Non-exempt Continuing Connected Transactions ensure the operational and business development needs of the Group are effectively met, with terms and conditions of the transactions being not less favourable to the Group than those available from independent third parties. The entering into of the Financial Services Agreement (i) will enable the Group to continue to centralise its control and management over the financial resources of the Group and attain diversified sources of funding; and (ii) effectively supplements the financing needs of the Group. By broadening the Group's financing channels through CMG Finance, there would be an increase in the source of funds which would elevate the level and efficiency of overall operations of enterprise capital, and which would strengthen the bargaining power of the Group in respect of external financing.

As advised by the representatives of the Company, the Group has established long-term relationships with Liaoning Port Group (together with its associates and subsidiaries) and CMG Finance respectively. They are familiar with the operations of the Group. The continual procurement of goods and services from Liaoning Port Group (together with its associates and subsidiaries) can ensure the stable supply of goods and services at reasonable prices. The supply of goods and services by the Group to Liaoning Port Group (together with its associates and subsidiaries) can provide a reliable customer base and stable income to the Group. With the advantage of the long-standing relationship for the provision of Deposit Services, the Group benefits from CMG Finance's familiarity with the Group's industry and operations.

Besides, the Supply of Goods and Services Agreement and the Purchase of Goods and Services Agreement do not prevent the Group from procuring and/or selling the goods and services from and/or to independent third parties or other connected persons. Therefore, the Group may (but is not obliged to) continue the Supply of Goods and Services and the Purchase of Goods and Services with Liaoning Port Group (together with its associates and subsidiaries) if the prices are competitive. For the provision of Deposit Services, the Financial Services Agreement does not prevent the Group from using deposit services provided by other commercial banks or independent financial institutions in the PRC. The Group retains discretion to make its selection according to its business needs as well as the fees and quality of the deposit services. The Group may (but is not obliged to) procure the financial services provided by CMG Finance to deploy and manage its financial resources flexibly and efficiently.

In light of the above, we are of the view that the Non-exempt Continuing Connected Transactions, which are conducted in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole.

2. ***Principal terms of and proposed annual caps for the Non-exempt Continuing Connected Transactions***

(1) Supply of Goods and Services

On 26 October 2023, the Company and Liaoning Port Group entered into the Supply of Goods and Services Agreement, pursuant to which the Group shall supply goods and services to Liaoning Port Group and its associates or subsidiary(ies) (as the case may be) on normal commercial terms or better for the Group for a term commencing on 1 January 2024 and ending on 31 December 2026.

Pricing principle for the Supply of Goods and Services

As stated in the Letter from the Board, the supply of goods and services by the Group to Liaoning Port Group and its associates or subsidiary(ies) (as the case may be) shall be priced in accordance with the following principles:

- at the State Price; and
- where there is no State Price, with reference to the market price at which the same or comparable types of services are provided to independent third parties in the normal course of business. Normally, at least two quotations to independent third parties will be used for reference.

For supply of steaming, equipment, accessories, network and information office equipment and software and providing heating supply services, production facilities and equipment maintenance, security, port storage, tally, ship and freight agency, port passenger operation, mechanical operation, property management, network system maintenance, software development services and other related or similar services, the pricing policy is based on the market price at which the same or comparable types of services are provided to independent third parties in the normal course of business.

For supply of water and electricity and providing tugboat, port security, communication and related engineering services, handling and transportation and berthing services, the pricing will follow the State Price.

In assessing the fairness and reasonableness of the aforementioned pricing principles, we have obtained and reviewed the four largest contracts entered into between Liaoning Port Group and the Group in relation to the Supply of Goods and Services (the "**Four Largest Supply Contracts**") for each of FY2022 and 3Q2023. The Four Largest Supply Contracts pertained to the provision of tugboat services, handling and transportation and berthing services as well as port storage services. For the contracts relating to the provision of tugboat services and handling and transportation and berthing services, we have compared the service prices stipulated in the relevant contracts against (i) the published prices of the same type of services announced by the Group to independent third parties during the corresponding period; and (ii) the State Prices of the same type of services announced by the PRC government during the corresponding period. We noted that the prices of services set out in such contracts were not less favourable than the published prices of the same type of services provided by the Group to the independent third parties as well as the relevant State Prices announced by the PRC government during the same period. For the contracts relating to the provision of port storage services (the "**Port Storage Services Contracts**"), we have obtained the two largest agreements entered into between the Group and two independent third parties in respect of the provision of port storage services by the Group during the corresponding period, and compared the service prices stipulated in the Port Storage Services Contracts against (i) the prices of port storage services offered by the Group to the two independent third parties during the corresponding period; and (ii) the published prices of port storage services announced by the Group to other independent third parties during the corresponding period. We noted that the prices of port storage services as stipulated in the Port Storage Services Contracts were not less favourable than the prices of port storage services offered by the Group to the two independent third parties as well as the published prices of port storage services provided by the Group to other independent third parties during the same period.

Given the above, we are of the view that the pricing principles for the Supply of Goods and Services are fair and reasonable so far as the Independent Shareholders are concerned.

Proposed annual caps for the Supply of Goods and Services

The table below sets out (i) the historical or estimated transaction amounts of the Supply of Goods and Services by the Group to Liaoning Port Group and its associates or subsidiary(ies) (as the case may be) for FY2021, FY2022, 3Q2023 and the year ending 31 December 2023 ("**FY2023**"); and (ii) the proposed annual caps for the Supply of Goods and Services for the three years ending 31 December 2026 ("**FY2024**", "**FY2025**" and "**FY2026**" respectively).

	Historical/Estimated transaction amounts				**Proposed annual caps**		
	For the year ended 31 December 2021	**For the year ended 31 December 2022**	**For the nine months ended 30 September 2023**	**For the year ending 31 December 2023**	**For the year ending 31 December 2024**	**For the year ending 31 December 2025**	**For the year ending 31 December 2026**
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Supply of Goods and Services	925.50	809.73	817.71	1,322.67	1,820.00	1,860.00	1,900.00

The representatives of the Company advised us that the proposed annual caps for the Supply of Goods and Services for FY2024, FY2025 and FY2026 were mainly based on (i) the historical transaction amount of the Supply of Goods and Services for 3Q2023 and the expected transaction amount of the Supply of Goods and Services for the three months ending 31 December 2023 ("**4Q2023**"); (ii) an expected increase in transaction amount of approximately 21% as compared with the estimated transaction amount of the Supply of Goods and Services for FY2023; (iii) the expected increase in the provision of information technology services for FY2024; (iv) the approximately 2% increases in the proposed annual caps for FY2025 and FY2026 as compared to the previous year; and (v) a buffer of approximately 10% for the proposed annual caps for the Supply of Goods and Services.

As advised by the representatives of the Company, the historical transaction amount of the Supply of Goods and Services for 3Q2023 was approximately RMB818 million, which did not include the historical transaction amount between the IT Companies and Liaoning Port Group and its associates or subsidiary(ies) (as the case may be). The expected transaction amount of the Supply of Goods and Services for 4Q2023 of approximately RMB505 million was determined based on (i) the historical transaction amount of the Supply of Goods and Services for the third quarter of 2023 of approximately RMB481 million; and (ii) a buffer of approximately RMB24 million.

The expected increase in the transaction amount of the Supply of Goods and Services for FY2024 of approximately 21% as compared with the estimated transaction amount of the Supply of Goods and Services for FY2023 was determined based on the average annual growth rate of the estimated transaction amount of the Supply of Goods and Services for FY2023 as compared with the historical transaction amount for FY2021.

The expected increase in the provision of information technology services for FY2024 was approximately RMB34 million. As advised by the representatives of the Company, the acquisition of the IT Companies by the Company completed on 3 November 2023. Each of the IT Companies became a subsidiary of the Company after the acquisitions and resulted in the increase in connected transactions. The estimated transaction amounts of the IT Companies in relation to the Supply of Goods and Services for FY2024 were determined based on their historical transaction amounts for 3Q2023 on an annualised basis.

As shown in the above table, the proposed annual caps for the Supply of Goods and Services for FY2025 and FY2026 are RMB1,860 million and RMB1,900 million respectively, representing increases of approximately 2% as compared to the previous year. Such increases were determined based on the annual growth rate of the gross domestic product of the PRC. According to the website of the National Bureau of Statistics (國家統計局), the annual growth rate of the gross domestic product of the PRC is approximately 3% in 2022.

The Company considered the buffer of approximately 10% to be necessary to cater for the possible unforeseen increase in the transaction amount of the Supply of Goods and Services in the future.

Given the above, we are of the view that the proposed annual caps for the Supply of Goods and Services were determined based on reasonable estimation and after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned.

(2) Purchase of Goods and Services

On 26 October 2023, the Company and Liaoning Port Group entered into the Purchase of Goods and Services Agreement, pursuant to which the Group shall purchase goods and services from Liaoning Port Group and its associates or subsidiary(ies) (as the case may be) on normal commercial terms or better for the Group for a term commencing on 1 January 2024 and ending on 31 December 2026.

Pricing principle for the Purchase of Goods and Services

As stated in the Letter from the Board, the provision of goods and services by Liaoning Port Group and its associates or subsidiary(ies) (as the case may be) to the Group shall be priced in accordance with the following principles:

- at the State Price; and
- where there is no State Price, with reference to the market price at which the same or comparable types of services are provided to independent third parties in the normal course of business. Normally, at least two quotations from independent third parties will be obtained for reference.

As stated in the Letter from the Board, for the purchase of goods including network and information office equipment, office supplies, accessories, software and services including water and heating supply, production facilities and equipment maintenance, greening, commuting, canteen, medical examination, printing, conference and other related or similar services, mechanical operation, warehouse use, property management, training and bidding agency and related or similar services, the pricing policy is based on the market price at which the same or comparable types of services are provided by independent third parties in the normal course of business.

In assessing the fairness and reasonableness of the aforementioned pricing principle, we have obtained and reviewed the three largest contracts entered into between Liaoning Port Group and the Group in relation to the Purchase of Goods and Services which followed the market price (the "**Three Largest Market Price Purchase Contracts**") for each of FY2022 and 3Q2023. The Three Largest Market Price Purchase Contracts stipulated the price breakdown of the medical examination services provided by Liaoning Port Group to the Group. We have compared the prices of the medical examination services as stipulated in the Three Largest Market Price Purchase Contracts for each of FY2022 and 3Q2023 against the standard prices of the same type of medical examination services provided by Liaoning Port Group to independent third parties during the corresponding period. We noted that the prices of the medical examination services offered by Liaoning Port Group to the Group for each of FY2022 and 3Q2023 were not less favourable than the standard prices of the same type of medical examination services provided by Liaoning Port Group to the independent third parties during the corresponding period.

As stated in the Letter from the Board, for purchase of gasoline and diesel and services including cargo port charges and tugboat, the pricing will follow the State Price.

In assessing the fairness and reasonableness of the aforementioned pricing principle, we have obtained and reviewed the three largest contracts entered into between Liaoning Port Group and the Group in relation to the Purchase of Goods and Services which followed the State Price (the "**Three Largest State Price Purchase Contracts**") for each of FY2022 and 3Q2023. We noted that the Three Largest State Price Purchase Contracts stipulated that the unit prices of the relevant goods and services shall be lower than the prevailing State Prices. We have also obtained and reviewed the five largest monthly invoices for the Three Largest State Price Purchase Contracts (the "**Five Largest Monthly Invoices**") for each of FY2022 and 3Q2023 which stated the types of diesel purchased by the Group and the corresponding unit prices, and compared the unit prices stated therein against (i) the State Prices and the unit selling prices of the same types of diesel as stipulated in the price adjustment letters (the "**Price Adjustment Letters**") issued by Liaoning Port Group to the Group during the corresponding period; and (ii) the State Prices of the same types of diesel announced by the PRC government during the corresponding period. We noted that the unit prices of diesel set out in the Five Largest Monthly Invoices for each of FY2022 and 3Q2023 were lower than the unit prices of diesel set out in the Price Adjustment Letters as well as the relevant State Prices announced by the PRC government during the same period.

Given the above, we are of the view that the pricing principles for the Purchase of Goods and Services are fair and reasonable so far as the Independent Shareholders are concerned.

Proposed annual caps for the Purchase of Goods and Services

The table below sets out (i) the historical or estimated transaction amounts of the Purchase of Goods and Services from Liaoning Port Group and its associates or subsidiary(ies) (as the case may be) for FY2021, FY2022, 3Q2023 and FY2023; and (ii) the proposed annual caps for the Purchase of Goods and Services for FY2024, FY2025 and FY2026.

	Historical/Estimated transaction amounts				Proposed annual caps		
	For the year ended 31 December 2021 *RMB million*	For the year ended 31 December 2022 *RMB million*	For the nine months ended 30 September 2023 *RMB million*	For the year ending 31 December 2023 *RMB million*	For the year ending 31 December 2024 *RMB million*	For the year ending 31 December 2025 *RMB million*	For the year ending 31 December 2026 *RMB million*
Purchase of Goods and Services	515.66	585.97	400.15	690.19	900.00	900.00	900.00

The representatives of the Company advised us that the proposed annual caps for the Purchase of Goods and Services for FY2024, FY2025 and FY2026 were mainly based on (i) the historical transaction amount of the Purchase of Goods and Services for 3Q2023 and the estimated transaction amount of the Purchase of Goods and Services for 4Q2023; (ii) an expected increase in transaction amount of approximately 17% as compared with the estimated transaction amount of the Purchase of Goods and Services for FY2023; (iii) the proposed annual cap for FY2024; and (iv) a buffer of approximately 10% for the proposed annual caps for the Purchase of Goods and Services.

As advised by the representatives of the Company, the historical transaction amount of the Purchase of Goods and Services for 3Q2023 was approximately RMB400 million. The estimated transaction amount of the Purchase of Goods and Services for 4Q2023 of approximately RMB290 million was determined based on (i) the historical transaction amount of the Purchase of Goods and Services for the third quarter of 2023; (ii) the expected transaction amounts of the port related services and the maintenance services as the majority payment of contracts of these services is expected to be settled in 4Q2023; and (iii) a buffer of approximately RMB30 million. We have obtained a list of the signed contracts in respect of the port related services and the maintenance services procured by the Group from Liaoning Port Group and its associates or subsidiary(ies) (as the case may be) which are expected to settle the majority of payment in 4Q2023, and we are of the view that the estimated transaction amount of the Purchase of Goods and Services for 4Q2023 was estimated with reasonable basis. For our due diligence purpose on the list of the signed contracts by checking the supporting documents of the estimated transaction amount of the Purchase of Goods and Services for 4Q2023, we have obtained the three largest amount contracts on the list (the "**Top Three Contracts**"). The aggregate estimated amount for 4Q2023 as derived from the Top Three Contracts represented approximately 27% of the total estimated amount for 4Q2023 of the signed contracts on the list.

The expected increase in the transaction amount of the Purchase of Goods and Services for FY2024 of approximately 17% as compared with the estimated transaction amount of the Purchase of Goods and Services for FY2023 was determined based on the average annual growth rate of the estimated transaction amount of the Purchase of Goods and Services for FY2023 as compared with the historical transaction amount for FY2021.

The representatives of the Company advised us that the proposed annual caps for the Purchase of Goods and Services for FY2025 and FY2026 were determined based on the proposed annual cap for FY2024.

The Company considered the buffer of approximately 10% to be necessary to cater for the possible unforeseen increase in the transaction amount of the Purchase of Goods and Services in the future.

Given the above, we are of the view that the proposed annual caps for the Purchase of Goods and Services were determined based on reasonable estimation and after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned.

(3) Provision of Deposit Services

On 26 October 2023, the Company and CMG Finance entered into the Financial Services Agreement, pursuant to which CMG Finance shall, among other things, provide Deposit Services to the Group on normal commercial terms or better for the Group for a term commencing on 1 January 2024 and ending on 31 December 2026.

Pricing principle for the Deposit Services

As stated in the Letter from the Board, the interest rate payable by CMG Finance to the Group for any deposits should not be lower than the interest rate paid by other major commercial banks in the PRC for comparable deposits.

In assessing the fairness and reasonableness of the pricing principle for the Deposit Services, we have obtained and reviewed the records of the three largest demand deposits and the three largest time deposits placed by the Group with CMG Finance for each of FY2022 and 3Q2023. We have compared the interest rates of deposits offered by CMG Finance to the Group against (i) the board rates of deposits of similar type and term offered by CMG Finance to other independent third parties for the same period; (ii) the interest rates of deposits of similar type and term offered by the top four commercial banks in the PRC in terms of net core tier 1 capital pursuant to the "2023 China Top 100 Banks List" published by the China Banking Association in August 2023 (https://www.china-cba.net/Index/show/catid/14/id/42295.html), namely Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China and Bank of China (collectively, the "**Four Commercial Banks**"), for the same period; and (iii) the benchmark interest rates published by the People's Bank of China (the "**PBOC**") for deposits of similar type and term. We noted that the deposit interest rates offered by CMG Finance to the Group for each of FY2022 and 3Q2023 were more favourable than (i) the board rates of deposits offered by CMG Finance to other independent third parties for the same period; (ii) the interest rates of deposits offered by the Four Commercial Banks for the same period; and (iii) the benchmark interest rates published by the PBOC.

Given the above, we are of the view that the pricing principle for the Deposit Services is fair and reasonable so far as the Independent Shareholders are concerned.

Proposed annual caps for the Deposit Services

The table below sets out (i) the historical or estimated maximum daily closing balances of the Deposit Services provided by CMG Finance to the Group for FY2021, FY2022, 3Q2023 and FY2023; and (ii) the proposed annual caps for the Deposit Services for FY2024, FY2025 and FY2026.

	Historical/Estimated maximum daily closing balances				**Proposed annual caps**		
	For the year ended 31 December 2021	**For the year ended 31 December 2022**	**For the nine months ended 30 September 2023**	**For the year ending 31 December 2023**	**For the year ending 31 December 2024**	**For the year ending 31 December 2025**	**For the year ending 31 December 2026**
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Deposit Services	3,216.00	2,462.37	2,887.76	3,000.00	6,000.00	6,000.00	6,000.00

As advised by the representatives of the Company, in determining the proposed annual caps for the Deposit Services, the Directors have considered a number of factors including (i) the historical or estimated maximum daily closing balances of the deposit of the Group placed in CMG Finance; (ii) the future operation development of the Company; and (iii) the amount of the deposits of the Group placed in independent financial institutions (the "**Outside Deposits**") which can be placed in CMG Finance, provided that the interest rate offered by CMG Finance on deposits is more preferential.

As advised by the representatives of the Company, the estimated maximum daily closing balance of the deposit of the Group placed in CMG Finance for FY2023 was determined based on the historical maximum daily closing balance of the deposit of the Group placed with CMG Finance of approximately RMB2,888 million for 3Q2023 and a buffer of approximately RMB112 million. Besides, the Group expects to deposit more of its cash reserves to CMG Finance if the interest rate offered by CMG Finance on deposits is more preferential. The amount of the Outside Deposits which can be placed in CMG Finance of approximately RMB3,000 million was determined based on the average of the balances of the Outside Deposits as at 31 December 2022 and as at 30 June 2023 after deducting the payments which must be settled via the independent financial institutions. According to the calculation based on the interim report of the Company for the six months ended 30 June 2023, the Outside Deposits as at 31 December 2022 and as at 30 June 2023 were approximately RMB2,857 million and RMB3,928 million respectively. The average of the Outside Deposits as at 31 December 2022 and as at 30 June 2023 is approximately RMB3,392 million. As advised by the representatives of the Company, the payments which must be settled via the independent financial institutions was determined based on the amount of such payments for FY2022.

We are of the view that the proposed annual caps for the Deposit Services were determined based on reasonable estimation and after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned.

3. *Internal control measures*

The Group has adopted the Liaoning Port Co., Ltd. Connected Transaction Management Measure* (遼寧港口股份有限公司關聯交易管理辦法) (the "**Measure**") to monitor the continuing connected transactions. According to the Measure, the departments or units conducting connected transactions should report the amounts of the connected transactions to the finance department of the Company on the next date of each month end of the monthly financial statements. Those departments and units are responsible for the truthfulness, accuracy and completeness of those information. Furthermore, the finance department of the Company is responsible for (i) collecting the transaction amounts of the continuing connected transactions; (ii) reporting the status of the continuing connected transactions to the independent directors and the audit committee periodically; and (iii) making corresponding measures if discovering that the annual caps of the continuing connected transactions may be exceeded. As advised by the representatives of the Company, the finance department of the Company has to report the status of the continuing connected transactions to the independent directors and the audit committee annually. We have obtained and reviewed the continuing connected transactions section prepared by the finance department of the Company in the A share annual report for FY2022 to the independent directors and the audit committee and noted that the maximum daily closing balances or the transaction amounts of the continuing connected transactions as at the end of the year and whether the maximum daily closing balances or the transaction amounts of the continuing connected transactions exceeded the relevant annual caps were reported. As advised by the representatives of the Company, if discovering that the annual caps of the continuing connected transactions may be exceeded, the following measures would be made: (i) the subsidiary of the Company should report to the finance department of the Company and the responsible officer of the finance department of the Company will check the transaction amounts of the proposed continuing connected transactions against the annual caps before entering into the proposed continuing connected transactions; and (ii) if the finance department of the Company confirmed that the annual caps of the continuing connected transactions may be exceeded, the Company would comply with the applicable provisions under Chapter 14A of the Listing Rules in relation to the revision of annual caps.

Moreover, as stated in the 2022 Annual Report, the independent non-executive Directors have reviewed the continuing connected transactions and confirmed that the transactions were (i) entered into in the ordinary and usual course of business of the Group; (ii) made on normal commercial terms or better; and (iii) conducted according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole. The auditors of the Company have issued a letter in respect of the Company's continuing connected transactions containing the findings and conclusions in accordance with Rule 14A.56 of the Listing Rules and confirmed that nothing has come to their attention that causes them to believe that any transactions (i) have not been approved by the Board; (ii) involving the provision of goods or services by the Company were not conducted, in all material respects, in accordance with the pricing policies of the Company; (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and (iv) have exceeded the maximum aggregate annual caps.

Taking into account of the internal control measures as stated above, we concur with the Directors that there are adequate measures in place to monitor the Non-exempt Continuing Connected Transactions and hence the interest of the Independent Shareholders would be safeguarded.

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RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the terms of the Supply of Goods and Services Agreement, the Purchase of Goods and Services Agreement and the provision of Deposit Services under the Financial Services Agreement (including the respective annual caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Non-exempt Continuing Connected Transactions, which are conducted in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions.

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

Edith Lee
Managing Director

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

* *For identification purposes only*