THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Xiamen International Port Co., Ltd.**, you should at once hand this circular and the accompanying proxy form to the purchaser(s) or the transferee(s) or to the bank, the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

廈門國際港務股份有限公司

XIAMEN INTERNATIONAL PORT CO., LTD*

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

(Stock Code: 3378)

MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE REMAINING 49% EQUITY INTEREST IN THE TARGET COMPANY FROM XIAMEN PORT HOLDING

Financial Adviser to the Company

Capitalised terms used in this cover page have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set out on pages 4 to 13 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 14 to 15 of this circular. A letter from the Independent Financial Adviser, First Shanghai, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 35 of this circular.

A notice convening the EGM to be held at 9:00 a.m. on Wednesday, 15 November 2017 at 23rd Floor, Conference Room, No. 31 Donggang North Road, Xiamen, the PRC together with the proxy form and confirmation slip were issued and despatched to the Shareholders in accordance with the Listing Rules.

Whether or not you are able to attend the EGM, you are requested to complete and return as soon as possible (i) the confirmation slip in accordance with the instructions printed thereon not later than Thursday, 26 October 2017; and (ii) the proxy form in accordance with the instructions printed thereon in any event not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

23 October 2017

* *For identification purposes only*

CONTENTS

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

"Appraised Value"	the value of the Target Equity Interest as at 30 June 2017 as appraised by the PRC Qualified Valuer using an asset-based approach
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Company"	Xiamen International Port Co., Ltd* (廈門國際港務股份有限公司), a joint stock limited company established in the PRC, the H Shares of which are listed on the Hong Kong Stock Exchange
"Completion Date"	the date of completion of the Proposed Acquisition
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"connected subsidiary"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the total consideration for the Proposed Acquisition
"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	the director(s) of the Company
"Domestic Shares"	ordinary shares of nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for in Renminbi by the PRC nationals and/or PRC corporate entities
"EGM"	an extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, among other matters, approve the Equity Interest Transfer Agreement, the Supplemental Agreement and the transactions contemplated thereunder
"Equity Interest Transfer Agreement"	the conditional agreement dated 25 August 2017 in relation to the Proposed Acquisition entered into between Xiamen Port Development and Xiamen Port Holding
"Group"	the Company and its subsidiaries
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region, the PRC

"H Shares"	foreign invested shares of nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Hong Kong Stock Exchange and denominated in HK dollars
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Board Committee"	the independent committee of the Board established by the Board comprising all of the independent non-executive Directors, namely, Mr. Liu Feng, Mr. Lin Pengjiu, Mr. You Xianghua, Mr. Jin Tao and Mr. Ji Wenyuan to advise and make recommendations to the Independent Shareholders in relation to the transactions contemplated under the Equity Interest Transfer Agreement
"Independent Financial Adviser" or "First Shanghai"	First Shanghai Capital Limited, a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to carry out type 6 (advising on corporate finance) regulated activity which has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Interest Transfer Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders (other than Xiamen Port Holding and its associates) who are not interested or involved in the Proposed Acquisition
"Latest Practicable Date"	17 October 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Open Offer"	the proposed offer of A shares by Xiamen Port Development to its qualified shareholders in proportion to his/her/its shareholding in Xiamen Port Development to raise fund of not more than RMB1.2 billion
"PRC"	the People's Republic of China, and for the purpose of this announcement, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
"PRC Qualified Valuer"	Fujian Zhongxing Asset Appraisal Co., Ltd.* (福建中興資產評估房地產土地估價有限責任公司), an independent valuer which is qualified to undertake the asset appraisals in the PRC

"Previous Acquisition"	the acquisition of 51% equity interest in the Target Company by Xiamen Port Development from Xiamen Port Holding, details of which are set out in the announcements of the Company dated 29 June 2016, 12 August 2016 and 22 November 2016 and the circular of the Company dated 30 August 2016
"Proposed Acquisition"	the proposed acquisition of the Target Equity Interest pursuant to the Equity Interest Transfer Agreement and the Supplemental Agreement
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	holder(s) of the Domestic Shares and the H Shares
"Supplemental Agreement"	the supplemental agreement to the Equity Interest Transfer Agreement dated 29 September 2017 entered into between Xiamen Port Development and Xiamen Port Holding
"subsidiaries"	has the meaning ascribed thereto under the Listing Rules
"Target Company"	Xiamen Port Group Shihushan Terminal Company Limited* (廈門港務集團石湖山碼頭有限公司), a limited liability company established in the PRC, which is 51% owned by Xiamen Port Development and 49% owned by Xiamen Port Holding immediately prior to the completion of the Proposed Acquisition
"Target Equity Interest"	the remaining 49% equity interest in the Target Company owned by Xiamen Port Holding
"Target Group"	the Target Company and its subsidiaries
"Xiamen Port Development"	Xiamen Port Development Co., Ltd.* (廈門港務發展股份有限公司), a joint stock limited company established in the PRC, which is a non-wholly owned subsidiary of the Company, whose A shares have been listed on the Shenzhen Stock Exchange (stock code: 000905) since April 1999 and was approximately 55.13% owned by the Company as at the Latest Practicable Date
"Xiamen Port Holding"	Xiamen Port Holding Group Co., Ltd.* (廈門港務控股集團有限公司), a wholly state-owned company established in the PRC, which is the controlling shareholder of the Company holding approximately 63.14% shareholding interest in the Company as at the Latest Practicable Date
"%"	per cent

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厦門國際港務股份有限公司
XIAMEN INTERNATIONAL PORT CO., LTD*
(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 3378)

Executive Directors:
Mr. Cai Liqun
Mr. Fang Yao
Mr. Chen Zhaohui
Mr. Ke Dong

Non-executive Directors:
Mr. Chen Dingyu
Mr. Chen Zhiping
Mr. Fu Chengjing
Mr. Huang Zirong
Ms. Bai Xueqing

Independent non-executive Directors:
Mr. Liu Feng
Mr. Lin Pengjiu
Mr. You Xianghua
Mr. Jin Tao
Mr. Ji Wenyuan

Registered Office:
No. 439 Gangnan Road
Haicang District
Xiamen City
Fujian Province
The PRC

Principal place of business in Hong Kong:
36/F, Tower Two
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

23 October 2017

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE REMAINING 49% EQUITY INTEREST IN THE TARGET COMPANY FROM XIAMEN PORT HOLDING

INTRODUCTION

Reference is made to the announcements of the Company dated 29 June 2016, 12 August 2016 and 22 November 2016 and the circular of the Company dated 30 August 2016 relating to the Previous Acquisition. Pursuant to the previous equity interest transfer agreement dated 29 June 2016 entered into

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between Xiamen Port Development, a non-wholly owned subsidiary of the Company, and Xiamen Port Holding, the controlling shareholder of the Company, Xiamen Port Development was granted the call option in relation to the remaining 49% equity interest owned by Xiamen Port Holding in the Target Company.

Further reference is made to the announcements of the Company dated 25 August 2017 and 29 September 2017 in relation to the Proposed Acquisition. On 25 August 2017 (after trading hours), Xiamen Port Development entered into the Equity Interest Transfer Agreement with Xiamen Port Holding in relation to the acquisition of the remaining 49% of the equity interest in the Target Company. On 29 September 2017, Xiamen Port Development and Xiamen Port Holding entered into the Supplemental Agreement in relation to, among other matters, the determination of the final Consideration.

The purpose of this circular is to provide you with, among other things, (i) details of the Equity Interest Transfer Agreement, the Supplemental Agreement and the transactions contemplated thereunder; (ii) the recommendations from the Independent Board Committee to the Independent Shareholders in relation to the Equity Interest Transfer Agreement, the Supplemental Agreement and the transactions contemplated thereunder; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Equity Interest Transfer Agreement, the Supplemental Agreement and the transactions contemplated thereunder; and (iv) other information relating to the Group and the Target Group as required to be disclosed under the Listing Rules.

MAJOR TERMS OF THE EQUITY INTEREST TRANSFER AGREEMENT (AS SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENT)

Major terms of the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) are as follows:

Date: 25 August 2017 (as supplemented by the Supplemental Agreement)

Parties:
(1) Xiamen Port Holding (as transferor)
(2) Xiamen Port Development (as transferee)

Subject matter: the Target Equity Interest

Consideration: The final Consideration is RMB724,667,600, which shall be paid within 60 days after the receipt of the full sum of the proceeds from the Open Offer by Xiamen Port Development. Based on the current timetable of the Open Offer, it is expected that the full sum of the proceeds from the Open Offer will be received on or before 30 June 2018. However, the timetable depends largely on the vetting and approval process of the Open Offer by the relevant regulatory authorities which is beyond the control of Xiamen Port Development.

The final Consideration has been arrived at after arm's length negotiations between Xiamen Port Development and Xiamen Port Holding and is determined based on (a) the final Appraised Value as at 30 June 2017 appraised by the PRC Qualified Valuer using asset-based approach and approved by the relevant authority(ies) for the supervision and administration of state-owned assets (being approximately RMB749,987,000) minus (b) the distributable profit of the Target Company which Xiamen Port Holding shall be entitled to in proportion to its equity interest in the Target Company as at 30 June 2017 (being approximately RMB25,319,400).

The distributable profit of the Target Company as at 30 June 2017 (being a total of approximately RMB51,672,200) is distributable to Xiamen Port Holding and Xiamen Port Development in proportion to the respective equity interest of 49% and 51% in the Target Company owned by Xiamen Port Holding and Xiamen Port Development. As at the Latest Practicable Date, 49% of such distributable profit of the Target Company (being approximately RMB25,319,400) has been declared to be distributed to Xiamen Port Holding.

As (i) Xiamen Port Holding is a wholly state-owned company established in the PRC; and (ii) the transfer of the Target Equity Interest constituted a transfer of state-owned assets, Xiamen Port Holding (as the transferor), when transferring the Target Equity Interest, is subject to the requirements under the Law of the PRC on the State-Owned Assets of Enterprises (《中華人民共和國企業國有資產法》). Pursuant to the Law of the PRC on the State-Owned Assets of Enterprises (《中華人民共和國企業國有資產法》), for the transfer of state-owned assets, a minimum transfer price shall be reasonably determined on the basis of the price which is legally appraised.

The final Consideration will be settled by Xiamen Port Development in cash. RMB680,000,000 out of the final Consideration will be funded by Xiamen Port Development from part of the proceeds of the Open Offer and the remaining of the final Consideration (being RMB44,667,600) will be funded by internal resources of the Group and/or external financing.

Profit/loss of the Target Equity Interest for the period from 30 June 2017 to the Completion Date of the Proposed Acquisition (the "**Relevant Period**") shall be enjoyed/borne by Xiamen Port Holding. Upon completion of the Proposed Acquisition, special audit shall be conducted by qualified auditors, who are approved by Xiamen Port Development, on the Target Company to confirm the profit/loss of the Target Company for the Relevant Period. If the Completion Date falls on a date which is before the 15th day of a month (including the 15th day of that month), the date of the audit for the profit/loss of the Target Company for the Relevant Period shall end on the last day of the previous month. If the Completion Date falls on a date which is after the 15th day of a month, the date of the audit for the profit/loss of the Target Company for the Relevant Period shall end on the last day of that month. If the Target Company records a profit for the Relevant Period, Xiamen Port Development shall make a cash payment of the same amount to Xiamen Port Holding within five business days after the issue date of the special audit report. If the Target Company records a loss for the Relevant Period, Xiamen Port Holding shall make a cash payment of the same amount to Xiamen Port Development within five business days after the issue date of the special audit report.

Conditions precedent and approvals: The Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) shall be conditional upon the satisfaction of, among others, the following conditions:

(i) the approval by the internal decision making body of Xiamen Port Holding;

(ii) the approval by the board of directors and extraordinary general meeting of Xiamen Port Development;

(iii) the approval by the Board and the Independent Shareholders;

(iv) the granting of approval by or filing record with the relevant authority(ies) for the supervision and administration of state-owned assets regarding the relevant matters (in particular, the Appraised Value) relating to the Proposed Acquisition; and

(v) the Open Offer being approved by CSRC.

None of the conditions precedent can be waived. As at the Latest Practicable Date, conditions numbered (i) and (iv) have been fulfilled.

Completion of the Proposed Acquisition: The parties to the Equity Interest Transfer Agreement shall be responsible for procuring the Target Company to file the change in the equity holder of the Target Equity Interest with the relevant industrial and commercial administrative department within 30 days after the receipt of the full sum of the proceeds from the Open Offer by Xiamen Port Development. The Completion Date shall fall on the date when the filing of the change of equity holder of the Target Equity Interest to Xiamen Port Development is completed and the new business licence is issued to the Target Company.

Lock-up

The Target Equity Interest under the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) are not subject to any lock-up restrictions. The Group is entitled to dispose of any of the Target Equity Interest at any time upon the completion of the Proposed Acquisition.

INFORMATION ON THE TARGET COMPANY

General

The Target Company, namely, Xiamen Port Group Shihushan Terminal Company Limited* (廈門港務集團石湖山碼頭有限公司), was established in the PRC and is 51% owned by Xiamen Port Development and 49% owned by Xiamen Port Holding as at the Latest Practicable Date. There are three wholly-owned subsidiaries of the Target Company in operation, namely Xiamen Port Haiyu Terminal Company Limited* (廈門港務海宇碼頭有限公司), Xiamen Port Haiyi Terminal Company Limited* (廈門港務海億碼頭有限公司) and Xiamen Shihushan Terminal Labour Service Company Limited* (廈門石湖山碼頭勞動服務有限公司). The operational assets of the Target Group primarily comprise the operational assets that are located at berth no. 18 and no. 19 at Dongdu port area and berth no. 7 at Haicang port area. The Target Group is principally engaged in the loading and unloading of bulk cargos, such as coal and iron sand, storage and transportation agent for domestic cargo.

Selected Financial Information

The table below sets out certain audited consolidated financial information of the Target Group for the two years ended 31 December 2016 and the six months ended 30 June 2017 (all of which are prepared pursuant to the Hong Kong Financial Reporting Standards) extracted from the accountant's report set out in Appendix II to this circular:

	Year ended 31 December		**Six months ended 30 June**
	2015	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Revenue	424,467	398,818	195,091
Profit before tax	144,154	117,631	59,743
Profit after tax	145,837	109,774	48,437

	As at 31 December		**As at 30 June**
	2015	**2016**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Total assets	1,571,206	1,483,564	1,427,836
Total liabilities	780,695	783,844	679,679
Net assets	790,511	699,720	748,157

Upon completion of the Proposed Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company. As the Target Company was established by Xiamen Port Holding in January 2002, the original cost of the Target Equity Interest to Xiamen Port Holding amounts to 49% (being, RMB19,600,000) of the aggregate capital contributions made by Xiamen Port Holding since the establishment of the Target Company. The Directors do not consider the original cost of the Target Equity Interest to the Xiamen Port Holding relevant to the determination of the Consideration.

Properties

The Target Group held certain land parcels and buildings at berths nos. 18 and 19 at Dongdu port area and berth no. 7 of Haicang port area, Fujian Province, the PRC (the "**Properties**"). The valuation of the Properties as at 31 July 2017 as conducted by Savills Valuation and Professional Services Limited ("**Savills**"), a qualified independent professional valuer, was approximately RMB1,869,400,000.

The Directors consider that the valuation conducted by the PRC Qualified Valuer including the assumptions and valuation methodology adopted by the PRC Qualified Valuer are appropriate and the final Consideration for the Target Equity Interest of RMB724,667,600 based on the valuation conducted by PRC Qualified Valuer, is fair and reasonable and is in the interest of the Company and its Shareholders as a whole.

For further details of the Properties, please refer to Appendix V — Property Valuation Report to this circular.

Title defects

The Target Group has not obtained the legal title relate to (a) the Sanming houses; (b) the parking workshop no. 19; and (c) the hoist room no. 1. Sanming houses have all along been used as accommodation for certain employees of the Target Group. Parking workshop no. 19 is used by the Target Group for maintenance and repairing of movable machineries. Hoist room no. 1 is no longer used by the Target Group and is now idle. For further details of the properties with title defects, please refer to Appendix V — Property Valuation Report to this circular.

The Target Group has been occupying and using the Sanming houses and the Parking workshop no. 19 during the course of their normal operations without any interruption regardless the legal defects on the title documents. As confirmed by Xiamen Port Holding, (i) there has not been any dispute with or any claim by any third party in relation to the title of such properties; and (ii) none of Xiamen Port Holding and the Target Group has received from any governmental authorities any order of penalty, removal or dismantle relating to such land parcels and buildings or any order which may adversely affect the occupation and use of such land parcels and buildings by the Target Group. Furthermore, Xiamen Port Holding has further undertaken to compensate and indemnify Xiamen Port Development for any loss arising from or caused by any title defects on such properties or its breach of such undertakings. The above properties are only ancillary facilities and are not crucial to the Target Group's operations. On such basis, the Board is of the view that the normal operations of the Target Group would not be affected without such land use right certificates and building ownership certificates.

The parking workshop no. 19 is a temporary and simple construction and is not entitled to apply for title certificate. Hoist room no. 1 is no longer used by the Target Group and is now idle. Therefore, as at the Latest Practicable Date, the Target Group did not intend to apply for the title certificates for Parking workshop no. 19 and Hoist room no. 1.

In relation to Sanming houses, as the Target Group did not timely apply for the title documents at the time when it acquired Sanming houses, the registered owner and the actual owner of Sanming houses are currently different. As at the Latest Practicable Date, the Target Company was liaising with Huaxia (Yongan) Real Estate Development Company Limited, the registered owner of Sanming houses, in relation to the transfer of the title certificate. As confirmed by the PRC legal adviser of Xiamen Port Development, on the conditions that (i) agreements have been reached between Huaxia (Yongan) Real Estate Development Company Limited and the Target Company; and (ii) all documents required for the application of the title documents are available and the relevant procedures have been fulfilled, there is no material legal impediments for the Target Company to obtain the title certificates.

In addition, if the Target Group is required to relocate due to the legal defects of the above properties, the Target Group does not foresee any difficulties for such relocation and the relocation would not affect the Target Group's business and financial position.

The appraised value of the three buildings with no ownership certificate is included in the appraised value of the Target Equity Interest for determining the final Consideration.

The PRC Qualified Valuer conducted its valuation of the properties of the Target Group in accordance with the relevant rules and regulations in the PRC regarding the valuation of state-owned assets, which are aiming at providing a reference price for the proposed Acquisition. As a result, its valuation on the properties is made under the assumption that the properties are in good title so as to reflect their actual value.

If the appraised value of the three buildings with no ownership certificate is excluded in the appraised value of the Target Equity Interest, for illustrative purpose, the amount of appraised value is RMB749,362,479.07.

EFFECT OF THE PROPOSED ACQUISITION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

After completion of the Proposed Acquisition, the Target Company will become a wholly-owned subsidiary of the Company.

The financial effects of the Proposed Acquisition on the Group is set out in Appendix IV to this circular and summarised as below:

a. Assets

As at 30 June 2017, the consolidated total assets of the Group were approximately RMB19,736.1 million. According to the unaudited pro forma financial information, assuming the completion of the Proposed Acquisition took place on 30 June 2017, the unaudited pro forma consolidated total assets of the enlarged Group would have been decreased to approximately RMB19,549.8 million.

b. Liabilities

As at 30 June 2017, the consolidated total liabilities of the Group were approximately RMB8,332.4 million. According to the unaudited pro forma financial information, assuming the completion of the Proposed Acquisition took place on 30 June 2017, the unaudited pro forma consolidated total liabilities of the enlarged Group would have been increased to approximately RMB8,349.3 million.

c. Earnings

Upon completion of the Proposed Acquisition, there will be no immediate material impact on the earnings of the Group. The Directors expect that the Proposed Acquisition will further contribute to the existing earnings attributable to the owners of the Company in the long run as the financial results of the Target Group would no longer be shared by Xiamen Port Holdings, the shareholder holding 49% of the equity interest of the Target Company. However, the financial impact will depend on the future operating performance of the Group after the Proposed Acquisition.

Based on the audited financial statements of the Target Group, the Target Group had generated operating profits for the three years ended 31 December 2016 and the six months ended 30 June 2017. The Directors believe that the Target Group will continue to contribute positive operating results to the Group after completion of the Proposed Acquisition.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The financial results of the Target Group have been consolidated into the consolidated financial statements of the Company since the completion of the Previous Acquisition and the Target Group has contributed positively to the Group.

The Directors consider that the Proposed Acquisition will bring the following benefits to the Group:

1. Enhance the Group's integration and upgrade strategy in the bulk and general cargo terminal business

The Proposed Acquisition will cause the Target Company to become an indirect wholly-owned subsidiary of the Company, which will further: (i) enhance the overall service capability and competitiveness of the Group; (ii) enhance the Group's dominant position in Xiamen port in bulk and general cargo business; and (iii) promote the integration and upgrade and external expansion of bulk and general cargo terminal resources.

2. Enhance the Group's business size and increase revenue

Xiamen Port Development, by acquiring the Target Equity Interest, can further optimise the asset and business structure of the Group and Xiamen Port Development and promote the steady growth in the overall business size of the Group. The level of revenue of the Group is expected to be increased.

IMPLICATIONS UNDER THE LISTING RULES

Xiamen Port Development acquired 51% equity interest in the Target Company under the Previous Acquisition. The Previous Acquisition constituted a discloseable transaction and connected transaction of the Company pursuant to the Listing Rules. For details of the Previous Acquisition, please refer to the announcements of the Company dated 29 June 2016, 12 August 2016 and 22 November 2016 and the circular of the Company dated 30 August 2016.

As the Proposed Acquisition and the Previous Acquisition are conducted between the same parties in respect of equity interest in the same Target Company, the Proposed Acquisition and the Previous Acquisition were aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules. Based on the final Consideration, the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Proposed Acquisition, in aggregation with the Previous Acquisition, is more than 25% and less than 100%. The Proposed Acquisition, in aggregation with the Previous Acquisition, constitute a major transaction of the Company, and is subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Xiamen Port Holding held approximately 63.14% of the total issued shares of the Company. Accordingly, Xiamen Port Holding is the controlling shareholder of the Company and a connected person of the Company. Therefore, the Proposed Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to requirements for notification, announcement and approval by the Independent Shareholders at the EGM.

The Board has approved the Proposed Acquisition. The Directors (including the independent non-executive Directors) consider that (a) the proposed Acquisition is conducted in the ordinary and usual course of business of the Group; and (b) the terms of the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole. Since (i) Mr. Cai Liqun, being a deputy general manager of Xiamen Port Holding; (ii) Mr. Chen Dingyu, being the chairman of the board of directors of Xiamen Port Holding; (iii) Mr. Chen Zhiping, being the general manager of Xiamen Port Holding; (iv) Mr. Fu Chengjing, being a deputy general manager and the chief accountant of Xiamen Port Holding; (v) Mr. Huang Zirong, being the chief engineer of Xiamen Port Holding; and (vi) Ms. Bai Xueqing, being a deputy general manager of Xiamen Port Holding, have a material interest in the Equity Interest Transfer

Agreement, the Supplemental Agreement and the Proposed Acquisition, each of them is required to abstain and has abstained, from voting on the resolution(s) passed by the Board for approving the Equity Interest Transfer Agreement, the Supplemental Agreement and the Proposed Acquisition as required under the Listing Rules and the applicable rules and regulations passed by the Board for approving.

Since Xiamen Port Holding and its associates have material interests in and are directly involved in the Proposed Acquisition pursuant to the Equity Interest Transfer Agreement and the Supplemental Agreement, Xiamen Port Holding and its close associates are required to abstain from voting on the resolution(s) in relation to the Equity Interest Transfer Agreement, the Supplemental Agreement and the transactions contemplated thereunder at the EGM.

INFORMATION ON THE GROUP

The Group (including the Company and Xiamen Port Development) is the largest port terminal operator in Xiamen, the PRC. It is also the only group providing full scale integrated logistics port services in Xiamen. The Group is principally engaged in, among others, (i) container loading and unloading and storage for international and domestic trade; (ii) bulk/general cargo loading and unloading and storage for international and domestic trade; and (iii) ancillary integrated logistics port services, including shipping agency, tallying, tugboat berthing and unberthing and port-related logistics in Xiamen.

INFORMATION ON XIAMEN PORT HOLDING

Xiamen Port Holding is the controlling shareholder of the Company holding approximately 63.14% shareholding interest in the Company. It is principally engaged in, among others, (i) management and operation of certain state-owned assets; (ii) investment in different areas such as port, terminal, logistics, and financial institutions; (iii) port development; (iv) environmental consultancy services in respect of sea pollution; (v) information products development; and (vi) providing other port-related services.

INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

The Board has established the Independent Board Committee comprising all the independent non-executive Directors to consider and advise the Independent Shareholders as to whether the Proposed Acquisition is conducted in the ordinary and usual course of business of the Group and the terms of the Equity Interest Transfer Agreement, the Supplemental Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 14 to 15 of this circular.

The Board has appointed First Shanghai as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Proposed Acquisition is conducted in the ordinary and usual course of business of the Group and the terms of the Equity Interest Transfer Agreement, the Supplemental Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. A letter from First Shanghai containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 35 of this circular.

EGM

A notice convening the EGM to be held at 9:00 a.m. on Wednesday, 15 November 2017 at 23rd Floor, Conference Room, No. 31 Donggang North Road, Xiamen, the PRC together with the proxy form and confirmation slip were issued and despatched to the Shareholders in accordance with the Listing Rules. At the EGM, among other things, resolutions will be proposed to consider, and if thought fit, the Equity Interest Transfer Agreement, the Supplemental Agreement and the transaction contemplated thereunder. Pursuant to Rule 13.39(4) of the Listing Rules, voting at the EGM will be conducted by poll. Xiamen Port Holding and its close associates will abstain from voting on the resolution(s) in relation to the Equity Interest Transfer Agreement, the Supplemental Agreement and the transactions contemplated thereunder.

Whether or not you are able to attend the EGM, you are requested to complete and return as soon as possible (i) the confirmation slip in accordance with the instructions printed thereon not later than Thursday, 26 October 2017; and (ii) the proxy form in accordance with the instructions printed thereon in any event no later than 24 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby a Shareholder has or may have temporarily or permanently passed control over the exercise of the voting right in respect of his/its Shares to a third party, either generally or on a case-by-case basis. Accordingly, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there exists no discrepancy between any Shareholder's beneficial shareholding interest in the Company and the number of Shares in respect of which such Shareholder will control or will be entitled to exercise control over the voting right at the EGM.

RECOMMENDATION

Based on the above mentioned reasons and benefits of the Proposed Acquisition, the Board recommends the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Equity Interest Transfer Agreement, the Supplemental Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Xiamen International Port Co., Ltd
Cai Changzhen
Joint Company Secretary

厦門國際港務股份有限公司

XIAMEN INTERNATIONAL PORT CO., LTD*

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

(Stock Code: 3378)

23 October 2017

To the Independent Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE REMAINING 49% EQUITY INTEREST IN THE TARGET COMPANY FROM XIAMEN PORT HOLDING

We refer to the circular of the Company dated 23 October 2017 (the "**Circular**") of which this letter forms part. Capitalised terms defined in this letter shall have the same meaning as those defined in the Circular unless otherwise specified.

We have been appointed by the Board to form the Independent Board Committee to consider the terms of the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) and advise the Independent Shareholders whether, in our opinion, the terms of the Equity Interest Transfer Agreement and the Supplemental Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. First Shanghai has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to (i) the "Letter from the Board" set out on pages 4 to 13 of the Circular which contains, among others, information about the Equity Interest Transfer Agreement and the Supplemental Agreement; (ii) the "Letter from First Shanghai" set out on pages 16 to 35 of the Circular to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the Equity Interest Transfer Agreement, the Supplemental Agreement and the transactions contemplated thereunder; and the (iii) additional information set out in the appendices to the Circular.

Having considered, among other matters, the advice of First Shanghai as stated in its letter of advice, we are of the view that (a) the Proposed Acquisition is conducted in the ordinary and usual course of business of the Group; and (b) the terms of the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

* *For identification purposes only*

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Equity Interest Transfer Agreement, the Supplemental Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
The Independent Board Committee

Liu Feng	**Lin Pengjiu**	**You Xianghua**	**Jin Tao**	**Ji Wenyuan**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of the letter to the Independent Board Committee and the Independent Shareholders from First Shanghai dated 23 October 2017 setting out their opinion regarding the Proposed Acquisition of the remaining 49% equity interest in the Target Company pursuant to the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) for the purpose of inclusion in this circular.

第一上海
FIRST SHANGHAI GROUP
FIRST SHANGHAI CAPITAL LIMITED
第 一 上 海 融 資 有 限 公 司
19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

23 October 2017

To the Independent Board Committee and
the Independent Shareholders

Xiamen International Port Co., Ltd.
No. 439, Gangnan Road
Haicang District
Xiamen City
Fujian Province
China

Dear Sirs,

MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE REMAINING 49% EQUITY INTEREST IN THE TARGET COMPANY FROM XIAMEN PORT HOLDING

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition of the remaining 49% equity interest in the Target Company pursuant to the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement), details of which are set out in a circular dated 23 October 2017 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 25 August 2017, Xiamen Port Development, a non-wholly owned subsidiary of the Company, has entered into the Equity Interest Transfer Agreement with Xiamen Port Holding in relation to the proposed acquisition of the Target Equity Interest at the initial Consideration of RMB682,312,900. On 29 September 2017, Xiamen Port Development and Xiamen Port Holding have entered into the Supplemental Agreement in relation to, among other things, the determination of the final Consideration at RMB724,667,600, after deducting the Distributable Profit of the Target Company as at 30 June 2017, which is in proportion to

Xiamen Port Holding's equity-holding in the Target Company, being approximately RMB25,319,400, to Xiamen Port Holding. As at the Latest Practicable Date, the Target Company is 51% owned by Xiamen Port Development and 49% owned by Xiamen Port Holding.

Xiamen Port Development acquired the 51% equity interest in the Target Company under the Previous Acquisition. The Previous Acquisition constituted a discloseable transaction and connected transaction of the Company pursuant to the Listing Rules.

As the Proposed Acquisition and the Previous Acquisition are conducted between the same parties in respect of equity interest in the same Target Company, the Proposed Acquisition and the Previous Acquisition are to be aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules. Based on the final Consideration, the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Proposed Acquisition, in aggregation with the Previous Acquisition, is more than 25% and less than 100%. The Proposed Acquisition, in aggregation with the Previous Acquisition, constitutes a major transaction of the Company, and is subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Xiamen Port Holding holds approximately 63.14% of the total issued shares of the Company. Accordingly, Xiamen Port Holding is the controlling shareholder of the Company and a connected person of the Company. Therefore, the Proposed Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to requirements for notification, announcement and approval by the Independent Shareholders at the EGM by way of poll. Pursuant to the Listing Rules, Xiamen Port Holding and its associates will abstain from voting on the resolution(s) in relation to the Equity Interest Transfer Agreement, the Supplemental Agreement and the transactions contemplated thereunder.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising the five independent non-executive Directors, namely Mr. Liu Feng, Mr. Lin Pengjiu, Mr. You Xianghua, Mr. Jin Tao and Mr. Ji Wenyuan, has been established to consider the Equity Interest Transfer Agreement, the Supplemental Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders on the fairness and reasonableness in relation to the terms of the Proposed Acquisition pursuant to the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder.

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Proposed Acquisition pursuant to the Equity Interest Transfer Agreement and the Supplemental Agreement is conducted in the ordinary and usual course of business of the Group; (ii) whether or not the terms of the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) are on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in relation to the ordinary resolution(s) to be proposed for approving the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated respectively thereunder at the EGM.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, the Company and the management of the Group (the "**Management**"). We have assumed that all statements, information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular.

We consider that we have (i) obtained all information and documents of the Group and the Target Group relevant to an assessment of the fairness and reasonableness of the terms of the Proposed Acquisition; (ii) researched the relevant market and other conditions and trends relevant to the pricing of the Proposed Acquisition; (iii) reviewed the fairness, reasonableness and completeness of any assumptions or projections relevant to the Proposed Acquisition; and (iv) reviewed the opinions and valuations relevant to the Proposed Acquisition provided by (a) Savills Valuation and Professional Services Limited ("**Savills**"), who is a qualified and registered professional surveyor in Hong Kong, in respect of the land and properties held by the Target Group as at 31 July 2017 (the "**Valuation Report**") as set out in Appendix V to the Circular, as well as (b) the PRC Qualified Valuer, namely 福建中興資產評估房地產土地估價有限責任公司 (Fujian Zhongxing Assets and Real Estate Appraisal Co., Ltd.) (who being a qualified and independent expert to undertake the asset appraisal works in the PRC, in respect of the appraised value attributable to the Target Company as at 30 June 2017 (the "**Appraisal Report**"), the summary of which is set out in Appendix VI to the Circular, including reviewing the terms of engagement (having particular regard to the scope of work, whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by the experts' reports, opinions or statements). Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Proposed Acquisition, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

We consider that we have reviewed sufficient information, including financial information of the Target Group that is to be ultimately acquired by the Group, to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reason to doubt the truth, accuracy and completeness of the statements, information, facts, opinions and representations provided to us by the Directors, the Company and the Management. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed and we have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular, or the reasonableness of the opinions and representations provided to us by the Group. All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We have relied on such information and opinions and have not however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group and the Target Group.

Independent Shareholders should note that, within the past two years prior to the Latest Practicable Date, we were engaged as the independent financial adviser by the Company to provide independent financial advice to the then Independent Board Committee and the Independent Shareholders for the following two occasions:

(i) the renewal of continuing connected transactions of the Company as detailed in the circular of the Company dated 13 November 2015; and

(ii) the discloseable and connected transaction in respect of the Previous Acquisition of 51% equity interest in the Target Company from Xiamen Port Holding as detailed in the circular of the Company dated 30 August 2016.

Given (i) our independent role in that previous engagements; (ii) none of the members of our parent group is a direct party to the Equity Interest Transfer Agreement and the Supplemental Agreement; and (iii) our independent financial advisory fees for this present engagement in addition to these two previous engagements represented an insignificant percentage of revenue of our parent group, we consider that the previous two engagements would not affect our independence to form our opinion in respect of this major and connected transaction to be contemplated under the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement).

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our conclusion and recommendation in relation to the Proposed Acquisition pursuant to the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement), we have considered the following principal factors and reasons:

1. Background of the Group

The Group (including the Company and Xiamen Port Development) is the largest port terminal operator in Xiamen City, the Fujian Province, the PRC. It is also the only group providing full-scale ancillary value-added port services in Xiamen. The Group is principally engaged in, inter alia, (i) container loading and unloading and storage for international and domestic trade; (ii) bulk/general cargo loading and unloading and storage for international and domestic trade; and (iii) ancillary value-added port services, including shipping agency, tallying, tugboat berthing and unberthing and port-related logistic in Xiamen. The H Shares have been listed on the Main Board of the Hong Kong Stock Exchange since 19 December 2005.

The Group currently operates six self-owned container terminals with a total of 30 terminal berths, which are capable of accommodating the largest container vessels in the world. Shipping routes have been developed from the container terminals to major ports in Europe, the United States, the Mediterranean, Australia, Southeast Asia and Japan. The container terminals are also connected to major domestic shipping routes in the PRC. In addition, the Group has leased a few berths for operation at the Haicang port area of Xiamen port and the Qingzhou operating area of Mawei port area, Fuzhou Municipal, so as to meet the needs of business development.

2. Background of Xiamen Port Holding

Xiamen Port Holding is the controlling shareholder of the Company holding approximately 63.14% shareholding interest in the Company. It is principally engaged in, among others, (i) management and operation of certain state-owned assets; (ii) investment in different areas such as port, terminal, logistics, and financial institutions; (iii) port development; (iv) environmental consultancy services in respect of sea pollution; (v) information products development; and (vi) providing other port-related services.

3. Reasons for and benefits of the Proposed Acquisition

As mentioned in the "Letter from the Board" of the Circular, the financial results of the Target Group have been consolidated into the consolidated financial statements of the Company since the completion of the Previous Acquisition and the Target Group has contributed positively to the Group.

The Directors consider that the Proposed Acquisition will bring the following benefits to the Group:

To enhance the Group's integration and upgrade strategy in the bulk and general cargo terminal business

The Proposed Acquisition will cause the Target Company to become an indirect wholly-owned subsidiary of the Company, which will further: (i) enhance the overall service capability and competitiveness of the Group; (ii) enhance the Group's dominant position in Xiamen port in bulk and general cargo business; and (iii) promote the integration and upgrade and external expansion of bulk and general cargo terminal resources.

To enhance the Group's business size and increase revenue

Xiamen Port Development, by acquiring the Target Equity Interest, can further optimise the asset and business structure of the Group and Xiamen Port Development and promote the steady growth in the overall business size of the Group. The level of revenue of the Group is expected to be increased.

The Directors (including all the independent non-executive Directors) have approved the Proposed Acquisition, and are of the view that the Proposed Acquisition is conducted in the ordinary and usual course of business of the Group; while the terms of the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

4. Overview of the port industry in Xiamen City and the operating performance of the Group

China's foreign trade and port container business

As extracted from the annual report of the Company (the "**Annual Report(s)**") for the year ended 31 December 2016, the global economy remained in the stage of deep adjustment in 2016. As the economic growth of the developed economies significantly slowed down, the global economic growth rate was slightly slower than that in 2015, and the momentum of major economies, such as the European countries, the United States and Japan, to drive the global economic growth was weakening significantly. In addition, coupled with the continued postponed global economic growth rate, the increasingly depressed investment in international trade and the increasingly overt anti-globalization trend, the global economy has been confronted with more risks and challenges.

According to the relevant information released by the National Bureau of Statistics of the PRC, the gross national product of the PRC in 2016 was approximately RMB74.4127 trillion, representing an increase of approximately 6.7% over that of 2015 with a slowdown in growth; the total import and export volume of goods of the PRC was approximately RMB24.3386 trillion, representing a decrease of approximately 0.9% over that in 2015, and the decrease in export volume was slower than that in 2015, among which, the export of goods decreased by approximately 1.9% to about RMB13.8455 trillion and the import of goods increased by approximately 0.6% to about RMB10.4932 trillion in the full year; after the offset of the import and export volume of goods, the foreign trade surplus was approximately RMB3.3523 trillion. For the port operation business, China's port cargo throughput was approximately 11.83 billion tonnes in 2016, representing a year-on-year increase of approximately 3.2% when compared to that in 2015; while the port container throughput achieved was approximately 217.98 million TEUs, representing a year-on-year growth of approximately 3.6% when compared to that in 2015.

Foreign trade of Fujian Province and ports in Xiamen City

In 2016, the economic operation in Fujian Province, the PRC maintained a steady growth taken as a whole with its economic structure further optimized and its economic growth anchored above the national overall level. However, due to the decreasing demand of its major exporters and the diversion of orders from some traditional industries to Southeast Asian countries as a result of continued depression in the international market, the exports in Fujian Province continued to decline.

According to the statistical data issued by the government of Fujian Province, the gross domestic product of Fujian Province in 2016 amounted to approximately RMB2.8519 trillion, representing a year-on-year growth of approximately 8.4% when compared to that in 2015; the total export and import of foreign trade was approximately RMB1.0352 trillion, representing a year-on-year decrease of approximately 1.2% when compared to that in 2015, and the port cargo throughput amounted to approximately 508 million tonnes, representing a year-on-year increase of approximately 1.0% when compared to that in 2015; while the container throughput achieved was approximately 14.4 million TEUs, representing a year-on-year increase of approximately 5.6% when compared to that in 2015.

In 2016, the "One Belt, One Road" strategy of China has been proactively implemented in Xiamen City to facilitate the investments and trade. The "Single Window" for international trade has been awarded as the best practical precedent in the pilot free trade zones in China and the customs clearance efficiency has been improved by over 50%, speeding up the development of the first class international business environment.

Xiamen City has been established as one of the four major international shipping centers in China and has been approved as the national pilot modern logistics innovation and development city and smart logistics city. The business of Xiamen port has maintained a steady growth on the whole. Based on the comprehensive assessments of Shanghai International Shipping Research Center, Xiamen port ranked fourth in the Mainland China in terms of the comprehensive services of domestic coastal container ports. In 2016, the total value of import and export of foreign trade of Xiamen was approximately RMB509,160 million, representing a year-on-year decrease of approximately 1.4% when compared to that in 2015; the total container throughput achieved by Xiamen port was approximately 9.614 million TEUs, representing an increase of approximately 4.7% over that of 2015, and ranked seventh in terms of container throughput among the ports in the Mainland China, accounting for approximately 66.8% of the total container throughput in Fujian Province, the PRC.

Operating performance of the Group

In terms of operating performance of the Group itself, the Group had recorded revenue of approximately RMB8,484.0 million for the year ended 31 December 2016, representing an increase of approximately 22.7% as compared to that of approximately RMB6,915.7 million in 2015. The increase was mainly due to the increases in revenue from the Group's trading business of merchandise, container loading and unloading and storage business and the consolidation of a new subsidiary company to the Group. Profit attributable to owners of the Company amounted to approximately RMB319.3 million for the year ended 31 December 2016, representing a very slight decrease by approximately 0.06% as compared to that of approximately RMB319.5 million in 2015.

During the six months ended 30 June 2017, the Group recorded a revenue of approximately RMB6,023.3 million, representing an increase of approximately 55.6% as compared to that of approximately RMB3,872.3 million (as restated) in the same period of 2016. Profit attributable to the owners of the Company was approximately RMB260.7 million, representing an increase of approximately 79.8% as compared to that of approximately RMB145.0 million (restated) in the same period of 2016. The increase was mainly due to the increase in revenues from the trading business of merchandise, container loading and unloading and storage business of the Group; and other investment gains from consolidation of a new subsidiary company to the Group.

Based on the above background information, we are of the view that the Proposed Acquisition is in line with the business development strategy of the Group, and therefore conducted in its ordinary and usual course of business by further consolidating its absolute control over the Target Group for enhancing its operational management efficiency or flexibility and operating capability for long-term business development, and in the interests of the Company and the Shareholders as a whole.

5. Background of the Target Group

The Target Company, namely Xiamen Port Group Shihushan Terminal Company Limited* (廈門港務集團石湖山碼頭有限公司), is established in the PRC and is a non wholly-owned subsidiary of held by the Company and Xiamen Port Holding as to 51% and 49%, respectively, immediately prior to the Proposed Acquisition. There are three wholly-owned subsidiaries of the Target Company in operation, namely, Xiamen Port Haiyu Terminal Company Limited* (廈門港務海宇碼頭有限公司), Xiamen Port Haiyi Terminal Company Limited* (廈門港務海億碼頭有限公司) and Xiamen Shihushan Terminal Labour Service Company Limited* (廈門石湖山碼頭勞動服務有限公司). The operational assets of the Target Group primarily comprise the operational assets that are located at berth no. 18 and no. 19 at Dongdu port area and berth no. 7 at Haicang port area. The Target Group is principally engaged in the loading and unloading of bulk cargos, such as coal and iron sand, storage and transportation agent for domestic cargo.

Based on the audited consolidated financial statements of the Target Group prepared pursuant to the Hong Kong Financial Reporting Standards for each of the two years ended 31 December 2016 as set out in the "Information on the Target Company" in the Circular, the Target Group had recorded consolidated profit before and after tax of approximately RMB144.2 million and RMB145.8 million for the year ended 31 December 2015; and consolidated profit before and after tax of approximately RMB117.6 million and RMB109.8 million for the year ended 31 December 2016, respectively. The decrease in net profit after tax of the Target Group was mainly attributable to the decrease in gross profit by approximately RMB43.3 million, while its gross profit margin had also declined from approximately 40.6% in 2015 to 32.3% in 2016. As at 31 December 2016 and 30 June 2017, the Target Group had consolidated net asset value of approximately RMB699.7 million and RMB748.2 million, respectively, based on the same audited consolidated financial statements.

Upon the Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company. As the Target Company was established by Xiamen Port Holding in January 2002, the original cost of the Target Equity Interest to Xiamen Port Holding amounted to RMB19,600,000, being 49% of the aggregate capital contributions made by Xiamen Port Holding since the establishment of the Target Company. The Directors do not consider the original cost of the Target Equity Interest to the Xiamen Port Holding relevant to the determination of the Consideration.

Based on our understanding from the Management, the Group, in substance, is aiming to further consolidate its absolute control over the existing terminal assets within the relevant port areas located at berth nos. 18 and 19 at Dongdu port area and berth no. 7 at Haicang port area, where is a sound geographic location of port, for enhancing its existing operating management efficiency or flexibility and ultimately long-term sustainable business development; while the historical operating performance of the Target Group had been rather satisfactory in terms of profitability and operating cash inflow for each of three years ended 31 December 2014 to 2016, even though there was decline in revenue and net profit after tax for the year ended 31 December 2016 mainly due to the unfavourable and sluggish global economic environment.

Based on the above information, we are of the view that the Proposed Acquisition, with reference to the Appraised Value, is in the interests of the Company and the Shareholders as a whole, notwithstanding the Target Group had its sound historical operating and financial performance for the past three years ended 31 December 2016.

6. Principal terms of the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement)

Assets to be acquired

Pursuant to the previous equity interest transfer agreement dated 29 June 2016 entered into between Xiamen Port Development and Xiamen Port Holding, Xiamen Port Development has the call option in relation to the remaining 49% equity interest owned by Xiamen Port Holding in the Target Company. On 17 July 2017, Xiamen Port Development notified Xiamen Port Holding in writing its intention to acquire the remaining 49% equity interest in the Target Company owned by Xiamen Port Holding.

On 25 August 2017, Xiamen Port Development, a non-wholly owned subsidiary of the Company, has entered into the Equity Interest Transfer Agreement with Xiamen Port Holding in relation to the Proposed Acquisition of the remaining 49% of the Target Equity Interest in the Target Company, at the initial Consideration of RMB682,312,900.

On 29 September 2017, Xiamen Port Development and Xiamen Port Holding have entered into the Supplemental Agreement in relation to, among other things, the determination of the final Consideration. It was confirmed in the Supplemental Agreement that the final Appraised Value which has been approved by the relevant authority(ies) for the supervision and administration of state-owned assets is approximately RMB749,987,000. Furthermore, Xiamen Port Development and Xiamen Port Holding have confirmed that the Target Company shall declare the Distributable Profit of the Target Company as at 30 June 2017, which is in proportion to Xiamen Port Holding's equity-holding in the Target Company, being approximately RMB25,319,400, to Xiamen Port Holding before the completion of the Proposed Acquisition. Xiamen Port Development and Xiamen Port Holding agreed the final Consideration shall be RMB724,667,600, being the amount of the Appraised Value (which has been approved by the relevant authority(ies) for the supervision and administration of state-owned assets) minus the Distributable Profit.

Consideration under the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement)

The final Consideration is RMB724,667,600, which shall be paid within 60 days after the receipt of the full sum of the proceeds from the Open Offer by Xiamen Port Development.

The final Consideration has been arrived at after arm's length negotiations between Xiamen Port Development and Xiamen Port Holding and was determined based on (a) the final Appraised Value of the Target Equity Interest as at 30 June 2017, which was appraised by the PRC Qualified Valuer using asset-based approach and approved by the relevant authority(ies) for the supervision and administration of state-owned assets (being approximately RMB749,987,000), minus (b) the Distributable Profit of the Target Company which Xiamen Port Holding shall be entitled to in proportion to its equity interest in the Target Company as at 30 June 2017 (being approximately RMB25,319,400). The valuation report of the PRC Qualified Valuer and the Appraised Value had been filed with and approved by the relevant authority(ies) for the supervision and administration of state-owned assets.

The Distributable Profit as at 30 June 2017 (being a total of approximately RMB51,672,200) is distributable to Xiamen Port Holding and Xiamen Port Development in proportion to the respective equity interest of 49% and 51% in the Target Company owned by Xiamen Port Holding and Xiamen Port Development. As at the Latest Practicable Date, 49% of such Distributable Profit (being approximately RMB25,319,400) has been declared to be distributed to Xiamen Port Holding.

The final Consideration will be settled by Xiamen Port Development in cash, of which, RMB680.0 million will be funded by Xiamen Port Development from part of the proceeds from the Open Offer and the remaining of the final Consideration (being RMB44,667,600) will be funded by internal resources of the Group and/or external financing.

Profit/loss of the Target Equity Interest for the period from 30 June 2017 to the Completion Date of the Proposed Acquisition (the "**Relevant Period**") shall be enjoyed/borne by Xiamen Port Holding. Upon completion of the Proposed Acquisition (the "**Completion**"), special audit shall be conducted by qualified auditors, who are approved by Xiamen Port Development, on the Target Company to confirm the profit/loss of the Target Company for the Relevant Period. If the Completion Date falls on a date which is before the 15th day of a month (including the 15th day of that month), the date of the audit for the profit/loss of the Target Company for the Relevant Period shall end on the last day of the previous month. If the Completion Date falls on a date which is after the 15th day of a month, the date of the audit for the profit/loss of the Target Company for the Relevant Period shall end on the last day of that month. If the Target Company records a profit for the Relevant Period, Xiamen Port Development shall make a cash payment of the same amount to Xiamen Port Holding within five business days after the issue date of the special audit report. If the Target Company records a loss for the Relevant Period, Xiamen Port Holding shall make a cash payment of the same amount to Xiamen Port Development within five business days after the issue date of the special audit report.

We consider that the above arrangement is to set out a clear cut-off line to determine pre-acquisition and post-acquisition profit or loss to be enjoyed/borne by Xiamen Port Holding and Xiamen Port Development respectively, which is a fair and equitable treatment in usual merger and acquisition activities, and therefore is fair and reasonable, in the interests of Group and the Shareholders as a whole.

Basis for determination of the Consideration

The final Consideration payable for the Proposed Acquisition of RMB724,667,600 was determined by the parties to the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) after arm-length's negotiations between Xiamen Port Development and Xiamen Port Holding with reference to, inter alia, the Appraised Value of the Target Company as at 30 June 2017 as shown in the Appraisal Report on the Target Company issued by the PRC Qualified Valuer, a PRC qualified appraisal firm independent from each of the Group and Xiamen Port Holding.

Based on the website of 中國證券監督管理委員會 (China Securities Regulatory Commission of the PRC) (the "**CSRC**") at http://www.csrc.gov.cn, the PRC Qualified Valuer is one of the 69 qualified asset appraisal firms authorised by the CSRC and 中華人民共和國財政部 (the Ministry of Finance of the PRC) to perform asset appraisal works in the PRC. It has possessed sufficient qualifications and experience in valuing assets similar to that of the Target Company for listed companies in the PRC and Hong Kong over the years.

The Appraised Value was finally calculated and arrived at based on the asset-based approach and the general industry standards recognised and adopted nationally, which was further verified and approved by the 廈門市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Xiamen City Government). The PRC Qualified Valuer has considered, but finally did not adopt, the income approach for evaluating the value of the Target Group by projecting the discounted cash flow to be generated therefrom in the future, in view of its business nature and asset-based in company value of the Target Group. In fact, there is only a minimal derivation of about 0.24% of appraisal end results between the income approach and asset-based approach for preparation of the Appraisal Report. As such, we consider that the asset-based approach is an appropriate methodology used in the appraisal for the Target Group, and the PRC Qualified Valuer has the requisite experience and expertise to conduct the appraisal for the Target Group. On such basis, the appraisal value of 100% equity interest of the Target Group as at 30 June 2017 as appraised by the PRC Qualified Valuer is RMB1,530,585,700, while the Appraised Value attributable to the 49% Target Equity Interest is then RMB749,987,000. The final Consideration of RMB724,667,600 is equal to the Appraised Value of the Target Equity Interest of approximately RMB749,987,000 after deducting 49% share (i.e. approximately RMB25,319,400) of the total Distributable Profit of approximately RMB51,672,200.

We have reviewed the Appraisal Report and discussed with the PRC Qualified Valuer regarding, among other things, the basis and assumptions made and the methodology adopted by the PRC Qualified Valuer in conducting the appraisal for the major assets and properties of the Target Group. We understand that the PRC Qualified Valuer has finally adopted the asset-based approach for the appraisal of major assets of the Target Group due to unavailability of relevant market comparables, in terms of the port infrastructure and its terminal assets. Under that approach, the major assets of the Target Group, in particular the port infrastructure and its terminal assets, were valued on the basis of their depreciated replacement cost, which were then based on market value estimate for the existing use of such assets, plus the current cost of replacement (reproduction) for the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

We have also reviewed the Valuation Report and made necessary enquiry with Savills. We understand that Savills has carried out physical site inspection of the properties in early of August 2017, and has obtained PRC legal opinion on the titles of the properties. In valuing the properties, which are held for owner occupation by the Target Group in the PRC, due to the specific purpose for which the properties have been constructed, there are no readily available market comparables and thus the properties cannot be valued on the basis of direct comparison. They have been valued by the depreciated replacement cost approach. Depreciated replacement cost approach is based on an estimate of the market value for the existing use of the land plus the current replacement costs of the buildings and structures, from which deductions are then made to allow for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost approach is subject to adequate potential profitability of the business. Furthermore, Savills is a qualified and renowned professional valuation firm in Hong Kong with extensive experience in the valuation of properties in the Hong Kong and the PRC. Based on the above understanding and our due diligence enquiry with Savills, we have no reason to doubt the fairness and appropriateness of the valuation of the land use rights of the various land parcels and the ancillary buildings structures under the Proposed Acquisition prepared by Savills. Based on our further enquiry with the PRC Qualified Valuer and Savills, there was merely very slight deviation of the end appraisal/valuation results between that of the PRC Qualified Valuer and Savills on the properties (i.e. the land parcels and the ancillary building structures located at berth nos. 7, 18 and 19) attributable to the Target Group, amounting to/accounting for approximately RMB17.3 million or 0.93% there between.

Based on our review of the Appraisal Report and the Valuation Report, we noted that there are certain insignificant defects on the assets and improperness of their legal title documents, mainly referring to certain property buildings with no valid title documents with gross floor areas of approximately 940 sq.m., to be acquired under the Target Group, but the property appraisal value involved is very minimal of approximately RMB1.3 million. The Target Group has been occupying and using the defective property buildings during the course of their normal operations without any interruption regardless the legal defects on the title documents. As confirmed by Xiamen Port Holding, (i) there has not been any dispute with or any claim by any third party in relation to the title of such properties; and (ii) none of Xiamen Port Holding and the Target Group has received from any governmental authorities any order of penalty, removal or dismantle relating to such land parcels and buildings or any order which may adversely affect the occupation and use of such land parcels and buildings by the Target Group. Furthermore, Xiamen Port Holding has further undertaken to compensate and indemnify Xiamen Port Development for any loss arising from or caused by any title defects on such properties or its breach of such undertakings. The above properties with legal defects on the title documents are only ancillary facilities and are not crucial to the Target Group's operations. On such basis, the Board is of the view that the normal operations of the Target Group would not be affected without such land use right certificates and building ownership certificates. Please refer to the "Letter from the Board' of, and the "Property valuation report" in Appendix V to, the Circular for fuller details.

In addition, if the Target Group is required to relocate due to the legal defects of the above properties, the Target Group does not foresee any difficulties for such relocation and the relocation would not affect its business operation and financial position. In fact, the PRC Qualified Valuer has included the appraised value of the property buildings without ownership certificates in the Target Equity Interest for determining the final Consideration whilst the Savills has assigned no commercial value to the said property buildings with defects, but the relevant property appraisal value is minimal in any event. Other than the above-mentioned defective property interests, according to the legal opinion provided by the PRC legal advisers to Xiamen Port Development, the Target Company has legally obtained the land use rights and building ownership of the properties as stated on the Real Estate Title Certificates (不動產權證書) attributable to the Target Group, and is entitled to occupy, use, transfer, lease, mortgage or by other legal means to dispose of the properties. Based on our understanding from the Management, the Group believes that any title defect and/or improperness of the relevant property buildings' ownership would not cause any potential material adverse consequence thereof, and would not materially affect the Completion and its subsequent business operations and development of the Group. On such basis, we consider that such insignificant defects and/or improperness would not affect the overall fairness and reasonableness of the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement).

In light of the above, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the Appraisal Report and the Valuation Report. Accordingly, we are of the view that the Appraisal Report and the Valuation Report have been reasonably prepared and are normal in nature without any unusual assumptions; and the bases of the Appraisal Report and the Valuation Report are fair and reasonable.

As (i) Xiamen Port Holding is a wholly stated-owned company established in the PRC; and (ii) the transfer of the Target Equity Interest constituted a transfer of state-owned assets, Xiamen Port Holding (as the transferor), when transferring the Target Equity Interest, is subject to the requirements under the Law of the PRC on the State-Owned Assets of Enterprises (《中華人民共和國企業國有資產法》). Pursuant to the Law of the PRC on the State-Owned Assets of Enterprises (《中華人民共和國企業國有資產法》), for the transfer of state-owned assets, a minimum transfer price shall be reasonably determined on the basis of the price which is legally appraised. Given the Appraisal Report is legally and compulsorily required to be prepared for providing reference when determining consideration for transfer of the Target Equity Interest between Xiamen Port Holding and Xiamen Port Development; while the PRC Qualified Valuer has the requisite professional qualifications and experience in valuing assets similar to that of the Target Group, we consider that the basis for determination of the Consideration based on the Appraisal Report is fair and reasonable, even though the final Consideration of RMB724,667,600 is significantly higher than the 49% share of the net asset value of the Target Group of approximately RMB366,596,930 as at 30 June 2017, mainly due to the greater appreciation of property market value (i.e. the land parcels and the ancillary building structures located at berth nos. 7, 18 and 19) attributable to the Target Group, but which had not been fairly reflected in the accounting records and consolidated financial statements of the Target Group prepared on historical cost basis.

Conditions precedent and approvals

The Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) shall be conditional upon the satisfaction of, among others, the following conditions:

(i) the approval by the internal decision making body of Xiamen Port Holding;

(ii) the approval by the board of directors and extraordinary general meeting of Xiamen Port Development;

(iii) the approval by the Board and the Independent Shareholders;

(iv) the granting of approval by or filing record with the relevant authority(ies) for the supervision and administration of state-owned assets regarding the relevant matters (in particular, the Appraised Value) relating to the Proposed Acquisition; and

(v) the Open Offer being approved by the CSRC.

None of the conditions precedent can be waived. As at the Latest Practicable Date, conditions numbered (i) and (iv) have been fulfilled.

Completion

The parties to the Equity Interest Transfer Agreement shall be responsible for procuring the Target Company to file the change in the equity holder of the Target Equity Interest with the relevant industrial and commercial administrative department within 30 days after the receipt of the full sum of the proceeds from the Open Offer by Xiamen Port Development. The Completion Date shall fall on the date when the filing of the change of equity holder of the Target Equity Interest to Xiamen Port Development is completed and the new business licence is issued to the Target Company.

Lock-up

The Target Equity Interest under the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) is not subject to any lock-up restrictions. The Group is entitled to dispose of any of the Target Equity Interest at any time upon the Completion of the Proposed Acquisition.

7. Comparison with other companies in the similar industry

Based on our understanding from the Management, the subject matter of the Proposed Acquisition, in substance, is the terminal assets, where are sound geographical locations of port capable for accommodating various size of container ships and/or boats, which could enhance the Group's handling capability for bulk/general cargo loading and unloading business following the Completion, and therefore ultimately help improve its external competitiveness in the proximity for long-term business development. Given the current volatile stock/financial market sentiment, in particular for the shipping-related (i.e. including port operation) companies because of the persistent sluggish and uncertain global economic environment, we consider that short-term share price performance and trading volume of the stock market might be distorted, and therefore might not fairly reflect the business value of enterprises listed on the Stock Exchange in terms of their long-term business development. On such basis, in addition to the P/E Ratio and P/B Ratio of the Comparables (as defined below) as illustrated for Independent Shareholders further reference hereinafter, we consider that it would be more meaningful for us to consider the Appraised Value attributable to the Target Equity Interest rather than to make reference to (i) the past financial and operating performance of the Target Group; and (ii) the Comparables under the prevailing sluggish and uncertain global economic environment, on the basis that the assets of the Target Group substantially consist of the terminal assets, which would be essential for enhancing the Group's existing operating capability and strategic business development in the long-term future. As such, determination of the Consideration for the Proposed Acquisition by making reference to the Appraised Value is an appropriate and reliable appraisal basis for the Target Group as a whole.

Price to earning ratio ("P/E Ratio") and price to book ratio ("P/B Ratio")

In addition to the Appraised Value, in order to assess the fairness and reasonableness of the Consideration, we have identified a population of five companies including the Company itself, (i) which are engaged in business activities (i.e. port operation) with operating geographical locations (i.e. located at cities within the PRC) similar to those of the Target Company; and (ii) the securities of which are listed on the Main Board of the Stock Exchange (together the "**Comparables**"). Accordingly, we have compared the market statistics of the Comparables with the Consideration in terms of P/B Ratio and P/E Ratio as at 25 August 2017, being the date of the Equity Interest Transfer Agreement, which to the best of our knowledge and belief, can form a fair and representative sample for reference by the Independent Shareholders on the grounds that (i) they shall represent an exhaustive list based on our selection and identification criteria; and (ii) their segment operating results attributable to the port operation and its related businesses accounted for a very substantial portion of their respective total operating results for the past two years, details of which are set out below:

Name of companies (Stock Code)	**Principal business activities**	**Closing price of the shares on 25 August 2017** *HK$*	**Historical P/B Ratio as at 25 August 2017** *(times)* *Note 2*	**Historical P/E Ratio as at 25 August 2017** *(times)* *Note 3*
China Merchants Port Holdings Company Limited (144)	Ports operation, bonded logistics and cold chain operations, property development and investment	23.55	0.9	11.3

Name of companies (Stock Code)	Principal business activities	Closing price of the shares on 25 August 2017 *HK$*	Historical P/B Ratio as at 25 August 2017 *(times)* *Note 2*	Historical P/E Ratio as at 25 August 2017 *(times)* *Note 3*
Dalian Port (PDA) Company Limited (2880)	Provision of oil/liquefied chemicals terminal, container terminal, automobile terminal, ore terminal, general cargo terminal, bulk grain terminal, passenger & roll-on & off terminal & logistics services; and port value added services	1.41	0.9	30.0
Qinhuangdao Port Company Limited (3369)	Provision of integrated port services including stevedoring, stacking, warehousing, transportation and logistics and handling various types of cargo including coal, metal ores, oil, liquefied chemicals, containers and general cargo	2.64	1.0	31.8
Xiamen International Port Company Limited (3378)	Container, bulk and general cargo loading and unloading businesses, ancillary value-added port services, building materials manufacturing, processing and selling and the trading of industrial products, and long-term investment business	1.52	0.7	11.4

Name of companies (Stock Code)	Principal business activities	Closing price of the shares on 25 August 2017	Historical P/B Ratio as at 25 August 2017	Historical P/E Ratio as at 25 August 2017
		HK$	*(times)*	*(times)*
			Note 2	*Note 3*
Tianjin Port Development Holdings Limited (3382)	Provision of containerised and non-containerised cargo handling services, sales and other port ancillary services	1.26	0.7	14.6
	Maximum		1.0	31.8
	Average		0.9	19.8
	Median		0.9	14.6
	Minimum		0.7	11.3
			Note 4	*Note 5*
The Target Company		**N/A**	**1.0**	**12.7**

Source: the Stock Exchange's website

Notes:

1. The net asset values attributable to owners of the Comparables are extracted from their respective latest annual reports.

2. P/B Ratios of the Comparables are calculated based on their respective closing prices as at 25 August 2017 (i.e. being the date of the Equity Interest Transfer Agreement), and their net asset values attributable to owners of the Comparables as at their latest year end date, divided by the total number of issued shares as at the relevant year end date.

3. P/E Ratios of the Comparables are calculated based on their respective closing prices as at 25 August 2017 (i.e. being the date of the Equity Interest Transfer Agreement), and the net profit attributable to owners of the Comparables for their latest full financial years, divided by the total number of issued shares as at the relevant year end date.

4. The implied P/B Ratio of the Target Company is calculated based on the final Consideration of approximately RMB724,667,600 divided by the Appraised Value of approximately RMB749,987,000 after deducting the 49% share (i.e. approximately RMB25,319,400) of the total Distributable Profit at of approximately RMB51,672,200.

5. The implied P/E Ratio of the Target Company is calculated based on the final Consideration of RMB724,667,600 divided by the 49% share of the profit attributable to the equity-holder of the Target Company of approximately RMB51,672,200 for the year ended 31 December 2016.

Given that there is no publicly available financial information on the privately-owned port operation companies in Hong Kong, we consider that it is appropriate to provide the market statistics of the Comparables which are engaged in similar business as the Target Company with port operations located in the PRC as a measure of comparison for Independent Shareholders' additional reference.

According to the Appraisal Report for the Target Company, the total appraisal value in aggregate of 100% equity interest thereof as at 30 June 2017 was RMB1,530,585,700; while the Appraised Value in respect of 49% equity interest attributable to the Proposed Acquisition and the final Consideration therefor would then be RMB749,987,000 and approximately RMB724,667,600 after deduction of the 49% share (i.e. approximately RMB25,319,400 of the total Distributable Profit at approximately RMB51,672,200, which had been agreed to be entitled by Xiamen Port Holding), respectively, and derived the appropriate range of P/B Ratio as assessed in the following.

As shown in the above table, the P/B Ratio of the Comparables ranges narrowly from approximately 0.7 times to 1.0 times, and the average P/B Ratio of the Comparables is approximately 0.9 times. Based on the above scenario, it shows that determination of the final Consideration at the P/B Ratio of 1.0 times is (i) within the range of the P/B Ratio of the Comparables; and (ii) slightly above the average, and at the upper range, of the P/B Ratio of the Comparables. Having considered that (a) the then prevailing share prices of the Comparables were likely distorted by the unfavourable market sentiment for shipping-related (i.e. including port operation) companies, because of the persistent sluggish and uncertain global economic environment, which in turn led to the overall lower valuation for listed shares of port operation companies in the stock market and hence lower P/B Ratios; whilst (b) the substance of the Proposed Acquisition is to better secure the Group's absolute control over the terminal assets thereunder at the Appraised Value for enhancing the operational management efficiency or flexibility so as enhancing the Group's operating capability and long-term business development, which may be regarded as if the Group is going to acquire the similar terminal assets in open market at prevailing fair market price, we are of the view that determination of the final Consideration at P/B Ratio of 1.0 times (i.e. equivalent to the Appraised Value and hence fair market price) is justifiable, fair and reasonable.

Based on our discussion with the Management, we understand that the Group is aiming to further consolidate its control over the Target Company, and hence the terminal assets thereunder, for enhancing its operational management efficiency or flexibility and operating capability for long-term business development. On such basis, the parties to the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) did not consider the valuation of the Target Group based on P/E Ratio of the Target Group. However, we still consider meaningful to provide an additional analysis in terms of P/E Ratio for Independent Shareholders' reference. As shown in the above table, the P/E Ratio of the Comparables ranges from approximately 11.3 times to 31.8 times, and the average P/E Ratio of the Comparables is about 19.8 times. Based on the above scenario, the final Consideration at an implied P/E Ratio of about 12.7 times is (i) within the range of the P/E Ratio of the Comparables; and (ii) below the average and median P/E Ratio of the Comparables, but quite close to the median P/E Ratio thereof at about 14.6 times.

Based on the above analyses from different angles, we are of the view that the basis for determination of the final Consideration for the Proposed Acquisition is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

Control over the Target Company

Immediately following the Completion, Xiamen Port Development will be able to absolutely control the operating and financial policies of the Target Group and its terminal assets at berth nos. 18 and 19 at Dongdu port area and berth no. 7 at Haicang port area, which will enhance the operational management efficiency or flexibility and operating capability of the Enlarged Group for long-term business development.

Based on the above analysis and consideration, we are of the view that the terms of the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement), including the basis for determining the final Consideration for the Proposed Acquisition and its payment terms, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

8. Possible financial effects on the Proposed Acquisition of the Group

Earnings

Upon the Completion, there is no immediate material impact on earnings of the Group, while the Directors expect that the Proposed Acquisition will further consolidate its absolute control over the Target Group, hence the terminal assets, and ultimately will enhance the operational management efficiency or flexibility and operating capability of the existing port area and business development of the Enlarged Group, and then further contribute to its earnings base in the long run because the financial results of the Target Group would no longer be shared by its 49% minority equity-holder (i.e. Xiamen Port Holding), but the quantification of such impact will depend on the future operating performance of the Group after the Proposed Acquisition.

Based on the respective audited financial statements of the Target Group prepared pursuant to the Hong Kong Financial Reporting Standards, the Target Group had been operating profitably over the past three years ended 31 December 2016 and the six months ended 30 June 2017, despite of decline in revenue and net profit after tax for the year ended 31 December 2016 and thereafter, it is currently expected that the Target Group will continue to contribute positive operating results to the Group after Completion.

Working capital

Based on the interim report of the Company for the six months ended 30 June 2017 (the "**Interim Report**"), the Group's working capital deficiency (i.e. total current assets of approximately RMB4,018.0 million, less total current liabilities of approximately RMB5,677.9 million) and cash and cash equivalents as at 30 June 2016 amounted to approximately RMB1,659.9 million and RMB739.1 million respectively, representing a current ratio of 70.8%. The working capital deficiency position as at 30 June 2017 showed that the Group's working capital requirement was relatively tight.

The final Consideration for the Proposed Acquisition will be mainly financed by the net proceeds from the Open Offer of A Shares by Xiamen Port Development and some internal resources of the Group, when the Directors consider appropriate and necessary. Further, the final Consideration will be settled within 60 days after the receipt of the full sum of the proceeds from the Open Offer by Xiamen Port Development. As such, the Directors currently expect that the Proposed Acquisition would not exert considerable immediate pressure on the working capital of the Group.

Based on our review of the Annual Reports for the past three years ended 31 December 2016, we have noted that the Group had operating cash inflow before changes in working capital of approximately RMB803.5 million, RMB1,011.0 million, RMB1,242.1 million and RMB1,317.7 million over the past four years respectively, which had demonstrated that the Group has strong and persistent capability to generate sufficient operating cash inflow to finance its operations. In addition, based on the audited consolidated financial statements of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards, the Target Group itself had also recorded operating cash inflow before changes of working capital of approximately RMB210.2 million, RMB218.3 million and RMB198.6 million for the past three years ended 31 December 2016, respectively. On such basis, we concur with the Directors' confirmation that the Group would have sufficient cash resources to satisfy the funding requirement for the Proposed Acquisition. As such, there would not be material adverse effect on the working capital position of the Group after the Completion.

Net asset value

According to the Interim Report, the net asset value (excluding non-controlling interests) of the Group was approximately RMB5,053.9 million as at 30 June 2017. It is currently expected that there will not be any significant impact of the net asset value of the Group following the Completion, as the net asset value of the Target Group attributable to the 49% minority equity-holder (i.e. Xiamen Port Holding) would be included in the consolidated financial statements of the Group, which will be offset by the decrease in cash and cash equivalents of the Group for settlement of the final Consideration. There will also be no material impact on the income statement and reserves of the Group, so it could be inferred that the consolidated net asset value of the Group would not adversely change upon the Completion.

Gearing position

As at 30 June 2017, the Group had interest-bearing borrowings and net asset value (excluding non-controlling interests) of approximately RMB5,116.2 million and RMB5,053.9 million, respectively, representing a relatively higher gearing ratio (which is calculated as total interest-bearing borrowings divided by the net asset value of the Group) of approximately 101.2%. As the final Consideration will be funded mainly by the net proceeds from the Open Offer of A Shares by Xiamen Port Development and some internal resources of the Group, where the Directors consider appropriate and necessary, it is currently anticipated that the gearing position of the Group would not deteriorate. In addition, the Target Group itself has strong capability to generate recurrent operating cash inflow from its ordinary and usual course of business operations for the past two years ended 31 December 2016. Subsequent to the Completion, upon the additional 49%, on top of the previous 51%, equity interest of the Target Group to be included in the Group, it could be sharing additional net profit and operating cash inflow that may be generated from the business operation of the Target Group, and hence, is anticipated that such relatively higher gearing position could gradually be improved in the longer-term future.

Conclusion

In light of the foregoing financial effects of the Proposed Acquisition on the earnings, working capital, net asset value and gearing position of the Group as a whole, we are of the view that the Proposed Acquisition would have no significant adverse impact on the Group's financial position, save and except for the reduction in cash resources, which are inevitable as the Group intends to finance the final Consideration mainly by the net proceeds from the Open Offer of A Shares by Xiamen Port Development and its some internal cash resources. Therefore, we are of the view that while the Group's cash resources would be reduced, the Proposed Acquisition is an effective utilisation of its cash resources which is aimed at positioning the Group for a better growth in the future which, in the long run, is expected to benefit the Group and the Shareholders as a whole.

RECOMMENDATION

Having taken into account the above principal factors and reasons, in particular, (i) the long-term benefits of the Proposed Acquisition to the Group; (ii) the basis for determination of the final Consideration for the Proposed Acquisition; and (iii) the financial effects on the Proposed Acquisition to the Group, we are of the view that the Proposed Acquisition is conducted in the ordinary and usual course of business of the Group by further consolidating its absolute control over the Target Group for enhancing its operational management efficiency or flexibility and operating capability for long-term business development; while the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Proposed Acquisition and the transactions contemplated under, or in connection with, the Equity Interest Transfer Agreement (as supplemented by the Supplemental Agreement) at the EGM.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited
Fanny Lee **Nicholas Cheng**
Managing Director *Director*

Note:

Ms. Fanny Lee and Mr. Nicholas Cheng have been the Responsible Officers of Type 6 (advising on corporate finance) regulated activity under the SFO and have over 15 years of experience in corporate finance industry. Both of them have participated in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.

1 FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 is disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.xipc.com.cn):

(a) annual report of the Group for the year ended 31 December 2016 published on 26 April 2017 (pages 109 to 248);

(b) annual report of the Group for the year ended 31 December 2015 published on 26 April 2016 (pages 101 to 228);

(c) annual report of the Group for the year ended 31 December 2014 published on 24 April 2015 (pages 94 to 232); and

(d) interim report of the Group for the six months ended 30 June 2017 published on 18 September 2017 (pages 4 to 45).

2 INDEBTEDNESS STATEMENT

Indebtedness

At the close of business on 31 August 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding borrowings of approximately RMB4,967,871,947, comprising (i) bank borrowings of approximately RMB3,867,871,947; and (ii) debentures of approximately RMB1,100,000,000. Out of bank borrowings of approximately RMB3,867,871,947, the balances of approximately RMB5,866,804 and RMB42,000,000 were guaranteed by China Construction Bank and Xiamen Port Holdings Group Co., Ltd., the ultimate shareholder of the Company, respectively. The remaining balances of bank borrowings were unguaranteed/unsecured. The debentures of approximately RMB1,100,000,000 were unsecured.

Contingent liabilities

As at 31 August 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had no material contingent liability.

Disclaimer

Save as aforesaid or as otherwise mentioned herein, and apart from intra-group liabilities, none of the companies in the Group had, at the close of business on 31 August 2017, any outstanding loan capital (issued and outstanding or agreed to be issued), bank overdrafts, debentures, loans or other similar indebtedness, mortgages or charges, or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 August 2017.

3 SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, taking into account the Proposed Acquisition and the financial resources available to the Group including internally generated funds, the net proceeds from the Open Offer and available banking facilities, the Group will have sufficient working capital for its present operating requirements for at least the next twelve months from the date of this circular in the absence of unforeseeable circumstances.

4 NO MATERIAL ACQUISITIONS

The Group has not entered into any material acquisition after the latest published audited accounts of the Company.

5 NO MATERIAL ADVERSE CHANGE

Our Directors confirm that since 31 December 2016 (being the date of the latest audited consolidated financial information of our Group) and up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of the Group.

6 FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The year of 2017 plays an important role for the "Thirteen Five-year Plan" of the Chinese government. Looking forward, the recovery of global economic will face a more complicated environment. Internationally, according to the forecast from the International Monetary Fund in January 2017, the global economic growth is predicted to be 3.4% in 2017, representing a slight increase over 2016. However, there may be materially deviation from such economic forecast due to the uncertainty of the new government policies in the United States and the corresponding global impact. Currently, in particular, the increasing anti-globalization trend, international trade protectionism and geopolitical tensions would have a greater pressure on the foreign trade environment in China. From a domestic perspective, the Chinese government will continue to implement active financial policies and stable monetary policies, adhere to the promotion of supply-side structural reform, moderately expand aggregate demand and realize the consumer-oriented and service-oriented transformation. The Chinese government believes that the slower growth in the short term will lay a solid foundation for the long-term sustainable growth and the overall economy will perform in a reasonable range. In such regards, the Chinese government anticipates that the growth rate of its national economy will be approximately 6.5% in 2017, and the Fujian provincial government and Xiamen municipal government forecast that their local national economy will grow by approximately 8.5% and 8.6%, respectively. The national economy will strive to realize sustained and steady growth, which will lay a foundation for the development of Xiamen port and port business.

Based on the above forecast on economic and trading conditions in 2017, the Company expects that its port business will encounter a more complicated overall developmental environment in 2017. Therefore, the Company will continue to look for steady progress in 2017 and focus on the port core business, adopt effective measures, respond to new challenges positively, press forward amid the challenging climate, grasp market opportunities for the purpose of promoting the sustainable and stable development of the Group. In 2017, the Group intends to roll out each of the following measures:

- To promote the construction of the port platform ecosphere and the implementation of the strategic port-shipping cooperation, the Group will make effort to develop its container and bulk cargo businesses and focus on container incremental businesses such as domestic feeder-line container transshipment, international container transshipment, domestic trade container transshipment, vessel transloading and empty container reposition as well as shipping routes business under "One Belt, One Road" and stone, steel and grain importing businesses, and advance its extensive operation of port business.

- To deepen overall marketing and improve overall marketing platform, the Group will improve the efficiency in business coordination of all links of its port business supply chain. As supported by the efficient use of business unification functions of overall marketing platform, the Group would also be able to provide contractual services within wider customer scope, improve the comprehensive competition of its business as well as further advance the interactive development between the terminal business and the ancillary value-added services of the ports, which, in turn, could safeguard and expand the market share of its core business.

- To deepen the implementation of hinterland strategy and strive to explore port hinterlands, the Group will expand its high-density sub-route business, sea-land and sea-rail joint transportation business through its sub-route ports, land-based ports and sea-rail joint transportation network construction for the purpose of building the international container port service system, which will set the Xiamen port as the core extend to the economic zone of the western coast of Taiwan Straits as well as connect to the whole world.

- To improve the port hardware and software services capability. Firstly, the Group will improve its terminal services capability and perfect the supporting port equipment and facilities, to further comply with the growing trend of mega-vessels and shipping companies alliances, and focus on the reinforcement works and the extension works of turning basin of the berths No. 1 to No. 3 in Haicang port area and other related loading and unloading equipment supporting works of the Songyu Terminal and the sub-route terminal in Chaozhou. Secondly, the Group will intensify the information construction and improve its innovation and development capability. The Group will also focus on promoting the relevant terminal semi-automatic transformation, speeding up the construction works of the intelligent gate project (phase II) as well as developing both the container business management platform and the smart logistics platform project (phase II) so as to further achieve the full implementation of application of related platforms in all of the Group's terminal logistics enterprises, and then gradually extending to all the other logistics enterprises in Xiamen port. Thirdly, the Group will improve its port services capability and set up the index assessment system of port services to adapt to the port modernization construction and meet the customer's requirements and business development demand.

- To promote the transformation and upgrading of the Group's port business. Firstly, the Group, taking advantage of the policies in Xiamen Free Trade Zone, will utilize the port core business as the driving force of other new business and focus on the development of new format of the ports. Secondly, the Group will deeply explore the strategic opportunities brought by "One Belt, One Road", actively integrate within the "One Belt, One Road" construction works and develop shipping routes of "One Belt, One Road". Thirdly, the Group will play a full part in incremental electric power distribution business pilot reform, facilitate the technical modification, such as "Change from Oil to Electricity" and "Change from Oil to Gas", carry out the transformation of green lighting and the usage of shore-power supply for vessels and other projects, improve the port business environment, reduce electricity consumption cost and promote eco-development.

- To intensify the refined management and capital operation. The Group will focus on: improving the internal control and management system, reinforcing the budget enforcement, system construction and audit supervision, and carrying out safe production; taking full advantage of the platform as a listed company and issuing corporate bond, short-term notes and super short-term notes combined with the financial demand to reduce its financial cost, strengthen its capital management and improve the efficiency in capital utilization; continuing to promote resource recombination and integration, and improve its efficiency in resource allocation.

The following is the text of a report set out on pages II-1 to II-3, received from the reporting accountant of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF XIAMEN INTERNATIONAL PORT CO., LTD.

Introduction

We report on the historical financial information of Xiamen Port Group Shihushan Terminal Company Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-54, which comprises the consolidated and company balance sheets as at 31 December 2014, 2015, 2016 and 30 June 2017, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2014, 2015, 2016 and the six months ended 30 June 2017 (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-54 forms an integral part of this report, which has been prepared for inclusion in the circular of Xiamen International Port Co., Ltd. (the "**Company**") dated 23 October 2017 (the "**Circular**") in connection with the proposed acquisition of the 49% equity interest of the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Target Group for the Track Record Period ("**Underlying Financial Statements**"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements of the Target Group for the Track Record Period. The directors of the Target Company are responsible for the preparation of the previously issued financial statements of the Target Group that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Target Company and the consolidated financial position of the Target Group as at 31 December 2014, 2015, 2016 and 30 June 2017 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the consolidated statement of profit or loss, comprehensive income, changes in equity and cash flows for the six months ended 30 June 2016 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
23 October 2017

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in RMB and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED BALANCE SHEETS

As at 31 December 2014, 2015, 2016 and 30 June 2017

		As at 31 December			As at 30 June
		2014	**2015**	**2016**	**2017**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	*5*	876,304	899,566	854,005	827,456
Land use rights	*6*	305,861	461,654	447,894	441,013
Intangible assets	*7*	5,058	4,944	4,811	4,745
Interest in joint ventures	*8*	20,000	—	—	—
Interests in associates	*9*	3,081	830	933	933
Prepayments	*14*	14,320	1,235	1,067	7,445
Deferred income tax assets	*11*	1,518	5,939	869	874
Total non-current assets		**1,226,142**	**1,374,168**	**1,309,579**	**1,282,466**
Current assets					
Available-for-sale financial assets	*10*	369,615	—	—	—
Inventories	*12*	4,668	5,342	6,442	7,583
Accounts and notes receivable	*13*	26,025	29,285	80,544	68,999
Other receivables and prepayments	*14*	120,401	77,048	5,941	60,143
Restricted cash	*15*	1,964	742	745	746
Cash and cash equivalents	*16*	100,632	84,621	80,313	7,899
Total current assets		**623,305**	**197,038**	**173,985**	**145,370**
Total assets		**1,849,447**	**1,571,206**	**1,483,564**	**1,427,836**
EQUITY					
Equity attributable to owners of the Target Company					
Share capital		40,000	40,000	40,000	40,000
Reserves		831,172	750,511	659,720	708,157
Total equity		**871,172**	**790,511**	**699,720**	**748,157**

		As at 31 December			As at 30 June
		2014	**2015**	**2016**	**2017**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES					
Non-current liabilities					
Borrowings	*19*	133,600	73,600	28,000	14,000
Total non-current liabilities		**133,600**	**73,600**	**28,000**	**14,000**
Current liabilities					
Accounts and notes payable	*17*	22,269	24,181	35,196	31,468
Other payables and accruals	*18*	392,319	572,223	623,357	549,341
Borrowings	*19*	426,883	110,000	95,600	78,000
Tax payable		3,204	691	1,691	6,870
Total current liabilities		**844,675**	**707,095**	**755,844**	**665,679**
Total liabilities		**978,275**	**780,695**	**783,844**	**679,679**
Total equity and liabilities		**1,849,447**	**1,571,206**	**1,483,564**	**1,427,836**

BALANCE SHEETS

As at 31 December 2014, 2015, 2016 and 30 June 2017

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	143,317	354,245	328,591	314,899
Land use rights	—	103,178	100,468	99,113
Investments in subsidiaries	740,723	968,101	968,102	968,103
Interest in joint ventures	20,000	—	—	—
Interests in associates	3,081	830	933	933
Long-term receivables and prepayments	9,643	65	13	320
Deferred income tax assets	1,518	5,929	526	531
Total non-current assets	**918,282**	**1,432,348**	**1,398,633**	**1,383,899**
Current assets				
Available-for-sale financial assets	369,615	—	—	—
Inventories	1,960	1,772	2,112	2,396
Accounts and notes receivable	13,632	15,506	26,398	29,120
Other receivables and prepayments	54,329	19,779	89,242	124,313
Restricted cash	1,964	742	745	746
Cash and cash equivalents	47,816	44,838	27,215	3,904
Total current assets	**489,316**	**82,637**	**145,712**	**160,479**
Total assets	**1,407,598**	**1,514,985**	**1,544,345**	**1,544,378**
EQUITY				
Equity attributable to owners of the Target Company				
Share capital	40,000	40,000	40,000	40,000
Reserves	236,630	625,954	629,982	638,045
Total equity	**276,630**	**665,954**	**669,982**	**678,045**

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES				
Non-current liabilities				
Borrowings	133,600	73,600	28,000	14,000
Total non-current liabilities	**133,600**	**73,600**	**28,000**	**14,000**
Current liabilities				
Accounts and notes payable	172,751	196,581	138,801	129,843
Other payables and accruals	395,313	468,850	611,962	639,504
Borrowings	426,883	110,000	95,600	78,000
Tax payable	2,421	—	—	4,986
Total current liabilities	**997,368**	**775,431**	**846,363**	**852,333**
Total liabilities	**1,130,968**	**849,031**	**874,363**	**866,333**
Total equity and liabilities	**1,407,598**	**1,514,985**	**1,544,345**	**1,544,378**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended 31 December 2014, 2015, 2016 and the six months ended 30 June 2016 and 2017

		Years ended 31 December			Six months ended 30 June	
		2014	**2015**	**2016**	**2016**	**2017**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenues	*21*	409,155	424,467	398,818	201,316	195,091
Cost of sales	*24*	(231,414)	(252,158)	(269,832)	(127,203)	(136,938)
Gross profit		177,741	172,309	128,986	74,113	58,153
Other income	*21*	35,396	15,852	16,823	6,223	10,852
Other gains/(losses) — net	*22*	279	(8,018)	(12)	(2)	(4)
Selling and marketing expenses	*24*	(396)	(262)	(257)	(124)	(78)
General and administrative expenses	*24*	(21,381)	(17,876)	(17,003)	(8,498)	(6,383)
Operating profit		191,639	162,005	128,537	71,712	62,540
Finance income	*25*	4,573	3,522	869	438	628
Finance costs	*25*	(52,932)	(23,822)	(11,878)	(5,890)	(3,425)
Share of losses of joint ventures	*8*	(2,899)	—	—	—	—
Share of (losses)/profits of associates	*9*	(9)	2,449	103	—	—
Profit before income tax expense		140,372	144,154	117,631	66,260	59,743
Income tax expense	*26(a)*	(15,506)	1,683	(7,857)	(3,743)	(11,306)
Profit for the year/period		**124,866**	**145,837**	**109,774**	**62,517**	**48,437**
Other comprehensive income		**—**	**—**	**—**	**—**	**—**
Total comprehensive income for the year/period		**124,866**	**145,837**	**109,774**	**62,517**	**48,437**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 December 2014, 2015, 2016 and the six months ended 30 June 2016 and 2017

	Share capital	Other reserves	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2014	**40,000**	**529,435**	**285,554**	**854,989**
Comprehensive income				
Profit for the year	—	—	124,866	124,866
Total comprehensive income	—	—	124,866	124,866
Total transaction with owners, recognised directly in equity				
2013 final dividends	—	—	(52,073)	(52,073)
Deemed distribution (Note 20)	—	(56,610)	—	(56,610)
Total transaction with owners, recognised directly in equity	—	(56,610)	(52,073)	(108,683)
Balance at 31 December 2014	**40,000**	**472,825**	**358,347**	**871,172**
Comprehensive income				
Profit for the year	—	—	145,837	145,837
Total comprehensive income	—	—	145,837	145,837
Total transaction with owners, recognised directly in equity				
2014 final dividends	—	—	(169,888)	(169,888)
Deemed distribution (Note 20)	—	(56,610)	—	(56,610)
Total transaction with owners, recognised directly in equity	—	(56,610)	(169,888)	(226,498)
Balance at 31 December 2015	**40,000**	**416,215**	**334,296**	**790,511**
Comprehensive income				
Profit for the year	—	—	109,774	109,774
Total comprehensive income	—	—	109,774	109,774
Total transaction with owners, recognised directly in equity				
2015 final dividends	—	—	(200,565)	(200,565)
Profit appropriation	—	1,545	(1,545)	—
Total transaction with owners, recognised directly in equity	—	1,545	(202,110)	(200,565)
Balance at 31 December 2016	**40,000**	**417,760**	**241,960**	**699,720**

	Share capital	Other reserves	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016	**40,000**	**416,215**	**334,296**	**790,511**
Comprehensive income				
Profit for the period	—	—	62,517	62,517
Total comprehensive income	—	—	62,517	62,517
Balance at 30 June 2016 (unaudited)	**40,000**	**416,215**	**396,813**	**853,028**
Balance at 1 January 2017	**40,000**	**417,760**	**241,960**	**699,720**
Comprehensive income				
Profit for the period	—	—	48,437	48,437
Total comprehensive income	—	—	48,437	48,437
Balance at 30 June 2017	**40,000**	**417,760**	**290,397**	**748,157**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended 31 December 2014, 2015, 2016 and the six months ended 30 June 2016 and 2017

		Years ended 31 December			Six months ended 30 June	
		2014	**2015**	**2016**	**2016**	**2017**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Cash flows from operating activities						
Net cash generated from operations	27	119,162	222,077	207,576	87,216	115,174
Interest paid		(53,257)	(33,135)	(11,971)	(6,089)	(3,487)
Income tax paid		(17,486)	(5,251)	(1,787)	(973)	(6,132)
Net cash generated from operating activities		48,419	183,691	193,818	80,154	105,555
Cash flows from investing activities						
Purchases of property, plant and equipment, intangible assets and land use rights		(60,241)	(57,409)	(172,220)	(164,379)	(21,611)
Proceeds from disposals of property, plant and equipment and land use rights		7,935	949	228	16	—
Loan to a related party		—	—	—	—	(55,385)
Proceeds from disposal of joint ventures		—	17,000	3,000	3,000	—
Interest received		5,589	4,754	869	438	628
(Increase)/decrease of wealth management product		(19,615)	369,615	—	—	—
Dividend received		412	—	—	—	—
Net decrease/(increase) in restricted cash		20,894	1,222	(3)	—	(1)
Net cash (used in)/generated from investing activities		(45,026)	336,131	(168,126)	(160,925)	(76,369)

	Note	Years ended 31 December 2014 RMB'000	2015 RMB'000	2016 RMB'000	Six months ended 30 June 2016 RMB'000 (unaudited)	2017 RMB'000
Cash flows from financing activities						
Proceeds from borrowings		210,000	50,000	50,000	50,000	—
Repayments of borrowings		(173,280)	(426,883)	(110,000)	(110,000)	(31,600)
Loan from a related party		—	150,000	200,000	200,000	—
Repayment of loan to a related party		(10,000)	(230,000)	(170,000)	(60,000)	(70,000)
Payment for business combination under common control		(90,000)	(41,562)	—	—	—
Dividends paid to owners of the Target Company		(7,921)	(37,388)	—	—	—
Net cash generated from/(used in) financing activities		(71,201)	(535,833)	(30,000)	80,000	(101,600)
Net decrease in cash and cash equivalents		(67,808)	(16,011)	(4,308)	(771)	(72,414)
Cash and cash equivalents at beginning of year/period		168,440	100,632	84,621	84,621	80,313
Cash and cash equivalents at end of year/period	*16*	100,632	84,621	80,313	83,850	7,899

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2014, 2015, 2016 and the six months ended 30 June 2017

1. General information

Xiamen Port Group Shihushan Terminal Company Limited (the "**Target Company**") was established by Xiamen Port Holding Group Co., Ltd. in the People's Republic of China (the "**PRC**") on 14 January 2002 as a subsidiary with a registered capital of RMB40,000,000.

The Target Company and its subsidiaries (hereinafter collectively the "**Target Group**") are principally engaged in the bulk and general cargo loading and unloading businesses at Dongdu and Haicang Port Area in Xiamen.

As at 30 June 2017, the Target Company had direct interests in following subsidiaries:

Company name	Country/place of incorporation/ operation	Paid-up capital	Equity interest held as at 31 December 2014, 2015, 2016 and 30 June 2017	Principal activities
Xiamen Port Haiyu Terminal Co., Ltd.	The Xiamen, Fujian, PRC	RMB462,000,000	100%	Bulk and general cargo loading and unloading
Xiamen Port Haiyi Terminal Co., Ltd.	The Xiamen, Fujian, PRC	RMB278,000,000	100%	Bulk and general cargo loading and unloading
Xiamen Port Shihushan Labor Service Co., Ltd.	The Xiamen, Fujian, PRC	RMB740,000	100%	Labor services provide to intercompany

The English names of these companies above represent management's best effort at translating the Chinese names as no English names have been registered for these companies.

The financial year end of these subsidiaries is 31 December. The statutory auditors of these subsidiaries and the Target Company are shown as below:

Xiamen Port Shihushan Terminal Co.,Ltd.	Grant Thornton LLP.
Xiamen Port Haiyu Terminal Co., Ltd.	Grant Thornton LLP.
Xiamen Port Haiyi Terminal Co., Ltd.	Grant Thornton LLP.
Xiamen Port Shihushan Labor Service Co., Ltd.	Grant Thornton LLP.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

New standards and interpretations not yet adopted

The following standards and amendments to existing standards, which are relevant to the operations of the Target Group, have been published and are not mandatory for the Target Company for the Track Record Period and have not been early adopted by the Target Group:

		Effective for annual periods beginning on or after
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS4 Insurance contract	1 January 2018
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint ventures	To be determined

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Target Group has yet to undertake a detailed assessment of the classification and measurement of financial assets. The financial assets held by the Target Group include equity instruments currently classified as available-for-sale for which a fair value through other comprehensive income election is available. There will be no impact on the Target Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Target Group does not have any such liabilities.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It will apply to the Target Group's financial assets classified at amortized cost. While the Target Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

HKFRS 15 will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

HKFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach:

(1) Identify the contract(s) with customer;

(2) Identify separate performance obligations in a contract;

(3) Determine the transaction price;

(4) Allocate transaction price to performance obligations;

(5) Recognize revenue when performance obligation is satisfied.

Management is currently assessing the impact of applying HKFRS 15 on the Target Group's financial statements by reviewing the contracts, identifying the separate performance obligations in the contracts, evaluating the timing for revenue recognition against the 5-step approach of the new standard.

HKFRS 16 will result in almost all leases being recognized on the balance sheet for lessee, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The standard will affect primarily the accounting for the Target Group's operating leases. As at 30 June 2017, the Target Group had non-cancellable operating lease commitments of RMB8,529,000, see Note 28.

The Target Group will adopt the above standards and amendments to existing standards as and when they become effective. The Target Group has already commenced the assessment of the impact to the Target Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position.

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are entities (including a structured entity) over which the Target Group has control. The Target Group controls entities when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entities and has the ability to affect those returns through its power over the entities. Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

(a) Business combinations under common control

Business combinations under common control refers to combinations where the combining entities are controlled by the same party or parties before and after the combination and that control is not transitory.

The acquirer measures both the consideration paid and net assets obtained at their carrying amounts. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is recorded in other reserve. Any direct transaction cost attributable to the business combination is recorded in the consolidated statements of comprehensive income in the current period. However, the handling fees, commissions and other expenses incurred for the issuance of equity instruments or bonds for the business combination are recorded in the initial measurement of the equity instruments and bonds respectively.

The Target Company applies merger accounting to account for the business combinations under common control in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

(b) Business combinations not under common control

The Target Group applies the acquisition method to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Target Group's accounting policies.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

When the Target Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Target Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Target Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Target Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Target Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Target Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Target Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Target Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Target Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Target Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Target Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of profit of investments accounted for using equity method' in the statements of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Target Group and its associate are recognised in the Target Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

Gains and losses on dilution of equity interest in associates are recognised in the statements of comprehensive income.

In the Target Company's balance sheet, investments in associates are accounted for at cost less impairment. The results of associates are accounted for by the Target Company on the basis of dividend received and receivable.

Impairment testing of the investments in associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the associates in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Joint arrangements

The Target Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Target Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Target Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Target Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Target Group's net investment in the joint ventures), the Target Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Target Group and its joint ventures are eliminated to the extent of the Target Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Target group.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The director carried out on a regular basis to make strategic decisions, are responsible for allocating resources and assessing performance of the operating segments.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the Target Company's functional currency and the Target Group's presentation currency. Renminbi is also the functional currency of all the subsidiaries, joint ventures and associates of the Target Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statements of comprehensive income within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the statements of comprehensive income within 'other gains — net'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised as part of the fair value gain or loss in the consolidated statements of comprehensive income. Translation differences on non-monetary financial assets and liabilities, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced parts is derecognised. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of property, plant and equipment to the residual values over their estimated useful lives, as follows:

—	Buildings	10 to 40 years
—	Port infrastructure	25 to 50 years
—	Storage infrastructure	20 to 25 years
—	Loading machineries	8 to 15 years
—	Other machineries	6 to 15 years
—	Vehicles	5 to 10 years
—	Furniture, fittings and equipment	5 to 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction-in-progress represents property, plant and equipment under construction or pending installation and is stated at cost. Cost includes the costs of construction of property, plant and equipment, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to the relevant categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the consolidated statements of comprehensive income.

2.8 Land use rights

Land use rights represent prepaid operating lease payments for land less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the lease periods of 26 to 50 years.

2.9 Intangible assets

Sea area use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the sea area for periods of 48 years. Amortisation of sea area use rights are calculated on the straight-line method over the period of the sea area use rights of 48 years.

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

(a) Classification

The Target Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets as accounts and other receivables, except for the amounts that are settled or expected to be settled more than 12 months after the end of reporting period. These are classified as non-current assets. The Target Group's loans and receivables comprise "accounts and notes receivable", "other receivables and prepayments" and "cash and cash equivalents" in the balance sheet (Note 2.15 and 2.16).

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of reporting period.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Target Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Target Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of the available-for-sale financial assets are recognised in other comprehensive income. Dividends on available-for-sale equity instruments are recognised in the consolidated statements of comprehensive income as part of other income when the Target Group's right to receive payments is established.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statements of comprehensive income as "gains and losses from investment securities".

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Target Company or the counterparty.

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost is impaired. A financial asset or a group of such financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a '**loss event**') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Target Group uses to determine that there is objective evidence of an impairment loss include:

— Significant financial difficulty of the issuer or obligor;

— A breach of contract, such as a default or delinquency in interest or principal payments;

— The Target Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

— It becomes probable that the borrower will enter into bankruptcy or other financial reorganisation;

— The disappearance of an active market for that financial asset because of financial difficulties; or

— Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, including:

(i) adverse changes in the payment status of borrowers in the portfolio;

(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Target Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Target Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Accounts and other receivables

Accounts receivable are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of accounts and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.16 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.18 Accounts and other payables

Accounts payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accounts and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2.21 Current and deferred income tax

The income tax expense for the period comprises current and deferred income tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries/regions where the Target Company, its subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Target Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Target Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

(a) Retirement benefit obligations

The Target Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans. In addition, the Target Group has participated in a supplementary pension scheme under which the Target Group is required to make monthly payments to insurance companies for its existing qualifying employees, at certain percentages of the annual salaries of the qualifying employees. The Target Group has no further obligation for post-retirement benefits beyond the above contributions made. Contributions to these plans or scheme are expensed as incurred.

(b) Housing benefits

Full-time employees of the Target Group are entitled to participate in various government sponsored housing funds. The Target Group contributes to these funds based on certain percentages of the salaries of the employees on a monthly basis. The Target Group's liability in respect of these funds is limited to the contribution payable in each period. Contributions to the funds are expensed as incurred.

2.23 Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where the Target Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Government grants and subsidies

Grants and subsidies from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all attached conditions.

Government grants and subsidies relating to costs are deferred and recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants and subsidies relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statements of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.25 Recognition of revenue and income

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes.

The Target Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Target Group's activities as described, as described below. The Target Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Revenue from bulk/general cargo loading and unloading

Revenue from bulk/general cargo loading and unloading is recognised when the services are rendered.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(c) Rental income

Rental income on assets leased out under operating leases is recognised on the straight-line basis over the lease periods.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.26 Operating leases

(a) The Target Group as lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) by the Target Group are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

(b) The Target Group as lessor

Assets leased out under operating leases by the Target Group are included in the Target Group's balance sheet in accordance with their nature and where applicable, are depreciated in accordance with the Target Group's depreciation policy as set out in Note 2.6. Rental income arising from assets leased out under operating lease is recognised in accordance with the Target Group's income recognition policy as set out in Note 2.25(c) above.

2.27 Dividend distribution

Dividend distribution to the Target Company's shareholders is recognised as a liability in the Target Group's and the Target Company's financial statements in the period in which the dividends are approved by the Target Company's shareholders or directors, where appropriate.

3. Financial risk management

3.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks: interest rate risk, credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

(a) Interest rate risk

The Target Group's income and operating cash flows are substantially independent of changes in market interest rates as the Target Group has no significant interest-bearing assets (other than term deposits, cash and bank balances). the Target Group's exposure to changes in interest rates is mainly attributable to its borrowings.

Borrowings at variable rates expose the Target Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Target Group to fair value interest-rate risk. As at 30 June 2017, none (2016: nil, 2015: 27%, 2014: 65%) of the Target Group's borrowings are fixed interest rates borrowings. The effective interest rates and terms of repayment of the Target Group's borrowings are disclosed in Note 20.

As at 30 June 2017, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, the Target Group's pre-tax profit for the period would have been RMB230,000 (31 December 2016: RMB618,000, 31 December 2015: RMB918,000, 31 December 2014: RMB2,802,415) lower/higher, mainly as a result of higher/lower finance costs on bank borrowings.

(b) Credit risk

The Target Group's maximum exposure to credit risk in respect of financial assets is the carrying amounts of term deposits, cash and cash equivalents, restricted cash, accounts and other receivables as at the balance sheet date. Management has credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

For term deposits, cash and cash equivalents and restricted cash, the Target Group has limited its credit exposure by restricting their selection of financial institutions on those reputable local banks or state-owned banks.

In respect of accounts receivable, the Target Group limits its exposure to credit risk through performing credit reviews and monitoring the financial strength of its major customers and asks for collateral when proper and necessary. Customers are assessed and rated based on their credit quality, taking into account its financial position, past experience and other factors. Individual risk limits are set by management and utilisation of these credit limits is regularly monitored. Generally, accounts receivable are due within 60 days from the date of billing.

Further quantitative disclosure in respect of the Target Group's exposure to credit risk from accounts and other receivables are set out in Note 14 and Note 15.

No other financial assets carry a significant exposure to credit risk.

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Target Group. Management monitors rolling forecasts of the Target Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all time so that the Target Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Target Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements — for example, currency restrictions.

The Target Group's demand for cash is due to the port construction, purchase of cargo loading machines and debt repayment. The operating cash flow needed is satisfied by cash received from business operation and bank debt financing.

As at 30 June 2017, the retained earnings of the Target Group amounted to RMB290 million, and the current liabilities exceed the current assets by RMB520 million, the cash and cash equivalent of the Target Group decreases by RMB72 million. Based on the operating and financing cash inflows of the Target Group, the board of directors has fully assessed the Target Group's ability to repay the debt when preparing the consolidated financial statements.

Based on the cash inflows from operating activities and the bank facilities available to the Target Group, the board of directors believes that the Target Group would continue to receive enough finance to support the operation and debt repayment and capital expenditure. As a result of this, the board of directors confirms that the going-concern basis is appropriate for preparing this year financial statements, and there is no need to include any adjustment which is not based on going-concern basis for the Target Group.

The table below analyses the Target Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2014				
Bank borrowings	452,893	63,420	77,795	—
Accounts and notes payable	22,269	—	—	—
Other payables and accruals	370,570	—	—	—
	845,732	63,420	77,795	—
At 31 December 2015				
Bank borrowings	115,383	47,658	29,327	—
Accounts and notes payable	24,181	—	—	—
Other payables and accruals	553,400	—	—	—
	692,964	47,658	29,327	—
At 31 December 2016				
Bank borrowings	98,921	29,264	—	—
Accounts and notes payable	35,196	—	—	—
Other payables and accruals	599,731	—	—	—
	733,848	29,264	—	—
At 30 June 2017				
Bank borrowings	79,895	14,632	—	—
Accounts and notes payable	31,468	—	—	—
Other payables and accruals	533,670	—	—	—
	645,033	14,632	—	—

3.2 Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Target Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "**current and non-current borrowings**" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheets plus net debt.

The gearing ratios at 31 December 2016, 2015, 2014, and 30 June 2017 were as follows:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total borrowings (Note 19)	560,483	183,600	123,600	92,000
Less: Cash and cash equivalents (Note 16)	(100,632)	(84,621)	(80,313)	(7,899)
Net debt	459,851	98,979	43,287	84,101
Total equity	871,172	790,511	699,720	748,157
Total capital	1,331,023	889,490	743,007	832,258
Gearing ratio (%)	34.55%	11.13%	5.83%	10.11%

As at 31 December 2015, the gearing ratio decreased as compared to 31 December 2014 because of the repayment of borrowings. As at 31 December 2016, the gearing ratio further decreased as compared to 31 December 2015 because of the payment of the dividends amounted to RMB200,545,000 to Xiamen Port Holding Group Co., Ltd. ("**XPHG**").

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Target Group's assets and liabilities that were measured at fair value at 31 December 2014.

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Available-for-sale financial assets				
— Wealth management product	—	—	369,615	369,615

The Target Group had no assets and liabilities measured at fair value at 31 December 2015, 2016 and 30 June 2017.

There were no transfers between levels 1 and 2 during the years/periods.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Target Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments classified as available for sale (Note 11).

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(c) Financial instruments in level 3

As at 31 December 2014, the Target Group classified the wealth management products as financial instruments in level 3. The fair value of wealth management products was approximately equal to their carrying amounts due to short maturity.

4. Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Useful lives of property, plant and equipment

The Target Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

If the useful lives of property, plant and equipment differ by 10% from management's estimates, the Target Group would need to:

— increase the carrying amounts of property, plant and equipment and decrease the depreciation charge by RMB4,497,100, RMB4,962,800, RMB5,937,600, RMB2,833,400 and RMB2,898,900 for 2014, 2015, 2016 and the six months ended 30 June 2016 and 2017 respectively if favourable; or

— decrease the carrying amounts of property, plant and equipment and increase the depreciation charge by RMB4,497,100, RMB4,962,800, RMB5,937,600, RMB2,833,400 and RMB2,898,900 for 2014, 2015, 2016 and the six months ended 30 June 2016 and 2017 respectively if unfavourable.

5. Property, plant and equipment

	Buildings	Port infrastructure	Storage infrastructure	Loading machineries	Other machineries	Vehicles	Furniture, fittings and equipment	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2014									
Cost	17,672	710,819	115,124	171,787	39,796	17,276	3,751	21,221	1,097,446
Accumulated depreciation	(5,431)	(79,522)	(25,598)	(63,895)	(16,009)	(9,938)	(1,844)	—	(202,237)
Accumulated impairment losses	—	(710)	—	(1,737)	—	—	—	—	(2,447)
Net book amount	12,241	630,587	89,526	106,155	23,787	7,338	1,907	21,221	892,762
Year ended 31 December 2014									
Opening net book amount	12,241	630,587	89,526	106,155	23,787	7,338	1,907	21,221	892,762
Additions	937	8,718	566	8,587	3,501	2,538	989	10,333	36,169
Transfer	2,614	12,647	—	244	—	—	—	(15,505)	—
Disposals	—	—	—	(7,380)	—	(46)	(5)	(225)	(7,656)
Depreciation	(723)	(21,385)	(4,092)	(12,133)	(3,574)	(2,482)	(582)	—	(44,971)
Closing net book amount	15,069	630,567	86,000	95,473	23,714	7,348	2,309	15,824	876,304
At 31 December 2014									
Cost	21,174	731,997	113,866	162,836	43,259	18,291	4,617	15,824	1,111,864
Accumulated depreciation	(6,105)	(100,720)	(27,866)	(66,770)	(19,545)	(10,943)	(2,308)	—	(234,257)
Accumulated impairment losses	—	(710)	—	(593)	—	—	—	—	(1,303)
Net book amount	15,069	630,567	86,000	95,473	23,714	7,348	2,309	15,824	876,304

	Buildings	Port infrastructure	Storage infrastructure	Loading machineries	Other machineries	Vehicles	Furniture, fittings and equipment	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2015									
Opening net book amount	15,069	630,567	86,000	95,473	23,714	7,348	2,309	15,824	876,304
Additions	1,731	2,972	5,581	47,457	5,894	2,176	719	15,094	81,624
Transfer	43	23,054	6,786	248	—	—	38	(30,169)	—
Disposals	(4)	(6,390)	(74)	(1,510)	(249)	(58)	(16)	(433)	(8,734)
Depreciation	(851)	(24,398)	(4,267)	(11,969)	(4,883)	(2,598)	(662)	—	(49,628)
Closing net book amount	15,988	625,805	94,026	129,699	24,476	6,868	2,388	316	899,566
At 31 December 2015									
Cost	22,878	742,279	125,858	202,153	47,760	18,540	4,984	316	1,164,768
Accumulated depreciation	(6,890)	(116,474)	(31,832)	(72,454)	(23,284)	(11,672)	(2,596)	—	(265,202)
Net book amount	15,988	625,805	94,026	129,699	24,476	6,868	2,388	316	899,566
Year ended 31 December 2016									
Opening net book amount	15,988	625,805	94,026	129,699	24,476	6,868	2,388	316	899,566
Additions	1,842	1,067	3,061	1,528	857	2,519	1,213	1,968	14,055
Transfer	971	316	743	—	—	—	—	(2,030)	—
Disposals	(24)	—	—	(190)	(1)	(16)	(9)	—	(240)
Depreciation	(749)	(28,996)	(7,776)	(15,073)	(3,445)	(2,440)	(897)	—	(59,376)
Closing net book amount	18,028	598,192	90,054	115,964	21,887	6,931	2,695	254	854,005
At 31 December 2016									
Cost	25,506	743,662	129,662	203,370	48,604	20,529	6,114	254	1,177,701
Accumulated depreciation	(7,478)	(145,470)	(39,608)	(87,406)	(26,717)	(13,598)	(3,419)	—	(323,696)
Net book amount	18,028	598,192	90,054	115,964	21,887	6,931	2,695	254	854,005
Six months ended 30 June 2017									
Opening net book amount	18,028	598,192	90,054	115,964	21,887	6,931	2,695	254	854,005
Additions	—	79	—	—	482	—	72	1,811	2,444
Disposals	—	—	—	—	—	(2)	(2)	—	(4)
Depreciation	(435)	(14,410)	(3,391)	(7,395)	(1,648)	(1,271)	(439)	—	(28,989)
Closing net book amount	17,593	583,861	86,663	108,569	20,721	5,658	2,326	2,065	827,456
At 30 June 2017									
Cost	25,506	743,740	129,662	203,370	49,086	20,446	6,166	2,065	1,180,041
Accumulated depreciation	(7,913)	(159,879)	(42,999)	(94,801)	(28,365)	(14,788)	(3,840)	—	(352,585)
Net book amount	17,593	583,861	86,663	108,569	20,721	5,658	2,326	2,065	827,456

The depreciation charges recognised as expense and included in cost of sales and general and administrative expenses amounted to RMB44,241,000 and RMB730,000 for the year ended 31 December 2014, RMB48,980,000 and RMB648,000 for the year ended 31 December 2015, RMB58,701,000 and RMB675,000 for the year ended 31 December 2016, RMB28,683,000 and RMB306,000 for the six months ended 30 June 2017, respectively.

6. Land use rights

	RMB'000
At 1 January 2014	
Cost	343,485
Accumulated amortisation	(33,104)
Net book amount	310,381
Year ended 31 December 2014	
Opening net book amount	310,381
Amortisation	(4,520)
Closing net book amount	305,861
At 31 December 2014	
Cost	343,485
Accumulated amortisation	(37,624)
Net book amount	305,861
Year ended 31 December 2015	
Opening net book amount	305,861
Additions	161,158
Amortisation	(5,365)
Closing net book amount	461,654
At 31 December 2015	
Cost	504,643
Accumulated amortisation	(42,989)
Net book amount	461,654
Year ended 31 December 2016	
Opening net book amount	461,654
Amortisation	(13,760)
Closing net book amount	447,894
At 31 December 2016	
Cost	504,643
Accumulated amortisation	(56,749)
Net book amount	447,894
Six months ended 30 June 2017	
Opening net book amount	447,894
Amortisation	(6,881)
Closing net book amount	441,013
At 30 June 2017	
Cost	504,643
Accumulated amortisation	(63,630)
Net book amount	441,013

The Target Group's interests in land use rights represent operating lease prepayments for the use of land in the PRC which are held on leases between 26 and 50 years.

The amortisation charges recognised as expense and included in cost of sales and general and administrative expenses of the Target Group amounted to RMB4,520,000 for the year ended 31 December 2014, RMB5,365,000 for the year ended 31 December 2015, RMB13,760,000 for the year ended 31 December 2016, and RMB6,881,000 for the six months ended 30 June 2017, respectively.

7. Intangible assets

Movement in intangible assets is set out as follows:

	Sea area use rights
	RMB'000
At 1 January 2014	
Cost	5,522
Accumulated amortisation	(350)
Net book amount	5,172
Year ended 31 December 2014	
Opening net book amount	5,172
Amortisation	(114)
Closing net book amount	5,058
At 31 December 2014	
Cost	5,522
Accumulated amortisation	(464)
Net book amount	5,058
Year ended 31 December 2015	
Opening net book amount	5,058
Amortisation	(114)
Closing net book amount	4,944
At 31 December 2015	
Cost	5,522
Accumulated amortisation	(578)
Net book amount	4,944

	Sea area use rights
	RMB'000
Year ended 31 December 2016	
Opening net book amount	4,944
Amortisation	(133)
Closing net book amount	4,811
At 31 December 2016	
Cost	5,522
Accumulated amortisation	(711)
Net book amount	4,811
Six months ended 30 June 2017	
Opening net book amount	4,811
Amortisation	(66)
Closing net book amount	4,745
At 30 June 2017	
Cost	5,522
Accumulated amortisation	(777)
Net book amount	4,745

8. Interests in joint ventures

	Year ended 31 December			Six months end 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January	25,658	20,000	—	—
Share of results	(2,899)	—	—	—
Disposed	—	(20,000)	—	—
Impairment	(2,759)	—	—	—
As at 31 December/30 June	20,000	—	—	—

Particulars of investments in joint ventures are detailed as follows:

Name of entity	Place of business	% of ownership interest 31 December 2014	2015	2016	30 June 2017	Issued share *RMB'000*	Principal activities
Xiamen Zhenhua Energy Co.,Ltd.	Xiamen	50	—	—	—	40,000	Coal and petroleum products trading
Xiamen Lushenda Port Mechanical & Electronic Engineering Co.,Ltd.	Xiamen	51	51	51	51	1,000	Port machinery and electronic device trading

As at 31 December 2014, the Target Group had interests in two joint ventures, Xiamen Zhenhua Energy Co.,Ltd. ("**Zhenhua**") and Xiamen Lushenda Port Mechanical & Electronic Engineering Co.,Ltd ("**Lushenda**"). According to the article of association, the Target Group jointly controls the operations of Zhenhuan and Lushenda with other investors. As at 31 December 2014, the Target Group's equity interests in Zhenhua and Lushenda were 50% and 51%.

As at 31 December 2014, 2015, 2016 and 30 June 2017, as the directors considered that the investment was not recoverable, the investment in Lushenda was fully impaired.

During the year ended 2015, the Target Group disposed Zhenhua to a third-party, Fujian Electric Power Fuel Co., Ltd. at a cash consideration of RMB20,000,000.

There is no single joint venture that is individually significant to the Target Group.

9. Interests in associates

	As at 31 December 2014	2015	2016	As at 30 June 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets	3,081	830	933	933
Unlisted investments, at cost	5,450	400	400	400

Movement in investments in associates is set out as follows:

	Year ended 31 December			Six months end 30 June
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	3,440	3,081	830	933
Dividends received	—	—	—	—
Share of profit	(9)	2,449	103	—
Impairment	(350)	—	—	—
Disposed	—	(4,700)	—	—
At 31 December/30 June	3,081	830	933	933

Nature of investment in associates as at 30 June 2017:

Name of entity	Place of business	% of ownership interest	Issued share	Principal activities
Xiamen Port Domestic Shipping Agent Co., Ltd.	Xiamen	20	2,000	Shipping agency services for domestic trade

The profit, asset and liabilities belong to the Target Group is shown as following:

	Year ended 31 December			Six months end 30 June
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	524	721	692	393
(Loss)/profit for the year/period	(9)	2,449	103	—

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	3,672	1,724	1,315	1,396
Total liabilities	591	894	382	463

All the associates are private companies and there are no quoted market prices available for their shares.

There were no contingent liabilities relating to the Target Group's interest in the associates as at 31 December 2014, 2015, 2016 and 30 June 2017.

There is no single associate that is individually significant to the Target Group.

10. Available-for-sale financial assets

	Year ended 31 December			Six months end 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	350,000	369,615	—	—
Addition	369,615	—	—	—
Disposal	(350,000)	(369,615)	—	—
At 31 December/30 June	369,615	—	—	—

In 2014, the Group subscribed for wealth management products for an aggregated amount of RMB369,615,000 (2013: RMB350,000,000), with floating annual return amounted from 4.25% to 4.40% (2013: 4.25%). The maturity of the wealth management products are within one year as such they are presented as current assets on the consolidated balance sheets.

11. Deferred income tax

Movements in deferred income tax assets and liabilities during the years/periods are as follows:

	Year ended 31 December			Six months end 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets				
At 1 January	1,156	1,518	5,939	869
Credited/(charge) to				
— consolidated statements of comprehensive income (Note 26)	362	4,421	(5,070)	5
At 31 December/30 June	1,518	5,939	869	874
To be recovered:				
Within 12 months	1,518	5,939	869	874

The principal components of deferred income tax assets and liabilities provided for are as follows:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets				
Provisions for impairment of				
— receivables	158	80	626	631
— inventories	182	182	182	182
— property, plant and equipment	326	177	—	—
Tax losses	—	5,439	—	—
Others	852	61	61	61
	1,518	5,939	869	874

The movements of the deferred income tax assets are charged or credited to the consolidated statements of comprehensive income.

12. Inventories

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	4,679	5,363	6,418	7,574
Spare parts and consumables	719	709	754	739
Less: provision for impairment	(730)	(730)	(730)	(730)
	4,668	5,342	6,442	7,583

The raw materials primarily comprise fuel and oil.

The cost of inventories recognised as expense and included in cost of sales of the Target Group amounted to RMB38,292,000 for the year ended 31 December 2014, RMB30,535,000 for the year ended 31 December 2015, RMB21,606,000 for the year ended 31 December 2016 and RMB13,125,000 for the six months ended 30 June 2017.

13. Accounts and notes receivable

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accounts receivable	12,328	12,786	28,724	26,205
Due from fellow subsidiaries (Note 30(b))	102	144	2,812	5,916
Notes receivable	14,000	16,739	52,618	40,512
	26,430	29,669	84,154	72,633
Less: provision for impairment	(405)	(384)	(3,610)	(3,634)
	26,025	29,285	80,544	68,999

There is no concentration of credit risk with respect to accounts receivable as the Target Group has a large number of customers.

Majority of the Target Group's revenues is on open account terms and in accordance with the terms specified in the contracts governing the relevant transactions. A credit period, which may be extended for up to the six months, may be granted to large or long-established customers with good repayment histories. Revenues from small, new or short-term customers are normally expected to be settled shortly after provision of services or delivery of goods. The maturity date of notes receivable range from 3 months to 1 year in general.

Ageing analysis of the gross accounts and notes receivable (including amounts due from fellow subsidiaries) at respective balance sheet dates based on invoice date are as follows:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 6 months	26,115	29,233	65,683	42,757
6 months to 1 year	143	436	18,023	29,876
1 year to 2 years	—	—	448	—
2 years to 3 years	172	—	—	—
	26,430	29,669	84,154	72,633
Less: provision for impairment	(405)	(384)	(3,610)	(3,634)
	26,025	29,285	80,544	68,999

Notes receivable are with average maturity of within 6 months. The carrying amounts of accounts and notes receivable approximated their fair values.

The amounts due from fellow subsidiaries, were unsecured, interest free and subject to agreed credit terms.

As of 31 December 2014, 2015, 2016 and 30 June 2017, the Target Group's accounts receivables and notes receivable of RMB18,330,000, RMB21,989,000, RMB77,121,000 and RMB66,570,000 were undue or not yet mature and not impaired.

As at 31 December 2014, 2015, 2016 and 30 June 2017, there were no accounts receivable of the Target Group past due but not impaired.

The remaining impaired accounts receivable relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

As at 31 December 2014, 2015, 2016 and 30 June 2017, the ageing of these impaired receivables based on due date is as follows:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 6 months	7,928	7,680	1,025	42
More than 6 months	—	—	5,560	6,021
1 year to 2 years	—	—	448	—
Over 2 years	172	—	—	—
	8,100	7,680	7,033	6,063

The carrying amounts of accounts and notes receivable were all denominated in RMB.

Movements on the provision for impairment of accounts receivable are as follows:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	943	405	384	3,610
Reversal of impairment	(538)	(21)	—	—
Provision for impairment	—	—	3,226	24
At 31 December/30 June	405	384	3,610	3,634

The creation and release of provision for impaired receivables have been included in "general and administrative expenses" in the consolidated statements of comprehensive income. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

14. Other receivables and prepayments

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables	7,772	11,220	2,712	516
Advances to suppliers	1,359	721	908	1,938
Less: provision for impairment	(454)	(257)	(264)	(262)
	8,677	11,684	3,356	2,192
Due from ultimate holding company (Note 30(b)) (Note (b))	110,000	64,500	—	—
Due from parent company (Note 30(b)) (Note (a))	—	—	—	55,385
Due from fellow subsidiaries (Note 30(b)) (Note (b))	—	—	—	3
Due from other related parties controlled by the same ultimate holding company (Note 30(b)) (Note (b))	80	452	173	151
Deposits	—	—	2,000	2,000
Prepayments	14,320	1,235	1,067	7,445
Interest receivable	1,232	—	—	—
Dividend receivable	412	412	412	412
	134,721	78,283	7,008	67,588
Less: long-term receivables and prepayments — Prepayment for acquisition of property, plant and equipment	(14,320)	(1,235)	(1,067)	(7,445)
Current portion	120,401	77,048	5,941	60,143

The Target Group's other receivables and prepayments were denominated in RMB and the carrying amounts of which approximated their fair values.

(a) As at 30 June 2017, a cash pooling loan to Xiamen Port Development Co., Ltd. ("**XPD**") with an amount of RMB55,385,000 (2016: Nil) was recorded in other receivables. The weighted average interest rate of the entrusted loan is 3.33% (2016: Nil), whose maturity is within one year.

(b) The amounts due from the ultimate holding company, fellow subsidiaries and other related parties were unsecured, interest free and had no fixed terms of repayment.

Movements on the provision for impairment of the Target Group's other receivables and prepayments are as follows:

	Year ended 31 December			Six months end 30 June
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	261	454	257	264
Provision for/(reversal of) impairment	193	(197)	7	(2)
At 31 December/30 June	454	257	264	262

The net effect of the creation and release of provision for impaired receivables have been included in "general and administrative expenses" in the consolidated statements of comprehensive income (Note 24). Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

The Target Group's maximum exposure to credit risk in respect of other receivables and prepayments at 31 December 2014, 2015, 2016 and 30 June 2017 was the carrying amount of each class of receivables and prepayments mentioned above. the Target Group did not hold any collateral as security for other receivables and prepayments as at 31 December 2014, 2015, 2016 and 30 June 2017.

15. Restricted cash

The restricted cash was held in designated bank accounts as for the maintenance of staff quarters and as guarantee deposits for letters of credit and letters of guarantee.

The maximum exposure to credit risk in respect of restricted cash at 31 December 2014, 2015, 2016 and 30 June 2017 was the carrying amounts of the restricted cash balances.

16. Cash and cash equivalents

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	100,632	84,621	80,313	7,899
Maximum exposure to credit risk (net of cash in hand)	100,632	84,621	80,313	7,899
Denominated in:				
RMB	100,632	84,621	80,313	7,899

The Target Group's RMB denominated cash and cash equivalents were deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

17. Accounts and notes payable

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accounts payable	11,619	11,502	27,918	29,397
Due to other related parties controlled by the same ultimate holding company (Note 30(b))	4,530	12,679	7,278	2,071
Notes payable	6,120	—	—	—
	22,269	24,181	35,196	31,468

Ageing analysis of accounts and notes payable (including amounts due to the parent company and fellow subsidiaries) at respective balance sheet dates based on invoice date is as follows:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	10,628	19,872	19,432	19,789
1 year to 2 years	8,921	4,288	14,114	7,703
2 years to 3 years	—	21	1,581	3,863
Over 3 years	2,720	—	69	113
	22,269	24,181	35,196	31,468

Notes payable are with average maturity of within 6 months.

The amounts due to other related parties were unsecured, interest free and had no fixed terms of repayment.

The carrying amounts of the Target Group's accounts and notes payable were denominated in RMB.

The carrying amounts of the Target Group's accounts and notes payable approximated their fair values.

18. Other payables and accruals

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due to ultimate holding company (Note 30(b))				
— loan	120,000	40,000	70,000	—
— others	183,350	112,767	98,267	109,757
Due to fellow subsidiaries (Note 30(b))	6	4	4	4
Due to other related parties controlled by the same ultimate holding company (Note 30(b))	356	52	37	27
Payables for purchases of property, plant and equipment and construction-in-progress	—	172,288	13,955	1,166
Salary and welfare payables	14,633	16,563	16,292	12,565
Dividends payable to shareholder of the Target Company	47,073	215,961	416,527	416,527
Interest payables	9,605	292	199	137
Advances from suppliers	7,116	2,260	7,334	3,106
Other payables	10,180	12,036	742	6,052
	392,319	572,223	623,357	549,341

The carrying amounts of other payables of the Target Group approximated their fair values.

19. Borrowings

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Long-term bank borrowings	133,600	73,600	28,000	14,000
	133,600	73,600	28,000	14,000
Current				
Short-term bank borrowings	110,000	50,000	50,000	50,000
Long-term bank borrowings — current portion	60,000	60,000	45,600	28,000
Other borrowing (b)	256,883	—	—	—
	426,883	110,000	95,600	78,000
Total borrowings	560,483	183,600	123,600	92,000
Representing:				
— unguaranteed and unsecured	—	—	50,000	50,000
— guaranteed (a)	560,483	183,600	73,600	42,000
Total borrowings	560,483	183,600	123,600	92,000

Total bank borrowings at 31 December 2014, 2015, 2016 and 30 June 2017 are repayable as follows:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings repayable:				
— within 1 year	170,000	110,000	95,600	78,000
— between 1 and 2 years	60,000	45,600	28,000	14,000
— between 2 and 5 years	73,600	28,000	—	—
— over 5 years	—	—	—	—
	303,600	183,600	123,600	92,000

(a) As at 31 December 2014, 2015, 2016 and 30 June 2017, the bank borrowings and other borrowing of the Target Group were all guaranteed by XPHG.

(b) As at 31 December 2014, other borrowing represented a borrowing of RMB256,883,000 under a financing arrangement entered into by the Target Group with a third-party financing company in the form of a sale and leaseback transaction with a repurchase option. The subject sold and leased back under the financing arrangement is port assets of the Target Group. As the repurchase price is set under RMB10,000 which in minimal compared to the expected fair value and the Target Group is certain that it will exercise the repurchase option, then above financing arrangement has been accounted for as collateralised borrowing of the Target Group. In 2015, the Target Group had terminated the financing arrangement and repaid the borrowing in full.

The Target Group's borrowings as at the respective balance sheet dates were denominated in RMB.

The weighted average effective interest rates at the respective balance sheet dates were as follows:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
Borrowings	6.07%	4.74%	4.27%	4.19%

The carrying amounts of short-term bank borrowings approximate their fair values, as the impact of discounting was not significant.

The carrying amounts and fair values of long-term bank borrowings were as follows:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amounts	133,600	73,600	28,000	14,000
Fair values	133,600	73,600	28,000	14,000

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Target Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates, and are within level 2 of the fair value hierarchy.

20. Business combination under common control

In 2015, XPHG transferred Berth No. 7 of Haicang port and Berth No. 19 of Dongdu Port (the "Berth No. 7&19") to the Target Company without consideration (the "**Transaction**"). Before 2015, the Target Group rented the Berth No. 7&19 from XPHG for the business of bulk and general cargo loading and unloading business carried on by the Target Group. Because the Target Group and the Berth No. 7&19 are under common control of XPHG before and after the Transaction, the financial information of the Berth No. 7&19 is included in the consolidated financial statements of the Target Group as if they had been combined from the date when they first came under the control of XPHG for whole Track Record Period.

The net assets and operating result of the Berth No. 7&19 were combined using the existing book values from the XPHG's perspective. No amount is recognised in consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party's interest.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

For the years ended 31 December 2014 and 2015, the deduction in reserve of RMB56,610,000 and RMB56,610,000, respectively represented the rental for Berth No. 7&19 charged by XPHG.

21. Revenues

(a) Revenues and other income

The Target Group's revenues and other income are analysed as follows:

	Years ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Revenues	409,155	424,467	398,818	201,316	195,091
Other income					
Government subsidies	896	325	6,053	539	5,354
Interest from wealth management product	27,971	6,819	—	—	—
Rental Income	6,721	7,740	11,252	5,638	5,508
Others	(192)	968	(482)	46	(10)
	35,396	15,852	16,823	6,223	10,852
Total	444,551	440,319	415,641	207,539	205,943

22. Other gains/(losses) – net

	Years ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Gain/(loss) on disposal of property, plant and equipment	279	(7,785)	(12)	(2)	(4)
Others	—	(233)	—	—	—
	279	(8,018)	(12)	(2)	(4)

23. Employee benefit expenses

	Years ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Salaries, wages and bonuses	62,715	65,739	70,100	33,391	39,673
Welfare, medical and other expenses	12,820	14,753	17,059	8,650	9,087
Contributions to pension plans	6,058	6,277	5,819	2,701	3,000
Contributions to supplementary pension scheme	1,423	1,671	1,841	897	964
	83,016	88,440	94,819	45,639	52,724

(a) Pensions — defined contribution plans

The employees of the Target Group participate in various pension plans organised by the relevant municipal and provincial governments under which the Target Group is obliged to make monthly defined contributions to these plans based on 16.0% to 24.8% of the employees' monthly salaries and wages, depending on the applicable social security regulations.

24. Expenses by nature

	Years ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Employee benefit expenses (Note 23)	83,016	88,440	94,819	45,639	52,724
Depreciation of property, plant and equipment (Note 5)	44,971	49,628	59,376	28,334	28,989
Cost of inventories sold/consumed (Note 12)	38,292	30,535	21,606	13,747	13,125
Operating lease rental in respect of property, plant and equipment	25,321	26,570	27,265	13,735	15,668
Repairs and maintenance	14,820	19,838	17,563	7,741	6,496
Amortisation of					
— land use rights (Note 6)	4,520	5,365	13,760	3,760	6,881
— intangible assets (Note 7)	114	114	133	67	66
Dredging expense	5,695	7,545	6,094	3,500	3,717
Distribution, transportation and labour outsourcing	6,594	10,900	12,927	5,102	6,130
Business tax, stamp duty and property tax	2,062	1,820	2,438	1,890	2,161
Travel expenses	2,811	1,982	1,816	339	33
Insurance expenses	953	730	331	331	364
General office expenses	321	374	1,489	139	213
Net provision for/(reversal of) impairment					
— joint ventures	2,759	—	—	—	—
— associate	350	—	—	—	—
— accounts receivable	(538)	(21)	3,226	4,036	24
— other receivables	193	(197)	7	2	(2)
Auditors' remuneration	96	96	23	—	—
Consultant fee	650	161	122	74	148
Others	20,191	26,416	24,097	7,389	6,662
Total cost of sales, selling and marketing expenses and general and administrative expenses	253,191	270,296	287,092	135,825	143,399

25. Finance income and costs

	Years ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Interest income	4,573	3,522	869	438	628
Interests on bank borrowings	(52,932)	(23,822)	(11,878)	(5,890)	(3,425)
Finance costs — net	(48,359)	(20,300)	(11,009)	(5,452)	(2,797)

26. Taxation

(a) Income tax expense

Approved by State Administration of Taxation Xiamen Branch, Xiamen Haiyu Terminal Co.,Ltd ("**Haiyu**") is entitled to a three-year exemption from corporate income tax followed by a 50% reduction in corporate income tax for subsequent three years, commencing from 2014.

Except for Haiyu, other subsidiaries of the Target Company and the Target Company were subjected to income tax rate of 25% for the years ended 31 December 2014, 2015, 2016 and the six months ended 30 June 2016 and 2017.

The amount of income tax expense (credit)/charged recognised in the consolidated statements of comprehensive income represents:

	Years ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
PRC enterprise income tax	15,868	2,738	2,787	3,720	11,311
Deferred income tax charge (Note 11)	(362)	(4,421)	5,070	23	(5)
	15,506	(1,683)	7,857	3,743	11,306

The difference between the actual income tax charge in the consolidated statements of comprehensive income and the amounts which would result from applying the enacted tax rate to profit before income tax expense can be reconciled as follows:

	Years ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit before income tax expense	140,372	144,154	117,631	66,260	59,743
Less: share of profits less losses of joint ventures	2,899	—	—	—	—
Less: share of profits less losses/ (profit) of associates	9	(2,449)	(103)	—	—
	143,280	141,705	117,528	66,260	59,743
Tax calculated at the applicable tax rate of 25%	35,820	35,426	29,382	16,565	14,936
Effect of preferential tax rate of — Haiyu	(9,239)	(25,818)	(21,142)	(12,509)	(4,103)
Income not subject to income tax	(10,862)	(10,783)	—	—	—
Others	(213)	(508)	(383)	(313)	473
Income tax expense	15,506	(1,683)	7,857	3,743	11,306

27. Notes to consolidated statements of cash flows

(a) Reconciliation of profit before income tax expense to net cash generated from operations:

	Years ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before income tax expense	140,372	144,154	117,631	66,260	59,743
Adjustments for:					
— Share of profits less losses of associates	9	(2,449)	(103)	—	—
— Share of profits less losses of joint ventures	2,899	—	—	—	—
— Depreciation of property, plant and equipment	44,971	49,628	59,376	28,334	28,989
— Amortisation of land use rights	4,520	5,365	13,760	3,760	6,881
— Amortisation of intangible assets	114	114	133	67	66
— (Gain)/loss on disposal of property, plant and equipment	(279)	7,785	12	2	4
— Reversal of impairment of accounts receivable	538	21	(3,226)	(4,036)	(24)
— Reversal of impairment of other receivables	(193)	197	(7)	(2)	2
— Provision of impairment of joint venture	(2,759)	—	—	—	—
— Provision of impairment of associate	(350)	—	—	—	—
— Interest from wealth management product	(27,971)	(6,819)	—	—	—
— Interest income	(4,573)	(3,522)	(869)	(438)	(628)
— Interest expenses	52,932	23,822	11,878	5,890	3,425
	210,230	218,296	198,585	99,837	98,458
Changes in working capital:					
— Accounts and notes receivable	10,393	(3,239)	(54,485)	(102,613)	11,521
— Other receivables and prepayments	(120,890)	56,338	67,230	(174,493)	(4,825)
— Inventories	(905)	(674)	(1,100)	(911)	(1,141)
— Accounts and notes payable	5,625	1,912	11,015	198,841	(3,728)
— Other payables and accruals	14,709	(50,556)	(13,669)	66,555	14,889
Net cash generated from operations	119,162	222,077	207,576	87,216	115,174

(b) Reconciliation of net cash generated from proceeds from disposal of property, plant and equipment:

	Years ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Net book amount (Note 16a)	7,656	8,734	240	18	4
Gain/(loss) on disposal of property, plant and equipment	279	(7,785)	(12)	(2)	(4)
Proceeds from disposal of property, plant and equipment	**7,935**	**949**	**228**	**16**	**—**

28. Commitments

(a) Capital commitments

The Target Group's capital expenditure contracted for as at 31 December 2014, 2015, 2016 and 30 June 2017 but not yet incurred is as follows:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Purchases of property, plant and equipment	33,640	10,025	17,127	22,979

(b) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases on property, plant and equipment are as follows:

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not later than 1 year	10,329	744	5,686	5,686
Later than 1 year and not later than 5 years	744	—	5,212	2,843
	11,073	744	10,898	8,529

29. Contingent liabilities

As at 31 December 2014, 2015, 2016 and 30 June 2017, the Target Group have no significant contingent liabilities.

30. Significant related party transactions

XPHG is the immediate parent of the Target Company during the year ended 31 December 2014 and 2015 and for the period up to November 2016. The Target Company is immediately controlled by XPHG during the years ended 2014 and 2015. In November 2016, XPD acquired 51% equity interest of the Target Company from XPHG and became the immediate parent company of the Target Company since then. The Target Group was ultimately controlled by XPHG throughout the Track Record Period.

In addition to those disclosed elsewhere in the consolidated financial information, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Target Group and its related parties, the six months ended 30 June 2017 and balances arising from these significant related party transactions.

(a) During the years/periods, save as disclosed elsewhere in the notes in the consolidated financial information, the Target Group had the following significant transactions with related parties:

		Years ended 31 December			Six months ended 30 June	
		2014	**2015**	**2016**	**2016**	**2017**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Transactions with the ultimate holding company						
Expenses						
Operating lease rental in respect of land, port facilities and office premises	(i)	57,384	57,318	720	372	372
Interest expense	(i)	21,040	7,619	5,553	1,970	1,118
Transactions with the parent company						
Revenue						
Interest income	(i)	—	—	—	—	385
Transactions with fellow subsidiaries						
Revenue						
Port services	(i)	2,122	546	692	692	—
Trading sales	(i)	3	25	13	6	5
Operating lease rental in respect of land, port facilities and office premises	(i)	6,207	7,051	10,209	5,448	5,397
Expenses						
Operating lease rental in respect of land, port facilities and office premises	(i)	—	2,625	2,201	1,312	—
Electricity expenses	(i)	1	—	—	—	—
Transportation costs	(i)	4,292	3,987	1,646	874	—
Loading and unloading expenses	(i)	—	—	2,611	2,611	—
Transactions with other related parties						
Expenses						
Purchase of fuel costs	(i)	7,319	11,746	11,080	4,000	3,781
Dredging expenses	(i)	11,153	12,091	6,837	3,806	4,731
Administration expenses	(i)	262	1,598	2,010	657	750
Electricity expenses	(i)	7,470	3,369	7,117	3,647	3,381

(i) Transactions rendered to the related parties were carried out on terms that were mutually agreed among the involved parties.

(b) The balances with related parties of the Target Group at the balance sheet dates are as follows:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balances with the ultimate holding company				
Other receivables and prepayments	110,000	64,500	—	—
Other payables and accruals	303,350	152,767	168,267	109,757
Dividends payable (note (i))	44,469	204,913	405,479	405,479
Balances with parent company				
Other receivables and prepayments	—	—	—	55,385
Balances with fellow subsidiaries				
Accounts receivable	102	144	2,812	5,916
Other receivables and prepayments	—	—	—	3
Other payables and accruals	6	4	4	4
Balances with associates				
Dividends receivable (note (ii))	412	412	412	412
Balances with other related party				
Other receivables and prepayments	80	452	173	151
Accounts payable	4,530	12,679	7,278	2,071
Other payables and accruals	356	52	37	27
Dividends payable	2,604	11,048	11,048	11,048

(i) The balance represents dividend payable to XPHG in respect of dividends declared prior to the acquisition of the 51% of the Target Company's equity interests by XPD in November 2016.

(ii) The balance represents dividend payable to 廈門港務集團和平旅遊有限公司, the then minority shareholder of the Target Company, in respect of dividends declared prior to the transfer of 5% equity interests of the Target Company from 廈門港務集團和平旅遊有限公司 to XPHG in 2015.

(c) Key management compensation:

Key management includes Zheng Cenglin, the director of the Target Company. The compensation paid or payable to key management for employee services is shown below:

	Years ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Emoluments					
Basic salaries, housing allowances, other allowances and benefits-in-kind	575	687	613	383	288
Contributions to pension plans	69	71	85	43	45
	644	758	698	426	333

31. Subsequent event

From 30 June 2017 to the date of this report, there were no significant events affecting the Group.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to 30 June 2017 and up to the date of this report. No dividend or distribution has been declared or made by Target Company or any of its subsidiaries in respect of any period subsequent to 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group for each of the three years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the six months period ended 30 June 2017 (the "**Relevant Periods**"). The following financial information is based on the Accountant's Report of the Target Group as set out in Appendix II.

Overview

The Target Company, namely, Xiamen Port Group Shihushan Terminal Company Limited* (廈門港務集團石湖山碼頭有限公司), was established in the PRC and is principally engaged in the loading and unloading of bulk cargos, such as coal and iron sand, storage and transportation agent for domestic cargo. There are three wholly-owned subsidiaries of the Target Company in operation, namely Xiamen Port Haiyu Terminal Company Limited* (廈門港務海宇碼頭有限公司), Xiamen Port Haiyi Terminal Company Limited* (廈門港務海億碼頭有限公司) and Xiamen Shihushan Terminal Labour Service Company Limited* (廈門石湖山碼頭勞動服務有限公司). The operational assets of the Target Group primarily comprise the operational assets that are located at berth nos. 18 and no. 19 at Dongdu port area and berth no. 7 at Haicang port area, Fujian Province, the PRC.

The Target Group

As at the Latest Practicable Date, the Target Company is 51% owned by Xiamen Port Development and 49% owned by Xiamen Port Holding, respectively.

Financial Review

Revenue

The revenue of Target Group increased from approximately RMB409.2 million for the year ended 31 December 2014 to approximately RMB424.5 million for the year ended 31 December 2015 mainly due to the increase of throughput for iron ore during 2015. The revenue of the Target Group decreased from approximately RMB424.5 million for the year ended 31 December 2015 to approximately RMB399.0 million for the year ended 31 December 2016 mainly due to the suspension of operation of some steel plants which led to the decrease of throughput for iron ore during 2016. For the six months ended 30 June 2017, the Target Group's revenue decreased from approximately RMB201.3 million for the six months ended 30 June 2016 to approximately RMB195.1 million mainly due to the decrease of throughput for iron ore during the first half of 2017.

Gross Profit

The Target Group recorded gross profit for each of the financial years ended 31 December 2014, 2015 and 2016 of RMB177.7 million, RMB172.3 million and RMB129.0 million, respectively and for the six months ended 30 June 2017 of RMB58.2 million. Gross profit of the Target Group decreased during the Relevant Period was mainly due to the increasing operating costs, namely, the increasing employee benefit expense, depreciation cost, fuel cost, etc.

Operating Profit

The operating profit of the Target Group decreased from approximately RMB191.6 million for the year ended 31 December 2014 to RMB162.0 million for the year ended 31 December 2015 and further decreased to RMB128.5 million for the year ended 31 December 2016. The operating profit of the Target Group decreased from RMB71.7 million for the six months ended 30 June 2016 to RMB62.5 million for the six months ended 30 June 2017.

Net Profit

Net profit after taxation for the three years ended 31 December 2014, 2015 and 2016 and six months ended 30 June 2016 and 2017 was approximately RMB124.9 million, RMB145.8 million and RMB109.8 million, RMB62.5 million and RMB48.4 million, respectively.

Liquidity, financial resources and capital structure

As at 31 December of 2014, 2015 and 2016 and 30 June 2017, the Target Group had current assets of approximately RMB623.3 million, RMB197.0 million, RMB174.0 million and RMB145.4 million, respectively, which mainly comprised other receivables and prepayments and cash and cash equivalents.

As at 31 December of 2014, 2015 and 2016 and 30 June 2017, the Target Group had current liabilities of approximately RMB844.7 million, RMB707.1 million, RMB755.8 million and RMB665.7 million, respectively, which mainly comprised other payables and accruals and borrowings. The Target Group's current ratio as at 31 December of 2014, 2015 and 2016 and 30 June 2017 was approximately 0.74, 0.28, 0.23 and 0.22 respectively.

As at 31 December of 2014, 2015 and 2016 and 30 June 2017, the Target Group had borrowings of approximately RMB560.5 million, RMB183.6 million, RMB123.6 million and RMB92.0 million, respectively. As at 31 December 2014 and 2015, the bank borrowings of the Target Group were all guaranteed by the ultimate controlling shareholder of the Target Group. As at 31 December 2016 and 30 June 2017, bank borrowings in the amount of RMB50,000,000 of the Target Group were unsecured while the remaining bank borrowings of the Target Group were all guaranteed by the ultimate controlling shareholder of the Target Group. For the year ended 31 December 2014, a borrowing in the amount of RMB256,883,000 was made in the form of sale and lease back transaction with a repurchase option. The subject sold and leased back under the financing arrangement is port assets of Target Group. Therefore, the sale and leaseback arrangement was accounted as borrowing secured by the port assets of the Target Group.

As at 31 December of 2014, 2015 and 2016 and 30 June 2017 the gearing ratio (being total borrowings over the total assets) was approximately 0.30, 0.12, 0.08 and 0.06, respectively.

Foreign Exchange Exposure

The businesses conducted by the Target Group during the three years ended 31 December 2014, 2015 and 2016 and six months ended 30 June 2017 were denominated in RMB. Therefore, the management did not consider that the Target Group was exposed to any significant foreign currency exchange risks and it had not used any financial instrument for hedging purpose during the aforesaid periods.

Capital Commitment

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the Target Group had capital commitments of RMB33,640,000, RMB10,025,000, RMB17,127,000 and RMB22,979,000, respectively.

Charge of assets

As at 31 December 2014, borrowing in the amount of approximately RMB256.9 million was secured by certain port assets of the Target Group in a sale and lease back arrangement. The loan of RMB256.9 million was repaid in full in 2015.

Save as disclosed in the above, the Target Group did not have any charge on assets as at 31 December 2014, 2015 and 2016 and 30 June 2017.

Contingent liabilities

As at 31 December 2014, 2015, 2016 and 30 June 2017, the Target Group did not have any significant contingent liabilities.

Treasury Policies

The objective of the Target Group's treasury policies is to minimise risks. The Target Group adopts a prudent treasury policy towards its overall business operation and manages and monitors its financial risk exposures to ensure appropriate measures are implemented on a timely and effective manner.

Material investment, acquisition and disposals

During the Relevant Periods, the Target Group did not have any material acquisitions or disposals of assets.

Employee information

As at 31 December 2014, 2015, 2016 and 30 June 2017, the Target Group had 760, 755, 776 and 778 employees (including directors), respectively.

Remuneration policy

The Target Group recruit, employ, promote and remunerate their employees based on their qualification, experience, skills, performances and contributions. Remuneration is also determined with reference to, among others, the market trend. Other benefits include social insurance, housing fund and allowance. Bonus to the employees of the Target Company was determined after taking into accounts the results of the Target Company and the performance of employees. During the year ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, the employees' remuneration of the Target Group were approximately RMB83.1 million, RMB88.4 million, RMB94.8 million and RMB52.7 million, respectively.

A. Unaudited Pro Forma Financial Information of the Group

The following is an illustrative and unaudited pro forma statement of assets and liabilities of Xiamen International Port Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") including Xiamen Port Group Shihushan Terminal Company Limited ("Target Company")(collectively referred to as the "Enlarged Group") as at 30 June 2017 (the "Unaudited Pro Forma Financial Information") which has been prepared in accordance with paragraph 4.29 of the Listing Rules. The Unaudited Pro Forma Financial Information has been prepared based on the basis of the notes set out below, which is consistent with the accounting policies of the Group, for the purpose of illustrating the effect of the open offer and proposed acquisition of 49% equity interests of Target Company (the "Transaction"), as if the Transaction had been taken place on 30 June 2017.

The Unaudited Pro Forma Financial Information has been prepared based on the unaudited consolidated balance sheet of the Company as at 30 June 2017 as set out in the Company's published interim financial information for the six months ended 30 June 2017. Before the Transaction, the Company indirectly owned 51% equity interests in Target Company. Thus, the assets, liabilities and operating results of the Target Group were consolidated by the Company and the remaining 49% equity interests held by Xiamen Port Holding were accounted for as non-controlling interests. Upon the completion of the Transaction, the Company will indirectly own 100% equity interests in Target Company.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Transaction been completed as at 30 June 2017 or at any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 30 JUNE 2017

	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2017	Pro forma adjustment	Pro forma adjustment	Pro forma adjustment	Unaudited pro forma statement of assets and liabilities of the Group as at 30 June 2017
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
	RMB '000	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*
Assets					
Non-current assets					
Investment properties	143,519				143,519
Property, plant and equipment	10,759,525				10,759,525
Land use rights	3,663,434				3,663,434
Intangible assets	402,744				402,744
Interests in joint ventures	78,305				78,305
Interests in associates	56,684				56,684
Available-for-sale financial assets	213,161				213,161
Long-term receivables and prepayments	110,539				110,539
Deferred income tax assets	290,141				290,141
Total non-current assets	**15,718,052**				**15,718,052**
Current assets					
Inventories	615,930				615,930
Accounts and notes receivable	1,526,893				1,526,893
Other receivables and prepayments	740,602				740,602
Available-for-sale financial assets	350,000				350,000
Term deposits with initial term of over three months	10,390				10,390
Restricted cash	35,105				35,105
Cash and cash equivalents	739,100	538,440	(724,668)		552,872
Total current assets	**4,018,020**				**3,831,792**
Total assets	**19,736,072**				**19,549,844**

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 30 JUNE 2017 (CONTINUED)

	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2017	Pro forma adjustment	Pro forma adjustment	Pro forma adjustment	Unaudited pro forma statement of assets and liabilities of the Group as at 30 June 2017
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
	RMB '000	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*
Liabilities					
Non-current liabilities					
Borrowings	2,086,216				2,086,216
Deferred government grants and income	144,571				144,571
Long-term payables and advances	1,816				1,816
Deferred income tax liabilities	421,936				421,936
Total non-current liabilities	**2,654,539**				**2,654,539**
Current liabilities					
Accounts and notes payable	1,188,871				1,188,871
Other payables and accruals	1,385,949			16,880	1,402,829
Borrowings	3,030,033				3,030,033
Income tax payable	72,999				72,999
Total current liabilities	**5,677,852**				**5,694,732**
Total liabilities	**8,332,391**				**8,349,271**

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The amounts are extracted from the unaudited consolidated balance sheet of the Group as at 30 June 2017 as set out in the Company's published interim financial information for the six months ended 30 June 2017.

2. The Group intends to raise funds of not more than RMB1,200 million by way of open offer of A shares of Xiamen Port Development, being the subsidiary of the Company, as a precedent condition for the proposed acquisition. Among the funds to be raised of RMB1,200 million, funds of approximately RMB662 million and RMB538 million are expected to be raised from the Company and the minority shareholders of Xiamen Port Development, respectively. For the purpose of the Unaudited Pro Forma Financial Information, the pro forma adjustment represents the proceeds from the minority shareholders of RMB538 million to be raised under the open offer.

3. Prior to the completion of the Transaction, the Company indirectly owned 51% equity interests in Target Company. Thus, the assets, liabilities and operating results of the Target Group were consolidated by the Company and the remaining 49% equity interests held by Xiamen Port Holding were accounted for as non-controlling interests. Upon the completion of the Transaction, the Company will indirectly own 100% equity interests in Target Company. The amount of RMB201,399,000, representing the difference between the consideration for the proposed acquisition of RMB724,668,000 and the carrying values of the 49% equity interest of RMB523,269,000, will be recognised in other reserve within equity.

   For the purpose of preparing the Unaudited Pro Forma Financial Information, the pro forma adjustment represents the consideration of RMB724,668,000 for the proposed acquisition, which is determined based on (a) the final Appraised Value as at 30 June 2017 appraised by the PRC Qualified Valuer using asset based approach and approved by the relevant authority(ies) for the supervision and administration of state-owned assets (approximately being RMB749,987,000) minus (b) the distributable profit of the Target Company which Xiamen Port Holding shall be entitled to in proportion to its shareholding in the Target Company as at 30 June 2017 (approximately being RMB25,319,400). It is assumed that the consideration will be paid by cash.

4. The pro forma adjustment represents the estimated amounts for professional fees and other expenses payable by the Group for the Transaction.

5. Save as aforesaid, no other adjustments have been made to reflect any trading results or other transactions of the Group or Target Group entered into subsequent to 30 June 2017.

B. Report on Unaudited Pro Forma Financial Information of the Group

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Xiamen International Port Co., Ltd

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Xiamen International Port Co., Ltd (the "Company") and its subsidiaries (collectively the "Group") and Xiamen Port Group Shihushan Terminal Company Limited and its subsidiaries (the "Target Group") (collectively the "Enlarged Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2017, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages IV-1 to IV-4 of the Company's circular dated 23 October 2017, in connection with the proposed acquisition of 49% equity interest of the Target Group (the "Transaction") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1 to IV-4.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group's financial position as at 30 June 2017 as if the Transaction had taken place at 30 June 2017. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the period ended 30 June 2017, on which a review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 30 June 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 October 2017

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this circular received from Savills Valuation and Professional Services Limited, an independent valuer, in connection with their opinion of values of the properties as at 31 July 2017 held by the Target Group.

Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T : (852) 2801 6100
F : (852) 2530 0756

EA Licence: C-023750
savills.com

The Directors
Xiamen International Port Co., Ltd.
No. 439 Gangnan Road
Haicang District
Xiamen
Fujian Province
The People's Republic of China

23 October 2017

Dear Sirs,

INSTRUCTIONS

In accordance with the instructions from Xiamen International Port Co., Ltd. (the "**Company**") for us to value the properties held by Xiamen Port Group Shihushan Terminal Company Limited (廈門港務集團石湖山碼頭有限公司) (the "**Target Company**"), Xiamen Port Haiyu Terminal Company Limited (廈門港務海宇碼頭有限公司) ("**Haiyu Terminal**") and Xiamen Port Haiyi Terminal Company Limited (廈門港務海億碼頭有限公司) ("**Haiyi Terminal**") (hereinafter together referred to as the "**Target Group**") in the People's Republic of China ("**PRC**"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such properties as at 31 July 2017 (the "**valuation date**") for circular purpose.

BASIS OF VALUATION

Our valuation of each of the properties is our opinion of its market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

Our valuation is prepared in compliance with the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in accordance with The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

PROPERTY CATEGORIZATION AND VALUATION METHODOLOGY

The properties are to be held for owner occupation by the Target Group in the PRC after the Proposed Acquisition. In valuing Property Nos. 1 to 3, due to the specific purpose for which the properties have been constructed, there are no readily available market comparables and thus the properties cannot be valued on the basis of direct comparison. They have been valued by the Depreciated Replacement Cost ("**DRC**") Approach. The DRC Approach is based on an estimate of the market value for the existing use of the land plus the current replacement costs of the buildings and structures, from which deductions are then made to allow for physical deterioration and all relevant forms of obsolescence and optimization. The DRC Approach is subject to adequate potential profitability of the business. Our valuation applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

We have assigned no commercial value to Property No. 4 because the Target Company had no valid title documents as at the valuation date.

TITLE INVESTIGATION

We have been provided with copies of title documents relating to the properties. However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendments which may not appear on the copies provided to us. In the course of our valuation, we have relied to a very considerable extent on the information given by the Company and the legal opinion issued by the Company's subsidiary's PRC legal adviser, King & Wood Mallesons, regarding the titles to the properties in the PRC.

SOURCES OF INFORMATION

In the course of our valuation, we have relied to a considerable extent on information from the Company and also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, site and floor areas, and all other relevant matters. Dimensions, measurements and areas included in the valuation certificates are based on the information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been taken. We have no reason to doubt the truth and accuracy of the information provided to us by the Company, which is material to our valuation. We are also advised by the Company that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view.

VALUATION ASSUMPTIONS

In valuing the properties in the PRC, unless otherwise stated, we have assumed that transferable land use rights of the properties for their specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. Unless otherwise stated, we have also assumed that the owners of the properties have good legal titles to the properties and have free and uninterrupted rights to occupy, use, transfer or lease the properties for the whole of the respective unexpired terms as granted.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

SITE INSPECTION

We have inspected the exterior and where possible, the interior of the properties. During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report that the properties are free from rot, infestation and any other defects. No tests were carried out on any of the services. The site inspections were carried out during the period between 1 August 2017 and 4 August 2017 by the following professional valuers:

Dirk Li	China Registered Real Estate Appraiser
Vicky Wu	China Registered Real Estate Appraiser and China Registered Land Valuer
Eileen Sun	Valuer

CURRENCY

Unless otherwise stated, all money amounts stated are in Renminbi ("**RMB**").

We enclose herewith our summary of values and valuation certificates.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Anthony C K Lau
MRICS MHKIS RPS(GP)
Director

Note: Mr. Anthony C.K. Lau is a professional surveyor who has over 24 years' experience in valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUES

No.	Property	Market value in existing state as at 31 July 2017
1.	Berth No. 7 and various ancillary structures located at Haicang Port, Haicang District, Xiamen, Fujian Province, PRC	RMB687,900,000
2.	Berth No. 18 and various ancillary structures located at Dongdu Port, Huli District, Xiamen, Fujian Province, PRC	RMB515,000,000
3.	Berth No. 19 and various buildings and ancillary structures located at Zaishang Xi Road, Huli District, Xiamen, Fujian Province, PRC	RMB666,500,000
4.	Room Nos. 401 and 402 of Block 1, No. 56 Xin Shi Nan Road, Sanyuan District, Sanming, Fujian Province, PRC	No commercial value
	Total	**RMB1,869,400,000**

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2017
1.	Berth No. 7 and various ancillary structures located at Haicang Port, Haicang District, Xiamen, Fujian Province, PRC	The property is situated in the south of Haicang District with a number of berths in its immediate neighbourhood. It takes about 20 to 25 minutes' drive to the city centre of Xiamen from the property. The property comprises a bulk cargo berth together with various ancillary structures erected on three parcels of land with site area of approximately 304,320.17 sq m. The berth has a total quay length of 325 metres and a depth of 17.5 metres. It has a total designed annual capacity of 3,000,000 ton and was completed in 2006. The ancillary structures comprise sewage pumping room, railway crossing room, stacking area, quays, guard room and road and were completed in various stages between 2007 and 2015. The land use rights of the property have been granted for a term due to expire on 20 November 2056 for port, storage and railway route uses.	As at the valuation date, the property was owner-occupied for port use.	RMB687,900,000

Notes:

1. Pursuant to the State-owned Land Use Rights Grant Contract — (2006) Xia Hai Di He (Xie) Zi No. 063 dated 4 December 2006 and two supplementary contracts dated between 5 March 2012 and 31 May 2016, the total site area of the land with a site area of approximately 312,466.854 sq m have been granted to Haiyu Terminal for port, storage, railway route and ancillary road uses.

   As advised by the Company, the property only comprises portion of the site area as stated in the State-owned Land Use Rights Grant Contract and supplementary contracts as mentioned above.

2. Pursuant to the Xiamen Land and Building Ownership Certificate – Xia Guo Tu Fang Zheng Di No. Di 00011375 dated 30 November 2011, the land use rights of a parcel of land with a site area of approximately 177,816.60 sq m have been granted to Haiyu Terminal for a term due to expire on 20 November 2056 for port use.

3. Pursuant to Real Estate Title Certificate — Min (2016) Xiamen Shi Bu Dong Chan Quan Di No. 0141370 dated 21 November 2016, the land use rights of two parcels of land with a total site area of approximately 126,503.57 sq m have been granted to Haiyu Terminal for a term due to expire on 20 November 2056 for storage and railway route uses.

4. Pursuant to the Construction Land Planning Permit — Di Zi Di No. 350205201613014 dated 2 February 2016, Haiyu Terminal was permitted to use three parcels of land with a total site area of approximately 134,650.165 sq m for ancillary road, storage and railway route uses.

   As advised by the Company, the property only comprises portion of land parcels as stated in the Construction Land Planning Permit mentioned above.

5. Pursuant to two Certificates of Completion of Works of Port — Xia Gang Jun [2011] No. 2 and Min Jiao Gang Hang Yan Zheng Zi [2014] No. 6 dated 30 March 2011 and 10 October 2014, the construction works of Berth No. 7 of Haicang Port were certified to be completed.

6. We have been provided with a legal opinion on the title to the property issued by the Company's subsidiary's PRC legal adviser, which contains, inter-alia, the following information:

   (i) Haiyu Terminal has legally obtained the land use rights of the property and is entitled to occupy, use, transfer, lease, mortgage or by other legal means to dispose of the property; and

   (ii) as advised by the Target Group, the property is free from mortgage.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2017
2.	Berth No. 18 and various ancillary structures located at Dongdu Port, Huli District, Xiamen, Fujian Province, PRC	The property is situated in the west of Huli District with a number of berths in its immediate neighbourhood. It takes about 15 to 20 minutes' drive to the city centre of Xiamen from the property. The property comprises a multi-functional berth together with various ancillary structures erected on a parcel of land with a site area of approximately 220,346.95 sq m. The berth has a total quay length of 435 metres and a depth of 15.3 metres. It has a total designed annual capacity of 960,000 ton and was completed in 2004. The ancillary structures comprise stacking area, quays and guard room and were completed in various stages between 2004 and 2015. The land use rights of the property have been granted for a term due to expire on 3 December 2041 for port use.	As at the valuation date, portion of the property with a site area of approximately 72,000.00 sq m was occupied by Xiamen Hailong Terminal Co., Ltd. The remaining portion of the property was occupied by the Target Company for port use.	RMB515,000,000

Notes:

1. Pursuant to the State-owned Land Use Rights Grant Contract — No. 35020020160706cx08 dated 4 August 2016, the land use rights of a parcel of land with a site area of approximately 220,346.951 sq m have been granted to Haiyi Terminal for port use for a term commencing on 4 December 2001 and expiring on 3 December 2041 at a consideration of RMB156,464,000.

2. Pursuant to the Real Estate Title Certificate — Min (2016) Xiamen Shi Bu Dong Chan Quan Di No. 0134161, the land use rights of the property with a site area of approximately 220,346.95 sq m have been granted to Haiyi Terminal for a term due to expire on 3 December 2041 for port use.

3. Pursuant to Certificate of Completion of Works of the Port — Xia Gang Jun [2012] No. 1 dated 10 February 2012, the construction works of Berth No. 18 of Dongdu Port were certified to be completed.

4. Pursuant to an approval letter — (2015) Xia Gui Zhi Yong Di Zhun Geng Di No. 053 dated 24 December 2015 and issued by Xiamen City Planning Committee, the site area of the property has been adjusted from 241,745.00 sq m to approximately 220,346.951 sq m.

5. We have been provided with a legal opinion on the title to the property issued by the Company's subsidiary's PRC legal adviser, which contains, inter-alia, the following information:

   i. Haiyi Terminal has legally obtained the land use rights of the property and is entitled to occupy, use, transfer, lease, mortgage or by other legal means to dispose of the property; and

   ii. as advised by the Target Group, the property is free from mortgage.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2017
3.	Berth No. 19 and various buildings and ancillary structures located at Zaishang Xi Road, Huli District, Xiamen, Fujian Province, PRC	The property is situated in the west of Huli District with a number of berths in its immediate neighbourhood. It takes about 15 to 20 minutes' drive to the city centre of Xiamen from the property. The property comprises a multi-functional berth, 22 buildings and various structures erected on two parcels of land with a total site area of approximately 235,193.14 sq m. The berth has a quay length of approximately 289.677 metres and a depth of 15.30 metres. It has a total designed annual capacity of 960,000 ton and was completed in 2007. The buildings comprise three office buildings, dormitory, canteen, boiler room and power transformer rooms with a total gross floor area of approximately 16,105.75 sq m. The buildings were completed in various stages between 1993 and 2011. The ancillary structures comprise stacking area, wall, quays railway and road and were completed in various stages between 1995 and 2017. The land use rights of the property have been granted for a term due to expire on 30 June 2053 for storage and port uses.	As at the valuation date, portion of the property with a site area of approximately 43,500.00 sq m and a gross floor area of approximately 795.69 sq m was occupied by Xiamen Port Logistics Co., Ltd. for stacking area and office uses. The remaining portion of the property was occupied by the Target Company for port use.	RMB666,500,000 *(please see Note 6)*

Notes:

1. Pursuant to two State-owned Land Use Rights Grant Contracts — (2005) Xia Di He (Xie) Zi Di Nos. 23 and 24 both dated 17 May 2005 and a supplementary contract dated 30 May 2016, the land use rights of two parcels of land with a total site area of approximately 235,193.131 sq m have been granted to Xiamen Port Holding Group Co., Ltd. (廈門港務控股集團有限公司) ("**Xiamen Port Holding**") for a term due to expire on 30 June 2053 for storage and port uses.

2. Pursuant to two Certificates of Completion of Works of the Port — Xia Gang Jun [2012] No. 2 and Min Jiao Gang Hang Yan Zheng Zi [2014] No. 3 dated 10 February 2012 and 10 October 2014, the construction works of Berth No. 19 of Dongdu Port were certified to be completed.

3. Pursuant to the following Real Estate Title Certificates all dated 25 January 2017, the building ownership of portions of the property with a total gross floor area of approximately 15,166.06 sq m and the corresponding land use rights with a site area of approximately 235,193.14 sq m are vested in the Target Company for a term due to expire on 30 June 2053 for storage and port uses. Details of the said certificates are as follows:

No.	**Certificate No.**	**Building Usage**	**Approximate Gross Floor Area** *(sq m)*
i.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008298	Transformer Station	731.2
ii.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008107	Office	2,049.07
iii.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008268	Power Distribution Room	179.14
iv.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008101	Guard Room	29.95
v.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008099	Transformer Station	614.15
vi.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008113	Boiler Room	183.46
vii.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008103	Guard Room	20.02
viii.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008095	Canteen	907.33
ix.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008096	Pump Room	33.71
x.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008288	Transfer Station	226.62
xi.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008199	Guard Room	21.16
xii.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008248	Office	3,396.32
xiii.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008245	Labour Building	2,375.61
xiv.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008210	Guard Room	28.22
xv.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008285	Office	2,247.38

No.	Certificate No.	Building Usage	Approximate Gross Floor Area (sq m)
xvi.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008203	Winder Chamber	39.69
xvii.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008105	Workshop	869.00
xviii.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008104	Pump Room	128.68
xix.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008097	Sewage Disposal Workshop	235.32
xx.	Min (2017) Xiamen Shi Bu Dong Chan Quan Di No. 0008201	Canteen	850.03
		Total:	**15,166.06**

4. As advised by the Company, there are two buildings (being the Parking Workshop No. 19 and Hoist Room No. 1) with a total gross floor area of approximately 939.69 sq m which have no ownership certificates.

5. We have been provided with a legal opinion on the title to the property issued by the Company's subsidiary's PRC legal adviser, which contains, inter alia, the following information:

   i. the Target Company has legally obtained the land use rights and building ownership of the property and is entitled to occupy, use, transfer, lease, mortgage or by other legal means to dispose of the property save for the portion referred to in Note 4 above; and

   ii. as advised by the Target Group, the property is free from mortgage.

6. In the course of our valuation, we have assigned no commercial value to the buildings of the property with no valid title documents as mentioned in Note 4. For the Company's management reference purpose, the depreciated replacement cost of the said buildings of the property was in the sum of RMB1,320,000 as at the valuation date.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2017
4.	Room Nos. 401 and 402 of Block 1, No. 56 Xin Shi Nan Road, Sanyuan District, Sanming, Fujian Province, PRC	The property is situated in the north of Sanyuan District. Developments in the vicinity are dominated by medium-rise residential developments. It takes about 10 to 15 minutes' drive to the city centre of Sanming from the property. The property comprises two residential units of a residential building with a total gross floor area of approximately 204.56 sq m. As advised by the Company, the property was completed in 2003.	As advised by the Company, the property was occupied by Xiamen Penavico International Freight and Forwarding Co., Ltd. (廈門外代國際貨運有限公司) for dormitory use as at the valuation date.	No commercial value *(please see Note 3)*

Notes:

1. Pursuant to the Building Ownership Certificate — Min Fang Quan Zheng Zi Di No. 126063, the building ownership of the property with a total gross floor area of approximately 204.56 sq m is vested in Huaxia (Yongan) Real Estate Development Company Limited ("**Huaxia (Yongan)**"), an independent third party of the Company.

2. We have been provided with a legal opinion on the title to the property issued by the Company's subsidiary's PRC legal adviser, which contains, inter-alia, the following information:

   (i) the Target Company and Huaxia (Yongan) are in the process of negotiating the title transfer of the property. The Target Company may be unable to obtain the Building Ownership Certificate due to failure in reaching an agreement with Huaxia (Yongan) on the said transfer.

3. In the course of our valuation, we have assigned no commercial value to the property because the Target Company has no Building Ownership Certificate. For the Company's management reference purpose, the depreciated replacement cost of the property was in the sum of RMB200,000 and the market value of the property was estimated to be RMB1,120,000 on the hypothetical assumption that a valid Building Ownership Certificate was obtained as at the valuation date.

The Proposed Acquisition of the 49% Equity Interest in Xiamen Port Group Shihushan Terminal Company Limited (廈門港務集團石湖山碼頭有限公司) from Xiamen Port Holding Group Co., Ltd. by Xiamen Port Development Co., Ltd.

VALUATION REPORT

Min Zhong Xing Ping Zi (2017) No. 2024

I. PRINCIPALS, APPRAISED ENTITY AND OTHER USERS OF THE VALUATION REPORT

The principals of this valuation are Xiamen Port Development Co., Ltd. and Xiamen Port Holding Group Co., Ltd., respectively, and the appraised entity is Xiamen Port Group Shihushan Terminal Co., Ltd. (廈門港務集團石湖山碼頭有限公司) ("**Shihushan Terminal**").

(I) Summary of the Principals

1. Principal A: **Xiamen Port Development Co., Ltd.**

Company Name:	Xiamen Port Development Co., Ltd.
Address:	F20 & F21, Gangwu Plaza, No. 31 Donggang North Road, Huli District, Xiamen
Legal representative:	Ke Dong
Registered capital:	RMB531 million
Company type:	Joint stock limited company (listed)
Unified social credit code:	913502007054097384

Scope of business:

1. to provide ships with dock facilities and provide cargo handling, warehousing, logistics services within the port area; container handling, stacking and dismantling; roll on and roll off services for vehicle; simple processing for goods and their packaging (refer to license for expiration date);

2. the logistics and supply chain management, overall logistics planning and consulting, transit, multimodal transport services (excluding transport), logistics information management;

3. to operate all types of import and export of goods and technologies (no further attachment for directory of export commodities), except those goods and technologies the State restricts companies to operate or prohibits to import and export;

4. the wholesale and retail of building materials, chemical raw materials and products (excluding hazardous chemicals and monitoring chemicals), mineral products (except the state-controlled), machinery and equipment, hardware and electrical equipment and electronic products, textiles, clothing and daily necessities, agricultural products and livestock, stationery, sporting goods and equipment, arts and crafts;

5. lease of properties.

2. Principal B: Xiamen Port Holding Group Co., Ltd.

Company Name:	Xiamen Port Holding Group Co., Ltd.
Address:	F25, Gangwu Plaza, No. 31 Donggang North Road, Huli District, Xiamen
Legal representative:	Chen Dingyu
Registered capital:	RMB3.1 billion
Company type:	Limited liability company (wholly state-owned)
Unified social credit code:	9135020026013542XA

Scope of business:

1. to operate and manage the state-owned assets within the authorized scope;

2. to invest in enterprises operating in the port, terminals, logistics, information, real estate, hotels, property, tourism, trading and aquatic products processing industries;

3. to provide investment enterprises with financing services in accordance with laws, and utilize different channels to raise funds for self-investment;

4. to invest in financial services and securities companies such as banks, trusts, guarantees, insurance etc.;

5. port engineering development, construction and consulting;

6. the analysis and consulting business of marine oil pollution, water recovery, environmental testing and oil type;

7. development and sales of information products, services on information consulting and technology, development and construction of information engineering and related services;

8. other business related to port construction and operation.

(II) Summary of the appraised entity

1. General information

Company Name:	Shihushan Terminal
Registered Address:	Port Area of Shihu Shan, Huli District, Xiamen
Legal representative:	Zheng Cenglin
Company Type:	Legal person business entity (other limited liability company)
Unified social credit code:	913502007054938296
Registered capital:	RMB40 million
Scope of business:	1. cargo handling and delivery in port; 2. warehousing; 3. being an agent and freight station for domestic cargo transport.

2. Corporate history

Shihushan Terminal was originally a joint venture of Xiamen Port Group Co., Ltd. (hereinafter referred to as "**Port Group**") and Xiamen Port Logistics Company Limited, which was established on 14 January 2002. It is formerly known as Xiamen Port Group Shihushan Terminal Branch Company. Pursuant to Xia Gang Ji Cai (2002) No. 8 of Port Group, known as "Notice on financial matters related to company-owned subsidiary setting up a company with limited liability", the assets and liabilities of Xiamen Port Group Shihushan Terminal Branch Company as at 31 December 2001 were taken up by Shihushan Terminal since 1 January 2002.

Pursuant to Xia Gang Ji Cai (2003) No. 58 of Port Group, Port Group transferred the 5% equity interest in Shihushan Terminal held by Xiamen Port Logistics Company Limited to Xiamen Port Shipping Company Limited at its book value in 2003.

Pursuant to Xia Gang Ji Cai (2004) No. 93 of Port Group, Port Group transferred the 5% equity interest in Shihushan Terminal held by Xiamen Port Shipping Company Limited to Xiamen Port Heping Tourism & Passenger Transport Co., Ltd. at its book value in 2004.

In September 2004, Xiamen Urban Traffic State-owned Assets Investment Company (廈門市交通國有資產投資公司, later renamed as Xiamen Port Holding Co., Ltd.) transferred the 100% equity interest in Port Group held by Xiamen Municipal Bureau of Finance to Xiamen Port Holding Co., Ltd., with equity interest in Shihushan Terminal held by Port Group being transferred to Xiamen Port Holding and the relevant procedures have been completed. Following the change of shareholders set out in the above, the current shareholders of Shihushan Terminal are Xiamen Port Holding Co., Ltd. (renamed as Xiamen Port Holding Group Co., Ltd. in 2006, and hereinafter referred to as "Xiamen Port Holding", which held 95% equity in Shihushan Terminal) and Xiamen Port Heping Tourism & Passenger Transport Co., Ltd. (廈門港務集團和平旅遊客運有限公司 held 5% equity interest in Shihushan Terminal, hereinafter referred to as "**Heping Passenger Transport**").

In 2015, Heping Passenger Transport transferred its 5% equity interest to Xiamen Port Holding with nil consideration, with benchmark date of 31 December 2014. The equity transfer was completed on 23 December 2015 being the date of the completion of procedures for the change of business registration.

In June 2016, Xiamen Port Holding entered into an Equity Interest Transfer Agreement with Xiamen Port Development Co., Ltd ("**Xiamen Port Development**") to transfer the 51% equity interest in Shihushan Terminal with benchmark date of 31 December 2015. The equity transfer was completed on 21 November 2016, being the date of the completion of procedures for the change of business registration.

3. Equity structure

As of the valuation benchmark date, the paid-up capital of Shihushan Terminal was RMB40,000,000.00, among which Xiamen Port Development Co., Ltd. contributed RMB20,400,000.00, representing 51% of the total paid-up capital, and Xiamen Port Holding Group Co., Ltd. contributed RMB19,600,000.00, representing 49% of the total paid-up capital.

4. Assets, financial and business status of the appraised entity in recent years

As of the valuation benchmark date (30 June 2017), Shihushan Terminal had the assets with total book value of RMB1,544,740,300, liabilities of RMB865,533,400, net assets of RMB679,206,900, operating income of RMB89,002,800, net profit of RMB18,380,700. Assets and financial conditions of the Company in recent years are set out as below (unit: RMB10 thousand):

Item	30 June 2017		31 December 2016		31 December 2015	
	Consolidated amount	Parent company	Consolidated amount	Parent company	Consolidated amount	Parent company
Total assets	143,171.92	154,474.03	148,047.43	154,483.47	157,043.83	151,496.73
Liabilities	68,169.85	86,553.34	78,141.18	88,452.11	78,045.57	84,941.36
Net assets	75,002.07	67,920.69	69,906.25	66,031.36	78,998.26	66,555.37

	Year of 2017 (January to June)		Year of 2016		Year of 2015	
	Consolidated amount	Parent company	Consolidated amount	Parent company	Consolidated amount	Parent company
Operating income	20,287.04	8,900.28	41,079.39	16,142.41	43,220.69	18,423.87
Total profit	6,195.14	2,559.88	11,249.35	19,974.63	9,789.88	2,979.72
Net profit	4,948.04	1,838.07	10,620.15	19,381.29	9,907.20	3,440.68
Audit Firm	Grant Thornton Certified Public Accountants (Special General Partnership)		Grant Thornton Certified Public Accountants (Special General Partnership)		Grant Thornton Certified Public Accountants (Special General Partnership)	

(III) Relationship between the principals and the appraised entity

Xiamen Port Holding Group Co., Ltd.(as principal B) holds 63.14% equity interest in Xiamen International Port Co., Ltd. (H-share listed company), while Xiamen International Port Co., Ltd. holds 55.13% equity interest in Xiamen Port Development Co., Ltd. (as principal A, A-share listed company). Therefore, principal B is an indirect controller of principal A.

Xiamen Port Holding Group Co., Ltd. (as principal B) holds 49% equity interest of Shihushan Terminal, which is the appraised entity.

Xiamen Port Development Co., Ltd. (as principal A, A-share listed company) holds 51% equity interest of Shihushan Terminal, which is the appraised entity.

(IV) Other users of the valuation report other than principals

The report shall be used by the principals for the purpose of the relevant economic activity in accordance with the laws and regulations of the PRC only and shall not be used by any persons other than the principals or for any other purposes.

II. PURPOSE OF VALUATION

Pursuant to Xia Gang Fa Hui Ji [2017] No. 10 of the meeting minutes of Xiamen Port Development Co., Ltd., Xiamen Port Development Co., Ltd. was approved to acquire 49% equity interest in Shihushan Terminal from Xiamen Port Holding Group Co., Ltd. The purpose of this asset valuation is to give a fair valuation of the market value of 49% equity interest in Xiamen Port Group Shihushan Terminal Co., Ltd. (廈門港務集團石湖山碼頭有限公司) as at the valuation benchmark date and provide value reference basis for the economic activity, namely the proposed acquisition of 49% equity interest in Xiamen Port Group Shihushan Terminal Co., Ltd. (廈門港務集團石湖山碼頭有限公司) from Xiamen Port Holding Group Co., Ltd by Xiamen Port Development Co., Ltd.

III. THE SUBJECT AND THE SCOPE OF VALUATION

The subject of valuation is part of the equity interests of Shihushan Terminal.

The scope of valuation includes all the assets and liabilities of Shihushan Terminal as at the valuation benchmark date. Total book value of the assets was RMB1,544,740,300, liabilities was RMB865,533,400 and net assets was RMB679,206,900, including current assets of RMB160,720,100, non-current assets of RMB1,384,020,200, current liabilities of RMB851,533,400 and non-current liabilities of RMB14,000,000.

The above data of assets and liabilities were extracted from balance sheet audited by Grant Thornton Certified Public Accountants (Special General Partnership), with valuation being conducted on the assumption that the company was audited.

The scope of valuation was based on the valuation declaration form provided by principals and the appraised entity. The target and scope of valuation was in line with the target and scope of valuation involved by the economic behaviors.

(I) Valuation of the main assets

1. Physical assets

The book value of the physical assets within the scope of valuation was RMB317,683,300, accounting for 20.57% of total assets within the scope of valuation, mainly being inventory, fixed assets and construction in progress.

(1) Inventory

The book value of the inventory was RMB2,396,100, mainly being raw materials including terminal reserve parts and spare parts, fuel, material lubricants, materials, labor supplies, low value consumables and general accessories and equipments.

(2) Fixed assets

The book value of the fixed assets was RMB313,890,900, including buildings, structures, machinery and equipment, transport vehicles and electronic equipment, of which book value of buildings was RMB236,320,400 and book value of equipment assets was RMB77,570,500.

① Buildings

32 buildings with total construction area of 16,173.25 square meters (sq. m.) for production, office and auxiliary room in site area were mainly located within the factory area in No. 203 and 209 Zhaishang West Road in Huli District. The buildings were mainly steel-concrete and mixed buildings constructed in 1996 and 2001, of which office buildings, canteens and bathrooms were mostly multi-storey buildings. Except for office buildings, canteens and bathrooms which had better decoration, others had decoration of general level and reasonable composition.

② Structures

Structures are mainly related to assets of Berth No. 19 in Dongdu Port Area of Xiamen owned and operated by Shihushan Terminal including a total of 83 structures with original book value of RMB265,001,890.42 and net book value of RMB220,094,490.39.

Dongdu Berth No. 19 is located in northern section of the coastline of Dongdu Port. Berth No. 19 is a reconstruction after the removal of raw coal wharf, with top of the berth bridge reaches +7.5 meters high, berth length of 289.677 meters long, pontoon berth length of 56 meters long, semi-upright shore of 77.077 meters long. Dongdu Berth No. 19 upon completion of construction will be a multi-purpose berth for 50,000 tons, with hydro-structure constructed targeting at 100,000-ton container ships. The main structure of the dock is gravity-type caisson structure. Top surface of the dock marked at +7.5 meters high. The construction started on 25 June 2005 and completed on 30 December 2006, and quality verification was passed on 5 March 2007.

③ Equipment assets

The book value of equipment assets was RMB77,570,500, including machinery equipment, vehicles and (office) electronic equipment.

Machinery equipment mainly includes 40-ton gantry cranes, excavators, loaders, crab buckets and other equipment, which were purchased between 2005 and the first half of 2017.

Vehicles were sedans for official use, with vehicle types mainly of Opel sedan, Buick commercial vehicles. These devices were purchased between 2006 and 2013, and were in normal daily use as at the valuation benchmark date.

Electronic equipment was mainly office equipment and auxiliary equipment, including air conditioners, computers, printers, and other monitoring equipment. These devices were purchased and installed between 1995 and 2017. As at the valuation benchmark date, only small proportions were discarded as useless, while most of them were in normal use.

(3) Construction in progress

There were three constructions in progress with book value of RMB1,396,300, such audited figures represented the replacement cost of concrete sleepers in 19# berth railway line.

2. *Particulars of the long-term equity investment entities*

No.	Name of Investee	Date of investment	Proportion of equity %	Book value
				(unit: RMB10 thousand)
1	Xiamen Lushenda Port Engineering Company Limited (廈門鷺申達港口機電工程有限公司)	11 April 1997	51%	243,118.33
2	Xiamen Port Domestic Shipping Agency Company Limited. (廈門港務國內船舶代理有限公司)	1 January 2003	20%	986,794.96
3	Xiamen Shihushan Terminal Labour Service Co., Ltd. (廈門石湖山碼頭勞動服務有限公司)	25 February 1993	100%	740,000.00
4	Xiamen Port Haiyu Terminal Co., Ltd. (廈門港務海宇碼頭有限公司)	11 October 2010	100%	692,967,620.15
5	Xiamen Port Haiyi Terminal Co., Ltd. (廈門港務海億碼頭有限公司)	11 October 2010	100%	274,393,936.03
Total				969,331,469.47
Less: provision for impairment of long-term equity investment				243,118.33
Net amount				969,088,351.14

The main subsidiaries were Xiamen Port Haiyu Terminal Co., Ltd. (Haicang Berth No. 7) and Xiamen Port Haiyi Terminal Co., Ltd. (Dongdu Port Berth No. 18).

(1) Xiamen Port Haiyu Terminal Co., Ltd.

Xiamen Port Haiyu Terminal Co., Ltd. was established on 11 October 2010 with registered capital of RMB462,000,000. It owned and operated Haicang berth No. 7. As at the valuation benchmark date, it had total assets of RMB862,753,600 and net assets of RMB752,615,000.

(2) Xiamen Port Haiyi Terminal Co., Ltd.

Xiamen Port Haiyi Terminal Co., Ltd. was established on 11 October 2010 with registered capital of RMB278,000,000. It owned and operated Dongdu Port berth No. 18. As at the valuation benchmark date, it had total assets of RMB324,657,400 and net assets of RMB282,222,300.

(II) Particulars of recorded or unrecorded intangible assets

Intangible assets recorded by the appraised entity included land use rights.

There were 2 land use rights in the accounting records of the appraised entity, with details as follows:

Parcel No. 1, named as land parcel of Berth No. 23, No. 24 and No. 19 at Dongdu Port, Huli District, Xiamen, was located in No. 209 Zhaishang West Road, Huli District, with the Title Certificate number of Min (2017) Xiamen Shi Bu Dong Chan Quan Zheng No. 0008298, and certificated oblige as Shihushan Terminal, of which the land was used for storage, with type of land use right as transfer. Its certificated area was 153,579.45 sq. m. with a term of 50 years expiring on 30 June 2053.

Parcel No. 2, named as land parcel of Berth No. 23, No. 24 and No. 19 at Dongdu Port, Huli District, Xiamen, was located in No. 203 Zhaishang West Road, Huli District, with the Title Certificate number as Min (2017) Xiamen Shi Bu Dong Chan Quan Zheng No. 0008096, and certificated oblige as Shihushan Terminal, of which the land was used for storage, with type of land use right as transfer. Its certificated area was 81,613.69 sq. m. with a term of 50 years expiring on 30 June 2053.

(III) Type and number of off-balance-sheet assets declared by the company

The appraised entity did not declare any off-balance-sheet assets.

(IV) Type, number and book value(or appraised value) of assets refer to conclusions of reports issued by other institutes

The book value of assets and liabilities at the valuation benchmark date in this valuation report had been audited by Grant Thornton Certified Public Accountants (Special General Partnership), with audit report issued as "Zhi Tong Shen Zi (2017) No. 350ZA0315".

Save for the above, this report takes no reference to reports of other institutes.

IV. TYPE OF VALUE AND ITS DEFINITION

1. Type of value adopted during the valuation: Market value.

2. Definition of value: the market value refers to the estimated amount of the value that can be realized by the valuation target under normal and fair transaction in conditions of open market as at the valuation benchmark date.

   In terms of asset valuation, open market refers to one or multiple voluntary buyers and voluntary sellers undertake transaction of their own respective accords wisely and smartly with fair position and enough opportunity and time to acquire abundant market information. In fact, the reality of the market conditions may not in fact be able to achieve the aforesaid perfection of open market. Market value in asset appraisal is the estimated value appraised under the assumption that such perfect market exists and the appraised assets are traded in such market.

3. Reasons and basis for value type selected: according to the purpose of this valuation, particular market conditions and situation of valuation target, market value was determined to be the selected value type in this valuation.

V. THE VALUATION BENCHMARK DATE

The valuation benchmark date of this valuation report is 30 June 2017.

Illustration of the related matters for the determination of the valuation benchmark date:

1. Reasons for the determination of the valuation benchmark date: since asset valuation is a conclusion for fair value of assets and liabilities at certain time point, by considering issuance time of company's financial results report, the month end of the accounting period is selected as the valuation benchmark date. As such, the overall situation of assets and liabilities of the valuation target can be comprehensively reflected. In addition, the valuation benchmark date will be relatively closer to actual assessment date by appraisers, so that the appraisers can be better grasp the situation of the appraised assets at the benchmark date to reduce and avoid future adjustments after the valuation benchmark date, and truly reflect current value of the appraised assets at the benchmark date. In order to reflect the fair value of the valuation target accurately and be beneficial to the smoothness of this project, after agreed by the principals, the valuation benchmark date of this report is determined to be 30 June 2017.

2. All pricing standard and interest rates, exchange rates, tax rates of this valuation are the effective pricing standard and interest rates, exchange rates, tax rates as at the valuation benchmark date.

VI. VALUATION BASIS

(I) Basis of economic behaviors

1. Engagement letter of asset evaluation;

2. Resolutions [2017] No. 10 of the Board of Directors of Xiamen Port Development Co., Ltd.

(II) Major legal basis

1. *Company Law of the People's Republic of China* (revised at the 18th meeting of the Standing Committee of the 10th National People's Congress on 27 October 2005);

2. *Law of the People's Republic of China on the State-owned Assets of Enterprises* (adopted at the 5th meeting of the Standing Committee of the 11th National People's Congress on 28 October 2008);

3. *Securities Law of the People's Republic of China* (adopted at the 18th meeting of the Standing Committee of the 10th National People's Congress on 27 October 2005 and revised for the third time in 2014);

4. *Land Administration Law of the People's Republic of China* (revised at the 11th meeting of the Standing Committee of the 10th National People's Congress on 28 August 2004);

5. *Enterprise Income Tax Law of the People's Republic of China* (adopted at the 5th session of the 10th National People's Congress on 16 March 2007);

6. *Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China* (adopted at the 197th executive meeting of the State Council on 28 November 2007);

7. *Interim Measures for the Supervision and Administration of State-Owned Assets of the Enterprises* (Order No. 378 of the State Council of the People's Republic of China);

8. *Interim Measures for the Administration of Assessment of State-owned Assets of the Enterprises* (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

9. *Administrative Measures for State-Owned Assets Assessment* (Order No. 91 of the State Council of the People's Republic of China);

10. *Detailed Rules for the Implementation of the Administrative Measures for State-owned Assets Assessment* ((1992) No. 36 of the Office of the Former National State-owned Assets Administration Bureau);

11. *Notice of Issues on Strengthening the Administration of Assessment of State-owned Assets of Enterprises* (Guo Zi Chan Quan [2006] No. 274 of the State-owned Assets Supervision and Administration Commission of the State Council);

12. *Notice on the Relevant Matters on the Transfer of State-owned Property Rights of Enterprises* jointly promulgated by the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance (Guo Zi Fa Chan Quan [2006] No. 306);

13. *Interim Measures for the Management of the Transfer of the State-owned Property Rights of Enterprises* by the order No. 3 of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance;

14. *Assets Appraisal Law of the People's Republic of China* (revised at the 21st meeting of the Standing Committee of the 12th National People's Congress on 2 July 2016);

15. Other laws, regulations and rules relating to the evaluation.

(III) Basis of valuation standards

1. *Asset Valuation Standards — Basic Standards* (Cai Qi (2004) No. 20);

2. *Asset Valuation Professional Ethics Standards — Basic Standards* (Cai Qi (2004) No. 20);

3. *Asset Valuation Standards —Valuation Report* (Zhong Ping Xie [2007] No. 189);

4. *Asset Valuation Standards — Valuation Procedures* (Zhong Ping Xie [2007] No. 189);

5. *Asset Valuation Standards — Machinery & Equipment* (Zhong Ping Xie [2007] No. 189);

6. *Asset Valuation Standards — Real Estate* (Zhong Ping Xie [2007] No. 189);

7. *Guiding Opinions for Types of Value under Asset Valuation* (Zhong Ping Xie [2007] No. 189);

8. *Asset Valuation Standards — Enterprise Value* (Zhong Ping Xie [2011] No. 227);

9. *Guiding Opinions for Certified Public Valuer on Legal Ownership of Subject under Appraisal* (Kuai Xie [2003] No. 18);

10. *Property Valuation Specifications* (GB/T50291-2015);

11. *Regulations for Urban Land Valuation* (GB/T18507-2014);

12. *Regulations for Gradation and Classification of Urban Land* (GB/T18507-2014);

13. *Accounting Standards for Business Enterprises — Basic Standards* (Order No. 33 of the Ministry of Finance);

14. 38 specific standards including *Accounting Standards for Enterprises No. 1 — Inventories* (Cai Kuai [2006] No. 3);

15. *Accounting Standards for Enterprises — Application Guide* (Cai Kuai [2006] No. 18);

16. *Guidelines for Service Quality Controls for Appraisal Institutions* (Zhong Ping Xie [2010] No. 214);

17. *Asset Valuation Professional Ethics Standards — Independence* (Zhong Ping Xie [2012] No. 248);

18. *Guidelines for the Valuation Reports of State-owned Assets of Enterprises* (Zhong Ping Xie [2008] No. 218).

19. *Asset Valuation Standards — Engagement Letter* (Zhong Ping Xie [2007] No. 189);

20. *Asset Valuation Standards — Working Papers* (Zhong Ping Xie [2007] No. 189).

(IV) Basis of property rights

1. Copies of certificate for the land use right of state-owned land;

2. Copies of certificates for the sea use right;

3. Copies of building ownership certificates;

4. Copies of vehicle registration certificate;

5. Copies of equipment purchase contracts, invoices, etc.;

6. Statement of Ownership provided by the appraised entity.

(V) Pricing basis

1. Approval documents concerning the project construction provided by the appraised entity;

2. Cost Quota for Building and Installation Projects of Fujian Province;

3. Price Indices of Investment in Fixed Assets of Fujian Province announced by the National Bureau of Statistics;

4. Information concerning the completion of buildings;

5. *A Manual for Common Data and Parameters in Assets Appraisal* (the latest version);

6. *Criteria of Damage Rating of Houses* issued by the former Ministry of Urban and Rural Construction and Environmental Protection;

7. *Notice on Practically Strengthening Management of Termite Control in Fujian Province* (Min Jian Fang [2007] No. 19);

8. *Budget Quota for Waterworks in Coastal Ports and Reference Quota for Waterworks in Coastal Ports* issued by the Ministry of Transport;

9. *Quota for Installation Projects of Loading and Unloading Mechanical Equipment in Coastal Ports, Cost Quota for Marine Machinery per Vessel (Set) and Shift concerning Waterworks and Installation Projects of Loading and Unloading Mechanical Equipment and Quota for Usage of Concrete and Mortar concerning Marine Works;*

10. Bill of quantities, statement of project settlement, building construction contract, etc. provided by the appraised entity;

11. Price information of major materials for traffic projects (road and water way) in Fujian Province in 2017;

12. Cost information of building and installation projects in Xiamen City, Fujian Province;

13. *Interim Provisions on Advisory Charges for Preliminary Work of Construction Projects* (Ji Jia Ge [1999] No. 1283 of the State Planning Commission);

14. *Notice on Issuing Provisions on Management of Charges for Project Survey and Design* (Ji Jia Ge [2002] No. 10 of the State Planning Commission and Ministry of Construction);

15. *Notice on Issuing Relevant Provisions on Project Construction Supervision Costs* (Fa Gai Jia Ge [2007] No. 670 of the National Development and Reform Commission);

16. *Notice on Issuing Provisions on the Accounting Management of Basic Construction* (Cai Jian [2002] No. 394 of the Ministry of Finance);

17. *Notice on Issuing the Interim Measures for the Administration of the Charging for Bidding Agency Services* (Ji Jia Ge [2002] No. 1980 of the State Planning Commission);

18. *Notice Issued by the State Planning Commission and State Environmental Protection Administration on Issues concerning Advisory Charges for Environmental Impact* (Huan Ping Ji Jia Ge [2002] No. 125);

19. *Notice of Fujian Provincial People's Government on Approving and Forwarding the Provisions on Collection and Use of Farmland Reclamation Fees for Fujian Provincial Department of Land and Resources, Fujian Provincial Department of Finance and Fujian Provincial Materials Commission* (Min Zheng [2000] No. 98);

20. *Measures of Fujian Province for the Implementation of Farmland Occupation Tax* (Min Zheng [2008] No. 17);

21. *Notice of Xiamen Municipal Government on Adjusting Compensation Standard for Land Expropriation in Xiamen* (Xia Fu (2014) No. 10);

22. *Notice of the State Bureau of Commodity Prices and Ministry of Finance on Issuing Some Charging Items and Standards concerning the Land Management System* (Jia Fei Zi [1992] No. 597);

23. *Provisions on the Standards for Compulsory Retirement of Motor Vehicles* ([2012] No. 12 Order of the Ministry of Commerce);

24. *Mechanical and Electrical Products Quotations Manual* of Institute of Mechanical Industry Information;

25. Recent market prices of electronic equipment and automobiles and inquiries of relevant equipment suppliers.

(VI) Referential data and basis thereof

1. Accounting statements, account books and vouchers as at the valuation benchmark date and of the past three years provided by the appraised entity;

2. Valuation declaration form provided by the appraised entity;

3. Auditor's report issued by Grant Thornton International Ltd (special general partnership);

4. Other market and industry data.

VII. VALUATION APPROACH

(I) Selection of valuation approach

According to *Asset Valuation Standards — Basic Standards*, one or multiple methods of asset valuation should be appropriately selected according to relevant conditions like valuation purpose, value type and data collected.

According to *Asset Valuation Standards — Enterprise Value*, enterprise value can be evaluated with market approach, income approach and asset-based approach.

1. Analysis of applicability of market approach

The market approach in the business value valuation refers to a valuation approach for determining the value of valuation subject by comparing the valuation subject with comparable listed companies or comparable transaction cases.

Two approaches of the market approach are commonly used, those being the listed company comparison approach and the transaction case comparison approach. The listed company comparison approach refers to a specific approach of obtaining and analyzing the operating and financial data of comparable listed companies, calculating an appropriate value ratio, and determining the value of valuation subject based on the comparative analysis of the evaluated enterprise. The transaction case comparison approach refers to a specific approach of obtaining and analyzing the information on purchase and sale, acquisitions and mergers cases of comparable enterprises, calculating an appropriate value ratio, and determining the value of the evaluated subject based on the comparative analysis of the evaluated enterprise.

The conditions precedent for application of market approach:

(1) There must be a fully developed and active capital market;

(2) There are requisite reference enterprises which are identical or similar;

(3) The value effect factors of reference enterprises and evaluated enterprises are clear and quantifiable, and relevant information is collectable.

Two approaches of the market approach are commonly used, those being the listed company comparison approach and the transaction case comparison approach.

The transaction case comparison approach has not been selected for this valuation. It is mainly due to the following reasons: as of the valuation benchmark date, similar transaction cases can't be inquired or collected according to existing known information channels. However, as of the valuation benchmark date, only results of the transactions can be searched according to existing known information channels, and specific conditions of corresponding transaction subjects of such transaction results can't be obtained. Therefore, the transaction case comparison approach can't be adopted to conduct valuation.

The listed company comparison approach has not been selected for this valuation. It is mainly due to the following reasons: it is difficult to determine and quantify the value effect factors of evaluated enterprises and listed companies such as business structure, operating model, enterprise scale, allocation and usage of assets, the operating stage of the enterprise, operating risks and financial risks. Therefore, the listed company comparison approach can't be adopted to conduct valuation.

2. Analysis of applicability of income approach

The income approach is adopted to evaluate the value of the appraised entity by capitalizing method or discounted future earnings method of the appraised entity. Capitalization and cashing of prospective earnings are often used in the income approach. The following three preconditions must be met for evaluation with the income approach:

(1) Future earnings of the appraised entity are predictable and can be measured by currency;

(2) The risks of obtaining the prospective earnings are predictable and can be measured by currency;

(3) The number of years with prospective earnings is predictable.

According to the operating status of the appraised entity and the data collected, we hold that the income approach applies to this valuation.

3. Analysis of applicability of cost approach

Cost approach, also known as the asset-based approach, is adopted to determine the value of the appraised entity by reasonably assessing the value of various assets and liabilities of relevant enterprise. The cost approach is based on the balance sheet and determines enterprise value by (i) evaluating the current fair value of respective single assets and liabilities and (ii) deducting appraised value of liabilities from the sum of appraised value of respective single assets to get all equity of the enterprise's shareholders.

Given that all assets of the appraised entity are common assets and the technologic and economic parameters needed for the cost approach can be drawn from the data collected, the cost approach applies to this project.

To sum up, the asset-based approach and income approach will be adopted in this valuation.

(II) Application of the asset-based approach

Way of valuation: (i) the appraisers assesses respective single assets and liabilities of the enterprise; (ii) add up the appraised value of respective single assets; and (iii) deduct appraised value of liabilities to get the appraised value of net assets.

During the valuation, the appraisers use different valuation methods for assets and liabilities according to their specific conditions, as detailed below:

1. Current assets

(1) Monetary funds: all the monetary funds are bank deposits.

The bank statement and bank confirmation are verified, and the verified value is taken as the appraised value.

(2) Receivables

Regarding the valuation of receivables, the appraisers should, after the receivables are verified correctly and on the basis of historical data and information learned from the investigation, make a concrete analysis of the amount, debt time and reason, recovery of payments, and borrowers' funds, credit and management status, and adopt specific identification and aging analysis to evaluate the risk loss; if there is sufficient reason to believe that the current accounts of affiliated enterprises can be fully recovered, the appraisers evaluate the risk loss to zero; if there is strong evidence that the amounts are irrecoverable or are aged, the appraisers evaluate the risk loss to 100%; for amounts which are very likely to be irrecoverable or it is difficult to determine the irrecoverable amount, the appraisers evaluate the risk loss with reference to the method adopted by enterprise accountants in calculating bad debt reserves according to the aging analysis method.

The appraisers determine the risk loss according to the aforesaid standards and take the balance of receivables after deducting evaluated risk loss as the appraised value. The bad debt reserves are evaluated to zero according to relevant regulations of valuation.

(3) Inventories

In respect of the inventories, according to the assets evaluation schedule provided by the appraised entities, we check the consistency of accounts and account tables, understand the storage and internal control management condition, check the inventory and confirm the number of the valuation benchmark dates. For raw materials with prices changing greatly, we verify the amount and determine the appraised value with reference to the purchase prices on the date near the valuation benchmark date; for faster moving items whose book prices per unit approximate the market prices, we take the verified book value as the appraised value.

2. Non-current assets

(1) Valuation of long-term equity investments:

Regarding the investment of Xiamen Port Domestic Shipping Agency Company Limited, as Shihushan Terminal only holds 20% equity interest in Xiamen Port Domestic Shipping Agency Company Limited and has no value-added assets, we take the audited net assets multiplied by the shareholding ratio as the appraised value of this long-term equity investment.

Regarding the investments of Xiamen Shihushan Terminal Labour Service Company Limited, Xiamen Port Haiyu Terminal Company Limited and Xiamen Port Haiyi Terminal Company Limited, we conduct an overall evaluation on the three companies and take the evaluated net assets of the invested entities multiplied by the shareholding ratios as the appraised value of the long-term equity investments.

Regarding the investment of Xiamen Lushenda Port Engineering Company Limited, as the company no longer conducted business after closure in 2001 and is in the process of deregistration, as at the valuation benchmark date, the assets of Xiamen Lushenda Port Engineering Company Limited is nil, so the appraised value of this long-term equity investment is nil.

(2) Valuation of buildings (structures):

The buildings included in the scope of this valuation are mainly industrial building and ancillary facilities as buildings of non-commercial purpose. The cost approach is adopted for the purpose of this valuation.

The cost approach is a valuation approach by which the subject of valuation is valued by calculating the sum of all expenses necessarily payable for the subject of development or construction valuation and adding normal interest and profit and deducting various wear and tear. The equation is:

Valuation = full replacement cost of building x newness rate

of which, the replacement cost of the building includes: construction and erection works expense, upfront cost, management fee and cost of capital.

(3) *Valuation of equipment assets:*

Based on the purpose of this valuation, the cost approach is used in valuation after taking into account the characteristics of the equipment to be valued and the collected information.

1) Machine equipment

Full replacement cost of equipment is calculated based on the purchase price of the equipment after deducting various expenses required for the equipment to reach the normal use condition, such as purchase price, transportation expense, installation and testing fee, other construction expense and cost of capital. The equation is:

Full replacement cost = purchase price of equipment (excluding tax) + transportation expense (excluding tax) + installation and testing fee + other construction expense + cost of capital

Purchase price is determined with reference to the contract price of recent comparable equipment in accordance with the price and price trend known in the market and industry.

Transportation expense is determined based on factors such as the distance between the producer/seller of equipment and the user enterprise, size, weight and price of the equipment and the type of transportation vehicle used (as the case may be).

Installation and testing fee is determined in the following ways: First to confirm if the price of professional equipment includes free on-site installation and testing by the producer; if not, the fee is determined by standard fee of equipment of various specialty nature under the requirement of various industries after taking into consideration the complexity and technical requirements of equipment installation; or the fee is determined after the appraiser finds out the actual installation and testing fee of enterprise equipment. No installation and testing fee is considered for equipment of small size and without installation requirement.

Equipment foundation expense is determined in the following ways: the appraiser finds out standard fee of equipment of various specialty nature under the requirement of various industries; or the fee is determined after finding out the actual equipment foundation expense of enterprise equipment. If the equipment foundation expense has been included in civil engineering work, such expense will not be considered in valuing equipment.

Upfront and other expense is determined by reference to the relevant national, local and industrial fee requirement as follows:

No.	Name of fee	Fee base	Fee rate	Basis of fee
1	Management fee of construction unit	Contract price of construction and erection works	0.85%	Cai Jian [2002] No. 394
2	Surveying and designing fee	Contract price of construction and erection works	3.38%	Ji Jia Ge [2002] No. 10
3	Supervision fee of construction work	Contract price of construction and erection works	1.69%	Fa Gai Jia Ge [2007] No. 670
4	Tender agency service fee	Contract price of construction and erection works	0.09%	Ji Jia Ge [2002] No. 1980
5	Environmental assessment fee	Contract price of construction and erection works	0.02%	Ji Jia Ge [2002] No. 125
6	Feasibility study fee	Contract price of construction and erection works	0.27%	Ji Jia Ge [1999] No. 1283
	Total		6.3%	

The cost of capital is determined by calculating the average of capital investment made in the construction stage required from the planning to production stage of equipment to be valued at the loan rate on base date of this valuation.

Cost of capital = (purchase price of equipment + transportation fee + installation and testing fee + upfront cost + other expense) $*$ (1+loan interest rate) $^{\text{period (month)}/12/2-1}$

The determination of newness rate:

Theoretical newness rate depends on actual depreciation, functional depreciation and economic depreciation. These three types of depreciation are analyzed as follows:

a. Actual depreciation:

For large and key machine equipment, the integrated newness rate is reasonably determined by on-site inspection of usage, operation condition and key technical indicators of the equipment and making enquiry with relevant technical staff and operation maintenance staff about the technical condition, number of overhaul and maintenance of the equipment and considering the actual requirement of useful life of various equipment and serviced life of the equipment. Newness rate = remaining useful life/(serviced life + remaining useful life).

b. Functional depreciation

Functional depreciation: a situation where the launch and application of new technology renders the original assets of the enterprise notably technically obsolete and operationally inferior as compared with the assets commonly available and adopted in the society so the value of the asset falls. Such loss is the functional loss of asset and also known as functional depreciation.

Functional depreciation of machine equipment is depreciation of equipment caused by technological advance. Functional depreciation has two types: one caused by cost of excessive investment and another caused by excessive operation cost.

Before estimating the functional depreciation of machine equipment, the appraiser should conduct analysis of pending replacement cost and actual depreciation to check if functional depreciation factor has been excluded. No re-calculation is needed if functional depreciation factor has been excluded; if functional depreciation factor has not been excluded and still exists, relevant method should be adopted to value without missing calculation. Actually, the replacement cost of equipment determined by using price index method has included functional depreciation factor while the replacement cost of equipment determined by using functional valuation method has excluded functional depreciation. The newness rate determined by adopting useful life method has not excluded functional depreciation factor while reinstatement cost method may exclude all or part of functional depreciation.

In the valuation, if reinstatement cost is used, consideration should be given if functional depreciation resulting from excessive investment cost exists. If estimated replacement cost is the updated replacement cost, the part of excessive investment cost included in the valuation of equipment to be valued has been actually deleted and no functional depreciation exists.

Replacement price of machine equipment included in the scope of valuation adopts prevailing ex-factory prices, which is non-functional depreciation factor of updated replacement cost.

c. Economic depreciation

Economic depreciation is also known as external loss, which refers to loss of value of assets resulting from external influence. It can mainly be reflected in the decline of operating income of equipment resulting from a decrease of utilization rate or even idleness of equipment in use. Economic depreciation caused by external factors can be sourced from international, domestic industry foundation or local environment. A variety of external factors potentially affects economic return and therefore, directly affects market price of the assets or property.

Economic depreciation is determined mainly based on factors including level of difficulty in sale of products, idleness of assets arising from underemployment or suspension of production.

d. calculating theoretical newness rate N1 and on-the-spot newness rate N2 respectively, the weighted average determining its newness rate as N, that is:

$$N = N1 * 40\% + N2 * 60\%$$

2) Electronic Equipment

Electronic equipment included in the valuation is mainly office electronic equipment (such as computers and air-conditioners) and office desk and chairs, adopting the replacement cost method to evaluate.

① The determination of replacement cost

The magnitude of value for electronic equipment is relatively small; considering most of the electronic equipment does not require installation (or the distributors are responsible for the installation) and has the feature of lower delivery expenses, this valuation is based on recent market price information of local market information and online quotation to determine the replacement price of the electronic equipment.

② The determination of newness rate

The working environment of electronic equipment and office furniture is relatively stable, adopting the useful life method to determine the newness rate. The equation as follows:

$$\text{Newness rate} = (1 - \text{actual service life} \div \text{economic useful life}) \times 100\%$$

3) Delivery Vehicles

① The determination of full replacement price

Full replacement price = existing purchase price net of tax + vehicle purchase tax + new vehicle license fees and others

A. the existing purchase price primarily taken from the existing quotation of local vehicle market or referencing to internet quotations;

B. vehicle purchase taxes classified by displacement and calculated according to related national requirements;

C. new vehicle license fees and others calculated in each area where the vehicle is located respectively pursuant to the requirements of local traffic administrative department.

Pursuant to Cai Shui [2013] No. 17, value-added tax is in general for self-use vehicles of taxpayers', the input tax is allowed to be deducted from output tax, therefore the purchase price net of tax is adopted.

② Determination of newness rate

For vehicles, pursuant to the relevant requirements of the *Motor Vehicle Mandatory Scrapping Standard* (MOC, NDRC, MPS, MEP Order 2012 No. 12) (《機動車強制報廢標準規定》(商務部、發改委、公安部、環境保護部令2012年第12號))), the newness rate is determined by the following method:

Integrated newness rate = theoretical newness rate × 40% + technical newness rate × 60%

of which: theoretical newness rate takes the lower of mileage newness rate and life newness rate

Mileage newness rate = (travelable mileages – travelled miles)/travelable mileage × 100%

Life newness rate = (economic useful life – serviced life)/economic useful life × 100%

(4) Valuation of construction in progress:

The appraisers have looked into the visual progress of the construction in progress through onsite visits and verified each item of construction expenses based on the current construction quota and installation quota standards, as well as the payment progress and investigated the market prices of the major construction materials used in this construction in progress. It is recognized that the carrying amount of expenditure is reasonable and with sufficient basis and the proportion of expenditure is basically in line with the completed visual progress of the construction; the carrying amount after verification is taken for valuation.

(5) The valuation of intangible assets

Intangible asset in this valuation is the land use right.

According to the Asset Valuation Standards — Real Estate, the basic approaches of valuation are: cost approach, market approach and income approach. Other approaches derived from these three basic approaches include: land datum value approach, hypothetical development approach, etc. The land parcel included in this valuation scope is primarily multi-purpose parking lot with roll-on/roll-off features and the land used for terminals and warehouses, and there are no similar closed deals in the area where this land parcel (to be evaluated) locates, so market approach could not be applied to conduct valuation. In consideration of the fact that the land parcel of the valuation subject locates within the coverage area of land datum value, there is an established land datum value system and most of land parcels with the same purpose within the area have been acquired by the way of paid grant based on the land datum value, therefore, the land datum value approach can be adopted as a valuation approach. Since the evaluated land parcel was originally reclamation land and the appraisers have obtained a lot of information on the development cost and expense of the same type of land, the cost approach can be adopted as another estimation approach of this valuation.

The cost approach and the land datum value coefficient approach are adopted respectively in this valuation to evaluate the land use right.

The cost approach for the valuation of land value is used to calculate the redevelopment cost, which means the necessary expenses for redevelopment of the land since the base date of valuation. The basic equation is:

Land value = cost of land to be developed + cost of development + maintenance expenses + investment interest + profit of the development

The land datum value coefficient approach refers to an approach adopted to arrive at the land value of valuation subject by determining the correction coefficient and correcting land datum value based on the land datum value published by a local government, with reference to the land value standard and various correction factor statements of such category of land at the same land level with the land parcel to be evaluated or within the homogeneous region, in accordance with various conditions such as area conditions, individual conditions, market situation, plot ratios, micro-location conditions while calculating the price of a land parcel to be evaluated. The basic equation is: the land value of the land parcel = $Vlb \times K1 \times K2 \times K3 \times (1 \pm \Sigma K) + F$

Wherein: Vlb — the corresponding land datum value of the land level of the land parcel

K1 — correction coefficient of date

K2 — correction coefficient of number of years

K3 — plot ratio correction coefficient

ΣK — the sum of regional factor and individual factor correction coefficient affecting the land value

F — the correction of land development level

(6) Deferred income tax assets

The company determines deferred income tax assets with the calculation based on deductible temporary difference and applicable income tax. The appraisers have looked into and investigated the cause and formation of discrepancy, verifying whether deductible amount will be incurred and whether the accounting amount is in line with the enterprise accounting system and related requirements of tax laws when determining the payable income tax amount during the time of recovering the assets in the future or repaying the liabilities.

Given that the deferred income tax assets are authentic and complete, the deferred income tax assets valuation is determined based on the loss amount to be recognized before tax and the income tax rate applicable to the base date.

(7) Other non-current assets

The appraiser reviewed the source documents and relevant information, other non-current assets are evaluated at book values upon verification.

3. Liabilities

They mainly include short term liabilities, payables, wages payable to staff, payable tax, payable interests and other payable amounts. The appraiser reviewed and verified the company's liabilities. On the basis of verification, the liabilities are evaluated at the actual amount of liabilities which the company has to bear as at the valuation benchmark date.

(III) Specific application of the income approach

The income approach adopted in this valuation refers to the valuation thought to determine the value of the evaluated subject by capitalizing or discounting the expected income of the evaluated enterprise. The specific valuation approach is the future income discount approach, namely, arriving at the value of the evaluated enterprise by estimating the expected economic benefit of the evaluated enterprise in the future and discounting it at a particular discount ratio. This valuation adopts the indirect approach to evaluate the enterprise value, namely, indirectly obtaining the entire equity value of the shareholders through the valuation of the overall value of the enterprise. The specific calculation equation is as follows:

The entire equity value of the shareholders = the overall value of the enterprise – the value of interest-bearing debt.

The overall value of the enterprise = the current value of the free cash flow of the enterprise + overflow assets + non-operating assets – non-operating liabilities

The free cash flow of the enterprise = net profit + depreciation and amortization + the interest on the interest-bearing debt after tax – capital expenditure – net increase in operating capital

The calculation equation of the discounted value of the free cash flow of the enterprise is: $P = \sum_{I=1}^{N} Ai(1+R)^{-N}$

Wherein: P — the discounted value of the free cash flow of the enterprise
N — the term during which the enterprise generates income
Ai — the expected income during the first year in the future (the free cash flow of the enterprise)
R — the discount ratio

VIII. IMPLEMENTATION PROCESS AND CONDITIONS OF VALUATION PROCEDURES

After the appraised entity accepted the engagement of valuation, officers were arranged for valuation of the assets within the scope of valuation according to China's principles and requirements of asset valuation and the matters agreed in the agreement on asset valuation business signed between the appraised entity and the principals. The valuation commenced on 20 July 2017 and ended on 31 August 2017. The steps involved included acceptance of engagement, investigation of assets, valuation and estimation, collation of valuations and submission of report. The specific steps include:

(I) Stage of acceptance of engagement

The purpose of the stage is to understand the current status of the assets to be evaluated, to understand and specify basic issues such as the nature, goal and scope of the engaged business and signed the agreement on asset valuation business. Valuation teams were formed and implementation plan and timetable for asset evaluation were formulated.

(II) Stage of asset inspection

The officer-in-charge of the evaluation guided the company to fill out the statement of asset valuation according to the plan formulated. In order to ensure that details given in the statement are true and complete, the Xiamen Port (Group) Shihushan Terminal Co., Ltd. was required to carry out a full inspection with advanced participation of the appraisers. In the meantime, information about the law, regulation, industry and companies essential for the valuation were collected. Evidences of ownership of the assets to be evaluated were also obtained.

Note:

The officer-in-charge is Mr. ZHOU Qingguo who has over 15 years of experience in asset valuation and holds the qualifications of Certified Public Valuer, Certified Real Estate Appraiser and Certified Tax Agents. Ms. Chen Shiqin has over 4 years of experience in asset valuation and holds the qualification of Certified Public Valuer.

(III) Stage of valuation and estimation

Past and current statuses of the assets to be evaluated in respect of the determined valuation scope and specific targets were understood according to China's principles and requirements of asset valuation. The information of assets to be evaluated provided in the statements were further reviewed. After review, the related data were investigated, checked against physical assets, inspected, recorded and analyzed as needed. In the meantime, market research and quotations were conducted besides collecting information about the price. The various assets and liabilities were then evaluated and estimated with the selected methods.

(IV) Stage of collation of valuations

Collation and analysis were conducted based on results of the preliminary valuation of various types of assets, and confirm that no duplications or omissions were made during the process of valuation. Adjustments, amendments and improvements were made to the results of evaluation.

(V) Stage of report submission

The valuation report was drafted based on the evaluation progress. An official valuation report was submitted upon a 3-tier review by the appraised entity.

IX. ASSUMPTIONS OF EVALUATION

In the evaluation, the appraisers followed the below assumptions of evaluation:

(1) General assumptions

1. Transaction assumption

Under the transaction assumption, it is assumed that all assets to be valued are already in the process of transaction, and the appraiser carries out a valuation based on the transaction conditions of the assets to be valued in a simulated market. Transaction assumption is the most fundamental assumption for asset valuation.

2. Open market assumption

Under the open market assumption, it is assumed that both trading parties of the assets traded in the market or the assets to be traded in the market are in the same position and have opportunities and time to obtain sufficient market information so as to make reasonable judgment upon the function, usage and transaction price of assets. The open market assumption is based on the situation where the assets can be bought and sold in the public market.

3. Assumption on continuing operation of assets

Assumption on continuing operation of assets means that the asset under valuation could be used continuously based on the current purposes and methods of usage, size, frequency and environment during valuation, or based on any change thereof, and to determine the method of valuation, parameters and basis accordingly.

(2) Assumptions under the Income Approach:

Income forecasting is the basis of the overall asset valuation, and any forecasting is performed under certain assumptions. The forecasting of the future income of an enterprise is based on the following conditions:

(1) No significant changes in the prevailing national laws, regulations and policies and macro-economic conditions;

(2) It is assumed that the operator of the company was responsible, and the management of the company was able to perform its duties;

(3) It is assumed that the enterprise fully complies with all relevant laws and regulations unless otherwise indicated;

(4) It is assumed that the accounting policies to be applied by the enterprise in the future substantially conform with those adopted as at the valuation benchmark date in all material aspects;

(5) It is assumed that based on the company's existing management approach and standard, the business scope and approach are consistent with the current direction;

(6) No significant changes in relevant interest rates, exchange rates, tax bases and tax rates and policy imposed levies;

(7) No other factors of force majeure or unforeseeable factors that may have material adverse impact on the company.

(8) The products and services produced and rendered by the appraised entity complied with the national industrial policies and its business activities are in compliance with the laws and there is no material change in the foreseeable future.

(9) In this valuation, the forecast of future cash flows of the appraised entity is based on the latest financial budget and forecast information approved by the management of the company.

(10) In this valuation, the forecast of future cash flows of the appraised entity is based on the income which may be materialized under the existing management mode of the appraised entity.

(11) The future forecast in the valuation is a reasonable forward-looking projection based on the existing market conditions, taking no account of any material changes or fluctuations in future market such as political turmoil, economic crisis or malignant inflation that are not foreseeable at present.

(12) The calculation of net cash flow is based on the accounting year, assuming that income and expense of the enterprise incurs evenly during the accounting year.

(3) Other assumptions

1. All documents and materials provided by the principal and the appraised entity are true, effective and accurate.

2. There is no material change in macro-economic policies as well as the socio-economic environment where the appraised entity operates.

3. There is no material change in the tax policies, credit rate, foreign exchange rate, etc., on which the business operations and the valuation rely, which could has sufficient impact on the valuation conclusion.

4. There is no effect caused by natural force and other force majeure, and no effect on the valuation conclusion arising from the special transaction methods.

5. Save as the matters made known or disclosed, there is no off-balance sheet asset and liability, security or guaranty, material litigation or subsequent event, and the appraised entity has the legal rights on the assets included in the scope of valuation.

6. The appraiser has independently verified the legal ownership of the assets as necessary in the course of the valuation, but this does not mean that the appraiser has confirmed or expressed opinions on the valuation target or the legal ownership thereof. The asset valuation business is conducted by the appraiser only for estimating the value of the valuation target and providing professional opinions thereon.

7. The certified public valuer of this project understands that the liquidity of the assets would have material effect on the value of the valuation target. As the unavailability of the information on the industry and the property transactions of the assets as well as the lack of analysis basis of the asset liquidity, the effect caused by the liquidity of assets on the valuation target is not taken into account in this valuation.

8. The premium or discount, which may be derived from the controlling shareholdings and minority interest, is not taken into account in this valuation.

This valuation report and the valuation conclusion are the results arrived based on the aforesaid premises, and basic and particular assumptions, as well as the principles, basis, conditions, approaches and procedures as determined in this valuation report. Generally, should there be any change in the above-said premises and assumptions, this valuation report and the valuation conclusion will automatically become invalid.

X. CONCLUSION OF VALUATION

(I) Valuation conclusion of the asset-based approach

The carrying value of the total shareholding interests of the Xiamen Port Group Shihushan Terminal Co., Ltd., Target Company, as audited by Grant Thornton Accountants LLP (Special General Partnership), is RMB679,206,900, the appraised value of the total shareholding interests is RMB1,530,585,700 as valued by asset-based approach and the appraised value surplus is RMB851,378,800, representing an appreciation of 125.35% with all assumptions and premises have been satisfied. The details of the summary of the asset valuation results are set out as follows:

The valuation benchmark date: 30 June 2017

Unit: RMB10 thousand

No.	Item	Carrying value	Appraised value	Increase in value	Increase in %
1	Current assets	16,072.01	16,094.43	22.42	0.14
2	Non-current assets	138,402.02	223,517.48	85,115.46	61.50
3	Among which: long-term equity investment	96,908.84	146,389.07	49,480.23	51.06
4	Investment properties	—	—	—	
5	Fixed assets	31,389.09	44,719.78	13,330.69	42.47
6	Among which: buildings	23,632.04	34,987.52	11,355.48	48.05
7	Equipments	7,757.05	9,732.26	1,975.21	25.46
8	Land	—	—	—	
9	Construction in progress	139.63	139.63	—	—
10	Intangible assets	9,911.33	32,221.46	22,310.13	225.10
11	Among which: land use right	9,911.33	32,221.46	22,310.13	225.10
12	Development expenditures	—	—	—	
13	Goodwill	—	—	—	
14	Long-term deferred expense	—	—	—	
15	Deferred income tax assets	28.54	22.94	-5.60	-19.62
16	Other non-current assets	24.59	24.59	—	—
17	**Total assets**	**154,474.03**	**239,611.91**	**85,137.88**	**55.11**
18	Current liabilities	85,153.34	85,153.34	—	—
19	Non-current liabilities	1,400.00	1,400.00	—	—
20	**Total liabilities**	**86,553.34**	**86,553.34**	**—**	**—**
21	**Net assets (owner's equities)**	**67,920.69**	**153,058.57**	**85,137.88**	**125.35**

For the details of the conclusion of valuation, please refer to the valuation breakdown statement.

(II) Analysis of reasons on the major changes of increase/decrease in value

When compared the valuation results with book value of the net assets, appraised value surplus is RMB851,378,800, representing an appreciation of 125.35% was noted. Major fluctuations increase/decrease in value are explained as below:

1. The appraised value of receivables increased by RMB70,600 which was due to the evaluated risk loss and bad debt provisions offset each other.

2. The appraised value of other receivables increased by RMB60,500 which was due to the evaluated risk loss and bad debt provisions offset each other.

3. The appraised value of inventory increased by RMB93,000 which was due to higher valuation caused by slight increase in market price of the raw material from Chinese-green.

4. The appraised value of long-term equity investments increased by RMB494,802,300. Assets of the invested subsidiary mainly include terminal assets and land use rights. As these assets have been acquired long ago, materials costs, number of machineries and labour costs required for construction of the terminal and cost of land use rights have risen to different extents, thus leading to higher valuation.

5. The appraised value of fixed assets increased by RMB133,306,900 mainly due to the following reasons:

   (1) Purchase and construction costs of the housing and buildings as of the valuation benchmark date were higher than the initial costs mainly due to higher material and labor costs. Besides, the discrepancy between financial depreciation period and economic life adopted for the evaluation also gave rise to higher valuation of the housing and buildings;

   (2) According to the current tax law, value-added tax in the original value of equipment can be deducted. In the evaluation, the replacement costs do not include value-added tax, so it is lower than the tax-inclusive initial price of equipment;

   (3) The financial depreciation term is shorter than the economic useful life adopted in the evaluation.

   (4) Newness ratio of the equipment which operates properly is basically determined to be no less than 10%. For the superannuated equipment in use which has been fully depreciated, 5% residual value or nil amount was taken as the net book value, resulting in higher valuation.

6. Intangible assets — An increase of RMB223,101,300 was noted for land use rights. The appraised entity obtained the land use rights before 2006. On 23 December 2006, the Ministry of Land and Resources promulgated the *Notice on the Promulgation of Implementation of the Minimum Price Standard of Industrial Lands in China* (Guo Tu Zi Fa [2006] No. 307). The minimum transfer prices of the industrial lands in the region of land use rights in the valuation raised significantly therefore the appraised value increased accordingly.

7. The appraised value of deferred income tax assets decreased by RMB56,000 due to the depreciation of deferred tax assets caused by the provision of bad debts being evaluated to zero.

(III) Valuation conclusion of the income approach

The carrying value of the total shareholding interests of the Xiamen Port Group Shihushan Terminal Co., Ltd., Target Company, as audited by Grant Thornton Accountants LLP (Special General Partnership), is RMB679,206,900, and the appraised value of the total shareholding interests as valued by income approach is RMB1,534,230,400, appraised value surplus is RMB855,023,500, representing an appreciation of 125.89%.

(IV) Analysis of difference between the two approaches

There is a difference of RMB3,644,700 between the appraised value of net assets under asset-based approach and the one under income approach, representing a difference ratio of 0.24%, which was mainly due to:

1. The assets-based method takes the replacement cost of assets as the standard of valuation, and reflects the necessary social labor consumed by asset investments (acquisition and construction cost), but such acquisition and construction cost usually fluctuates along with the changes of national economy; the income method takes the expected incomes of assets as the standard of valuation, and reflects the size of the output capacity (profitability) of assets, but such profitability is usually subject to various conditions, such as the macro economy, governmental control and effective usage of assets. The difference is no unusual under the different standards of value.

2. The two approaches have different coverage of enterprises' value generating elements. Under the asset-based approach, no measurement was made on the unidentified intangible assets, such as sale channels, research and development capability, and operational experience, while the valuation conclusion of the income approach reflected the value of resources contributing to the production and operations of the company.

(v) Selection of final valuation results

Asset-based approach is a way of company valuation through assessment of the value of each single asset taking into consideration the relevant liabilities from the perspective of asset replacement. In this valuation, the asset-based approach adopted included in-depth investigations into various assets of the company, and appropriate methods were used to evaluate various assets. As a whole, the asset-based approach adopted in this valuation is comprehensive, with major points being emphasized, is free from any material omission. Therefore, the valuation results obtained from the asset-based approach in this valuation fully reflect the engaged assets' market value to a considerable extent.

Income approach is the method that determines the value of enterprise by capitalizing or discounting the expected earnings from the appraised enterprise based on estimation on the profitability of the assets. Theoretically, the income approach makes a comprehensive valuation on the total equity interest of shareholders of an enterprise. However, under the income approach, every data input regarding the revenue, costs, expenses, operating funds and capital expenditure of the enterprise in future is a forecast or is derived based on forecasts, which are susceptible to deviations due to policies, human factors and changes in the market.

According to the actual situation of this valuation, the difference ratio under the two approaches is merely 0.24%, which is substantially consistent with each other. After considering thoroughly the quality and quantity of data use by various valuation approaches, the appraisers was of the opinion that, for the purpose of this valuation, the valuation results by asset-based approach was more reliable and convincing. Therefore, the valuation results by asset-based approach were adopted as the final valuation conclusion.

The valuation results under the asset-based approach were adopted as the final valuation results in this valuation. The carrying value of the total shareholding interests of the Xiamen Port Group Shihushan Terminal Co., Ltd., as audited by Grant Thornton Accountants LLP (Special General Partnership), is RMB679,206,900, and the appraised value of the total shareholding interests as valued by adopting asset-based approach is RMB1,530,585,700, and the appraised value surplus is RMB851,378,800, representing an appreciation of 125.35% provided that all assumptions and premises have been satisfied.

Based on the estimation of the total equity interest of shareholders of Xiamen Port Group Shihushan Terminal Co., Ltd. and taking no account of the premium and illiquidity discounts of shareholding, the appraised value of the 49% equity interest held by Xiamen Port Holding Group Co., Ltd. in Xiamen Port Group Shihushan Terminal Co., Ltd. is RMB749,987,000.

XI. SPECIAL MATTERS

1. We and the appraisers shall not be liable for any defects or subsequent events existed in the appraised entity that might affect the appraised value of assets, if they were not specified at the time when the enterprise engaged us and the appraisers normally could not know about them based on their expertise and experience.

2. We did not perform independent examination on the approvals on economic activities, business licences, ownership certificates, accounting vouchers, accounting records, controlling relationship, scope of consolidation, project approval, budget and final accounting, list of assets and other evidential materials provided by the principals and the appraised entity, nor on the liability involved therein. We shall not be responsible for the authenticity of the above materials.

3. Despite the fact that the appraisers did not find any guarantee or security existed in the appraised assets other than those already disclosed in this report in the course of appraisal of this project, this valuation report should not be relied on by its users to make independent judgment on the status of the assets.

4. Unless specified, the related assets were deemed to be wholly owned by the appraised entity in arriving the appraised value in this valuation report, and any relevant liability that may arise from the failure to make payment for certain costs by the appraised entity was not taken into account. We assumed that there was no connection between the transferees of the assets and such liabilities.

5. All descriptive contents regarding Xiamen Port Group Shihushan Terminal Co., Ltd. in this report were extracted from the introduction materials provided to the appraisers by Xiamen Port Group Shihushan Terminal Co., Ltd.. Readers of the report should treat them as general descriptive text, and should not treat them as endorsements or promotional reports on such contents made by us or the appraisers. We shall not be liable for any liability arising from any contradiction between such descriptions and the actual conditions.

6. In this valuation, subject to certain objective conditions, the appraiser has not performed any test on the equipment appraised with power on and has not conducted any inspection on the structure of the building structures. The appraisers assumed that the physical, economical and technical indicators indexes, structure and quality of the above target assets the above target assets complied with the design requirements and relevant national stipulations, and are available for normal use within the remaining useful life in this valuation.

7. The details of the buildings for which the appraised entity shall obtain but did not obtain the ownership certificate as of the valuation benchmark date are as follows:

Serial no.	Name of building	Structure	Original book value (RMB)	Appraised value (RMB)	Remarks
1	Sanming houses (2 sets)	Mixed	204,890.80	139,108.69	Property right in dispute
2	Parking workshop no. 19	Framework	931,319.40	1,139,157.00	No relevant construction approval formalities
3	Hoist room no. 1	Mixed	53,728.62	29,374.00	To be demolished

Upon enquiry, no ownership certificate could be obtained for the above three buildings. The dispute arising from the related part of property right is of no concern to us. The areas of the above properties were reported by the appraised entity according to the construction materials, and were not verified. The appraisers applied such areas reported by the enterprise to perform the appraisal. If the reported areas are inconsistent with the areas to be quoted in applying for the relevant ownership certificates in the future, the appraisal results should be adjusted according to the areas stated in the ownership to such issues. Users of the report should pay attention.

8. Among the buildings, the book value of Sanming houses of Item 5 is RMB131,437.63. According to the Report on the Property Right Dispute over Sanming House provided by the appraised entity Sanming houses are commodity houses purchased by Xiamen Port Group in August 1999 at a consideration of RMB160,000. They are located in Rooms 401 and 402, Block 1, No. 56 Xin Shi Nan Road, Sanyuan District, Sanming City. Currently, the property right of the 2 houses together with those of the other houses in the same building have been transferred to Huaxia Company, and used as securities by Huaxia Company to apply for loans from banks. Since the property right dispute of the above property is still pending for resolution, audited book value is presented in this valuation to such issues. Users of the report should pay attention.

9. As for Xiamen Port Domestic Shipping Agency Company Limited in long-term equity investment, since Xiamen Port (Group) Shihushan Terminal Co., Ltd. only holds 20% of shares of Xiamen Port Domestic Shipping Agency Company Limited, and there are no value-added assets, so in this valuation, the appraisal value of such long-term equity investment equals to the audited net assets multiplied by the shareholding proportion.

10. Xiamen Lushenda Port Engineering Company Limited has ceased operation for a number of years and is applying for deregistration, a full provision for impairment of assets has been made; according to the explanation provided by the appraised entity, Xiamen Lushenda Port Engineering Company Limited did not hold any assets with value, so in this valuation, the appraised value of such long-term equity investment is nil.

11. As for fixtures No. 79 “Road Project of Gangzhong Road (19# berth section) of Dongdu Port Area”, with a book value of RMB625,574.81, it is verified that the road project is constructed by company and has been used as municipal road other than road in the factory, and the land use right occupied by the road project is not within the appraisal scope, so this valuation on such road project is expressed with audited book value to such issues. Users of the report should pay attention.

12. Because of the difficulty to acquire enough market transaction statistics and the lack of proofs for analyzing the influence of equities and liquidity on value of the appraised entity, equity premium and liquidity discount are not considered in this valuation.

13. Xiamen Shihushan Terminal Labor Service Company Limited, Xiamen Port Haiyu Terminal Co., Ltd. and Xiamen Port Haiyi Terminal Co., Ltd. in long-term equity investment, all have a shareholding proportion of 100%; considering three subsidiaries and the appraised entity have crossed main operating business and the collection & division of business cost or it is difficult to differentiate, the historical data and future forecast data of this income approach appraisal all adopt combined caliber, so no income approach is adopted separately to appraise the subsidiary with profitability.

14. Explanation on special matters of Xiamen Port Haiyu Terminal Company Limited:

    (1) As for fixtures No. 34 "2# Floodway Project", with a book value of RMB7,595,561.81, it is verified that the project is constructed by company and has been used as municipal support project, so this valuation on such project is presented in audited book value.

    (2) As for Berth No. 7, with land area & sea area use right certificate "GHZ No. 2016C35020503987", land is formed by sea fill, the sea area use right certificate has not been cancelled; its value has been considered at the time of appraisal of land use right, and will not be appraised separately.

15. According to relevant requirements of the taxation laws, the input VAT on the equipment purchased after 1 January 2009 may be deducted. The value-added tax and input VAT are excluded from the original value of machinery equipment in this valuation.

16. Subsequent events

    (1) From the valuation benchmark date to the date of valuation report, all the business activities of the appraised entity are within normal operation. There is no discloseable material event yet to be disclosed.

    (2) The valuation conclusions of this report should not be directly included for any events subsequent to the submission date of the report.

    (3) After the valuation benchmark date, if the quantity of assets and valuation standard have changed during the valid period, actions should be taken in accordance with the following principles:

        ① For any changes in relation to the quantity of assets, adjustment should be made accordingly based on the original valuation approach for the quantity and amount of assets.

        ② For any changes in relation to the valuation standard, which have significant impact on the asset market value, the principals shall appoint qualified asset valuation firm for revaluation of the market value in a timely manner.

        ③ For the determination of the actual values for assets, the principals shall take sufficient consideration of the changes of quantity of assets and valuation standard after the valuation benchmark date, and make adjustments accordingly.

The report users are advised to pay attention to the possible impact of above-mentioned special issues on the valuation conclusion and such economic behaviour.

XII. LIMITATIONS OF THE USE OF VALUATION REPORT

1. This valuation report can only be used for the purpose and application stated herein.

2. This valuation report can only be used by the users specified herein.

3. Any application of the conclusion of this valuation shall be subject to the review of this report by Xiamen State-owned Assets (廈門國資委).

4. Any extraction, citation or disclosure of this valuation report in entirety or part to the public media should be subject to the consent of the valuation firm, unless otherwise permitted by the requirements of laws, regulation or agreement otherwise engaged between concerning parties.

5. This report should remain valid for one year commencing from 30 June 2017 to 29 June 2018.

6. The conclusion of asset valuation shall not be construed as a guarantee of the market value of the appraised entity.

7. If the valuation conclusion is materially affected by any policy adjustments, the valuation benchmark date shall be determined for a new valuation.

XIII. DATE OF VALUATION REPORT

The date of this valuation report is 31 August 2017.

The document number of this report is Min Zhong Xing Zi (2017) No. 2024. The appraised value of the 49% equity interest held by Xiamen Port Holding Group Co., Ltd. in Xiamen Port Group Shihushan Terminal Co., Ltd. is RMB749,987,000.

PRC Certified Public Valuer: ZHOU Qingguo, CHEN Shiqin

Legal Representative: LIN Chang

Fujian Zhongxing Asset Appraisal Co., Ltd.
(福建中興資產評估房地產土地估價有限責任公司)
31 August, 2017

Note: Mr. ZHOU Qingguo has over 15 years of experience in asset valuation and holds the qualifications of Certified Public Valuer, Certified Real Estate Appraiser and Certified Tax Agents. Ms. CHEN Shiqin has over 5 years of experience in asset valuation and holds the qualification of Certified Public Valuer.

1 RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2 DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARE, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, none of the Directors, Supervisors or chief executives of the Company or their associates had any interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were (1) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to be under such provisions of the SFO), or (2) required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company or (3) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

3 SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, to the best of the knowledge of the Directors, the following persons (other than the Directors or Supervisors) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name	Class of shares	Capacity	Number of shares	As a percentage of the relevant class of share capital	As a percentage of the total share capital
Xiamen Port Holding	Domestic Shares (Long position)	Beneficial owner	1,721,200,000	98.95%	63.14%

Save as disclosed above, to the best of the knowledge of the Directors of the Company, no other persons (other than the Directors or Supervisors) had an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO.

At the Latest Practicable Date, save as disclosed below, none of the Directors or any proposed Directors or Supervisors or any proposed Supervisors was a director or employee of a company which has any interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 7 and 8 of Part XV of the SFO:

Name of Director:	Position(s) held in Xiamen Port Holding:
Mr. Cai Liqun	Deputy general manager
Mr. Chen Dingyu	Director and chairman of the board of directors
Mr. Chen Zhiping	General manager
Mr. Fu Chengjing	Deputy general manager and the chief accountant
Mr. Huang Zirong	Chief engineer
Ms. Bai Xueqing	Deputy general manager

4 DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed to enter into, a service contract with any member of the Group which does not expire or is not determinable by such member of the Group within one year without payment of compensation, other than the statutory compensation.

5 DIRECTORS' AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors, Supervisors or their close associates had any interests in a business which competes or may compete, either directly or indirectly, with the businesses of the Company or the Group.

6 INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which, since 31 December 2016 (the date to which the latest published audited financial statements of the Group were made up), had been or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

7 INTEREST IN CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement subsisting which was significant in relation to the business of the Group.

8 MATERIAL CONTRACTS

Save and except for (i) the equity interest transfer agreement and the supplemental agreement of the Previous Acquisition, details of which are disclosed in the announcements dated 29 June 2016, 12 August 2016 and 22 November 2016 and the circular dated 30 August 2016; and (ii) the Equity Interest Transfer Agreement and the Supplemental Agreement of the proposed Acquisition, details of which are disclosed in the "Letter from the Board" set out in this circular, no contracts, not being contracts entered in the ordinary course of business of the Group, have been entered into by members of the Group within two years immediately preceding the date of this circular and up to and including the Latest Practicable Date which are or may be material.

9 MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there has been no material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

10 LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claim of material importance and, so far as the Directors were aware, no litigation or claims of material importance are pending or threatened by or against any member of the Group

11 EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinions or advice which are contained in this circular:

Name:	**Qualifications:**
First Shanghai Capital Limited	a licensed corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Fujian Zhongxing Asset Appraisal Co., Ltd. (福建中興資產評估房地產土地估價有限責任公司)	PRC Qualified Valuer
King & Wood Mallesons	PRC legal adviser of Xiamen Port Development
PricewaterhouseCoopers	Certified Public Accountants
Savills Valuation and Professional Services Limited	Independent property valuer

As at the Latest Practicable Date, each of the above experts did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2016, being the date to which the latest published audited financial statements of the Group were made up.

Each of the above experts has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion in this circular of its letters or reports (as the case may be) and reference to its names and opinions in the form and context in which they appear in this circular.

12 MISCELLANEOUS

(a) The joint company secretaries of the Company are Mr. Cai Changzhen and Ms. Mok Ming Wai, a director of KCS Hong Kong Limited (a company providing a range of corporate accounting and corporate secretarial services in Hong Kong).

(b) The Company's H shares registrar and transfer office is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The registered address of the Company is No. 439 Gangnan Road, Haicang District, Xiamen City, Fujian Province, the PRC. The principal place of business of the Company in Hong Kong is 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

(d) Save as the valuation report of the Target Equity Interest set out in Appendix VI to this circular, in case of inconsistency, the English text shall prevail over the Chinese text.

13 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection at the Company's principal place of business in Hong Kong at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong during normal business hours for a period of 14 days from the date of this circular (inclusive):

(a) the memorandum and articles of the Company;

(b) the Equity Interest Transfer Agreement;

(c) the Supplemental Agreement;

(d) the equity interest transfer agreement and the supplemental agreement of the Previous Acquisition;

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

(f) the letter from First Shanghai, being the Independent Financial Adviser, the text of which is set out in this circular;

(g) written consents from each of the experts as referred to in paragraph headed "Experts and Consents" in this appendix;

(h) the annual reports of the Company for the three years ended 31 December 2016;

(i) the accountant's report from PricewaterhouseCoopers in respect of the historical financial information of the Target Group for the three years ended 31 December 2016 and the six months ended 30 June 2017, the text of which is set out in Appendix II to this circular;

(j) the report from PricewaterhouseCoopers on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix IV to this circular;

(k) the property valuation report prepared and issued by Savills Valuation and Professional Services Limited, the text of which is set out in Appendix V to this circular;

(l) the valuation report of the Target Equity Interest, which is set out in Appendix VI to this circular;

(m) the statement from the PRC legal adviser of Xiamen Port Development regarding the properties of the Target Group; and

(n) this circular.