THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in COSCO SHIPPING Development Co., Ltd.*, you should at once hand this circular, the form of proxy and the reply slip to the purchaser or transferee or to licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

中遠海運發展股份有限公司

COSCO SHIPPING Development Co., Ltd.*

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

(Stock Code: 02866)

(1) MAJOR AND CONNECTED TRANSACTION – PROPOSED ACQUISITION
(2) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS
(3) CONNECTED TRANSACTION – CS SUBSCRIPTION
(4) APPLICATION FOR WHITEWASH WAIVER
AND
(5) SPECIAL DEAL

Independent Financial Adviser to the Independent Board Committee and Independent Shareholders

MESSIS 大有融資

Capitalized terms used in this cover shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 11 to 64 of this circular and the letter from the Independent Board Committee is set out on pages 65 to 66 of this circular. A letter from Messis Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on page 67 to 127 of this circular.

A notice convening the EGM to be held at 1:30 p.m. on Thursday, 10 June 2021 at Level 3, Ocean Hotel Shanghai, 1171 Dong Da Ming Road, Hong Kou District, Shanghai, the PRC is set out on pages EGM-1 to EGM-7 of this circular.

A notice convening the H Shares Class Meeting to be held at 1:30 p.m. on Thursday, 10 June 2021 at Level 3, Ocean Hotel Shanghai, 1171 Dong Da Ming Road, Hong Kou District, Shanghai, the PRC is set out on pages HCM-1 to HCM-6 of this circular.

* *The Company is a registered non-Hong Kong company as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and it is registered under its Chinese name and under the English name "COSCO SHIPPING Development Co., Ltd.".*

24 May 2021

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

"A Share(s)"	the domestic share(s) in the ordinary share capital of the Company with a par value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
"A Share Option Incentive Scheme"	the A Share option incentive scheme of the Company adopted at the extraordinary general meeting and the class meetings of the Company held on 5 March 2020
"A Shareholder(s)"	holder(s) of A Share(s)
"A Shares Class Meeting"	the class meeting of the A Shareholders
"Acquisition Agreement"	the agreement dated 27 January 2021 entered into between the Company and COSCO SHIPPING Investment in relation to the Proposed Acquisition
"Administrative Measures for Material Asset Restructuring"	Administrative Measures for the Material Asset Restructuring of Listed Companies (《上市公司重大資產重組管理辦法》) promulgated by the CSRC
"Agreement of Intent"	the agreement of intent dated 13 January 2021 entered into between the Company and COSCO SHIPPING Investment in relation to the Proposed Acquisition
"Agreement of Intent Announcement"	the announcement of the Company dated 13 January 2021 in relation to, among other things, the potential acquisition of the Target Assets
"Announcement"	the announcement of the Company dated 27 January 2021 in relation to, among other things, (i) the Proposed Acquisition, (ii) the Proposed Non-public Issuance of A Shares, (iii) the CS Subscription, (iv) the Specific Mandates, (v) the Whitewash Waiver and (vi) the Special Deal
"Articles of Association"	the articles of association of the Company

"Asset Management Plan"	the asset management plan voluntarily invested by Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui (each of whom is an executive Director) and certain other existing and former supervisor, senior management and employees of the Company, further details of which are set out in the announcement of the Company dated 24 November 2016
"Asset Valuation Reports"	the asset valuation reports dated 27 April 2021 in respect of each of the Target Companies issued by China Tong Cheng, the full text of which are set out in Appendices V-A, V-B, V-C and V-D to this circular
"associate(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Average Trading Price"	the average trading price of the A Shares during the 20 trading days immediately preceding the Price Determination Date, which is calculated by dividing the total turnover of the A Shares by the total trading volume of the A Shares during the 20 trading days immediately preceding the Price Determination Date
"Benchmark Price"	(i) 80% of the Average Trading Price; or (ii) the Floor Price, whichever is higher
"Board"	the board of directors of the Company
"China Shipping"	China Shipping Group Company Limited# (中國海運集團有限公司), a PRC state-owned enterprise, the controlling shareholder of the Company and a wholly-owned subsidiary of COSCO SHIPPING
"China Tong Cheng" or "Valuer"	China Tong Cheng Assets Appraisal Co., Ltd. (中通誠資產評估有限公司), a qualified asset appraisal agency in the PRC
"Class Meetings"	the A Shares Class Meeting and the H Shares Class Meeting

"Company"	COSCO SHIPPING Development Co., Ltd.# (中遠海運發展股份有限公司), a joint stock limited company established in the PRC, the H shares and A shares of which are listed on Main Board of the Hong Kong Stock Exchange (Stock Code: 02866) and the Shanghai Stock Exchange (Stock Code: 601866), respectively
"Compensation Agreement"	the performance compensation agreement dated 29 April 2021 entered into between the Company and COSCO SHIPPING Investment in relation to the performance guarantees and related compensation provided by COSCO SHIPPING Investment in respect of the Performance Compensation Assets
"Compensation Share(s)"	the Consideration Share(s) to be returned by COSCO SHIPPING Investment to the Company under the Compensation Agreement
"Completion"	completion of the Proposed Acquisition
"connected person(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Consideration Share(s)"	the new A Share(s) to be allotted and issued by the Company to COSCO SHIPPING Investment pursuant to the Acquisition Agreement as consideration payable to COSCO SHIPPING Investment for the Proposed Acquisition
"controlling shareholder"	has the meaning ascribed to it under the Hong Kong Listing Rules
"COSCO SHIPPING"	China COSCO SHIPPING Corporation Limited# (中國遠洋海運集團有限公司), a PRC state-owned enterprise and an indirect controlling shareholder of the Company
"COSCO SHIPPING Group"	COSCO SHIPPING, its subsidiaries and/or its associates (excluding the Group)
"COSCO SHIPPING Investment"	COSCO SHIPPING Investment Holdings Co., Ltd. (中遠海運投資控股有限公司), formerly known as COSCO SHIPPING Financial Holdings Co., Ltd. (中遠海運金融控股有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING

"CS Subscription"	the proposed subscription of A Shares by China Shipping pursuant to the CS Subscription Agreement
"CS Subscription Agreement"	the subscription agreement dated 27 January 2021 entered into between the Company and China Shipping, pursuant to which China Shipping has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, such number of A Shares for an amount of RMB600 million and not more than the limit of the proceeds to be raised under the Proposed Non-public Issuance of A Shares as approved by the CSRC
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	the director(s) of the Company
"DFIC Ningbo"	Dong Fang International Container (Ningbo) Co., Ltd.# (寰宇東方國際集裝箱(寧波)有限公司) (formerly known as Ningbo Pacific Container Co., Ltd.# (寧波太平貨櫃有限公司)), a company established in the PRC with limited liability and a wholly-owned subsidiary of COSCO SHIPPING Investment as at the Latest Practicable Date
"DFIC Qidong"	Dong Fang International Container (Qidong) Co., Ltd.# (寰宇東方國際集裝箱(啟東)有限公司) (formerly known as Qidong Singamas Energy Equipment Co., Ltd.# (啟東勝獅能源裝備有限公司)), a company established in the PRC with limited liability and a wholly-owned subsidiary of COSCO SHIPPING Investment as at the Latest Practicable Date
"DFIC Qingdao"	Dong Fang International Container (Qingdao) Co., Ltd. (寰宇東方國際集裝箱(青島)有限公司) (formerly known as Qingdao Pacific Container Co., Ltd.# (青島太平貨櫃有限公司)), a company established in the PRC with limited liability and a wholly-owned subsidiary of COSCO SHIPPING Investment as at the Latest Practicable Date
"DFIC Qingdao Group"	DFIC Qingdao and its wholly-owned subsidiary

"EGM"	the extraordinary general meeting of the Company to be convened at 1:30 p.m. on Thursday, 10 June 2021 at Level 3, Ocean Hotel Shanghai, 1171 Dong Da Ming Road, Hong Kou District, Shanghai, the PRC (or any adjournment thereof) to consider and, if thought fit, approve, among other things, (i) the Proposed Acquisition; (ii) the Proposed Non-public Issuance of A Shares; (iii) the CS Subscription; (iv) the Specific Mandates; and (v) the Whitewash Waiver
"Enlarged Group"	the Group, as enlarged by DFIC Qidong, the DFIC Qingdao Group, DFIC Ningbo and Universal Technology upon completion of the Proposed Acquisition
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegates of the Executive Director
"Floor Price"	the latest audited net asset per Share of the Company before the issuance of A Shares under the Proposed Non-public Issuance of A Shares
"Group"	the Company and its subsidiaries
"H Share(s)"	the overseas listed foreign shares in the ordinary share capital of the Company with a par value of RMB1.00 each, which are listed on Main Board of the Hong Kong Stock Exchange
"H Shareholder(s)"	holder(s) of H Share(s)
"H Shares Class Meeting"	the class meeting of the H Shareholders
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Independent Board Committee"	the independent board committee of the Company comprising Ms. Hai Chi Yuet, Mr. Graeme Jack, Mr. Lu Jianzhong and Ms. Zhang Weihua, each being an independent non-executive Director, which is formed to advise the Independent Shareholders on the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal in accordance with the Hong Kong Listing Rules and the Takeovers Code
"Independent Financial Adviser" or "Messis Capital"	Messis Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser, with the approval of the Independent Board Committee, to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal
"Independent Shareholders"	Shareholders other than (i) COSCO SHIPPING and parties acting in concert with it; (ii) Shareholders who have become a subscriber under the Proposed Non-public Issuance of A Shares; and (iii) all other parties (if any) who are interested in or involved in the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal, and in the context of the Special Deal, Independent Shareholders refer to all H Shareholders (other than (a) COSCO SHIPPING and its associates and parties acting in concert with it (including the participants of the Asset Management Plan in respect of the H Shares held thereunder); and (b) those who are involved in or interested in the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal)
"Latest Practicable Date"	21 May 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular

"Measures for the Administration of the Takeover of Listed Companies"	"Measures for the Administration of the Takeover of Listed Companies" (《上市公司收購管理辦法》) promulgated by the CSRC
"Ocean Fortune"	Ocean Fortune Investment Limited, a company incorporated in the Republic of the Marshall Islands with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING
"Offering Period"	the period commencing the Proposed Non-public Issuance of A Shares as determined by the Company
"Performance Compensation Assets"	certain patents of DFIC Qidong and Universal Technology for which COSCO SHIPPING Investment undertakes to provide performance guarantees and related compensation under the Compensation Agreement
"Performance Compensation Period"	three financial years commencing from the year in which Completion takes place, being (i) 2021, 2022 and 2023 if the Proposed Acquisition is completed on or before 31 December 2020; and (ii) 2022, 2023 and 2024 if the Proposed Acquisition is completed after 31 December 2020
"PRC"	the People's Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Legal Advisers"	Grandall Law Firm (Shanghai), the PRC legal advisers to the Company
"Price Determination Date"	the first day of the Offering Period of the Proposed Non-public Issuance of A Shares
"Pricing Benchmark Date"	28 January 2021
"Profit Forecasts"	has the meaning ascribed to it in the section headed "Letter from the Board – II. MAJOR AND CONNECTED TRANSACTION – PROPOSED ACQUISITION – 3. Profit Forecasts" in this circular

"Proposed Acquisition"	the proposed acquisition of the Target Assets from COSCO SHIPPING Investment pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement and the Compensation Agreement)
"Proposed Non-public Issuance of A Shares"	the proposed non-public issuance of A shares to not more than 35 specific target subscribers (including China Shipping)
"Provisions on Material Asset Restructuring"	Provisions on Issues Concerning Regulating the Material Asset Restructuring of Listed Companies (《關於規範上市公司重大資產重組若干問題的規定》) promulgated by the CSRC
"Relevant Period"	the period commencing from 13 July 2020, being 6 months preceding 13 January 2021, and ending on the Latest Practicable Date
"Restructuring"	the overall restructuring proposal of the Company involving the Proposed Acquisition and the Proposed Non-public Issuance of A Shares
"RMB"	Renminbi, the lawful currency of the PRC
"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中華人民共和國國務院國有資產監督管理委員會)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"Shanghai Listing Rules"	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (上海證券交易所股票上市規則)
"Share(s)"	A Share(s) and H Share(s)
"Share Option(s)"	the share option(s) granted under the A Share Option Incentive Scheme
"Shareholder(s)"	holder(s) of Share(s)

"Special Deal"	the Proposed Non-public Issuance of A Shares which constitutes a special deal under Rule 25 of the Takeovers Code
"Specific Mandate(s)"	the specific mandates to be sought from the Independent Shareholders at the EGM and the Class Meetings to issue (i) the Consideration Shares pursuant to the Acquisition Agreement; and (ii) the A Shares under the Proposed Non-public Issuance of A Shares
"Supplemental Agreement"	the supplemental agreement to the Acquisition Agreement dated 29 April 2021 entered into between the Company and COSCO SHIPPING Investment
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target Assets"	100% of the equity interests in the Target Companies
"Target Companies"	collectively, DFIC Qidong, DFIC Qingdao, DFIC Ningbo and Universal Technology
"Target Group"	collectively, DFIC Qidong, the DFIC Qingdao Group, DFIC Ningbo and Universal Technology
"trading day(s)"	a day on which the Shanghai Stock Exchange is open for dealing or trading in securities
"Transitional Period"	the period commencing from the date immediately after the Valuation Benchmark Date to the month end date of the month in which Completion has taken place
"Universal Technology"	Shanghai Universal Logistics Technology Co., Ltd.# (上海寰宇物流科技有限公司) (formerly known as Singamas Container Holdings (Shanghai) Limited# (勝獅貨櫃管理(上海)有限公司)), a company established in the PRC with limited liability and a wholly-owned subsidiary of COSCO SHIPPING Investment as at the Latest Practicable Date
"Update Announcement"	the announcement of the Company dated 29 April 2021 in relation to, among other things, the update on the Proposed Acquisition and the Proposed Nonpublic Issuance of A Shares

"US$"	United States dollar(s), the lawful currency of the United States of America
"Valuation Benchmark Date"	31 December 2020
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of COSCO SHIPPING to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by COSCO SHIPPING and parties acting in concert with it which would otherwise arise as a result of the issue of the Consideration Shares under the Proposed Acquisition
"%"	per cent

* *The Company is a registered non-Hong Kong company as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and it is registered under its Chinese name and under the English name "COSCO SHIPPING Development Co., Ltd.".*

\# *For identification purpose only.*

中遠海運發展股份有限公司
COSCO SHIPPING Development Co., Ltd.*
(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 02866)

Executive Directors
Mr. Wang Daxiong
Mr. Liu Chong
Mr. Xu Hui

Non-executive Directors
Mr. Huang Jian
Mr. Liang Yanfeng
Mr. Ip Sing Chi

Independent non-executive Directors
Mr. Cai Hongping
Ms. Hai Chi Yuet
Mr. Graeme Jack
Mr. Lu Jianzhong
Ms. Zhang Weihua

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Principal place of business in Hong Kong
50/F, COSCO Tower
183 Queen's Road Central
Hong Kong

24 May 2021

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION – PROPOSED ACQUISITION
(2) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS
(3) CONNECTED TRANSACTION – CS SUBSCRIPTION
(4) APPLICATION FOR WHITEWASH WAIVER
AND
(5) SPECIAL DEAL

I. INTRODUCTION

Reference is made to the announcements of the Company dated 27 January 2021, 10 February 2021, 9 March 2021, 9 April 2021 and 29 April 2021, in relation to, among other things, the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal.

As disclosed in the Announcement, on 27 January 2021, the Company and COSCO SHIPPING Investment entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to purchase and COSCO SHIPPING Investment has conditionally agreed to sell, the Target Assets, in consideration of the allotment and issuance of the Consideration Shares by the Company to COSCO SHIPPING Investment. On 29 April 2021, the Company and COSCO SHIPPING Investment entered into the Supplemental Agreement and the Compensation Agreement in relation to the Proposed Acquisition.

Simultaneously with the Proposed Acquisition, the Board has approved the Proposed Non-public Issuance of A Shares to raise ancillary funds simultaneously with the Proposed Acquisition. The total amount of ancillary funds to be raised thereunder shall be not more than RMB1,464,000,000 (being not exceeding 100% of the final consideration for the Proposed Acquisition) and the number of A Shares to be issued shall not exceed 30% of the issued share capital of the Company prior to completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares (being not more than 3,482,437,500 A Shares).

As part of the Proposed Non-public Issuance of A Shares, on 27 January 2021, the Company and China Shipping entered into the CS Subscription Agreement pursuant to which China Shipping has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, such number of A Shares for an amount of RMB600 million and not more than the limit of the proceeds to be raised under the Proposed Non-public Issuance of A Shares as approved by the CSRC.

The purpose of this circular is to provide you with, among other things, further details of the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver, the Special Deal and the transactions contemplated thereunder and other information reasonably necessary to enable you to make an informed decision on whether to vote for or against the resolutions to be proposed at the EGM and the Class Meetings.

At the EGM and the Class Meetings, special resolutions will be proposed to approve, among other things, the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver, the Special Deal and the transactions contemplated thereunder.

II. MAJOR AND CONNECTED TRANSACTION – PROPOSED ACQUISITION

1. Acquisition Agreement (as supplemented by the Supplemental Agreement)

The principal terms of the Acquisition Agreement (as supplemented by the Supplemental Agreement) are set out below:

Date: 27 January 2021 (as supplemented by the Supplemental Agreement on 29 April 2021)

Parties:

(1) the Company, as purchaser; and

(2) COSCO SHIPPING Investment, as vendor.

Subject matter: Pursuant to the Acquisition Agreement, the Company has conditionally agreed to purchase and COSCO SHIPPING Investment has conditionally agreed to sell, the Target Assets, being 100% of the equity interests in the Target Companies, in consideration of the allotment and issuance of the Consideration Shares by the Company to COSCO SHIPPING Investment.

Consideration: The parties have agreed to engage China Tong Cheng, a qualified asset appraisal agency in the PRC, to conduct a valuation on the Target Assets and issue the Asset Valuation Reports with the Valuation Benchmark Date of 31 December 2020.

According to the Asset Valuation Reports issued by China Tong Cheng, which have been approved by and filed with the competent state-owned assets supervision and administrative authorities, the appraised value of the Target Assets as at the Valuation Benchmark Date, which were determined based on the asset-based approach, are as follows:

Target Assets	**Appraised value** *(RMB)*
100% of the equity interest in DFIC Qidong	1,570,740,500
100% of the equity interest in DFIC Qingdao	1,332,936,400
100% of the equity interest in DFIC Ningbo	606,372,400
100% of the equity interest in Universal Technology	51,827,800
Total	**3,561,877,100**

The parties have agreed that the consideration for transfer of 100% equity interest in each of the Target Companies shall be equivalent to the respective appraised value as set out above and therefore, the final consideration for the Proposed Acquisition shall be RMB3,561,877,100.

The final consideration for the Proposed Acquisition has been determined after arm's length negotiations between the parties with reference to the appraised value of the Target Assets set out in the Asset Valuation Reports. Please refer to Appendices V-A, V-B, V-C and V-D to this circular for the full text of the Asset Valuation Reports and Appendix VI for the letter of confirmation issued by China Tong Cheng. Pursuant to Rule 11.1(b) of the Takeovers Code, the Independent Financial Adviser has confirmed that China Tong Cheng is suitably qualified and experienced to undertake the valuation of the Target Assets. Please refer to the Letter from the Independent Financial Adviser and Appendix VII to this circular for the letter of confirmation issued by the Independent Financial Adviser.

The final consideration payable by the Company to COSCO SHIPPING Investment for the Proposed Acquisition shall be satisfied by the allotment and issuance of the Consideration Shares by the Company to COSCO SHIPPING Investment.

Issue of Consideration Shares: In accordance with the relevant PRC laws and regulations and based on the negotiations between the parties, the issue price of the Consideration Shares shall be RMB2.51 per Consideration Share, representing 90% of the average trading prices of the A Shares for the 120 trading days prior to the Pricing Benchmark Date of 28 January 2021 (rounded up to the nearest two decimal places).

During the period between the Pricing Benchmark Date and the date of issue of the Consideration Shares, in case of any ex-rights or ex-dividends events of the Company including distribution of cash dividends, bonus issues, capitalization issues, rights issues, the issue price of the Consideration Shares will be adjusted (rounded up to the nearest two decimal places) in accordance with the relevant PRC laws and regulations. The formulae for the adjustments are set out below:

1. In the event of bonus issues or capitalization issues:

   $P1 = P0/(1 + n)$

2. In the event of rights issues:

   $P1 = (P0 + A \times k)/(1 + k)$

3. In the event of distribution of cash dividends:

   $P1 = P0 - D$

4. In the event of simultaneous (i) bonus issues or capitalization issues; and (ii) rights issues:

   $P1 = (P0 + A \times k)/(1 + n + k)$

5. In the event of simultaneous (i) bonus issues or capitalization issues; (ii) rights issues; and (iii) distribution of cash dividends:

   $P1 = (P0 - D + A \times k)/(1 + n + k)$

   where,

   (i) P0 is the issue price of the Consideration Shares before adjustment;

   (ii) n is the number of bonus shares or shares to be issued upon capitalization issue per Share;

   (iii) k is the number of new shares to be allotted per Share under rights issue;

   (iv) A is the issue price per new share under rights issue;

   (v) D is the amount of cash dividend per Share; and

   (vi) P1 is the issue price of the Consideration Shares after adjustment.

The number of Consideration Shares to be issued by the Company to COSCO SHIPPING Investment shall be calculated by (i) the final consideration for the Proposed Acquisition, divided by (ii) the final issue price of the Consideration Shares. In the event of fractional shares, COSCO SHIPPING Investment shall waive such fractional shares.

Based on the final consideration for the Proposed Acquisition of RMB3,561,877,100 and the issue price of RMB2.51 per Consideration Share, the parties have determined that the number of Consideration Shares to be issued by the Company to COSCO SHIPPING Investment shall be 1,419,074,539 A Shares, further details of which are set forth below:

Target Assets	**Consideration** *(RMB)*	**Number of Consideration Shares to be issued**
100% of the equity interest in DFIC Qidong	1,570,740,500	625,793,027
100% of the equity interest in DFIC Qingdao	1,332,936,400	531,050,358
100% of the equity interest in DFIC Ningbo	606,372,400	241,582,629
100% of the equity interest in Universal Technology	51,827,800	20,648,525
Total	**3,561,877,100**	**1,419,074,539**

As disclosed in the annual results announcement of the Company dated 30 March 2021, the Board has proposed the payment of a final dividend of RMB0.056 per Share (inclusive of applicable tax), which is subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company. If the aforementioned final dividend will be paid prior to the issue of the Consideration Shares, the issue price of the Consideration Shares will be adjusted to RMB2.46 per Consideration Share (rounded up to the nearest two decimal places) and therefore the number of Consideration Shares to be issued will be adjusted as follows:

Target Assets	**Consideration** *(RMB)*	**Number of Consideration Shares to be issued**
100% of the equity interest in DFIC Qidong	1,570,740,500	638,512,398
100% of the equity interest in DFIC Qingdao	1,332,936,400	541,844,065
100% of the equity interest in DFIC Ningbo	606,372,400	246,492,845
100% of the equity interest in Universal Technology	51,827,800	21,068,211
Total	**3,561,877,100**	**1,447,917,519**

The final number of Consideration Shares to be issued by the Company to COSCO SHIPPING Investment shall be subject to the approval by the CSRC. Pursuant to the relevant PRC laws and regulations, such approval of the CSRC will only be obtained after the approval by the Independent Shareholders at the EGM and the Class Meetings. Where adjustment will be required by the CSRC, it is expected that there will be downward (but not upward) adjustment to the number of Consideration Shares to be issued by the Company to COSCO SHIPPING Investment.

The Consideration Shares will be issued under the Specific Mandate to be sought from the Independent Shareholders at the EGM and the Class Meetings. The issue of the Consideration Shares will not result in a change of control of the Company.

The Consideration Shares will be listed and traded on the Shanghai Stock Exchange.

Profit or loss during the Transitional Period: The parties agreed that the Company shall be (i) entitled to the profits or any increase in equity attributable to owners of the parent; and (ii) liable for the losses or any decrease in equity attributable to owners of the parent, of the Target Companies during the Transitional Period.

Lock-up period: Pursuant to the Acquisition Agreement, COSCO SHIPPING Investment has undertaken that it shall not transfer any of the Consideration Shares within 36 months from the date of issue of the Consideration Shares.

In the event that (i) the closing prices of the A Shares for twenty (20) consecutive trading days within six months following the completion of the Proposed Acquisition fall below the issue price of the Consideration Shares (as adjusted for any ex-rights or ex-dividends events during such six months in accordance with the relevant PRC laws and regulations); or (ii) the closing price of the A Shares as at the end of the six month period following the completion of the Proposed Acquisition is below the issue price of the Consideration Shares, the lock-up period will be automatically extended for six months.

The lock-up undertaking shall also be applicable to any additional A Shares received by COSCO SHIPPING Investment as a result of bonus issues and/or capitalization issues of the Company after completion of the Proposed Acquisition.

Conditions precedent: Completion of the Proposed Acquisition is conditional upon the fulfilment and/or waiver of the following conditions precedent:

(i) the Acquisition Agreement having become effective (which is conditional upon the fulfilment of all the conditions set forth in the section headed "Letter from the Board – II. MAJOR AND CONNECTED TRANSACTION – PROPOSED ACQUISITION – 1. Acquisition Agreement (as supplemented by the Supplemental Agreement) – Effectiveness of the Acquisition Agreement and the Supplemental Agreement" in this circular);

(ii) the obtaining of the Whitewash Waiver and the consent to the Special Deal from the Executive;

(iii) the Asset Valuation Reports having been filed and confirmed with the competent state-owned assets supervision and administrative authorities;

(iv) the waiver of the obligation of COSCO SHIPPING Investment and the parties acting in concert with it to make a general offer of the securities of the Company as a result of the Proposed Acquisition under the relevant PRC laws and regulations at the meeting of the Shareholders;

(v) the obtaining of approval or waiver from onshore and offshore competent regulatory authorities in respect of the concentration of business operations involved in the Proposed Acquisition (if required); and

(vi) the obtaining of approval from or filing with (as applicable) the relevant department of the ministry of commerce in respect of the subscription of the Consideration Shares by COSCO SHIPPING Investment.

The conditions precedent set out in paragraphs (i) to (iv), and (vi) above may not be waived by any party to the Acquisition Agreement and therefore, if any of the conditions precedent set out in paragraphs (i) to (iv), and (vi) above is not satisfied, the Company will not proceed with the Proposed Acquisition. The condition precedent set out in paragraph (v) above may be waived by the parties to the Acquisition Agreement.

As at the Latest Practicable Date, the conditions precedent set out in paragraphs (iii) and (v) above have been fulfilled.

There is no long stop date under the Acquisition Agreement in respect of the fulfilment and/or waiver of the conditions precedent. The parties will however endeavor to take necessary steps to cause the conditions precedent be fulfilled and, if applicable and appropriate, waived and proceed with completion of the Proposed Acquisition.

Completion: The parties agreed that following the fulfilment and/or waiver of the applicable conditions precedent, the Target Assets shall be transferred to the Company and the Consideration Shares shall be allotted and issued to COSCO SHIPPING Investment in a timely manner.

Completion shall take place upon completion of the change in industry and commerce registration.

Distribution of profit: Upon completion of the Proposed Acquisition, all the Shareholders (including COSCO SHIPPING Investment) will be entitled to share the Company's cumulative undistributed profits prior to completion of the Proposed Acquisition based on their respective proportion of shareholding and have the same right to distributions or dividends.

Effectiveness of the Acquisition Agreement and the Supplemental Agreement: The effectiveness of the Acquisition Agreement is conditional upon the fulfilment of all of the following conditions:

(i) the Acquisition Agreement having been duly executed by both parties;

(ii) the approval of the Proposed Acquisition by the Board and the Independent Shareholders at the EGM and the Class Meetings;

(iii) the approval of the Proposed Acquisition by the internal governing bodies of COSCO SHIPPING Investment;

(iv) the approval of the Proposed Acquisition by the internal governing bodies of the Target Companies;

(v) the approval of the Restructuring by the competent state-owned assets supervision and administrative authorities; and

(vi) the approval of the Proposed Acquisition by the CSRC.

None of the above conditions may be waived by any party to the Acquisition Agreement. If any of the conditions is not fulfilled, the Acquisition Agreement will not become effective and according to the PRC Legal Advisers, the parties will not have any rights, obligations and liabilities under the Acquisition Agreement.

As at the Latest Practicable Date, the conditions set out in paragraphs (i), (ii) (in respect of the approval by the Board only), (iii) and (iv) above have been fulfilled. The condition set out in paragraph (v) above in respect of the approval of the Restructuring by the competent state-owned assets supervision and administrative authorities will be fulfilled prior to the EGM and the Class Meetings, while the condition in respect of the approval of the Proposed Acquisition by the CSRC as set out in paragraph (vi) above will only be fulfilled after the EGM and the Class Meetings in accordance with the relevant PRC laws and regulations.

The effectiveness of the Supplemental Agreement is conditional upon the fulfilment of the following conditions:

(i) the Supplemental Agreement having been duly executed by both parties; and

(ii) the Acquisition Agreement having become effective.

As at the Latest Practicable Date, the condition set out in paragraph (i) above has been fulfilled.

Termination: The Acquisition Agreement may be terminated in the following circumstances:

(i) the Acquisition Agreement may be terminated by written confirmation of the parties upon the occurrence of force majeure events which render the Acquisition Agreement incapable of performance;

(ii) the parties unanimously agree to terminate the Acquisition Agreement;

(iii) in the event of material breach of the Acquisition Agreement by one party rendering the purpose of the Acquisition Agreement no longer achievable, the non-defaulting party shall be entitled to terminate the Acquisition Agreement; and

(iv) each of the parties is entitled to terminate the Acquisition Agreement by written notice at any time before completion of the Proposed Acquisition in any of the following circumstances:

(a) if due to any objections raised by government authorities, securities transaction administration authorities or judicial institutions in relation to the content and performance of the Acquisition Agreement, (1) the Acquisition Agreement is terminated, revoked or deemed invalid; or (2) the material principle terms of the Acquisition Agreement cannot be fulfilled which materially affects the purpose of the signing of the Acquisition Agreement;

(b) if due to any explicit objections raised by competent government authorities in respect of certain terms of the Acquisition Agreement, and such terms have a material impact on the Proposed Acquisition which materially affects the purpose of signing of the Acquisition Agreement; and

(c) if (1) the occurrence of material changes to relevant laws, regulations and regulatory documents rendering the principal terms of the Acquisition Agreement illegal; or (2) any of the parties is unable to perform its main obligations under the Acquisition Agreement due to national policies and orders.

The circumstances set out in sub-paragraphs (iv)(a) and (iv)(b) above are intended to provide for the right of the parties to terminate the Acquisition Agreement in the event of any objections from authorities (including judicial institutions), which cannot be expected at the time of signing of the Acquisition Agreement.

In the event that the Acquisition Agreement is terminated, released, voided or deemed to be invalid, the Proposed Acquisition shall not proceed and the Target Assets shall remain with COSCO SHIPPING Investment.

The Supplemental Agreement shall be automatically terminated if the Acquisition Agreement is terminated for any reason.

2. Compensation Agreement

On 29 April 2021, the Company and COSCO SHIPPING Investment entered into the Compensation Agreement, pursuant to which, COSCO SHIPPING Investment undertakes to provide performance guarantees and related compensation in respect of certain patents of DFIC Qidong and Universal Technology.

The compensation arrangement under the Compensation Agreement is made pursuant to the requirements of the Administrative Measures for Material Asset Restructuring and other relevant PRC laws and regulations, since the appraised values of such certain patents of DFIC Qidong and Universal Technology in the relevant Asset Valuation Reports were determined based on the income approach.

The principal terms of the Compensation Agreement are as follows:

Date:	29 April 2021
Parties:	(1) the Company; and (2) COSCO SHIPPING Investment.
Performance Compensation Assets:	According to the relevant Asset Valuation Reports, the appraised values of the certain patents in relation to the manufacturing of containers of DFIC Qidong and Universal Technology, being the Performance Compensation Assets, were determined based on the income approach with reference to the discounted future estimated income attributable to such Performance Compensation Assets for the four years from 2021 to 2024 (being their remaining economic life). Pursuant to the requirements of the Administrative Measures for Material Asset Restructuring and other relevant PRC laws and regulations, COSCO SHIPPING Investment undertakes to provide performance guarantees and related compensation in respect of the Performance Compensation Assets based on the abovementioned future estimated income attributable to such Performance Compensation Assets in the relevant Asset Valuation Reports.

Performance Compensation Period: The Performance Compensation Period shall be three consecutive financial years commencing from the year in which the Completion takes place (inclusive of such year of Completion).

If the Proposed Acquisition is completed on or before 31 December 2021, the Performance Compensation Period shall be the years of 2021, 2022 and 2023. If the Proposed Acquisition is not completed on or before 31 December 2021, the Performance Compensation Period shall be the years of 2022, 2023 and 2024.

Compensation arrangements: *Compensation for performance guarantees*

COSCO SHIPPING Investment undertakes that the future income attributable to the Performance Compensation Assets shall not be lower than the respective future estimated income attributable to the Performance Compensation Assets as set out in the relevant Asset Valuation Reports, further details of which are set out below:

(i) With respect to the Performance Compensation Assets of DFIC Qidong, the audited income attributable thereto shall not be lower than:

(a) if the Proposed Acquisition is completed on or before 31 December 2021, RMB2,021,200 for 2021, RMB1,418,000 for 2022 and RMB1,159,200 for 2023; and

(b) if the Proposed Acquisition is not completed on or before 31 December 2021, RMB1,418,000 for 2022, RMB1,159,200 for 2023 and RMB1,040,400 for 2024; and

(ii) With respect to the Performance Compensation Assets of Universal Technology, the audited income attributable thereto shall not be lower than:

(a) if the Proposed Acquisition is completed on or before 31 December 2021, RMB7,473,200 for 2021, RMB5,104,600 for 2022 and RMB4,195,800 for 2023; and

(b) if the Proposed Acquisition is not completed on or before 31 December 2021, RMB5,104,600 for 2022, RMB4,195,800 for 2023 and RMB3,644,900 for 2024.

Upon the expiry of each financial year during the Performance Compensation Period, the Company shall select and engage a qualified accounting firm to conduct audit on DFIC Qidong and Universal Technology and issue a specific audit opinion. If the audited actual income attributable to the Performance Compensation Assets is lower than the corresponding guaranteed amount as set out above for the financial year, COSCO SHIPPING Investment shall compensate the Company for an amount (calculated in accordance with the formula below) through return of the Consideration Shares, being the Compensation Shares.

$$\text{Amount of compensation for the financial year} = \frac{\text{Accumulated amount of the guaranteed income attributable to the Performance Compensation Assets as of the end of the financial year} - \text{Accumulated amount of the actual income attributable to the Performance Compensation Assets as of the end of the financial year}}{\text{Total guaranteed income attributable to the Performance Compensation Assets during the Performance Compensation Period}} \times \text{Consideration for acquisition of Performance Compensation Assets (being the appraised value of the Performance Compensation Assets determined based on the income approach)} - \text{Accumulated amount of compensation made}$$

The number of Compensation Shares to be returned shall be determined in accordance with the below formula:

$$\text{Number of Compensation Shares for the financial year} = \text{Amount of compensation for the financial year} \div \text{Issue price per Consideration Share}$$

If the return of the Compensation Shares is not sufficient for the compensation (due to, for example, the unlikely event that COSCO SHIPPING Investment ceases to hold a sufficient number of Consideration Shares), COSCO SHIPPING Investment shall pay such shortfall in cash.

Additional compensation for impairment

Upon the expiry of the Performance Compensation Period, the Company shall select and engage a qualified accounting firm to carry out impairment test on the Performance Compensation Assets and issue a corresponding impairment test report.

If the amount of impairment of the Performance Compensation Assets as at the end of the Performance Compensation Period is larger than the sum of (i) the total number of Compensated Shares during the Performance Compensation Period (excluding the effects of ex-rights and ex-dividends events) multiplied by the issue price per Consideration Share; and (ii) the total amount of cash compensation, COSCO SHIPPING Investment shall make additional compensation (calculated in accordance with the formula below) to the Company through return of the Compensation Shares:

$$\text{Amount of compensation for impairment} = \text{Amount of impairment of the Performance Compensation Assets} - \text{Total number of Compensation Shares returned for performance guarantees during the Performance Compensation Period} \times \text{Issue price per Consideration Share} - \text{Total amount of cash compensation for performance guarantees during the Performance Compensation Period}$$

The number of Compensation Shares to be returned shall be determined in accordance with the below formula:

$$\text{Number of Compensation Shares for the impairment compensation} = \frac{\text{Amount of compensation for impairment}}{\text{Issue price per Consideration Share}}$$

If the return of the Compensation Shares is not sufficient for the compensation (due to, for example, the unlikely event that COSCO SHIPPING Investment ceases to hold a sufficient number of Consideration Shares), COSCO SHIPPING Investment shall pay such shortfall in cash.

For the avoidance of doubt, the compensation for performance guarantees and impairment in respect of (i) the Performance Compensation Assets of DFIC Qidong; and (ii) the Performance Compensation Assets of Universal Technology will be assessed and calculated separately.

In the event that during the Performance Compensation Period, the Company has conducted bonus issues or capitalization issues and/or has distributed cash dividends, the number of Compensation Shares shall be adjusted accordingly and any cash dividends associated with the Compensation Shares shall also be returned to the Company.

The Compensation Shares shall be bought back by the Company at the consideration of RMB1.00 and cancelled thereafter. In the event of such buy-back and cancellation of the Compensation Shares by the Company, the Company shall comply with all relevant requirements under the Articles of Association and the applicable laws and regulations including the Hong Kong Listing Rules, the Takeovers Code and the Hong Kong Code on Share Buy-backs.

Maximum amount of compensation: The parties agree that the maximum amount of compensation to be made by COSCO SHIPPING Investment to the Company under the Compensation Agreement shall not exceed the consideration for the Performance Compensation Assets under the Proposed Acquisition (being RMB20,076,400, the aggregate appraised values of the Performance Compensation Assets determined based on the income approach).

Effectiveness of the Compensation Agreement: The effectiveness of the Compensation Agreement is conditional upon the fulfilment of the following conditions:

(i) the Compensation Agreement having been duly executed by both parties; and

(ii) the Acquisition Agreement having become effective.

As at the Latest Practicable Date, the condition set out in paragraph (i) above has been fulfilled.

The Compensation Agreement shall be automatically terminated if the Acquisition Agreement is terminated for any reason.

3. Profit Forecasts

As the appraised values of the Performance Compensation Assets were determined based on the income approach and one of the valuation methods adopted by China Tong Cheng in appraising the Target Assets as set out the Asset Valuation Reports was the income approach, which involved the calculation of discounted future estimated cash flows, the aforementioned valuation of the Performance Compensation Assets and the appraised value of the Target Assets based on the income approach constitute profit forecasts (the "**Profit Forecasts**") under Rule 14.61 of the Hong Kong Listing Rules and Rules 10 and 11.1(a) of the Takeovers Code, and the Company is required to comply with Rules 14.62 and 14A.68(7) of the Hong Kong Listing Rules and Rules 10 and 11 of the Takeovers Code.

For the purpose of complying with the requirements under Rules 14.62 and 14A.68(7) of the Hong Kong Listing Rules and Rules 10 and 11 of the Takeovers Code, the Profit Forecasts have been reported on in accordance with the Hong Kong Listing Rules and the Takeovers Code by Messis Capital, the Independent Financial Adviser, confirming that the Profit Forecasts have been made by the Directors after due care and consideration, and Ernst & Young, the auditor of the Company, reviewing the calculations of the discounted future estimated cash flows used in connection with the Profit Forecasts.

The principal assumptions upon which the valuation was based are set out below:

1. Basic assumptions

(a) Transaction assumption. The transaction assumption is that all assets to be appraised are in the process of transaction (which means that the Target Assets are assumed to be the subject of a transaction as at the Valuation Benchmark Date), and the Valuer will make estimation in a simulated market according to the transaction conditions (among others) of assets to be appraised.

(b) Open market assumption. The open market assumption is that the Target Assets may be traded freely in a highly competitive market and the price of which is determined based on the judgment of both independent trading parties over the value of assets under certain supply and demand conditions. An open market refers to a market which is highly competitive with various buyers and sellers. In the open market, both parties of a transaction are equal, which means they are given the opportunity and time to acquire sufficient market information. Buyers and sellers are supposed to be acting voluntarily and rationally rather than being coerced or confined during the transaction.

(c) Assumption on continuing operation. Assumption on continuing operation refers to the assumption that the operating activities of the Target Companies will continue and will not be suspended or terminated in the foreseeable future.

2. Specific assumptions

(a) There will be no significant changes in the relevant prevailing laws, regulations and policies as well as macro-economic situation of the country and place where the Target Companies reside, significant changes in the political, economic or social environment in the regions in which the parties to the transaction are located, or material adverse effects arising from other unforeseeable factors and force majeure.

(b) It is assumed that the Target Companies will have balanced cash inflows and cash outflows throughout the year based on its actual operation conditions.

(c) It is assumed that the current and future operators and managers of the Target Companies exercise due diligence, and the management of the Target Companies are competent in discharging their duties to ensure that the Target Companies are able to operate on a going concern basis, the development, production, and operation plans of which can be fulfilled as scheduled.

(d) It is assumed that the Target Companies are in full compliance with all relevant national laws and regulations, without committing any significant violation that prejudices corporate development and realisation of revenue.

(e) It is assumed that the accounting policies to be adopted by the Target Companies in the future are basically consistent with those adopted during the preparation of the Asset Valuation Reports in material aspects.

(f) It is assumed that, based on its current management approaches and standards, the Target Companies' scope and model of business will remain consistent with the current direction.

(g) It is assumed that there will be no material changes in the requirements currently implemented or determined to be implemented regarding the relevant interest rates, exchange rates, taxation bases and tax rates, and government levies according to national regulations.

(h) It is assumed that no other force majeure and unforeseeable factors will have a material adverse effect on the Target Companies.

China Tong Cheng has confirmed that nothing has come to its attention that the abovementioned assumptions will prove to be incorrect or invalid in respect of the Target Companies.

The letters from the Independent Financial Adviser and Ernst & Young are set out in Appendices VII and VIII to this circular, respectively.

4. Information on the Target Companies

As at the Latest Practicable Date, each of the Target Companies is a wholly-owned subsidiary of COSCO SHIPPING Investment. The audited aggregate net asset value of the Target Companies as at 31 December 2020 was RMB3,101,011,000.

Upon completion of the Proposed Acquisition, each of the Target Companies will become a wholly-owned subsidiary of the Company and the financial information of the Target Companies will be consolidated into the consolidated financial statements of the Group.

Further details of the Target Companies are set out as follows:

DFIC Qidong

DFIC Qidong is a limited liability company established in the PRC and is principally engaged in the manufacturing of dry freight, specialized and refrigerated containers.

The financial information of DFIC Qidong for the two financial years ended 31 December 2019 and 2020, prepared in accordance with Hong Kong Financial Reporting Standards, was as follows:

	For the year ended 31 December 2019 (audited) *RMB*	**For the year ended 31 December 2020 (audited)** *RMB*
Net profit/(loss) before taxation	(254,450,000)	160,951,000
Net profit/(loss) after taxation	(252,320,000)	160,951,000

The audited net asset value of DFIC Qidong as at 31 December 2020 was RMB1,431,508,000 and the appraised value of 100% of the equity interest in DFIC Qidong as at the Valuation Benchmark Date (being 31 December 2020) as set out in the relevant Asset Valuation Report and determined based on the asset-based approach, was RMB1,570,740,500.

Please refer to Appendix II-A to this circular for the accountants' report on DFIC Qidong for the three financial years ended 31 December 2018, 2019 and 2020.

DFIC Qingdao

DFIC Qingdao is a limited liability company established in the PRC, and the DFIC Qingdao Group is principally engaged in the manufacturing of dry freight, specialized and refrigerated containers.

The consolidated financial information of the DFIC Qingdao Group for the two financial years ended 31 December 2019 and 2020, prepared in accordance with Hong Kong Financial Reporting Standards, was as follows:

	For the year ended 31 December 2019 (audited) *RMB*	**For the year ended 31 December 2020 (audited)** *RMB*
Net profit/(loss) before taxation	(86,638,000)	128,110,000
Net profit/(loss) after taxation	(86,655,000)	117,364,000

The audited consolidated net asset value of the DFIC Qingdao Group was RMB1,152,084,000 and the appraised value of 100% of the equity interest in DFIC Qingdao as at the Valuation Benchmark Date (being 31 December 2020) as set out in the relevant Asset Valuation Report and determined based on the asset-based approach, was RMB1,332,936,400.

Please refer to Appendix II-B to this circular for the accountants' report on the DFIC Qingdao Group for the three financial years ended 31 December 2018, 2019 and 2020.

DFIC Ningbo

DFIC Ningbo is a limited liability company established in the PRC and is principally engaged in the manufacturing of dry freight and specialised containers.

The financial information of DFIC Ningbo for the two financial years ended 31 December 2019 and 2020, prepared in accordance with Hong Kong Financial Reporting Standards, was as follows:

	For the year ended 31 December 2019 (audited) *RMB*	**For the year ended 31 December 2020 (audited)** *RMB*
Net profit/(loss) before taxation	(55,906,000)	35,238,000
Net profit/(loss) after taxation	(58,114,000)	30,444,000

The audited net asset value of DFIC Ningbo as at 31 December 2020 was RMB482,230,000 and the appraised value of 100% of the equity interest in DFIC Ningbo as at the Valuation Benchmark Date (being 31 December 2020) as set out in the relevant Asset Valuation Report and determined based on the asset-based approach, was RMB606,372,400.

Please refer to Appendix II-C to this circular for the accountants' report on DFIC Ningbo for the three financial years ended 31 December 2018, 2019 and 2020.

Universal Technology

Universal Technology is a limited liability company established in the PRC and is principally engaged in the provision of technical, development and management services of container manufacturing.

The financial information of Universal Technology for the two financial years ended 31 December 2019 and 2020, prepared in accordance with Hong Kong Financial Reporting Standards, was as follows:

	For the year ended 31 December 2019 (audited) *RMB*	**For the year ended 31 December 2020 (audited)** *RMB*
Net profit/(loss) before taxation	241,000	8,133,000
Net profit/(loss) after taxation	241,000	6,585,000

The audited net asset value of Universal Technology as at 31 December 2020 was RMB35,189,000 and the appraised value of 100% of the equity interest in Universal Technology as at the Valuation Benchmark Date (being 31 December 2020) as set out in the relevant Asset Valuation Report and determined based on the asset-based approach, was RMB51,827,800.

Please refer to Appendix II-D to this circular for the accountants' report on Universal Technology for the three financial years ended 31 December 2018, 2019 and 2020.

5. Information on the parties to the Proposed Acquisition

Information on the Group

The Company is a joint stock limited company established under the laws of the PRC with limited liability, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange and the A Shares of which are listed on the Shanghai Stock Exchange.

The Group is principally engaged in shipping and industry-related leasing businesses, manufacturing of containers and provision of investment and financial services.

Information on COSCO SHIPPING Investment

COSCO SHIPPING Investment is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING. It is principally engaged in providing integrated financial services and investment in financial assets.

COSCO SHIPPING is a company incorporated under the laws of the PRC, and is a state-owned enterprise controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. The scope of business of COSCO SHIPPING includes international shipping, ancillary business in international maritime transportation, import and export of goods and technologies, international freight agency business, leasing of self-owned vessels, sales of vessels, containers and steel and maritime engineering.

III. PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS

On 27 January 2021, the Board has approved the Proposed Non-public Issuance of A Shares to raise ancillary funds simultaneously with the Proposed Acquisition. On 29 April 2021, the Board has approved the additional terms of the Proposed Non-public Issuance of A Shares to raise ancillary funds after the determination of the final consideration for the Proposed Acquisition. The total amount of ancillary funds to be raised under the Proposed Non-public Issuance of A Shares shall be not more than RMB1,464,000,000 (inclusive of the CS Subscription), which does not exceed 100% of the final consideration for the Proposed Acquisition, and the number of A Shares to be issued shall not exceed 30% of the issued share capital of the Company prior to completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares.

The Proposed Non-public Issuance of A Shares is subject to the approval of the CSRC and the completion of the Proposed Acquisition, but the Proposed Acquisition is not conditional on the completion of the Proposed Non-public Issuance of A Shares.

1. Details of the Proposed Non-public Issuance of A Shares

The details of the Proposed Non-public Issuance of A Shares are set out below:

Class and par value of Shares to be issued:	A Shares with a par value of RMB1.00 each.
Target subscribers:	The Proposed Non-public Issuance of A Shares will be carried out by way of non-public issue of A Shares to not more than 35 specific target subscribers (including China Shipping). As at the Latest Practicable Date, apart from the CS Subscription Agreement, the Company has not entered into any agreement with any potential subscribers in respect of the Proposed Non-public Issuance of A Shares. It is currently expected that the other subscribers under the Proposed Non-public Issuance of A Shares will not be the connected persons of the Company and the subscription by those other subscribers under the Proposed Non-public Issuance of A Shares will not trigger a general offer obligation of those other subscribers under the Takeovers Code.
Number of A Shares to be issued and amount of funds to be raised:	The total amount of ancillary funds to be raised under the Proposed Non-public Issuance of A Shares shall be not more than RMB1,464,000,000 (inclusive of the CS Subscription), which does not exceed 100% of the final consideration for the Proposed Acquisition, and the number of A Shares to be issued shall not exceed 30% of the issued share capital of the Company prior to completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares. The final number of A Shares to be issued under the Proposed Non-public Issuance of A Shares shall be determined by the Board and its authorized person(s) with the authorization by the Shareholders at the EGM and the Class Meetings and actual market conditions at the time of the issuance, subject to the maximum number of A Shares as approved by the CSRC. China Shipping undertakes to subscribe such number of A Shares for an amount of RMB600 million and not more than the limit of the proceeds to be raised under the Proposed Non-public Issuance of A Shares as approved by the CSRC.

The number of A Shares to be issued under the Proposed Non-public Issuance of A Shares will be adjusted if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue, rights issue or capitalization issue) between the Price Determination Date and the date of issuance of the A Shares under the Proposed Non-public Issuance of A Shares in accordance with the applicable PRC laws and regulations.

Price Determination Date, pricing principles and issue price: Subject to satisfaction of the conditions precedent of the Proposed Non-public Issuance of A Shares as further detailed below and after completion of the Proposed Acquisition, the Company shall determine to commence the Proposed Non-public Issuance of A Shares based on the proposal for use of proceeds and market conditions and the Offering Period of the Proposed Non-public Issuance shall commence accordingly. The Proposed Non-public Issuance of A Shares will be conducted by way of a price inquiry process conducted in accordance with the requirements under the Rules for the Implementation of Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》), which involves the issuance of invitation for subscription to eligible specific target subscribers after obtaining approval documents from the CSRC (as further set out in the section headed "Letter from the Board – X. IMPLICATIONS UNDER THE TAKEOVERS CODE – Special Deal in relation to the Proposed Non-public Issuance of A Shares" in this circular). The Price Determination Date shall be the first day of the Offering Period.

The issue price shall not be lower than the Benchmark Price, being (i) 80% of the Average Trading Price (being the average trading price of the A Shares during the 20 trading days immediately preceding the Price Determination Date); or (ii) the Floor Price (being the latest audited net asset per Share of the Company before the issuance of A Shares under the Proposed Non-public Issuance of A Shares), whichever is higher. According to the annual report of the Company for the year ended 31 December 2020, the audited net asset per Share of the Company (representing audited net assets per share attributable to the Shareholders (and excluding holders of other equity instruments)) as at 31 December 2020 was approximately RMB1.59 (rounded up to the nearest two decimal places).

The final issue price will be determined by negotiations between the Board and its authorized person(s) with the authorization by the Shareholders at the EGM and the Class Meetings and the PRC independent financial adviser (the lead underwriter) based on the price inquiry results in accordance with the relevant PRC laws and regulations.

The specific time of issuance of the Proposed Non-public Issuance of A Shares shall be determined by the Company and the PRC independent financial adviser (the lead underwriter) based on the proposal for use of proceeds and market conditions.

The Benchmark Price will be adjusted if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue, rights issue, capitalization issue) between the Price Determination Date and the date of issuance of the Proposed Non-public Issuance of A Shares in accordance with the applicable PRC laws and regulations.

All the target subscribers will subscribe for the A Shares under the Proposed Non-public Issuance of A Shares at the same issue price in cash. China Shipping will not participate in the price inquiry exercise for the Proposed Non-public Issuance of A Shares, but will accept the price inquiry results and subscribe for the A Shares at the same issue price as other target subscribers.

Conditions precedent of the Proposed Non-public Issuance of A Shares:

The Proposed Non-public Issuance of A Shares is conditional upon:

(i) the approval of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares by the Board and the Independent Shareholders at the EGM and the Class Meetings;

(ii) the approval of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares by the competent state-owned assets supervision and administrative authorities;

(iii) the approval of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares by the CSRC; and

(iv) the obtaining of the Whitewash Waiver and the consent to the Special Deal from the Executive.

In particular, with respect to the condition precedent set out in paragraph (i) above, in the context of the Special Deal, Independent Shareholders refer to all H Shareholders (other than (a) COSCO SHIPPING and its associates and parties acting in concert with it (including the participants of the Asset Management Plan in respect of the H Shares held thereunder); and (b) those who are involved in or interested in the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal).

None of the conditions above may be waived by any party to the Proposed Non-public Issuance of A Shares and therefore, if any of the conditions above is not satisfied, the Company will not proceed with the Proposed Non-public Issuance of A Shares.

The condition precedent set out in paragraph (i) (in respect of approval by the Board only) above has been fulfilled as at the Latest Practicable Date.

As the Proposed Non-public Issuance of A Shares is for the purpose of raising ancillary funds in connection with the Proposed Acquisition, the CSRC will not approve the Proposed Non-public Issuance of A Shares without approving the Proposed Acquisition. Further, the Company will only commence the Proposed Non-public Issuance of A Shares after completion of the Proposed Acquisition.

Lock-up period: China Shipping shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within 36 months from the date of completion of the Proposed Non-public Issuance of A Shares. In addition, each of China Shipping and COSCO SHIPPING undertakes that it shall not transfer any of the Shares directly or indirectly owned by it prior to the completion of the Restructuring within 18 months from the date of completion of the Restructuring.

All other target subscribers shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within six months from the date of completion of the Proposed Non-public Issuance of A Shares.

Place of listing of the A Shares to be issued: The A Shares to be issued under the Proposed Non-public Issuance of A Shares will be listed and traded on the Shanghai Stock Exchange.

Use of proceeds: The gross proceeds to be raised from the Proposed Non-public Issuance of A Shares will be not more than RMB1,464,000,000. The net proceeds from the Proposed Non-public Issuance of A Shares (after deducting all applicable costs and expenses incurred in connection with the Proposed Non-public Issuance of A Shares) are intended to be used in the following manner:

Projects	**Total amount of investment** *(RMB)*	**Intended allocation of proceeds** *(RMB)*
Production lines technology transformation project of DFIC Qidong	220,214,400	194,000,000
Container production lines technology transformation project of DFIC Qingdao	226,285,900	200,000,000
Logistics equipment transformation project of DFIC Ningbo	103,960,000	92,000,000
Information system upgrade and setup project of Universal Technology	97,422,000	88,000,000
Replenishment of the working capital of the Company	890,000,000	890,000,000
Total		**1,464,000,000**

Before the receipt of the proceeds to be raised from the Proposed Non-public Issuance of A Shares, the Company will, depending on the status of the projects, finance these projects by funds raised through other means of financing, which will be substituted by the proceeds raised from the Proposed Non-public Issuance of A Shares in accordance with relevant procedures as required by applicable laws and regulations once the same becomes available.

The Proposed Acquisition is not conditional upon the completion of the Proposed Non-public Issuance of A Shares. The result of the Proposed Non-public Issuance of A Shares shall not affect the completion of the Proposed Acquisition.

If the Proposed Non-public Issuance of A Shares does not proceed or the actual proceeds to be raised from the Proposed Non-public Issuance of A Shares are less than the proposed use of proceeds, the Company will make up for the shortfall by utilizing its internal resources or other means of financing. The Company may make appropriate adjustments as to the order of priority, allocation amount and methods in respect of the proposed use of proceeds based on the net proceeds actually raised.

Specific mandate to issue A Shares: The Company will issue the A Shares under the Specific Mandate to be sought from the Independent Shareholders at the EGM and the Class Meetings.

Distribution of profit: Upon completion of the Proposed Non-public Issuance of A Shares, the existing Shareholders and the holders of the new A Shares to be issued under the Proposed Non-public Issuance of A Shares will be entitled to share the Company's cumulative undistributed profits prior to completion of the Proposed Non-public Issuance of A Shares based on their respective proportion of shareholding and have the same right to distributions or dividends.

Rights of the A Shares to be issued: The A Shares to be issued under the Proposed Non-public Issuance of A Shares, when fully paid and issued, will rank pari passu in all respects amongst themselves and with the A Shares in issue at the time of the issuance of such A Shares.

IV. CONNECTED TRANSACTION – CS SUBSCRIPTION

As part of the Proposed Non-public Issuance of A Shares, on 27 January 2021, the Company and China Shipping entered into the CS Subscription Agreement pursuant to which China Shipping has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, such number of A Shares for an amount of RMB600 million and not more than the limit of the proceeds to be raised under the Proposed Non-public Issuance of A Shares as approved by the CSRC.

The principal terms of the CS Subscription Agreement are as follows:

Date: 27 January 2021

Parties:	(1) the Company, as the issuer; and (2) China Shipping, as the subscriber.
Number of A Shares to be issued:	China Shipping has agreed to subscribe for such number of A Shares in cash based on the final issue price of A Shares under the Proposed Non-public Issuance of A Shares, for an amount of RMB600 million. If the total amount of issuance under the Proposed Non-public Issuance of A Shares as approved by the CSRC is less than RMB600 million, the subscription amount of China Shipping shall be accordingly adjusted according to such approved issuance amount. The number of A Shares to be issued to China Shipping shall be determined based on (i) the final subscription amount, divided by (ii) the final issue price of A Shares under the Proposed Non-public Issuance of A Shares (rounded down to the nearest whole number). As the final issue price of A Shares under the Proposed Non-public Issuance of A Shares has not been determined, the number of A Shares to be issued to China Shipping cannot be determined as at the Latest Practicable Date. For illustration purpose only, assuming that the issue price of the Proposed Non-public Issuance of A Shares is the same as the issue price of the Consideration Shares of RMB2.51 per A Share and China Shipping will subscribe for an amount of RMB600 million, 239,043,824 A Shares, representing approximately 2.06% of the existing total issued share capital of the Company as at the Latest Practicable Date, will be issued to China Shipping under the Proposed Non-public Issuance of A Shares. As the Company will only commence the Proposed Non-public Issuance of A Shares after completion of the Proposed Acquisition, it is expected that the CS Subscription under the Proposed Non-public Issuance of A Shares will not result in the voting rights held by COSCO SHIPPING and parties acting in concert with it in the Company to increase by more than 2% based on the then total issued share capital of the Company (on a fully diluted basis). Please refer to the section headed "Letter from the Board – V. EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" in this circular for further details of the impact on the shareholding of the Company.

Subscription price, pricing principles and method of payment:

The subscription price shall not be lower than the Benchmark Price.

The final subscription price will be equivalent to the final issue price under the Proposed Non-public Issuance of A Shares, which will be determined by negotiations between the Board and its authorized person(s) with the authorization by the Shareholders at the EGM and the PRC independent financial adviser (the lead underwriter) based on the price inquiry results in accordance with the relevant PRC laws and regulations.

China Shipping will not participate in the price inquiry exercise for the Proposed Non-public Issuance of A Shares, but will accept the price inquiry results and subscribe for the A Shares at the same issue price as other target subscribers. If the issue price cannot be determined through the price inquiry exercise, China Shipping shall subscribe for the A Shares at the Benchmark Price.

Conditions precedent:

The CS Subscription is conditional upon:

(i) the approval of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares by the Board and the Independent Shareholders at the EGM and the Class Meetings;

(ii) the approval by the internal governing bodies of China Shipping;

(iii) the approval of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares by the competent state-owned assets supervision and administrative authorities;

(v) the approval of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares by the CSRC; and

(vi) the obtaining of the Whitewash Waiver and the consent to the Special Deal from the Executive.

In particular, with respect to the condition precedent set out in paragraph (i) above, in the context of the Special Deal, Independent Shareholders refer to all H Shareholders (other than (a) COSCO SHIPPING and its associates and parties acting in concert with it (including the participants of the Asset Management Plan in respect of the H Shares held thereunder); and (b) those who are involved in or interested in the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal).

None of the conditions above may be waived by any party to the CS Subscription Agreement and therefore, if any of the conditions above is not satisfied, the Company will not proceed with the CS Subscription Agreement.

As at the Latest Practicable Date, the conditions precedent as set out in paragraphs (i) (in respect of the approval by the Board only) and (ii) above have been fulfilled.

Lock-up period: China Shipping undertakes not to transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within 36 months from the date of completion of the Proposed Non-public Issuance of A Shares.

Information on the parties to the CS Subscription Agreement

Information on the Group

The Company is a joint stock limited company established under the laws of the PRC with limited liability, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange and the A Shares of which are listed on the Shanghai Stock Exchange.

The Group is principally engaged in shipping and industry-related leasing businesses, manufacturing of containers and provision of investment and financial services.

Information on China Shipping

China Shipping is a company incorporated under the laws of the PRC, and a wholly-owned subsidiary of COSCO SHIPPING. The scope of business of China Shipping includes coastal and ocean cargo transportation, container transportation, import and export business and international freight agency business.

COSCO SHIPPING is a company incorporated under the laws of the PRC, and is a state-owned enterprise controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. The scope of business of COSCO SHIPPING includes international shipping, ancillary business in international maritime transportation, import and export of goods and technologies, international freight agency business, leasing of self-owned vessels, sales of vessels, containers and steel and maritime engineering.

V. EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, (i) the total issued share capital of the Company is 11,608,125,000 Shares, which comprises 7,932,125,000 A Shares (inclusive of 79,627,003 A Shares repurchased and held by the Company as treasury shares for implementation of the A Share Option Incentive Scheme pursuant to the Company Law of the PRC and the Articles of Association, further details of which are set out in the announcement of the Company dated 24 January 2019 and the circular of the Company dated 1 February 2019) and 3,676,000,000 H Shares; and (ii) there are 79,627,003 outstanding Share Options granted under the A Share Option Incentive Scheme, upon exercise of which, 79,627,003 A Shares will be transferred by the Company (out of the aforementioned treasury shares of the Company) to the holders of the Share Options. The exercise of the Share Options will not result in any change in the total issued share capital of the Company.

For illustration purpose, set out below is the shareholding structure of the Company:

(i) as at the Latest Practicable Date;

(ii) immediately after completion of the Proposed Acquisition (assuming that (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will not be paid prior to the issue of the Consideration Shares and there will not be any adjustments to the issue price of the Consideration Shares of RMB2.51 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement)); and

(iii) immediately after completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares (assuming that (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will not be paid prior to the issue of the Consideration Shares and there will not be any adjustments to the issue price of the Consideration Shares of RMB2.51 per Consideration Share; (b) the issue price of the Proposed Non-public Issuance of A Shares is the same as the issue price of the Consideration Shares; (c) the total amount of ancillary funds to be raised under the Proposed Non-public Issuance of A Shares will be RMB1,464,000,000, of which, RMB600,000,000 will be subscribed by China Shipping and the remaining RMB864,000,000 will be subscribed by other independent third parties; and (d) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement) and under the Proposed Non-public Issuance of A Shares):

		Shareholding as at the Latest Practicable Date			Shareholding immediately after completion of the Proposed Acquisition			Shareholding immediately after completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares		
Name of Shareholder	Class of Shares	Number of Shares	Approximate percentage of the issued A Share capital *(%)*	Approximate percentage of the total issued share capital *(%)*	Number of Shares	Approximate percentage of the issued A Share capital *(%)*	Approximate percentage of the total issued share capital *(%)*	Number of Shares	Approximate percentage of the issued A Share capital *(%)*	Approximate percentage of the total issued share capital *(%)*
COSCO SHIPPING, its associates and parties acting in concert with it *(Note 1)*										
COSCO SHIPPING	A	47,570,789	0.60	0.41	47,570,789	0.51	0.37	47,570,789	0.48	0.35
China Shipping	A	4,410,624,386	55.60	38.00	4,410,624,386	47.17	33.86	4,649,668,210	46.80	34.16
COSCO SHIPPING Investment	A	–	–	–	1,419,074,539	15.18	10.89	1,419,074,539	14.28	10.43
Ocean Fortune	H	100,944,000	–	0.87	100,944,000	–	0.77	100,944,000	–	0.74
Asset Management Plan *(Note 2)*	H	6,900,000	–	0.06	6,900,000	–	0.05	6,900,000	–	0.05
Sub-total *(Note 3)*		**4,566,039,175**	**-**	**39.33**	**5,985,113,714**	**-**	**45.94**	**6,224,157,538**	**-**	**45.73**
Treasury shares held by the Company	A	79,627,003	1.00	0.69	79,627,003	0.85	0.61	79,627,003	0.80	0.59
Public A Shareholders	A	3,394,302,822	42.80	29.25	3,394,302,822	36.30	26.06	3,738,525,930	37.63	27.47
Public H Shareholders	H	3,568,156,000	–	30.74	3,568,156,000	–	27.39	3,568,156,000	–	26.22
Total *(Note 3)*		**11,608,125,000**	**-**	**100.00**	**13,027,199,539**	**-**	**100.00**	**13,610,466,471**	**-**	**100.00**

Notes:

1. *As at the Latest Practicable Date, 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company, are held by COSCO SHIPPING, 4,410,624,386 A Shares, representing approximately 38.00% of the total issued share capital of the Company, are held by China Shipping, and 100,944,000 H Shares, representing approximately 0.87% of the total issued share capital of the Company, are held by Ocean Fortune, an indirect wholly-owned subsidiary of COSCO SHIPPING.*

2. *As at the Latest Practicable Date, 6,900,000 H Shares, representing approximately 0.06% of the total issued share capital of the Company, are held under the Asset Management Plan voluntarily invested by Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui (each of whom is an executive Director) and certain other existing and former supervisor, senior management and employees of the Company, who are considered to be acting in concert with COSCO SHIPPING.*

3. *The approximate percentage figures are rounded to the nearest two decimal places and therefore, may not add up to 100% due to rounding.*

As set out in the section headed "Letter from the Board – II. MAJOR AND CONNECTED TRANSACTION – PROPOSED ACQUISITION – 1. Acquisition Agreement (as supplemented by the Supplemental Agreement) – Issue of Consideration Shares" in this circular, if the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will be paid prior to the issue of the Consideration Shares, the issue price of the Consideration Shares will be adjusted to RMB2.46 per Consideration Share and the total number of Consideration Shares to be issued will be adjusted to 1,447,917,519 A Shares. In such circumstances, for illustration purpose, set out below is the shareholding structure of the Company:

(i) as at the Latest Practicable Date;

(ii) immediately after completion of the Proposed Acquisition (assuming that (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will be paid prior to the issue of the Consideration Shares and there will not be any further adjustments to the issue price of the Consideration Shares of RMB2.46 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement)); and

(iii) immediately after completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares (assuming that (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will be paid prior to the issue of the Consideration Shares and there will not be any further adjustments to the issue price of the Consideration Shares of RMB2.46 per Consideration Share; (b) the issue price of the Proposed Non-public Issuance of A Shares is the same as the issue price of the Consideration Shares; (c) the total amount of ancillary funds to be raised under the Proposed Non-public Issuance of A Shares will be RMB1,464,000,000, of which, RMB600,000,000 will be subscribed by China Shipping and the remaining RMB864,000,000 will be subscribed by other independent third parties; and (d) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement) and under the Proposed Non-public Issuance of A Shares):

		Shareholding as at the Latest Practicable Date			Shareholding immediately after completion of the Proposed Acquisition			Shareholding immediately after completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares		
Name of Shareholder	Class of Shares	Number of Shares	Approximate percentage of the issued A Share capital (%)	Approximate percentage of the total issued share capital (%)	Number of Shares	Approximate percentage of the issued A Share capital (%)	Approximate percentage of the total issued share capital (%)	Number of Shares	Approximate percentage of the issued A Share capital (%)	Approximate percentage of the total issued share capital (%)
COSCO SHIPPING, its associates and parties acting in concert with it *(Note 1)*										
COSCO SHIPPING	A	47,570,789	0.60	0.41	47,570,789	0.51	0.36	47,570,789	0.48	0.35
China Shipping	A	4,410,624,386	55.60	38.00	4,410,624,386	47.02	33.78	4,654,526,825	46.66	34.10
COSCO SHIPPING Investment	A	–	–	–	1,447,917,519	15.44	11.09	1,447,917,519	14.52	10.61
Ocean Fortune	H	100,944,000	–	0.87	100,944,000	–	0.77	100,944,000	–	0.74
Asset Management Plan *(Note 2)*	H	6,900,000	–	0.06	6,900,000	–	0.05	6,900,000	–	0.05
Sub-total *(Note 3)*		**4,566,039,175**	**–**	**39.33**	**6,013,956,694**	**–**	**46.06**	**6,257,859,133**	**–**	**45.84**
Treasury shares held by the Company	A	79,627,003	1.00	0.69	79,627,003	0.85	0.61	79,627,003	0.80	0.58
Public A Shareholders	A	3,394,302,822	42.80	29.25	3,394,302,822	36.19	26.00	3,745,522,334	37.55	27.44
Public H Shareholders	H	3,568,156,000	–	30.74	3,568,156,000	–	27.33	3,568,156,000	–	26.14
Total *(Note 3)*		**11,608,125,000**	**–**	**100.00**	**13,056,042,519**	**–**	**100.00**	**13,651,164,470**	**–**	**100.00**

Notes:

1. *As at the Latest Practicable Date, 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company, are held by COSCO SHIPPING, 4,410,624,386 A Shares, representing approximately 38.00% of the total issued share capital of the Company, are held by China Shipping, and 100,944,000 H Shares, representing approximately 0.87% of the total issued share capital of the Company, are held by Ocean Fortune, an indirect wholly-owned subsidiary of COSCO SHIPPING.*

2. *As at the Latest Practicable Date, 6,900,000 H Shares, representing approximately 0.06% of the total issued share capital of the Company, are held under the Asset Management Plan voluntarily invested by Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui (each of whom is an executive Director) and certain other existing and former supervisor, senior management and employees of the Company, who are considered to be acting in concert with COSCO SHIPPING.*

3. *The approximate percentage figures are rounded to the nearest two decimal places and therefore, may not add up to 100% due to rounding.*

VI. FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising exercises during the 12 months immediately preceding the Latest Practicable Date.

VII. FINANCIAL EFFECTS OF PROPOSED ACQUISITION

Upon completion of the Proposed Acquisition, each of the Target Companies will become a wholly-owned subsidiary of the Company and the results and assets and liabilities of the Target Companies will be consolidated to the financial statements of the Group.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, for illustration purpose only:

(i) the total comprehensive income attributable to owners of the Company for the year ended 31 December 2020 would have increased by approximately RMB9,480,000, from approximately RMB2,447,548,000 to approximately RMB2,457,028,000, assuming Completion had taken place on 1 January 2020;

(ii) the total assets of the Group as at 31 December 2020 would have increased by approximately RMB7,193,785,000, from approximately RMB146,038,794,000 to approximately RMB153,232,579,000, assuming Completion had taken place on 31 December 2020; and

(iii) the total liabilities of the Group as at 31 December 2020 would have increased by approximately RMB4,157,923,000, from approximately RMB121,668,786,000 to approximately RMB125,826,709,000, assuming Completion had taken place on 31 December 2020.

For further details of the financial effects of the Proposed Acquisition as described above, please refer to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular.

VIII. REASONS FOR AND BENEFITS OF PROPOSED ACQUISITION, PROPOSED NON-PUBLIC ISSUANCE OF A SHARES AND CS SUBSCRIPTION

Proposed Acquisition

As disclosed in the announcement of the Company dated 6 May 2020, as the Target Companies are principally engaged in design, research and development, manufacture, sales and delivery of containers and the related businesses, in order to address any potential competition between the Group and the COSCO SHIPPING Group, COSCO SHIPPING has provided an undertaking that, among other things, within three years after completion of the acquisition by COSCO SHIPPING Investment of the Target Companies, the COSCO SHIPPING Group will transfer the equity interests in the Target Companies to the Company at a fair and reasonable market price through appropriate means and procedures in accordance with applicable laws. The consideration for the acquisition by COSCO SHIPPING Investment of the Target Companies in 2019 was approximately RMB3,502 million.

The Proposed Acquisition is expected to bring synergies to the container manufacturing business of the Group, enhancing the Group's manufacturing capabilities for delivering different types of containers, including specialized and refrigerated containers, as well as supplementing and optimizing the geographical layout of the container manufacturing business of the Group in Northern and Eastern China region (where the Target Companies are geographically based). It is also expected that the market share of the container manufacturing business of the Group will increase as a result of the Proposed Acquisition.

Accordingly, the Proposed Acquisition is in line with the strategic development objectives of the Group, being the development of its shipping and industry-related leasing business, container manufacturing business and investment and related service business.

The terms of the Acquisition Agreement, the Supplemental Agreement, the Compensation Agreement and the transactions contemplated thereunder were agreed after arm's length negotiations between the parties thereto. The Directors (including the Independent Board Committee, after considering the advice from the Independent Financial Adviser) consider that the Acquisition Agreement, the Supplemental Agreement, the Compensation Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

Proposed Non-public Issuance of A Shares and CS Subscription

The proceeds to be raised from the Proposed Non-public Issuance of A Shares are proposed to be used for the development of the projects of the Target Companies and the replenishment of the working capital of the Company, which would improve the overall financial position and facilitate the future development of the Group.

In addition, the CS Subscription demonstrates the confidence China Shipping places in the Company and China Shipping's continuous support to the Company's future development, which are conducive to boosting the confidence of the Shareholders and potential investors in the Company.

The terms of the CS Subscription Agreement were agreed after arm's length negotiations between the Company and China Shipping. The Directors (including the Independent Board Committee, after considering the advice from the Independent Financial Adviser) consider that the Proposed Non-public Issuance of A Shares, the CS Subscription Agreement, and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

Intention of COSCO SHIPPING regarding the Company

It is the intention of COSCO SHIPPING that the Company will maintain its existing business after completion of the Proposed Acquisition and the Proposed Non-public of Issuance of A Shares. COSCO SHIPPING currently has no intention to introduce any major changes to the existing operation of the Company. As at the Latest Practicable Date, COSCO SHIPPING and parties acting in concert with it have no intention to re-deploy the fixed assets, or to discontinue the employment of the employees of the Group other than in the ordinary course of business of the Group.

IX. IMPLICATIONS UNDER THE HONG KONG LISTING RULES

Proposed Acquisition

As one or more of the applicable percentage ratios in respect of the Proposed Acquisition in accordance with the Hong Kong Listing Rules exceed 25% but are less than 75%, the Proposed Acquisition constitutes a major transaction of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

As at the Latest Practicable Date, 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company, are held by COSCO SHIPPING, 4,410,624,386 A Shares, representing approximately 38.00% of the total issued share capital of the Company, are held by China Shipping, and 100,944,000 H Shares, representing approximately 0.87% of the total issued share capital of the Company, are held by Ocean Fortune, a wholly-owned subsidiary of COSCO SHIPPING Investment. Therefore, COSCO SHIPPING and its associates control or are entitled to exercise control over the voting rights in respect of 4,458,195,175 A Shares and 100,944,000 H Shares, representing approximately 39.28% of the total issued share capital of the Company. COSCO SHIPPING is an indirect controlling shareholder of the Company and therefore a connected person of the Company. COSCO SHIPPING Investment is an indirect wholly-owned subsidiary of COSCO SHIPPING and therefore an associate of COSCO SHIPPING. Accordingly, COSCO SHIPPING Investment is a connected person of the Company. Therefore, the Proposed Acquisition also constitutes a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

CS Subscription

China Shipping is a controlling shareholder of the Company and therefore a connected person of the Company.

The CS Subscription constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui, all being executive Directors, and Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi, all being non-executive Directors, hold directorship(s) or act as senior management in COSCO SHIPPING and/or its associates, and were nominated by China Shipping to the Board. Mr. Cai Hongping, an independent non-executive Director, also serves as an external director of COSCO SHIPPING Investment. Accordingly, Mr. Wang Daxiong, Mr. Liu Chong, Mr. Xu Hui, Mr. Huang Jian, Mr. Liang Yanfeng, Mr. Ip Sing Chi and Mr. Cai Hongping have therefore abstained from voting on the relevant Board resolutions approving the Proposed Acquisition, the Proposed Non-public Issuance of A Shares and the CS Subscription. Save as aforementioned, none of the other Directors has a material interest in the Proposed Acquisition, the Proposed Non-public Issuance of A Shares and the CS Subscription. Therefore, no other Director has abstained from voting on such Board resolutions.

X. IMPLICATIONS UNDER THE TAKEOVERS CODE

Application for Whitewash Waiver

As at the Latest Practicable Date, COSCO SHIPPING (i) directly holds 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company; and (ii) indirectly holds (a) through China Shipping (which is a wholly-owned subsidiary of COSCO SHIPPING), 4,410,624,386 A Shares, representing approximately 38.00% of the total issued share capital of the Company; and (b) through Ocean Fortune, a wholly-owned subsidiary of COSCO SHIPPING Investment (which is in turn an indirect wholly-owned subsidiary of COSCO SHIPPING) 100,944,000 H Shares, representing approximately 0.87% of the total issued share capital of the Company. 6,900,000 H Shares, representing approximately 0.06% of the total issued share capital of the Company, are held under the Asset Management Plan voluntarily invested by Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui (each of whom is an executive Director) and certain other existing and former supervisor, senior management and employees of the Company, who are considered to be acting in concert with COSCO SHIPPING. Therefore, COSCO SHIPPING and parties acting in concert with it control or are entitled to exercise control over the voting rights in respect of 4,458,195,175 A Shares and 107,844,000 H Shares, representing approximately 39.33% of the total issued share capital of the Company. Pursuant to the relevant PRC laws and regulations, the 79,627,003 A Shares, representing approximately 0.69% of the total issued share capital of the Company, repurchased and held by the Company as treasury shares for implementation of the A Share Option Incentive Scheme do not carry any voting rights, and therefore, as at the Latest Practicable Date, COSCO SHIPPING and parties acting in concert with it control or are entitled to exercise control 39.61% of the voting rights in the Company.

Immediately following completion of the Proposed Acquisition, assuming that:

(i) (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will not be paid prior to the issue of the Consideration Shares and there will not be any adjustments to the issue price of the Consideration Shares of RMB2.51 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement), the aggregate shareholding of and the aggregate voting rights held by COSCO SHIPPING and the parties acting in concert with it in the Company will increase to approximately 45.94% and approximately 46.23%, respectively, representing the maximum shareholding and voting rights held by COSCO SHIPPING and the parties acting in concert with it in the Company immediately following completion of the Proposed Acquisition based on the foregoing assumptions; and

(ii) (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will be paid prior to the issue of the Consideration Shares and there will not be any further adjustments to the issue price of the Consideration Shares of RMB2.46 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement), the aggregate shareholding of and the aggregate voting rights held by COSCO SHIPPING and the parties acting in concert with it in the Company will increase to approximately 46.06% and approximately 46.35%, respectively, representing the maximum shareholding and voting rights held by COSCO SHIPPING and the parties acting in concert with it in the Company immediately following completion of the Proposed Acquisition based on the foregoing assumptions.

The difference between the percentage of shareholding and the percentage of the voting rights is due to the 79,627,003 A Shares repurchased and held by the Company as treasury shares, which do not carry any voting rights, for implementation of the A Share Option Incentive Scheme.

Accordingly, upon completion of the Proposed Acquisition, pursuant to Rule 26.1 of the Takeovers Code, COSCO SHIPPING will be required to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by COSCO SHIPPING and parties acting in concert with it, unless the Whitewash Waiver from strict compliance with Rule 26.1 of the Takeovers Code is obtained from the Executive.

Accordingly, completion of the Proposed Acquisition is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. An application has been made by COSCO SHIPPING to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it is minded to grant the Whitewash Waiver, subject to (i) the approval of the Whitewash Waiver by at least 75% of the independent votes that are cast either in person or by proxy at the EGM; and (ii) the approval of the Proposed Acquisition by more than 50% of the independent votes that are cast either in person or by proxy at the EGM as required under the Takeovers Code. The Proposed Acquisition will not proceed if the Whitewash Waiver is not obtained or if the Whitewash Waiver is not approved by the Independent Shareholders.

As at the Latest Practicable Date, the Company does not believe that the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription and the Special Deal give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Hong Kong Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription and the Special Deal do not comply with other applicable rules and regulations.

The proposal in relation to the Whitewash Waiver will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the EGM, and shall be passed by at least 75% of the independent votes that are cast either in person or by proxy at the EGM.

Special Deal in relation to the Proposed Non-public Issuance of A Shares

Pursuant to Rules 23 and 24 of the Rules for the Implementation of Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》), where the board resolution of the company has not identified specific target subscribers for the non-public issuance of shares, the sponsor, being the PRC independent financial adviser (the lead underwriter) of the Company in respect of the Proposed Non-public Issuance of A Shares, shall issue invitation for subscription to eligible specific target subscribers after obtaining approval documents from the CSRC and on the date immediately preceding the commencement of the offering period in respect of the issuance. The list of eligible specific target subscribers shall include: (i) investors who have submitted a letter of intent after the announcement of the board resolution by the company (which may or may not be a shareholder); (ii) the top 20 shareholders of the company as at the date immediately preceding the commencement of the offering period; and (iii) not less than 20 securities investment fund management companies, 10 securities companies and five insurance institutional investors, which are eligible under the Measures for the Administration of Securities Offering and Underwriting (《證券發行與承銷管理辦法》).

According to the applicable PRC laws, regulations and regulatory requirements, foreign investors cannot subscribe in non-public issue of A shares of listed companies by way of cash unless they are approved qualified foreign institutional investors or foreign strategic investors. In order to ensure the independence of the H Shareholders, and after considering the relevant PRC laws, regulations and regulatory requirements, the scope of the target subscribers under the Proposed Non-public Issuance of A Shares will exclude all the H Shareholders (including approved qualified foreign institutional investors, foreign strategic investors and approved PRC investors which could invest in H Shares, including the qualified domestic institutional investors and the southbound trading investors under the Shanghai-Hong Kong Stock Connect). According to the PRC Legal Advisers, the aforementioned scope of target subscribers is in compliance with the relevant PRC laws, regulations and regulatory requirements.

In addition, the identity of the target subscribers (other than China Shipping) cannot be pre-determined as at the Latest Practicable Date and will only be determined after completion of the abovementioned price inquiry process, which will only be conducted after the obtaining of the approval in respect of the Proposed Non-public Issuance of A Shares from the Shareholders at the EGM and the Class Meetings and the CSRC and the commencement of the Offering Period of the Proposed Non-public Issuance of A Shares in accordance with the relevant PRC laws and regulations. Pursuant to the abovementioned PRC regulatory requirements, (i) investors who have submitted a letter of intent in respect of the Proposed Non-public Issuance of A Shares to the Company after the Announcement (which may or may not be a Shareholder); and (ii) the top 20 Shareholders as at the date immediately preceding the commencement of the Offering Period will be invited to subscribe for A Shares under the Proposed Non-public Issuance of A Shares, and their subscription (or any other subscriber who is a Shareholder) may be accepted by the Company. Accordingly, the Proposed Non-public Issuance of A Shares will constitute a Special Deal under Rule 25 of the Takeovers Code which is not capable of being extended to all Shareholders and requires the consent of the Executive.

An application has been made by the Company to the Executive for its consent to the Special Deal pursuant to Rule 25 of the Takeovers Code. Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly stating that in its opinion the terms of the Special Deal are fair and reasonable and (ii) the approval of the Special Deal by the Independent Shareholders by way of poll at the H Shares Class Meeting. COSCO SHIPPING and parties acting in concert with it (including the participants of the Asset Management Plan in respect of the H Shares held thereunder) and those who are involved in or interested in the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal will be required to abstain from voting on the resolution to be proposed and the H Shares Class Meeting to approve the Special Deal.

If such consent is not obtained or if the Special Deal is not approved by the Independent Shareholders, the Proposed Acquisition, the Proposed Non-public Issuance of A Shares and the CS Subscription will not proceed.

The proposal in relation to the Special Deal will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the H Shares Class Meeting.

XI. IMPLICATIONS UNDER THE SHANGHAI LISTING RULES

Pursuant to the relevant requirements under the Shanghai Listing Rules and the PRC laws and regulations, the following proposals will be submitted for the Independent Shareholders' consideration and approval at the EGM and/or the Class Meetings.

If any of the following proposals is not approved by the Independent Shareholders, the Company will not be in position to submit the application to the CSRC for its approval of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares in accordance with the relevant requirements under the PRC laws and regulations. Accordingly, in such circumstances, the approval of the Proposed Acquisition by the CSRC, which is a condition for the effectiveness of the Acquisition Agreement (as further set out in the section headed "Letter from the Board – II. MAJOR AND CONNECTED TRANSACTION – PROPOSED ACQUISITION – 1. Acquisition Agreement (as supplemented by the Supplemental Agreement) – Effectiveness of the Acquisition Agreement and the Supplemental Agreement"), and the approval of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares by the CSRC, which is a condition precedent of the Proposed Non-public Issuance of A Shjares (as further set out in the section headed "Letter from the Board – III. PROPOSED NON-PUBLIC ISSUANCE OF A SHARES – 1. Details of the Proposed Non-public Issuance of A Shares – Conditions precedent of the Proposed Non-public Issuance of A Shares"), will not be obtained and therefore, the corresponding condition for the effectiveness of the Acquisition Agreement and the corresponding condition precedent of the Proposed Non-public Issuance of A Shares will not be fulfilled, the Proposed Acquisition and the Proposed Non-public Issuance of A Shares will not proceed.

1. Proposal in relation to the Restructuring

Each of the following resolutions in relation to the Restructuring will be submitted, by way of a special resolution, for the Independent Shareholders' consideration and approval at the EGM and the Class Meetings:

(a) the overall proposal of the Restructuring;

(b) consideration and method of payment of the Proposed Acquisition;

(c) class and par value of the Consideration Shares to be issued under the Proposed Acquisition;

(d) Pricing Benchmark Date, pricing basis and issue price under the Proposed Acquisition;

(e) target subscriber and number of Consideration Shares to be issued under the Proposed Acquisition;

(f) lock-up period arrangement under the Proposed Acquisition;

(g) profit or loss arrangement during the Transitional Period under the Proposed Acquisition;

(h) performance compensation arrangement under the Proposed Acquisition;

(i) place of listing of the Consideration Shares to be issued under the Proposed Acquisition;

(j) arrangement for cumulative undistributed profits of the Company prior to the Proposed Acquisition;

(k) class and par value of A Shares to be issued under the Proposed Non-public Issuance of A Shares;

(l) target subscribers and number of A Shares to be issued under the Proposed Non-public Issuance of A Shares;

(m) Price Determination Date, pricing basis and issue price under the Proposed Non-public Issuance of A Shares;

(n) lock-up period arrangement under the Proposed Non-public Issuance of A Shares;

(o) place of listing of the A Shares to be issued under the Proposed Non-public Issuance of A Shares;

(p) use of proceeds from the Proposed Non-public Issuance of A Shares;

(q) arrangement for cumulative undistributed profits of the Company prior to the Proposed Non-public Issuance of A Shares;

(r) the Restructuring constituting a connected transaction;

(s) the Restructuring not constituting a material asset restructuring;

(t) the Restructuring not constituting a restructuring and listing; and

(u) validity period of the resolutions.

2. Proposal in relation to the Restructuring being in compliance with the relevant laws and regulations

Pursuant to relevant laws and regulations including Company Law of the PRC, the Securities Law of the PRC, the Administrative Measures for Material Asset Restructuring, the Administrative Measures for the Issuance of Securities by Listed Companies, the Implementation Rules for Non-public Issuance of Shares by Listed Companies as well as relevant departmental rules and regulatory documents, based on the actual operation conditions of the Company and upon self-verification, the Restructuring is in compliance with the relevant laws and regulations.

The proposal in relation to the Restructuring being in compliance with the relevant laws and regulations will be submitted, by way of a special resolution, for the Independent Shareholders' consideration and approval at the EGM.

3. Proposal in relation to the Report on Acquisition of Assets and Raising Ancillary Funds through Issuance of Shares and Connected Transaction of COSCO SHIPPING Development Co., Ltd. (Draft) (《中遠海運發展股份有限公司發行股份購買資產並募集配套資金暨關聯交易報告書(草案)》) and its summary

In accordance with the relevant requirements under the Administrative Measures for Material Asset Restructuring, the Company has prepared the Report on Acquisition of Assets and Raising Ancillary Funds through Issuance of Shares and Connected Transaction of COSCO SHIPPING Development Co., Ltd. (Draft) (《中遠海運發展股份有限公司發行股份購買資產並募集配套資金暨關聯交易報告書(草案)》) and the Summary Report on Acquisition of Assets and Raising Ancillary Funds through Issuance of Shares and Connected Transaction of COSCO SHIPPING Development Co., Ltd. (Draft) (《中遠海運發展股份有限公司發行股份購買資產並

募集配套資金暨關聯交易報告書(草案)》摘要) in relation to the Restructuring, which set out, among other things, an overview of the Restructuring, information on the Company, COSCO SHIPPING Investment and China Shipping, principal terms of the Restructuring and related information. Further details of the aforementioned report and its summary are set out in the relevant overseas regulatory announcements of the Company dated 29 April 2021.

The proposal in relation to the Report on Acquisition of Assets and Raising Ancillary Funds through Issuance of Shares and Connected Transaction of COSCO SHIPPING Development Co., Ltd. (Draft) (《中遠海運發展股份有限公司發行股份購買資產並募集配套資金暨關聯交易報告書(草案)》) and its summary will be submitted, by way of a special resolution, for the Independent Shareholders' consideration and approval at the EGM.

4. Proposal in relation to the related agreements of the Restructuring

The proposal in relation to each of the Acquisition Agreement, the Supplemental Agreement, the Compensation Agreement and the CS Subscription Agreement, and the transactions contemplated thereunder will be submitted, by way of a special resolution, for the Independent Shareholders' consideration and approval at the EGM and the Class Meetings.

5. Proposal in relation to the Restructuring complying with Article 4 of the Provisions on Material Asset Restructuring

The Board has assessed and considered that the Restructuring is in compliance with Article 4 of the Provisions on Material Asset Restructuring on the basis of the following:

(a) the target assets of the Restructuring involves the equity interests in the Target Companies held by the transaction parties, which is not subject to filing or approval in relation to project initiation, environmental protection, industry access, use of land, planning, construction or other relevant matters;

(b) the transaction counterparty has obtained full legal ownership of the Target Assets, with no restrictions or prohibitions on transfer, any untruthful capital contribution or circumstances affecting the legal subsistence of the Target Companies;

(c) upon completion of the Restructuring, each of the Target Companies shall become a wholly-owned subsidiary of the Company, which is conducive to the preservation of the independence of the Company with its controlling shareholders and their associates in terms of business, assets, finances, personnel and institutions and complies with the relevant independence requirement of listed companies of the CSRC, where the Restructuring is conducive to improving the completeness of the Company's assets, which in turn strengthens the independence of the Company in terms of personnel, stock purchase, production, sales and intellectual property; and

(d) the Restructuring will help to improve the financial condition and the sustainability of the Company, and is conducive to highlighting its main businesses and enhancing its risk resistance ability, thereby strengthening the independence of the Company, regulating and minimizing connected transactions and avoiding horizontal competition between the Company and its controlling shareholders.

The proposal in relation to the Restructuring complying with Article 4 of the Provisions on Material Asset Restructuring will be submitted, by way of a special resolution, for the Independent Shareholders' consideration and approval at the EGM.

6. Proposal in relation to the Restructuring complying with Article 11 and Article 43 of the Administrative Measures for Material Asset Restructuring

The Board has assessed and considered that the Restructuring is in compliance with Article 11 and Article 43 of the Administrative Measures for Material Asset Restructuring on the basis of the following:

(a) with respect to Article 11 of the Administrative Measures for Material Asset Restructuring:

(i) the Restructuring is in compliance with state industry policies, and is not in contravention of the laws and regulations in relation to environmental protection, land management and anti-monopoly;

(ii) the Restructuring will not result in non-fulfilment of the conditions of listing of the Shares;

(iii) the pricing basis for the Target Assets of the Restructuring is fair and does not prejudice the legitimate rights of the Company and the Shareholders;

(iv) there are distinct ownership rights over the Target Assets involved in the Restructuring, and there are no legal obstacles for the assets transfer and the treatment for relevant creditors' rights and debts is lawful;

(v) the Restructuring is conducive to the sustainability of the Company, and there are no circumstances resulting in cash becoming the major assets of the Company or the Company having no specific business operations upon completion of the Restructuring;

(vi) the Restructuring is conducive to the preservation of the independence of the Company with its controlling shareholders and their associates in terms of business, assets, finances, personnel and institution and comply with the relevant independence requirement of listed companies of the CSRC; and

(vii) the Restructuring is conducive to the establishment or maintenance of a sound and effective governance structure of the Company; and

(b) with respect to Article 43 of the Administrative Measures for Material Asset Restructuring:

(i) the Restructuring will help to improve the asset quality, financial condition and sustainability of the Company, and is conducive to regulating and reducing connected transactions and avoiding horizontal competition between the Company and its controlling shareholders, thereby strengthening the independence of the Company;

(ii) the certified public accountant has issued an unqualified audit report for the financial statements of the Company for the latest financial year;

(iii) the Company, its current directors and senior management are not subject to investigation by legal authorities due to suspected criminal offence or investigation by the CSRC due to suspected violation of laws or regulations; and

(iv) the Target Assets intended to be acquired under the Proposed Acquisition, being 100% of the equity interests in each of DFIC Qidong, DFIC Qingdao, DFIC Ningbo and Universal Technology, are operating assets with clear title and the procedures for the transfer of title can be completed within the designated period.

The proposal in relation to the Restructuring complying with Article 11 and Article 43 of the Administrative Measures for Material Asset Restructuring will be submitted, by way of a special resolution, for the Independent Shareholders' consideration and approval at the EGM.

7. Proposal in relation to the waiver of the obligation of COSCO SHIPPING Investment, China Shipping and its concert parties to make a general offer of the securities of the Company under the relevant PRC laws and regulations

As at the Latest Practicable Date, COSCO SHIPPING Investment, China Shipping and its concert parties control or are entitled to exercise control over the voting rights in respect of 4,458,195,175 A Shares and 100,944,000 H Shares, representing approximately 39.28% of the total issued share capital of the Company. Pursuant to the relevant requirements of the Measures for the Administration of the Takeover of Listed Companies, the Restructuring will trigger the obligation of COSCO SHIPPING Investment, China Shipping and its concert parties to make a general offer of the securities under the relevant PRC laws and regulations.

Pursuant to paragraph 1(3) to Article 63 of the Measures for the Administration of the Takeover of Listed Companies, where an investor acquires new shares issued by the listed company upon approval by independent shareholders at the shareholders' meeting, which results in the shares held by it exceeding 30% of the issued share capital of the listed company, and the investor undertakes not to transfer the issued shares within three years and the shareholders' meeting resolves to waive the investor from making a general offer, the obligation of the investor to make a general offer will be waived.

As the Restructuring will not result in change in control of the Company, and COSCO SHIPPING Investment and China Shipping have undertaken not to transfer any of the A Shares acquired pursuant to the Restructuring within 36 months from the date of completion of issuance (including any additional A Shares as a result of bonus issues and/or capitalization issues of the Company), subject to the approval at the EGM, the waiver from making a general offer under Article 63 of the Measures for the Administration of the Takeover of Listed Companies will be applicable.

The proposal in relation to the waiver of the obligation of COSCO SHIPPING Investment, China Shipping and its concert parties to make a general offer of the securities of the Company under the relevant PRC laws and regulations will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the EGM.

8. Proposal in relation to the dilution on current returns and the remedial measures of the Company

Pursuant to the requirements set out in the Several Opinions of the State Council on Further Facilitating the Healthy Development of the Capital Market (《國務院關於進一步促進資本市場健康發展的若干意見》), the Opinions of the General Office of the State Council on Further Strengthening the Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》) and the Guidance Opinion on Matters Pertaining to Dilution of Return for the Current Period Resulting from Initial Offering and Refinancing or Material Asset Restructuring (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), the Company has conducted an analysis on the dilution on current returns and the impact on the Company's major financial indicators of the Restructuring and the remedial measures of the Company. Further details of the aforementioned dilution on current returns and remedial measures are set out in the relevant overseas regulatory announcement of the Company dated 29 April 2021.

The proposal in relation to the dilution on current returns and the remedial measures of the Company will be submitted, by way of a special resolution, for the Independent Shareholders' consideration and approval at the EGM.

9. Proposal in relation to the audit reports, the pro forma review report and the Asset Valuation Reports in respect of the Restructuring

Pursuant to the relevant requirements under the Administrative Measures for Material Asset Restructuring, the Company has engaged (i) Ernst & Young Hua Ming LLP for the issuance of the audit reports for the two years ended 31 December 2019 and 2020 in respect of each of the Target Companies and the review report on the pro forma consolidated financial statements of the Group in respect of the Restructuring; and (ii) China Tong Cheng for the issuance of the Asset Valuation Reports in respect of 100% of the equity interests of each of the Target Companies. Further details of the aforementioned review reports and pro forma review report are set out in the relevant overseas regulatory announcements of the Company dated 29 April 2021.

The proposal in relation to the review reports, the pro forma review report and the Asset Valuation Reports in respect of the Restructuring will be submitted, by way of a special resolution, for the Independent Shareholders' consideration and approval at the EGM.

10. Proposal in relation to the independence of valuation agency, reasonableness of the assumptions of the valuation, correlation between the approach and purpose of the valuation and fairness of the basis of the consideration

Pursuant to the relevant requirements under the Administrative Measures for Material Asset Restructuring, the Company has engaged China Tong Cheng as the valuation agency in respect of the Restructuring. The Board has assessed the independence of the valuation agency, reasonableness of the assumptions of the valuation, correlation between the approach and purpose of the valuation and fairness of the basis of the consideration as follows:

(a) save for business relationship arising from the Restructuring, there is no other relationship of conflict between China Tong Cheng and its appraisers and the transaction parties under the Restructuring, where China Tong Cheng is independent for the purpose of providing the valuation service;

(b) the assumptions adopted in the valuation reports are reasonable, being implemented in accordance with relevant national laws and regulations and in compliance with industry standards and norms and the actual circumstances of the valuation targets;

(c) the purpose of the valuation is to determine the market value of the Target Assets as at the Valuation Benchmark Date to provide value reference for the Restructuring. The valuation agency adopted the asset-based approach and the income approach to conduct the valuation of the Target Assets. Based on the applicability of the two methods and the specific circumstances of the valuation targets, the valuation agency adopted the valuation result based on the asset-based approach as the valuation conclusion. The asset valuation work was conducted in compliance with the requirements of relevant regulations and industry norms, the principles of independence, impartiality, fairness and science and recognized asset valuation methods, and implementing necessary valuation procedures, to appraise the market value of the Target Assets as at the Valuation Benchmark Date. The asset valuation method adopted was reasonable and correlates with the valuation purpose; and

(d) the consideration was determined after arm's length negotiations between the parties based on the valuation results as set out in the Asset Valuation Reports and filed with the competent state-owned asset supervision and administrative authorities, and is fair and reasonable, and there are no circumstances which would prejudice the interests of the Company and the Shareholders.

The proposal in relation to the independence of the valuation agency, reasonableness of the assumptions of the valuation, correlation between the approach and purpose of the valuation and fairness of the basis of the consideration will be submitted, by way of a special resolution, for the Independent Shareholders' consideration and approval at the EGM.

11. Proposal in relation to the completeness and compliance of the legal procedures and the validity of the legal documentation in respect of the Restructuring

The Company has conducted the necessary legal procedures in respect of the Restructuring at current stage in accordance with relevant laws, regulations and regulatory documents such as the Company Law of the PRC, the Securities Laws of the PRC, the Administrative Measures for Material Asset Restructuring, and the Provisions on Material Asset Restructuring, the Administrative Measures for the Information Disclosure of Listed Companies (《上市公司信息披露管理辦法》) and the Shanghai Listing Rules, as well as the Articles of Association. The legal procedures conducted by the Company in relation to the Restructuring are complete, lawful and effective and the legal documentation in relation to the Restructuring submitted by the Company to relevant regulatory authorities are lawful and effective.

The proposal in relation to the completeness and compliance of the legal procedures and the validity of the legal documentation in respect of the Restructuring will be submitted, by way of a special resolution, for the Independent Shareholders' consideration and approval at the EGM.

12. Proposal in relation to the authorization to the Board and its authorized persons to handle all matters in connection with the Restructuring

In order to ensure effective and efficient implementation of the Restructuring, the Board proposes to seek approval from the Shareholders at the EGM and the Class Meetings for authorization to the Board and its authorized persons to handle all matters in connection with the Restructuring in accordance with applicable laws and regulations, including but not limited to the following:

(a) authorize the Board to revise and implement the specific plan of the Restructuring in accordance with the provisions of laws, regulations and regulatory documents and the resolutions of the EGM, and to be responsible for handling and determining specific issues of the Restructuring based on the approval of the Shareholders at the EGM and the Class Meetings and the approval from relevant regulatory authorities;

(b) authorize the Board to determine and engage intermediaries, to sign service agreements with relevant intermediaries and to revise, supplement, sign, submit, report on and execute all agreements and documents relating to the Restructuring;

(c) authorize the Board to arrange for registration, lock-up and listing of the A Shares to be issued under the Restructuring and relevant change in industry and commerce registrations and change of ownership procedures;

(d) authorize the Board to make corresponding adjustments to the Restructuring plan and other application documents in accordance with the requirements of securities regulatory authorities, state-owned assets regulatory authorities and stock exchanges;

(e) authorize the Board to arrange for relevant change in industry and commerce registrations in relation to the relevant amendments to Articles of Association after completion of the Restructuring; and

(f) authorize the Board to take all necessary actions to determine and handle other matters relating to the Restructuring.

The aforementioned authorization shall be valid for 12 months from the date of the approval by the Shareholders. If the approval of the CSRC in respect of the Restructuring is obtained during the aforementioned 12 month period, the validity period shall be automatically extended until completion of the abovementioned matters in connection with the Restructuring.

The proposal in relation to the authorization to the Board and its authorized persons to handle all matters in connection with the Restructuring will be submitted, by way of a special resolution, for the Independent Shareholders' consideration and approval at the EGM and the Class Meetings.

XII. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (comprising Ms. Hai Chi Yuet, Mr. Graeme Jack, Mr. Lu Jianzhong and Ms. Zhang Weihua, each being an independent non-executive Director) has been formed in accordance with Chapter 14A of the Hong Kong Listing Rules and Rule 2.8 of the Takeovers Code to advise the Independent Shareholders on, among other things, the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal. As all the three non-executive Directors, namely Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi, were nominated by COSCO SHIPPING to the Board, and Mr. Cai Hongping, an independent non-executive Director, also serves as an external director of COSCO SHIPPING Investment, they are not included as members of the Independent Board Committee.

In this connection, Messis Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver, the Special Deal and the transactions contemplated thereunder. Such appointment has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code.

XIII. EGM AND CLASS MEETINGS

The EGM will be convened to consider and, if thought fit, approve, among other things, (i) the Proposed Acquisition; (ii) the Proposed Non-public Issuance of A Shares; (iii) the CS Subscription; (iv) the Specific Mandates; and (v) the Whitewash Waiver.

The A Shares Class Meeting will be convened to consider and, if thought fit, approve, among other things, (i) the Proposed Acquisition; (ii) the Proposed Non-public Issuance of A Shares; (iii) the CS Subscription; and (iv) the Specific Mandates.

The H Shares Class Meeting will be convened to consider and, if thought fit, approve, among other things, (i) the Proposed Acquisition; (ii) the Proposed Non-public Issuance of A Shares; (iii) the CS Subscription; (iv) the Specific Mandates; and (v) the Special Deal.

The voting in relation to the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal at the EGM and/or the Class Meetings will be conducted by way of poll.

COSCO SHIPPING and its associates and parties acting in concert with it (including the participants of the Asset Management Plan in respect of the H Shares held thereunder) and those who are involved in or interested in the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal will be required to abstain from voting on all the resolutions to be proposed at the EGM, the A Shares Class Meeting and/or the H Shares Class Meeting. In particular, (i) each of COSCO SHIPPING, China Shipping, Ocean Fortune and the Asset Management Plan will abstain from voting on all the resolutions to be proposed at the EGM; (ii) each of COSCO SHIPPING and China Shipping will abstain from voting on all the resolutions to be proposed at the A Shares Class Meeting; and (iii) each of Ocean Fortune and the Asset Management Plan will abstain from voting on all the resolutions to be proposed at the H Shares Class Meeting. In the event that a Shareholder becomes a subscriber under the Proposed Non-public Issuance of A Shares, such Shareholder will be required to abstain from voting at the EGM, the A Shares Class Meeting and/or the H Shares Class Meeting. Save as aforementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal and therefore no other Shareholder is required to abstain from voting at the EGM and/or the Class Meetings.

If you intend to appoint a proxy to attend the EGM and the Class Meetings, you are required to complete and return the accompanying form of proxy in accordance with the instructions printed thereon. The form of proxy must be delivered to Computershare not less than 24 hours before the time for holding the EGM and the Class Meetings or any adjourned meeting thereof in order for such document to be valid.

For the H Shareholders, the form of proxy should be returned to Computershare, the H Share registrar of the Company, by hand or by post not less than 24 hours before the time appointed for holding the EGM and the Class Meetings or any adjourned meeting thereof.

Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the EGM and the Class Meetings or at any adjourned meeting thereof should you so wish, but in such event the instrument appointing a proxy shall be deemed to be revoked.

XIV. RECOMMENDATIONS

Messis Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver, the Special Deal and the transactions contemplated thereunder. Your attention is drawn to the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholder set out on pages 67 to 127 of this circular in connection with the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver, the Special Deal and the transactions contemplated thereunder, and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice.

The Independent Board Committee, having considered the terms of the Proposed Acquisition, the Proposed Non-public Issuance of A Shares and the CS Subscription and the advice of the Independent Financial Adviser, is of the view that while the Proposed Acquisition, the Proposed Non-public Issuance of A Shares and the CS Subscription are not conducted in the ordinary and usual course of business of the Group, (i) the Proposed Acquisition, the Proposed Non-public Issuance of A Shares and the CS Subscription are on normal commercial terms; and (ii) the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal are 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, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM and the Class Meetings to approve the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal.

The Board recommends the Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM and the Class Meetings to approve the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal.

XV. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 65 to 66 of this circular, containing its recommendation in respect of the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal; (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 67 to 127 of this circular, containing its recommendation in respect of the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal; and (iii) the additional information set out in the appendices to this circular.

The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the resolutions approving, among other things, the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal.

By order of the Board
COSCO SHIPPING Development Co., Ltd.*
Cai Lei
Joint Company Secretary

* *The Company is a registered non-Hong Kong company as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and it is registered under its Chinese name and under the English name "COSCO SHIPPING Development Co., Ltd."*

中遠海運發展股份有限公司
COSCO SHIPPING Development Co., Ltd.*

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

(Stock Code: 02866)

24 May 2021

To the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION – PROPOSED ACQUISITION
(2) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS
(3) CONNECTED TRANSACTION – CS SUBSCRIPTION
(4) APPLICATION FOR WHITEWASH WAIVER
AND
(5) SPECIAL DEAL

We refer to the circular of the Company dated 24 May 2021 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal, details of which are set out in the "Letter from the Board" in the Circular. Messis Capital 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 the "Letter from the Board" set out on pages 11 to 64 of the Circular, the "Letter from the Independent Financial Adviser" set out on pages 67 to 127 of the Circular and the additional information set out in the appendices thereto.

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the "Letter from the Independent Financial Adviser" in the Circular, we concur with the view of the Independent Financial Adviser and consider that while the Proposed Acquisition, the Proposed Non-public Issuance of A Shares and the CS Subscription are not conducted in the ordinary and usual course of business of the Group, (i) the Proposed Acquisition, the Proposed Non-public Issuance of A Shares and the CS Subscription are on normal commercial terms; and (ii) the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal are 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 recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal to be proposed at the EGM and the Class Meetings.

Yours faithfully,
Independent Board Committee
Ms. Hai Chi Yuet **Mr. Graeme Jack**
Mr. Lu Jianzhong **Ms. Zhang Weihua**
Independent non-executive Directors

* *The Company is a registered non-Hong Kong company as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and it is registered under its Chinese name and under the English name "COSCO SHIPPING Development Co., Ltd.".*

The following is the full text of the letter from the Independent Financial Adviser, for the purpose of inclusion in this circular, to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal.

MESSIS 大有融資

24 May 2021

*To: The Independent Board Committee and the Independent Shareholders of COSCO SHIPPING Development Co., Ltd.**

Dear Sir or Madam,

**(1) MAJOR AND CONNECTED TRANSACTION –
PROPOSED ACQUISITION
(2) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO
RAISE ANCILLARY FUNDS
(3) CONNECTED TRANSACTION – CS SUBSCRIPTION
(4) APPLICATION FOR WHITEWASH WAIVER
AND
(5) SPECIAL DEAL**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 24 May 2021 (the "**Circular**"), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the announcements of the Company dated 27 January 2021, 10 February 2021, 9 March 2021, 9 April 2021 and 29 April 2021 in relation to, among other things, (a) the Proposed Acquisition; (b) the Proposed Non-public Issuance of A Shares; (c) the CS Subscription; (d) the Specific Mandates; (e) the Whitewash Waiver; and (f) the Special Deal.

On 27 January 2021, the Company and COSCO SHIPPING Investment entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to purchase and COSCO SHIPPING Investment has conditionally agreed to sell, the Target Assets, in consideration of the allotment and issuance of the Consideration Shares by the Company to COSCO SHIPPING Investment. On 29 April 2021, the Company and COSCO SHIPPING Investment entered into (i) the Supplemental Agreement, pursuant to which, among other things, the final consideration for the Proposed Acquisition and the number of the Consideration Shares proposed to be issued have been determined by the parties; and (ii) the Compensation Agreement, pursuant to which, COSCO SHIPPING Investment undertakes to provide performance guarantees and related compensation in respect of certain patents of DFIC Qidong and Universal Technology.

Simultaneously with the Proposed Acquisition, the Board has approved the Proposed Non-public Issuance of A Shares to raise ancillary funds. The total amount of ancillary funds to be raised thereunder shall be not more than RMB1,464,000,000 (being not exceeding 100% of the final consideration for the Proposed Acquisition) and the number of A Shares to be issued shall not exceed 30% of the issued share capital of the Company prior to completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares (being not more than 3,482,437,500 A Shares). As part of the Proposed Non-public Issuance of A Shares, on 27 January 2021, the Company and China Shipping entered into the CS Subscription Agreement pursuant to which China Shipping has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, such number of A Shares for an amount of RMB600 million and not more than the limit of the proceeds to be raised under the Proposed Non-public Issuance of A Shares as approved by the CSRC.

As one or more of the applicable percentage ratios in respect of the Proposed Acquisition in accordance with the Hong Kong Listing Rules exceed 25% but are less than 75%, the Proposed Acquisition constitutes a major transaction of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules. As at the Latest Practicable Date, 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company, are held by COSCO SHIPPING, 4,410,624,386 A Shares, representing approximately 38.00% of the total issued share capital of the Company, are held by China Shipping, and 100,944,000 H Shares, representing approximately 0.87% of the total issued share capital of the Company, are held by Ocean Fortune, a wholly-owned subsidiary of COSCO SHIPPING Investment. Therefore, COSCO SHIPPING and its associates control or are entitled to exercise control over the voting rights in respect of 4,458,195,175 A Shares and 100,944,000 H Shares, representing approximately 39.28% of the total issued share capital of the Company. COSCO SHIPPING is an indirect controlling shareholder of the Company and therefore a connected person of the Company. COSCO SHIPPING Investment is an indirect wholly-owned subsidiary of COSCO SHIPPING and therefore an associate of COSCO SHIPPING. Accordingly, COSCO SHIPPING Investment is a connected person of the Company. Therefore, the Proposed Acquisition also constitutes a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

China Shipping is a controlling shareholder of the Company and therefore a connected person of the Company. The CS Subscription constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As at the Latest Practicable Date, COSCO SHIPPING (i) directly holds 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company; and (ii) indirectly holds (a) through China Shipping (which is a wholly-owned subsidiary of COSCO SHIPPING), 4,410,624,386 A Shares, representing approximately 38.00% of the total issued share capital of the Company; and (b) through Ocean Fortune, a wholly-owned subsidiary of COSCO SHIPPING Investment (which is in turn an indirect wholly-owned subsidiary of COSCO SHIPPING) 100,944,000 H Shares, representing approximately 0.87% of the total issued share capital of the Company. 6,900,000 H Shares, representing approximately 0.06% of the total issued share capital of the Company, are held under the Asset Management Plan voluntarily invested by Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui (each of whom is an executive Director) and certain other existing and former supervisor, senior management and employees of the Company, who are considered to be acting in concert with COSCO SHIPPING. Therefore, COSCO SHIPPING and parties acting in concert with it control or are entitled to exercise control over the voting rights in respect of 4,458,195,175 A Shares and 107,844,000 H Shares, representing approximately 39.33% of the total issued share capital of the Company. Pursuant to the relevant PRC laws and regulations, the 79,627,003 A Shares, representing approximately 0.69% of the total issued share capital of the Company, repurchased and held by the Company as treasury shares for implementation of the A Share Option Incentive Scheme do not carry any voting rights, and therefore, as at the Latest Practicable Date, COSCO SHIPPING and parties acting in concert with it control or are entitled to exercise control 39.61% of the voting rights in the Company.

Immediately following completion of the Proposed Acquisition, assuming that (i) (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will not be paid prior to the issue of the Consideration Shares and there will not be any adjustments to the issue price of the Consideration Shares of RMB2.51 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement), the aggregate shareholding of and the aggregate voting rights held by COSCO SHIPPING and the parties acting in concert with it in the Company will increase to approximately 45.94% and approximately 46.23%, respectively, representing the maximum shareholding and voting rights held by COSCO SHIPPING and the parties acting in concert with it in the Company immediately following completion of the Proposed Acquisition based on the foregoing assumptions; and (ii) (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will be paid prior to the issue of the Consideration Shares and there will not be any further adjustments to the issue price of the Consideration Shares of RMB2.46 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement), the aggregate shareholding of and the aggregate voting rights held by COSCO SHIPPING and the parties acting in concert with it in the Company will increase to approximately 46.06% and approximately 46.35%, respectively, representing the maximum shareholding and voting rights held by COSCO SHIPPING and the parties acting in concert with it in the Company immediately following completion of the Proposed Acquisition based on the foregoing assumptions.

Accordingly, upon completion of the Proposed Acquisition, pursuant to Rule 26.1 of the Takeovers Code, COSCO SHIPPING will be required to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by COSCO SHIPPING and parties acting in concert with it, unless the Whitewash Waiver from strict compliance with Rule 26.1 of the Takeovers Code is obtained from the Executive. An application has been made by COSCO SHIPPING to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

According to the applicable PRC laws, regulations and regulatory requirements, foreign investors cannot subscribe in non-public issue of A shares of listed companies by way of cash unless they are approved qualified foreign institutional investors or foreign strategic investors. In order to ensure the independence of the H Shareholders, and after considering the relevant PRC laws, regulations and regulatory requirements, the scope of the target subscribers under the Proposed Non-public Issuance of A Shares will exclude all the H Shareholders (including approved qualified foreign institutional investors, foreign strategic investors and approved PRC investors which could invest in H Shares, including the qualified domestic institutional investors and the southbound trading investors under the Shanghai-Hong Kong Stock Connect). According to the PRC Legal Advisers, the aforementioned scope of target subscribers is in compliance with the relevant PRC laws, regulations and regulatory requirements.

In addition, the identity of the target subscribers (other than China Shipping) cannot be pre-determined as at the Latest Practicable Date and will only be determined after completion of the price inquiry process in accordance with the requirements under the Rules for the Implementation of Non-public Issuance of A Shares by Listed Companies (《上市公司非公開發行股票實施細則》), which will only be conducted after the obtaining of the approval in respect of the Proposed Non-public Issuance of A Shares from the Shareholders at the EGM and the Class Meetings and the CSRC and the commencement of the Offering Period of the Proposed Non-public Issuance of A Shares in accordance with the relevant PRC laws and regulations. Pursuant to the Rules for the Implementation of Non-public Issuance of A Shares by Listed Companies (《上市公司非公開發行股票實施細則》), (i) investors who have submitted a letter of intent in respect of the Proposed Non-public Issuance of A Shares to the Company after the Announcement (which may or may not be a Shareholder); and (ii) the top 20 Shareholders as at the date immediately preceding the commencement of the Offering Period will be invited to subscribe for A Shares under the Proposed Non-public Issuance of A Shares, and their subscription (or any other subscriber who is a Shareholder) may be accepted by the Company. Accordingly, the Proposed Non-public Issuance of A Shares will constitute a Special Deal under Rule 25 of the Takeovers Code which is not capable of being extended to all Shareholders and requires the consent of the Executive. An application has been made by the Company to the Executive for its consent to the Special Deal pursuant to Rule 25 of the Takeovers Code. If such consent is not obtained or if the Special Deal is not approved by the Independent Shareholders, the Proposed Acquisition, the Proposed Non-public Issuance of A Shares and the CS Subscription will not proceed.

Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui, all being executive Directors, and Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi, all being non-executive Directors, hold directorship(s) or act as senior management in COSCO SHIPPING and/or its associates, and were nominated by China Shipping to the Board. Mr. Cai Hongping, an independent non-executive Director, also serves as an external director of COSCO SHIPPING Investment. Accordingly, Mr. Wang Daxiong, Mr. Liu Chong, Mr. Xu Hui, Mr. Huang Jian, Mr. Liang Yanfeng, Mr. Ip Sing Chi and Mr. Cai Hongping have therefore abstained from voting on the relevant Board resolutions approving the Proposed Acquisition, the Proposed Non-public Issuance of A Shares and the CS Subscription. Save as aforementioned, none of the other Directors has a material interest in the Proposed Acquisition, the Proposed Non-public Issuance of A Shares and the CS Subscription. Therefore, no other Director has abstained from voting on such Board resolutions.

The Independent Board Committee (comprising Ms. Hai Chi Yuet, Mr. Graeme Jack, Mr. Lu Jianzhong and Ms. Zhang Weihua, each being an independent non-executive Director) has been formed in accordance with Chapter 14A of the Hong Kong Listing Rules and Rule 2.8 of the Takeovers Code to advise the Independent Shareholders on, among other things, the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal. As all the three non-executive Directors, namely Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi, were nominated by COSCO SHIPPING to the Board, and Mr. Cai Hongping, an independent non-executive Director, also serves as an external director of COSCO SHIPPING Investment, they are not included as members of the Independent Board Committee. We, Messis Capital Limited, have been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in these regards and to give our opinion for the Independent Board Committee's consideration when making their recommendations to the Independent Shareholders.

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. During the past two years, we were appointed as an independent financial adviser for the Company on five occasions, details of which are set out in the Company's circulars dated (i) 5 August 2019 in relation to the proposed revision of annual caps in respect of continuing connected transactions contemplated under the master containers services agreement; (ii) 6 December 2019 in relation to certain continuing connected transactions; (iii) 30 October 2020 in relation to discloseable and connected transactions; (iv) 20 November 2020 in relation to a very substantial disposal and connected transaction; and (v) 3 December 2020 in relation to major and connected transactions. During the past two years, we were also appointed as an independent financial adviser for COSCO SHIPPING Energy Transportation Co., Ltd.* (中遠海運能源運輸股份有限公司) (the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange) (Stock Code: 1138) and the A shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600026), a connected person of the Company, on two occasions, details of which are set out in its circulars dated (i) 5 July 2019 in relation to the amendment to the terms of the proposed non-public issuance of A shares; and (ii) 25 November 2019 in relation to extension resolutions in relation to the non-public issuance of A shares. In addition, during the past two years, we were also appointed to act as the independent financial adviser of COSCO SHIPPING Holdings Co., Ltd. (中遠海運控股股份有限公司) (the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange) (Stock Code: 1919) and the A shares of which are listed on the Shanghai Stock Exchange (Stock Code: 601919), another connected person of the Company, for one occasion as detailed in its circular dated 5 December 2019 in relation to major transaction and continuing connected transactions. Notwithstanding the above, the previous engagements with the Company or its connected person would not affect our independence from the Company and we are independent from the Company, in particular that we did not serve as a financial adviser to (i) the Company, (ii) COSCO Shipping or its subsidiaries, and (iii) any core connected person of the Company within 2 years prior to 4 May 2021, being the date of making our independence declaration to the Hong Kong Stock Exchange pursuant to Rule 13.85(1) of the Hong Kong Listing Rules. Apart from normal professional fees paid or payable to us in connection with the appointments as the Independent Financial Adviser, we do not and did not have any relationships (business, financial or otherwise) amounted to significant connection (as referred to in Rule 2.6 of the Takeovers Code) with the Company within the past two years for us of a kind reasonably likely to create, or to create the perception of, a conflict of interest for us or which is reasonably likely to affect the objectivity of our advice. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Hong Kong Listing Rules and Rule 2.6 of the Takeovers Code.

BASIS OF OUR OPINION

In arriving at our recommendations, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company for which they are solely and wholly responsible, are true and accurate at the time they were made and will continue to be accurate as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the 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 therein or the document misleading.

The Circular also includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. All the Directors jointly and severally accept full responsibility for the accuracy of the information in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Circular have been arrived at after due and careful consideration and there are no other facts not contained in this Circular, the omission of which would make any of the statements in this Circular misleading.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any material facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group and any parties in relation to the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations, we have taken into consideration the following principal factors and reasons:

1. Background and reasons for the Proposed Acquisition

1.1 Background information on the Company

The Company is a joint stock limited company established under the laws of the PRC with limited liability, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange and the A Shares of which are listed on the Shanghai Stock Exchange.

The Group is principally engaged in shipping and industry-related leasing businesses, manufacturing of containers and provision of investment and financial services.

1.2 Financial performance of the Group

Set out below is a summary of the consolidated statements of profit or loss of the Group for each of the three years ended 31 December 2018, 2019 and 2020, which are extracted from the Company's annual report for the year ended 31 December 2019 (the "**2019 Annual Report**") and the Company's annual report for the year ended 31 December 2020 (the "**2020 Annual Report**").

	Year ended 31 December			
	2020	**2019**		**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*	*(audited)*
		(Restated)[1]	*(Before restatement)*[1]	
Continuing operations				
Revenue (from external customers)	14,421,919	9,665,682	14,155,859	16,242,002
Costs of sales	(10,834,932)	(7,202,187)	(10,615,484)	(12,342,761)
Gross profit	3,586,987	2,463,495	3,540,375	3,899,241
Profit for the year from continuing operations	1,442,185	667,853	1,744,733	1,359,397
Discontinued operations				
Profit for the year from discontinued operations	688,086	1,076,880	–	76,878

Note:

1. The consolidated statement of profit or loss for the year ended 31 December 2019 has been restated in the 2020 Annual Report. As set out in the 2020 Annual Report, the commencement of new lease contract in relation to the provision of vessel leasing services by the Group pursuant to a vessel leasing service master agreement entered into on 30 October 2020. The vessels so leased were classified as a discontinued operation and the corresponding financial results for the year ended 31 December 2019 were restated accordingly. The difference in corresponding figures before and after the restatements represented the results of the discontinued operation for the year ended 31 December 2019.

For the year ended 31 December 2019

As a result of the restatement of the consolidated statement of profit or loss for the year ended 31 December 2019 as mentioned above, the revenue of the Group from continuing operations was restated to approximately RMB9.7 billion for the year ended 31 December 2019 while according to the 2019 Annual Report, the revenue of the Group before restatement was approximately RMB14.2 billion. The decrease in revenue as compared with those for the year ended 31 December 2018 was mainly attributable to the decrease in revenue from external customers in container manufacturing business, which was mainly due to the continued economic slowdown trend worldwide, weak performance on global trade, low demand for containers arising from changes in macro supply and demand relations and repercussions of global trade friction during the year, which resulted in significant decrease in both volume and price of the container manufacturing segment as compared with last year. According to the 2019 Annual Report, the Group's accumulated container sales amounted to 402,943 TEU during the year, representing a decrease of approximately 35% as compared with 615,600 TEU of last year.

Due to the effect of restatement as mentioned above, the profit from continuing operations for the year ended 31 December 2019 was restated to approximately RMB667.9 million in the 2020 Annual Report, while according to the 2019 Annual Report, the profit from continuing operations before restatement was approximately RMB1.7 billion. According to the 2019 Annual Report, the Group recorded an increase in profit for the year from continuing operations from approximately RMB1.4 billion for the year ended 31 December 2018 to approximately RMB1.7 billion for the year ended 31 December 2019 which was mainly due to the turnaround from net other losses of approximately RMB272.7 million recorded for the year ended 31 December 2018, as a result of the losses in fair value of financial assets at fair value through profit or loss of approximately RMB565.7 million, to net other gains of approximately RMB835.3 million recorded for the year ended 31 December 2019, which was mainly attributable to the gain in fair value of financial assets at fair value through profit or loss of approximately RMB663.1 million.

For the year ended 31 December 2020

Revenue of the Group increased from approximately RMB9.7 billion for the year ended 31 December 2019 to approximately RMB14.4 billion for the year ended 31 December 2020, representing an increase of approximately RMB4.7 billion, or 49.2%, and representing an increase of approximately RMB266.1 million or 1.9% as compared to the revenue of approximately RMB14.2 billion for the year ended 31 December 2019 before the abovementioned restatement. According to the 2020 Annual Report, approximately RMB4.5 billion of revenue for the year ended 31 December 2019 had been restated as revenue from discontinued operation. The increase in revenue was mainly attributable to (i) the increase in revenue from external customers in container manufacturing business of approximately RMB3.4 billion from approximately RMB3.1 billion for the year ended 31 December 2019 to approximately RMB6.5 billion for the year ended 31 December 2020, which was mainly due to the increase in both sales volume and price of containers as a result of shortage in repositioned containers in shipping routes across Europe and the United States and buoyant demands in the domestic container market caused by the COVID-19 pandemic. During the year ended 31 December 2020, the aggregate container sales was 605,600 TEU, representing an increase of approximately 50.3% as compared with 402,943 TEU of last year; and (ii) the increase in revenue from external customers in shipping and industry-related leasing business of approximately RMB1.3 billion from approximately RMB6.5 billion for the year ended 31 December 2019 to approximately RMB7.8 billion for the year ended 31 December 2020, which was mainly attributable to the increase in revenue in container leasing business as the Company leveraged the synergy between leasing and manufacturing to proactively explore the market and seized the market opportunities of shortage in repositioned containers in shipping routes across Europe and the United States to accelerate sales of second-hand containers and proactively reduce inventory of second-hand containers in Europe and the United States during the year.

The Group recorded an increase in profit from continuing operations of approximately RMB0.8 billion from approximately RMB667.9 million for the year ended 31 December 2019 to approximately RMB1.4 billion for the year ended 31 December 2020, which was mainly attributable to (i) the increase in revenue and gross profit of the Group; (ii) the decrease in finance cost of approximately RMB1.3 billion. The Group recorded a decrease in profit from continuing operations of approximately RMB302.5 million from approximately RMB1.7 billion for the year ended 31 December 2019 before the abovementioned restatement to approximately RMB1.4 billion for the year ended 31 December 2020. Such decrease was mainly due to the reclassification of results from the leased vessels as a discontinued operation after the Directors' approval and the Shareholders' meetings on 9 December 2020, approving the entering into of the vessel leasing service master agreement dated 30 October 2020.

1.3 Financial position of the Group

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*
Non-current assets	108,904,338	114,693,373	107,595,913
Current assets	37,134,456	29,800,746	30,241,509
Total assets	146,038,794	144,494,119	137,837,422
Current liabilities	64,867,475	54,271,559	54,892,564
Non-current liabilities	56,801,311	66,014,842	64,904,723
Net current liabilities	(27,733,019)	(24,470,813)	(24,651,055)
Equity attributable to owners of the parent	24,370,008	24,207,718	18,040,135

As at 31 December 2018, 2019 and 2020, property, plant and equipment, cash and cash equivalents, finance lease receivables as well as investments in associates were the major assets of the Group, which accounted for approximately 93.8%, 92.9% and 91.8% of the total assets of the Group, respectively. The property, plant and equipment of approximately RMB55.3 billion as at 31 December 2020 mainly comprised of containers and vessels.

As at 31 December 2018, 2019 and 2020, interest-bearing bank and other borrowings and corporate bonds were the major liabilities of the Group, which accounted for approximately 93.8%, 91.8% and 90.7% of the total liabilities of the Group respectively.

As a result of the foregoing, the total equity attributable to owners of the parent as at 31 December 2018, 2019 and 2020 amounted to approximately RMB18.0 billion, RMB24.2 billion and RMB24.4 billion respectively.

1.4 Our observations

Based on the Group's financial performance and financial position as mentioned above, we have the following observations:

(i) Container manufacturing business accounts for a substantial part of the Group's operation and recorded a significant growth for the year ended 31 December 2020

For the three years ended 31 December 2018, 2019 and 2020, the revenue from container manufacturing business amounted to approximately RMB5.8 billion, RMB3.1 billion and RMB6.5 billion, respectively, which accounted for approximately 35.9%, 31.8% and 45.0% of the total revenue of the Group from external customers (excluding intersegment revenue), respectively, while the revenue from shipping and industry-related leasing business amounted to approximately RMB10.4 billion, RMB6.5 billion and RMB7.8 billion, accounting for approximately 63.9%, 67.0% and 53.7% of the total revenue of the Group from external customers (excluding intersegment revenue), respectively, and the revenue from investment and financial services business amounted to approximately RMB39.9 million, RMB116.6 million and RMB183.4 million, accounting for approximately 0.3%, 1.2% and 1.3% of the total revenue of the Group from external customers (excluding intersegment revenue), respectively. According to the 2019 Annual Report and the 2020 Annual Report, it is the strategy of the Group and business focus to develop its container manufacturing business as there is a strong market demand and limited turnover of containers under the COVID-19 pandemic. In particular, we note that the revenue from external customers in container manufacturing business recorded a growth of approximately 110.9% for the year ended 31 December 2020 as compared to that for the year ended 31 December 2019, which was mainly attributable to the increase in both sales volume and price of containers manufactured.

(ii) Net current liabilities position of the Group

The Group recorded net current liabilities as at 31 December 2018, 2019 and 2020 of approximately RMB24.7 billion, RMB24.5 billion and RMB27.7 billion, respectively, which were mainly due to the current portion of bank borrowings of approximately RMB47.7 billion, RMB43.1 billion and RMB47.3 billion, respectively. As advised by the Directors, based on the available unutilized banking facilities as at 31 December 2020, the Group will have the necessary liquid funds to finance its working capital and to meet its capital expenditure requirements. Given the recent net current liabilities position of the Group, the Group may require to consider different sources of financing (e.g. equity financing) to support its future business expansions.

Based on the above, we concur with the view of the Directors that the Proposed Acquisition is in line with the business strategy and business development plan of the Group and the settlement of the Proposed Acquisition by way of issuance and allotment of Consideration Shares is an appropriate mean.

1.5 Background information of COSCO SHIPPING Investment

COSCO SHIPPING Investment is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of COSCO SHIPPING. It is principally engaged in providing integrated financial services and investment in financial assets.

COSCO SHIPPING is a company incorporated under the laws of the PRC, and is a state-owned enterprise controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. The scope of business of COSCO SHIPPING includes international shipping, ancillary business in international maritime transportation, import and export of goods and technologies, international freight agency business, leasing of self-owned vessels, sales of vessels, containers and steel and maritime engineering.

1.6 Background information of The Target Companies

DFIC Qidong

DFIC Qidong is a limited liability company established in the PRC and is principally engaged in the manufacturing of dry freight, specialized and refrigerated containers.

The financial information of DFIC Qidong for the three financial years ended 31 December 2018, 2019 and 2020, prepared in accordance with Hong Kong Financial Reporting Standards, was approximately as follows:

	For the year ended 31 December 2018 (audited) *RMB'000*	**For the year ended 31 December 2019 (audited)** *RMB'000*	**For the year ended 31 December 2020 (audited)** *RMB'000*
Revenue	3,967,331	2,059,798	4,200,705
Net profit/(loss) before taxation	80,535	(254,450)	160,951
Net profit/(loss) after taxation	60,401	(252,320)	160,951

For the three years ended 31 December 2018, 2019 and 2020, the revenue of DFIC Qidong was approximately RMB3,967.3 million, RMB2,059.8 million and RMB4,200.7 million, respectively. The decrease in revenue of approximately 48.1% for the year ended 31 December 2019 compared to that for the year ended 31 December 2018 was primarily attributable to the slump in the container manufacturing industry in 2019, whereby, customers' demand for containers decreased, resulting in a significant decline in container sales. The increase in revenue of approximately 103.9% for the year ended 31 December 2020 as compared to that for the year ended 31 December 2019 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

For the three years ended 31 December 2018, 2019 and 2020, the profit before tax of DFIC Qidong was approximately RMB80.5 million, RMB(254.5) million and RMB161.0 million, respectively and the profit after tax of DFIC Qidong was approximately RMB60.4 million, RMB(252.3) million and RMB161.0 million, respectively. The turnaround from profit for the year ended 31 December 2018 to the loss for the year ended 31 December 2019 was primarily attributable to the slump in the container manufacturing industry which was mainly due to the decrease in demand in containers as a result of the slowdown in global economic growth and the trade tensions between the United States and the PRC, leading to a sharp decline in sales. The turnaround from loss for the year ended 31 December 2019 to profit for the year ended 31 December 2020 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

DFIC Qingdao Group

DFIC Qingdao is a limited liability company established in the PRC, and the DFIC Qingdao Group is principally engaged in the manufacturing of dry freight, specialized and refrigerated containers.

The consolidated financial information of the DFIC Qingdao Group for the three financial years ended 31 December 2018, 2019 and 2020, prepared in accordance with Hong Kong Financial Reporting Standards, was approximately as follows:

	For the year ended 31 December 2018 (audited) *RMB'000*	**For the year ended 31 December 2019 (audited)** *RMB'000*	**For the year ended 31 December 2020 (audited)** *RMB'000*
Revenue	1,643,952	2,086,017	2,585,263
Net profit/(loss) before taxation	12,085	(86,638)	128,110
Net profit/(loss) after taxation	9,837	(86,655)	117,364

For the three years ended 31 December 2018, 2019 and 2020, the revenue of DFIC Qingdao Group was approximately RMB1,644.0 million, RMB2,086.0 million and RMB2,585.3 million, respectively. The increase in revenue of approximately 26.9% for the year ended 31 December 2019 compared to that for the year ended 31 December 2018 was primarily attributable to the increase in orders for containers being allocated to the DFIC Qingdao Group following the implementation of the integration of sales channels strategy whereby the Group focus on the front-end sourcing of customers as well as the sales and distribution of containers, while the Target Companies focus on the back-end manufacturing of containers, pursuant to an entrustment arrangement entered into between Shanghai Universal Logistics Equipment Co., Ltd. (a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company) ("**Shanghai Universal**") and COSCO SHIPPING Investment in respect of the Target Companies, despite the industry downturn. According to the announcement of the Company dated 6 May 2019 and the circular of the Company dated 5 August 2019, under the entrustment agreement entered into between Shanghai Universal and COSCO SHIPPING Investment, COSCO SHIPPING Investment agreed to entrust to Shanghai Universal, and Shanghai Universal has agreed to accept the entrustment of, the entrusted assets for a term of three years. Under such entrustment arrangement, Shanghai Universal shall be entitled to exercise the daily management rights in respect of the Target Companies, such as daily procurement, sales and production matters. The increase in revenue of approximately 23.9% for the year ended 31 December 2020 compared to that for the year ended 31 December 2019 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

For the three years ended 31 December 2018, 2019 and 2020, the profit before tax of the DFIC Qingdao Group was approximately RMB12.1 million, RMB(86.6) million and RMB128.1 million, respectively, and the profit after tax of the DFIC Qingdao Group was approximately RMB9.8 million, RMB(86.7) million and RMB117.4 million, respectively. The turnaround from profit for the year ended 31 December 2018 to loss for the year ended 31 December 2019 was primarily due to the industry downturn leading to a sharp decline in margin. The turnaround from loss for the year ended 31 December 2019 to profit for the year ended 31 December 2020 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

DFIC Ningbo

DFIC Ningbo is a limited liability company established in the PRC and is principally engaged in the manufacturing of dry freight and specialized containers.

The financial information of DFIC Ningbo for the three financial years ended 31 December 2018, 2019 and 2020, prepared in accordance with Hong Kong Financial Reporting Standards, was approximately as follows:

	For the year ended 31 December 2018 (audited) *RMB'000*	**For the year ended 31 December 2019 (audited)** *RMB'000*	**For the year ended 31 December 2020 (audited)** *RMB'000*
Revenue	2,135,077	1,188,147	1,322,117
Net profit/(loss) before taxation	137,469	(55,906)	35,238
Net profit/(loss) after taxation	102,560	(58,114)	30,444

For the three years ended 31 December 2018, 2019 and 2020, the revenue of DFIC Ningbo was approximately RMB2,135.1 million, RMB1,188.1 million and RMB1,322.1 million, respectively. The decrease in revenue of approximately 44.4% for the year ended 31 December 2019 compared to that for the year ended 31 December 2018 was primarily attributable to the slump in the container manufacturing industry in 2019, whereby, customers' demand for containers decreased, resulting in a significant decline in container sales. The increase in revenue of approximately 11.3% for the year ended 31 December

2020 compared to that for the year ended 31 December 2019 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

For the three years ended 31 December 2018, 2019 and 2020, the profit before tax of DFIC Ningbo was approximately RMB137.5 million, RMB(55.9) million and RMB35.2 million, respectively and the profit after tax of DFIC Ningbo was approximately RMB102.6 million, RMB(58.1) million and RMB30.4 million, respectively. The turnaround from profit for the year ended 31 December 2018 to loss for the year ended 31 December 2019 was primarily attributable to the industry downturn leading to a sharp decline in sales. The turnaround from loss for the year ended 31 December 2019 to profit for the year ended 31 December 2020 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

Universal Technology

Universal Technology is a limited liability company established in the PRC and is principally engaged in the provision of technical, development and management services of container manufacturing primarily to DFIC Qidong, DFIC Qingdao Group and DFIC Ningbo.

The financial information of Universal Technology for the three financial years ended 31 December 2018, 2019 and 2020, prepared in accordance with Hong Kong Financial Reporting Standards, was approximately as follows:

	For the year ended 31 December 2018 (audited) *RMB'000*	**For the year ended 31 December 2019 (audited)** *RMB'000*	**For the year ended 31 December 2020 (audited)** *RMB'000*
Revenue	46,968	31,320	91,835
Net profit before taxation	17,897	241	8,133
Net profit after taxation	17,897	241	6,585

For the three years ended 31 December 2018, 2019 and 2020, the revenue of Universal Technology was approximately RMB47.0 million, RMB31.3 million and RMB91.8 million, respectively. The decrease in revenue of approximately 33.3% for the year ended 31 December 2019 compared to that for the year ended 31 December 2018 was primarily attributable to the slump in the container manufacturing industry in 2019, which led to the deterioration of the operating results of DFIC Qidong, the DFIC Qingdao Group and DFIC Ningbo and the corresponding decrease in business volume of Universal

Technology. The increase in revenue of approximately 193.2% for the year ended 31 December 2020 compared to that for the year ended 31 December 2019 was primarily attributable to the increase in revenue of DFIC Qidong, the DFIC Qingdao Group and DFIC Ningbo and the corresponding increased demand for the services of Universal Technology in 2020.

For the three years ended 31 December 2018, 2019 and 2020, the profit before tax of Universal Technology was approximately RMB17.9 million, RMB0.2 million and RMB8.1 million, respectively, and the profit after tax of Universal Technology was approximately RMB17.9 million, RMB0.2 million and RMB6.6 million, respectively. The decrease in profit of Universal Technology of approximately 98.7% for the year ended 31 December 2019 compared to that for the year ended 31 December 2018 was primarily attributable to the decrease in business volume. The increase in profit of Universal Technology of approximately 2,632.4% for the year ended 31 December 2020 compared to that for the year ended 31 December 2019 was primarily attributable to the increase in business volume.

2. Reasons for and Benefits of the Proposed Acquisition

As set out in the announcement of the Company dated 6 May 2019, a subsidiary of COSCO SHIPPING proposed to acquire from Singamas Container Holdings Limited the 100% equity interests in the Target Companies. This acquisition was taken place in August 2019. As the Target Companies are principally engaged in design, research and development, manufacture, sales and delivery of containers and the related businesses, in order to address any potential competition between the Group and the COSCO SHIPPING, COSCO SHIPPING has provided an undertaking that, among other things, within three years after completion of the aforesaid acquisition, the equity interests in the Target Companies will be transferred to the Company at a fair and reasonable market price through appropriate means and procedures in accordance with applicable laws. The Proposed Acquisition is conducted under this background.

Further, as discussed in the section headed “1.2 Financial performance of the Group”, container manufacturing business accounts for approximately 35.9%, 31.8% and 45.0% of the total revenue of the Group from external customers (excluding intersegment revenue) for the three years ended 31 December 2018, 2019 and 2020, respectively. In particular, due to the recent business expansions and the rapid recovery experienced by the shipping market, the revenue from external customers (excluding intersegment revenue) in container manufacturing business increased by approximately 110.9% to approximately RMB6.5 billion for the year ended 31 December 2020 as a result of the strong market demand and limited turnover of containers under the COVID-19 pandemic. Based on the discussion with the management of the Company, we are given to understand that it is the Company’s intention to further develop its container manufacturing business by promoting the integration of assets and improve quality and efficiency, improving the synergy in the container industry chain, strengthening dry container manufacturing as well as enhancing the development on special container and reefer container business. The Group mainly manufactures dry freight containers, while the Target

Companies manufactures different types of containers, apart from dry freight containers, also include refrigerated containers and specialized containers. It is therefore expected that the Proposed Acquisition would bring synergies to the container manufacturing business of the Group, enhancing the Group's manufacturing capabilities for delivering different types of containers, including specialized and refrigerated containers, as well as supplementing and optimizing the geographical layout of the container manufacturing business of the Group. We are given to understand that the Group currently operates its container manufacturing business in Lianyungang, Jinzhou and Guangzhou, while the Target Companies operate their container manufacturing businesses in Qidong, Ningbo and Qingdao. It is also expected that the market share of the container manufacturing business of the Group would increase as a result of the Proposed Acquisition by developing the Company into a world-class container manufacturing company with strong technological edge and high-capacity utilization and profitability, while at the same time leveraging the Company's unique leasing-manufacturing coordination capability.

Having considered that (i) the Proposed Acquisition was entered into pursuant to a previous undertaking from COSCO SHIPPING with an aim to avoid any potential competition between the Group and COSCO SHIPPING; (ii) the containers manufacturing business is one of the Group's principal business and its revenue recorded a significant growth for the year ended 31 December 2020; (iii) it is the Group's strategy to further develop its container manufacturing business by promoting integration of assets with an aim to optimize production capacity, increase product diversification and maximize synergy; and (iv) the Proposed Acquisition would enhance the Group's container manufacturing capabilities and expand the Group's market share, we concur with the Directors' views that the Proposed Acquisition is in line with the Group's strategy and business development plan and hence the entering into the Acquisition Agreement and the Supplemental Agreement is in the interests of the Company and the Shareholders as a whole.

3. Key terms of the Acquisition Agreement and the Supplemental Agreement

On 27 January 2021, the Company and COSCO SHIPPING Investment entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to purchase and COSCO SHIPPING Investment has conditionally agreed to sell, the Target Assets, in consideration of the allotment and issuance of the Consideration Shares by the Company to COSCO SHIPPING Investment. On 29 April 2021, the Company and COSCO SHIPPING Investment entered into (i) the Supplemental Agreement, pursuant to which, among other things, the final consideration for the Proposed Acquisition and the number of the Consideration Shares proposed to be issued have been determined by the parties; and (ii) and the Compensation Agreement, pursuant to which, COSCO SHIPPING Investment undertakes to provide performance guarantees and related compensation in respect of certain patents in relation to the manufacturing of containers of DFIC Qidong and Universal Technology.

Set out below is a summary of the key terms of the Acquisition Agreement, the Supplemental Agreement and the Compensation Agreement. For more details, please refer to the Letter from the Board.

The Acquisition Agreement (as supplemented by the Supplemental Agreement)

Date: 27 January 2021 (as supplemented by the Supplemental Agreement on 29 April 2021)

Parties:

(1) the Company, as purchaser; and

(2) COSCO SHIPPING Investment, as vendor

Consideration: According to the Asset Valuation Reports issued by China Tong Cheng, which have been approved by and filed with the competent state-owned assets supervision and administrative authorities, the appraised value of the Target Assets as at the Valuation Benchmark Date, which were determined based on the asset-based approach, are as follows:

Target Assets	**Appraised value** *(RMB)*
100% of the equity interest in DFIC Qidong	1,570,740,500
100% of the equity interest in DFIC Qingdao	1,332,936,400
100% of the equity interest in DFIC Ningbo	606,372,400
100% of the equity interest in Universal Technology	51,827,800
Total	**3,561,877,100**

The parties have agreed that the consideration for transfer of 100% equity interest in each of the Target Companies shall be equivalent to the respective appraised value as set out above and therefore, the final consideration for the Proposed Acquisition shall be RMB3,561,877,100.

Issue of Consideration Shares: The final consideration of the Proposed Acquisition will be settled by the allotment and issuance of the Consideration Shares by the Company to COSCO SHIPPING Investment. The issue price of the Consideration Shares shall be RMB2.51 per Consideration Share, representing 90% of the average trading prices of the A Shares for the 120 trading days prior to the Pricing Benchmark Date (rounded up to the nearest two decimal places). During the period between the Pricing Benchmark Date and the date of issue of the Consideration Shares, in case of any ex-rights or ex-dividends events of the Company including distribution of cash dividends, bonus issues, capitalization issues, rights issues, the issue price of the Consideration Shares will be adjusted (rounded up to the nearest two decimal places) in accordance with the relevant PRC laws and regulations.

Based on the final consideration for the Proposed Acquisition of RMB3,561,877,100 and the issue price of RMB2.51 per Consideration Share, the parties have determined that the number of Consideration Shares to be issued by the Company to COSCO SHIPPING Investment shall be 1,419,074,539 A Shares, further details of which are set forth below:

Target Assets	**Consideration** *(RMB)*	**Number of Consideration Shares to be issued**
100% of the equity interest in DFIC Qidong	1,570,740,500	625,793,027
100% of the equity interest in DFIC Qingdao	1,332,936,400	531,050,358
100% of the equity interest in DFIC Ningbo	606,372,400	241,582,629
100% of the equity interest in Universal Technology	51,827,800	20,648,525
Total	**3,561,877,100**	**1,419,074,539**

As disclosed in the 2020 Annual Report, the Board has proposed the payment of a final dividend of RMB0.056 per Share (inclusive of applicable tax), which is subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company. If the aforementioned final dividend will be paid prior to the issue of the Consideration Shares, the issue price of the Consideration Shares will be adjusted to RMB2.46 per Consideration Share (rounded up to the nearest two decimal places)and therefore the number of Consideration Shares to be issued will be adjusted as follows:

Target Assets	**Consideration** *(RMB)*	**Number of Consideration Shares to be issued**
100% of the equity interest in DFIC Qidong	1,570,740,500	638,512,398
100% of the equity interest in DFIC Qingdao	1,332,936,400	541,844,065
100% of the equity interest in DFIC Ningbo	606,372,400	246,492,845
100% of the equity interest in Universal Technology	51,827,800	21,068,211
Total	**3,561,877,100**	**1,447,917,519**

Lock-up period: COSCO SHIPPING Investment has undertaken that it shall not transfer any of the Consideration Shares within 36 months from the date of issue of the Consideration Shares.

In the event that (i) the closing prices of the A Shares for twenty (20) consecutive trading days within six months following the completion of the Proposed Acquisition fall below the issue price of the Consideration Shares (as adjusted for any ex-rights or ex-dividends events during such six months in accordance with the relevant PRC laws and regulations); or (ii) the closing price of the A Shares as at the end of the six month period following the completion of the Proposed Acquisition is below the issue price of the Consideration Shares, the lock-up period will be automatically extended for six months.

The lock-up undertaking shall also be applicable to any additional A Shares received by COSCO SHIPPING Investment as a result of bonus issues and/or capitalization issues of the Company after completion of the Proposed Acquisition.

The Compensation Agreement

Date:	29 April 2021
Parties:	(1) the Company, and (2) COSCO SHIPPING Investment
Performance Compensation Assets:	According to the relevant Asset Valuation Reports, the appraised values of the certain patents in relation to the manufacturing of containers of DFIC Qidong and Universal Technology, being the Performance Compensation Assets, were determined based on the income approach with reference to the discounted future estimated income attributable to such Performance Compensation Assets for the four years from 2021 to 2024 (being their remaining economic life). Pursuant to the requirements of the Administrative Measures for Material Asset Restructuring and other relevant PRC laws and regulations, COSCO SHIPPING Investment undertakes to provide performance guarantees and related compensation in respect of the Performance Compensation Assets based on the abovementioned future estimated income attributable to such Performance Compensation Assets in the relevant Asset Valuation Reports.
Performance compensation period:	The Performance Compensation Period shall be three consecutive financial years commencing from the year in which the Completion takes place (inclusive of such year of Completion).
Compensation arrangements:	*Compensation for performance guarantees* COSCO SHIPPING Investment undertakes that the future income attributable to the Performance Compensation Assets shall not be lower than the respective future estimated income attributable to the Performance Compensation Assets as set out in the relevant Asset Valuation Reports.

Upon the expiry of each financial year during the Performance Compensation Period, the Company shall select and engage a qualified accounting firm to conduct audit on DFIC Qidong and Universal Technology and issue a specific audit opinion. If the audited actual income attributable to the Performance Compensation Assets is lower than the corresponding guaranteed amount as set out above for the financial year, COSCO SHIPPING Investment shall compensate the Company for an amount (calculated in accordance with the formula as detailed in the Letter from the Board) through return of the Consideration Shares, being the Compensation Shares.

Additional compensation for impairment

Upon the expiry of the Performance Compensation Period, the Company shall select and engage a qualified accounting firm to carry out impairment test on the Performance Compensation Assets and issue a corresponding impairment test report.

If the amount of impairment of the Performance Compensation Assets as at the end of the Performance Compensation Period is larger than the sum of (i) the total number of Compensated Shares during the Performance Compensation Period (excluding the effects of ex-rights and ex-dividends events) multiplied by the issue price per Consideration Share; and (ii) the total amount of cash compensation, COSCO SHIPPING Investment shall make additional compensation (calculated in accordance with the formula as detailed in the Letter from the Board) to the Company through return of the Compensation Shares.

Maximum amount of compensation: The parties agree that the maximum amount of compensation to be made by COSCO SHIPPING Investment to the Company under the Compensation Agreement shall not exceed the consideration for the Performance Compensation Assets under the Proposed Acquisition (being RMB20,076,400, the aggregate appraised values of the Performance Compensation Assets determined based on the income approach).

3.1 Final consideration of the Proposed Acquisition

As stated in the Acquisition Agreement, the final consideration for the Proposed Acquisition will be determined after arm's length negotiations between the parties with reference to the appraised value of the Target Assets set out in the Asset Valuation Reports, subject to filing with the competent state-owned assets supervision and administrative authorities, and will be confirmed by way of entering into the Supplemental Agreement.

On 29 April 2021, the Company and COSCO SHIPPING Investment entered into the Supplemental Agreement, pursuant to which, among other things, the final consideration for the Proposed Acquisition and the number of the Consideration Shares proposed to be issued have been determined by the parties. The parties have agreed that the consideration for transfer of 100% equity interest in each of the Target Companies shall be equivalent to the appraised value of the Target Companies as set out in the Asset Valuation Reports, the final consideration for the Proposed Acquisition shall be RMB3,561,877,100.

3.2 Assessment on the fairness and reasonableness of the consideration

In order to assess the fairness and reasonableness on the consideration payable under the Acquisition Agreement (as supplemented by the Supplemental Agreement), we have taken into account the valuation of the Target Assets as detailed in the Asset Valuation Reports and our analysis of which are set out below:

Qualification and experience of China Tong Cheng

We have reviewed and enquired the qualification and experience of China Tong Cheng who conducted the valuation of the Target Companies. We have obtained the copies of asset appraiser certifications from China Tong Cheng and we note that the responsible personnel in charge of the Asset Valuation Reports possesses relevant qualifications to perform business valuations in the PRC. We have also checked the website of the SASAC and note that China Tong Cheng is recognized by SASAC as a qualified asset appraisal company in the PRC. In respect of the experience of China Tong Cheng, based on our interview with them, we are given to understand that the responsible personnel in charge of the Asset Valuation Reports possessed over 15 years of experience in asset appraisal industry and participated or lead asset appraisal projects involving state-owned companies, large scale financial institutions as well as shipping companies. Moreover, we are given to understand that China Tong Cheng is independent to the Company, the connected persons of the Company and other parties to the Proposed Acquisition. Furthermore, we have obtained and reviewed the terms of engagement between the Company and China Tong Cheng. We note that the scope of work is to engage China Tong Cheng appraising the value of the 100% equity interests of the Target Companies as at the Valuation Benchmark Date in compliance with relevant laws and valuation standard, which is appropriate for arriving at the opinion required to be given and we are not aware of any irregularities during our interview with China Tong Cheng or in our review of the Asset Valuation Reports. China Tong Cheng also confirms that they are not aware of any limitations on the relevant scope of work. Further, as advised by China Tong Cheng, the Company and the parties to the Proposed Acquisition have not made formal or informal representation to them that contravenes with their understanding on the information, to a material extent, as set out in the Asset Valuation Reports.

Based on the foregoing, we concur with the Directors' view that China Tong Cheng is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Asset Valuation Reports competently.

Valuation methodology adopted by China Tong Cheng

We have obtained and reviewed the Asset Valuation Reports, details of which are set out in Appendix V-A to V-D of the Circular. As discussed with China Tong Cheng, we are given to understand that the Asset Valuation Reports have been prepared in accordance to the PRC valuation standard and the Asset Valuation Reports have a validity period of one year from the Valuation Benchmark Date. During the course on conducting the valuations, China Tong Cheng has considered two approaches out of the three widely-used approaches, namely asset-based approach, income approach and market approach in preparing the Asset Valuation Reports pursuant to the PRC valuation standard.

As advised by China Tong Cheng, the market approach is not appropriate for the valuation of the Target Companies given there is limited access to transaction information of property ownership trading market in China and enterprises with similar businesses as compared to the Target Companies (i.e., manufacturing of containers) have significant differences in the product structure and principal businesses. It is therefore extremely difficult to select market reference of the same type in conducting the valuation. As such, the accuracy of the result of valuation under the market approach is difficult to be measured in a precise manner and hence it was not adopted for the valuations. On the other hand, the income approach is to appraise the enterprise value through capitalization or discounting the expected revenue of the valuation target in the future. As advised by China Tong Cheng, since the Target Companies are profitable individually and the adoption of the income approach can reflect the reasonable market value of enterprises. The income approach has therefore been considered in the valuations. The asset-based approach is the valuation method by which the value of the appraised entity is determined by reasonably assessing the values of every assets and liabilities items. As advised by China Tong Cheng, taking into account that the clear assets and liabilities structures of the Target Companies and hence each asset and liability items of the Target Companies may be appraised and recognized separately, the asset-based approach is also applicable to the valuations.

We have obtained and reviewed the Asset Valuation Reports and we note that China Tong Cheng has considered both asset-based approach and the income approach in the valuations. We understand that the result derived by using the asset-based approach is adopted by China Tong Cheng as the final valuation conclusions. We have enquired with

China Tong Cheng on the rationale and we are given to understand that given the Target Companies are either engaged in the production and sales of containers or the management company of the container manufacturers, which are greatly exposed to the impacts of the global economy and the industry market with certain market periodicity, it is rather difficult to accurately estimate and quantify the changes and fluctuations of the financial results of the Target Companies in the following years in arriving the valuations of the Target Companies under the income approach, the valuations as derived from the asset-based approach is more practical and reasonable.

We have reviewed the financial information of the Target Companies for the three years ended 31 December 2020. We note that the revenue and the results of each of the Target Companies was fluctuated along with the container manufacturing industry and the demand of containers in the market. In particular, both DFIC Qidong and DFIC Ningbo experienced a drop in revenue, which was mainly attributable to the decline in container sales while each of DFIC Qidong, DFIC Qingdao Group and DFIC Ningbo recorded a net loss after taxation during the year ended 31 December 2019, which was mainly due to the decrease in demand in containers as a result of the slowdown in global economic growth and the trade tensions between the United States and the PRC, leading to a sharp decline in sales. On the other hand, we note that vast majority of the assets and liabilities of the Target Companies are tangible in nature and are hence identifiable for the valuation purposes. As such, we concur with the view of China Tong Cheng that the adoption of asset-based approach for the valuation of the Target Companies is more preferrable.

The valuations

In order to assess the fairness and reasonableness of the valuations of the Target Companies, we have obtained and reviewed the Asset Valuation Reports and the underlying information as used by China Tong Cheng in arriving the valuations. We have discussed the same with China Tong Cheng and assessed the fairness and reasonableness on the basis and assumptions so adopted, details of which are discussed in sub-heading "Current assets", "Non-current assets" and "Liabilities" below. We are given to understand that under asset-based approach, the enterprise value of the Target Companies is appraised through assessing each single asset taking into consideration the relevant liabilities from the perspective of asset replacement. As such, China Tong Cheng has assessed each single item of assets and liabilities of the Target Companies. Further, we are given to understand that the valuations are based on the audited accounts of the Target Companies as of 31 December 2020 as prepared in accordance to the PRC accounting standards. The value of each assets and liabilities is considered by China Tong Cheng through choosing a specific applicable valuation method in accordance with its specific circumstances. The valuations of different types of assets and liabilities are assessed as follows:

Current assets

The current assets of the Target Companies mainly consist of cash and cash equivalents, notes receivables, trade receivables, prepayment and other receivables and inventories. For cash and cash equivalents, trade receivables, prepayment and other receivables, in arriving their respective appraised values, China Tong Cheng has followed its valuation procedures by obtaining accounting records and evidence from the Target Companies for verification. Based the procedures performed by China Tong Cheng, we are given to understand that the appraised values of cash and cash equivalents, trade receivables, prepayment and other receivables as at the Valuation Benchmark Date are equivalent to their respective book values as at 31 December 2020.

The main components of the inventories of the Target Companies are (i) raw materials and turnover materials in stock and (ii) finished goods. As advised by China Tong Cheng, in appraising the value of the raw materials and turnover materials in stock, they have conducted spot sample checks on certain inventories and adopted the replacement procedures to determine the actual amount of raw materials and turnover materials in stock on the Valuation Benchmark Date. According to China Tong Cheng, the appraised values of the raw materials and turnover materials in stock are equivalent to their respective book values as at 31 December 2020 as the purchase date of the raw materials is close to Valuation Benchmark Date with little movements in prices due to the quick turnover rate of the raw materials. In respective of the finished good, China Cheng Tong valuated the container products for sales based on their respective selling prices less their corresponding taxes and expenses. The appraised value for self-used products are equivalent to their respective book values as at 31 December 2020. Accordingly, there exists an appreciation in the appraised value of the finished good as compared with the respective book values.

Notwithstanding to the above, we note that there is no material difference between the appraised value of the current assets of the Target Companies and their respective book values as at 31 December 2020 as a whole. As at 31 December 2020, the aggregate book value of the current assets of the Target Companies amounted to approximately RMB5,949.0 million while the aggregate appraised value of the current assets of the Target Companies as at the Valuation Benchmark Date amounted to approximately RMB5,974.2 million, representing an appreciation of approximately 0.4%.

Non-current assets

The non-current assets of the Target Companies mainly comprised (i) fixed assets; (ii) construction in progress; and (iii) intangible assets.

(i) Fixed assets

Fixed assets mainly consist of buildings and machinery and equipment. Per our discussions with China Tong Cheng, we are given to understand that as the buildings of the Target Companies are self-constructed industrial buildings while the usage of the machinery and equipment are assumed to be unchanged, the cost replacement approach is applied in arriving the appraised value of the buildings and machinery and equipment. We also understand that it is a common approach in appraising assets of similar kinds. The appraised value of buildings and machinery and equipment are generally determined based on (a) the full replacement price multiplied by the (b) residual ratio. For the buildings, the full replacement price refers to the sum of (i) construction and installation costs (tax exclusive); (ii) preliminary construction and other costs (tax exclusive) and (iii) capital costs. For the machinery and equipment, the full replacement price refers to the sum of (i) purchase price; (ii) transportation and miscellaneous cost; (iii) installation and commissioning fees; (iv) other cost including capital cost. The full replacement costs of buildings and machinery and equipment are then multiplied by the residual ratio of the relevant buildings and machinery and equipment to arrive the appraised values. The residual ratio is determined based on the (i) residual ratio under observation method (i.e. a standard score is given to each factor based on inspection conditions of the buildings and machinery and equipment) and (ii) theoretical residual ratio (i.e. calculated based on (a) the remaining useful life of the relevant buildings and machinery and equipment and (b) the respective economic life).

The aggregate appraised value of the fixed assets of the Target Companies amounted to approximately RMB1,700.0 million, represented an appreciation of approximately 15.9% as compared to the book value as at 31 December 2020. The appreciation is mainly arising from the appreciation of the value of the buildings.

(ii) Construction-in-progress

Construction-in-progress mainly comprises civil engineering and equipment installment projects. For civil engineering construction projects, in case the construction period is short and the contract size is not substantial, the appraised value is recognized as the replacement price on the Valuation Benchmark Date using the replacement cost approach. In the event that the construction period is longer than 6 months with significant contract size, the appraised value is recognized as the book value plus the capital costs on the basis that the book value is verified. As advised by China Tong Cheng, they have followed its valuation procedure by obtaining accounting records and documents as well as performing site inspection in order to verify the book values of the construction-in-progress of the Target Companies. Once the verified book values of the construction-in-progress are determined, the capital costs will also be included based on the interest rate and construction period as of the Valuation Benchmark Date in order to determine the appraised value of construction-in-progress.

For equipment installation projects, the appraised values are determined based on payment progress for the equipment under construction and capital costs. As advised by China Tong Cheng, in verifying payment progress for the equipment installation project, they have followed its valuation procedures by inspecting the project contracts and evidence of payment to understand the progress of projects in order to verify the value of the equipment installation project. The capital costs will also be included based on the interest rate and construction period as of the Valuation Benchmark Date. For self-developed equipment where the progress cannot be determined, the book value is recognized as the appraised value. For suspended and terminated construction in progress, the appraised value is recognized as nil.

The aggregate appraised value of the construction-in-progress of the Target Companies amounted to approximately RMB44.1 million, represented a depreciation of approximately 9.2% as compared to the book value as at 31 December 2020. The depreciation is mainly arising from the depreciation of construction-in-progress from DFIC Ningbo and DFIC Qidong.

(iii) Intangible assets

The intangible assets of the Target Companies mainly comprise land use rights and other intangible assets – patent.

Land use rights

We understand from the Asset Valuation Reports that DFIC Qidong, DFIC Qingdao and DFIC Ningbo owns certain land use rights.

According to the Asset Valuation Reports, the approach applicable for valuation of the land use right of the valuation target is selected upon analysis according to the features and specific conditions of the valuation target and actual conditions of the project, in accordance with the "Rules for Urban Land Valuation" (城鎮土地估價規程) and in view of the land market in the regions where the appraised land is located and the relevant information gathered. As advised by China Tong Cheng, various valuation approach can be adopted in appraising the value of land use rights, namely market approach, income approach, cost approximation approach and standard floor-price coefficient correction approach and etc. All of which are commonly adopted valuation approach in appraising land use rights.

We noted from the Asset Valuation Reports that China Tong Cheng has adopted both market approach and cost approximation approach in appraising the land use rights of DFIC Qidong and took the average of both unit prices appraised. As discussed with China Tong Cheng, we understand that the market comparison approach can be adopted as there are recent transaction cases in the market of the region where the land parcel entrusted for valuation is located. The cost approximation approach can also be adopted as the land acquisition compensations can be collected for the land parcel to be appraised.

For DFIC Qingdao, in arriving the appraised value of its land use rights, China Tong Cheng has adopted both market comparison approach and benchmark land premium coefficient correction approach and took the average of both unit prices in each parcel of land appraised. We have enquired China Tong Cheng and understand that the market comparison approach can be adopted as there are recent transaction cases in the market of the region where the land parcel entrusted for valuation is located. The benchmark land premium coefficient correction approach refers to the use of local benchmark land premium of the land parcel entrusted for valuation and adjusted or corrected in accordance to different circumstances of the land parcel entrusted for valuation such as plot ratio, the type of land use right, years of usage etc. As advised by China Tong Cheng, since the land parcel entrusted for valuation is located within the coverage of the local benchmark land premium published by the local government in 2016 in accordance to the Notice on Adjustment and Update of Urban Land Grade and Benchmark Land Premium in Huangdao District (Qing Xi Xin Guan Fa [2016] No. 26) (《關於黃島區城鎮土地級別與基準地價調整更新的通知》 (青西新管發[2016]26號) (the "**Notice**"), the benchmark land premium coefficient correction approach can also be adopted. We have enquired with China Tong Cheng and are given to understand that the Notice is the latest benchmark land premium published by the local government. Although the Notice was published in 2016, we are given to understand that under the benchmark land premium coefficient correction approach, the benchmark land premium as stated in the Notice is adjusted up to the Valuation Benchmark Date in accordance to the data published by government authorities. As such, we consider that the adoption of the benchmark land premium coefficient correction approach is fair and reasonable.

For DFIC Ningbo, in arriving the appraised value of its land use rights, China Tong Cheng has adopted market comparison approach as there are recent transaction cases in the market of the region where the land parcel entrusted for valuation is located. China Tong Cheng has also considered cost approximation approach as relevant land acquisition compensations can be collected for the land parcel to be appraised.

The aggregate appraised value of the land use rights of DFIC Qidong, DFIC Qingdao and DFIC Ningbo amounted to approximately RMB486.1 million, represented an appreciation of approximately 54.1% as compared to the book value as at 31 December 2020. The appreciation is mainly arising from the appreciation of value of land use rights of DFIC Ningbo.

Other intangible assets – Patent

Based on our review on the Asset Valuation Reports, we understand that DFIC Qidong and Universal Technology possess certain patents which are relevant to the manufacturing of containers. In accordance with the Practice Guidelines for Asset

Valuation – Intangible Assets《資產評估執業準則–無形資產》 published by China Appraisal Society, the cost approach, income approach or market approach can be used for the valuation of patents and technologies according to the prerequisites for utilization and the actual circumstances of the valuation.

For invention patents and utility model patent technologies, there is usually no correlation between the research and development costs for the technologies and the value of the technologies themselves. Since the technologies to be appraised are products of years of contribution and involve cross-sectional research, it is difficult to calculate the research and development costs and the valuation cannot be conducted by taking costs into account. The cost approach was therefore not adopted in this valuation.

In addition, due to the exclusivity of patent technologies, identifying comparables from market transactions usually proves to be difficult and hence, the market approach was not adopted as well. Accordingly, based on the actual conditions of patent technologies of the enterprise, this valuation on invention patents and utility model patent technologies was made by taking income into account and the income approach was adopted as a result.

The ideology of the income approach is to estimate the income of products manufactured using the exclusive technologies in the upcoming years and based on a certain profit sharing ratio (which is the contribution ratio of the patent technologies to the income in the upcoming years), to calculate the appraised value by discounting and adding the estimated income using the appropriate discount ratio.

The valuation of the patents involving the projection of future income so generated from these patents which is subject to uncertainties and variations. However, given the Company and COSCO SHIPPING Investment entered into the Compensation Agreement, pursuant to which, COSCO SHIPPING Investment undertakes to provide performance guarantees and related compensation in respect of these patents should the future income attributable to these patents is lower than the respective future estimated income attributable to such patents as set out in the relevant Asset Valuation Reports, we are of the view that the Compensation Agreement can serve as an assurance to the Company and the Shareholders as a whole.

Based on the above, we are of the view that the valuation of the patents, which is conducted under the income approach, and the mechanism to protect the Company's interests in those patents should there be any shortfall on the future estimated income attributable to such patents as set out in the relevant Asset Valuation Reports are fair and reasonable.

Liabilities

The liabilities of the Target Companies mainly consist short term borrowings, accounts payable, notes payable and employee payroll payable. In arriving the appraised value of the liabilities of the Target Companies, China Tong Cheng has followed its valuation procedures by obtaining accounting records and evidence from the Target Companies for verification on the book values of the respective liabilities. Based the procedures performed by China Tong Cheng, we understand that the appraised values of liabilities as at the Valuation Benchmark Date are generally in line with their respective book values as at 31 December 2020.

Appraised value of the Target Companies as at Valuation Benchmark Date under asset-based approach

Set out below is a summary of the appraised value of the Target Companies as at the Valuation Benchmark Date based on the methodologies as mentioned above:

Target Assets	**Appraised value** *(RMB)*
100% of the equity interest in DFIC Qidong	1,570,740,500
100% of the equity interest in DFIC Qingdao	1,332,936,400
100% of the equity interest in DFIC Ningbo	606,372,400
100% of the equity interest in Universal Technology	51,827,800
Total	**3,561,877,100**

Conclusion

Based on the above and having considered that (i) China Tong Cheng is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Asset Valuation Reports competently; (ii) the basis and assumptions so adopted in the Asset Valuation Reports are justifiable; (iii) the adoption of asset-based approach for the valuation of the Target Companies is fair and reasonable; and (iv) methodologies so applied on assessing the assets and liabilities of the Target Companies (including the adoption of income approach for the valuation of certain patents possessed by DFIC Qidong and Universal Technology) are fair and reasonable, we concur with the view of the Directors that the Asset Valuation Reports are appropriate reference in determining the consideration of the Proposed Acquisition and the consideration, which is equivalent to the appraised value of the Target Companies as at the Valuation Benchmark Date, is fair and reasonable so far as the Independent Shareholders are concerned.

3.3 Assessment on the fairness and reasonableness on the issue price of the Consideration Shares

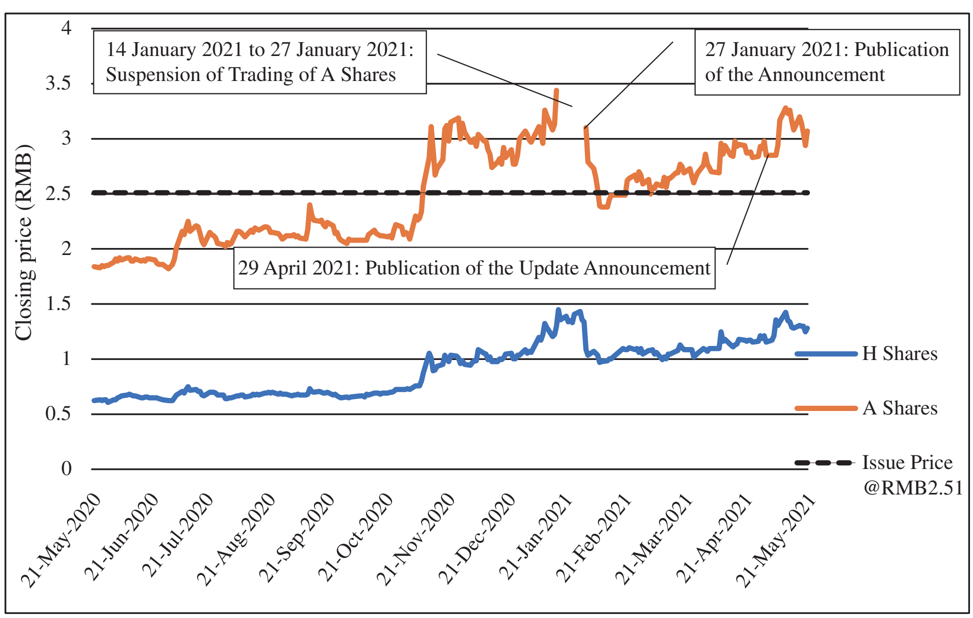
The final consideration of the Proposed Acquisition will be settled by the allotment and issuance of the Consideration Shares by the Company to COSCO SHIPPING Investment. As stated in the Letter from the Board, the issue price of the Consideration Shares shall be RMB2.51 per Consideration Share, representing 90% of the average trading prices of the A Shares for the 120 trading days prior to the Pricing Benchmark Date (rounded up to the nearest two decimal places). According to the Acquisition Agreement (as supplemented by the Supplemental Agreement), during the period between the Pricing Benchmark Date and the date of issue of the Consideration Shares, in case of any ex-rights or ex-dividends events of the Company including distribution of cash dividends, bonus issues, capitalization issues, rights issues, the issue price of the Consideration Shares will be adjusted (rounded up to the nearest two decimal places) in accordance with the relevant PRC laws and regulations. As stated in the 2020 Annual Report, the Board has proposed the payment of a final dividend of RMB0.056 per Share (inclusive of applicable tax), which is subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company. If such final dividend will be paid prior to the issue of the Consideration Shares, the issue price of the Consideration Shares will be adjusted to RMB2.46 per Consideration Share (rounded up to the nearest two decimal places).

Pursuant to the stipulations in the Administrative Measures for Material Assets Restructuring, the price at which a listed company issues shares shall not be lower than 90% of the market reference price. The market reference price is one of the average trading prices of the company's stocks on the 20 trading days, 60 trading days, or 120 trading days before the announcement of the board of directors' resolution for the issuance of shares to the acquisition of assets. The issue price of the Consideration Shares is therefore in compliance with the Administrative Measures for Material Assets Restructuring.

We noted that the 90% of the average trading price of the preceding 20 and 60 trading days prior to the Pricing Benchmark Date were approximately RMB2.79 per A Share and RMB2.65 per A Share, representing approximately 10.0% and 5.3% higher than the issue price of the Consideration Shares, respectively. Notwithstanding the above, the issue price of the Consideration Shares of RMB2.51 per Consideration Share represents (i) a premium of approximately 57.9% over the consolidated net asset value per Share of the Company (representing audited net assets per share attributable to the Shareholders (and excluding holders of other equity instruments)) as at 31 December 2020 of approximately RMB1.59 per Share (rounded up to the nearest two decimal places) calculated based on the consolidated net assets of the Group attributable to the Shareholders (excluding holders of other equity instruments) of approximately RMB18,370,008,000 as at 31 December 2020 as extracted from the 2020 Annual Report and 11,608,125,000 Shares in issue as at 31 December 2020; and (ii) a premium of approximately 53.0% over the unaudited pro forma net assets value per Share of the

Enlarged Group (representing unaudited net assets per share attributable to the Shareholders (and excluding holders of other equity instruments)) as at 31 December 2020 of approximately RMB1.64 per Share calculated based on the unaudited pro forma net assets value of the Enlarged Group attributable to the Shareholders (excluding holders of other equity instruments) of approximately RMB21,405,870,000 and the number of share in issue upon completion of the Proposed Acquisition of 13,027,199,539 Shares (assuming that (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will not be paid prior to the issue of the Consideration Shares and there will not be any adjustments to the issue price of the Consideration Shares of RMB2.51 per Consideration Shares; and (b) there will be no change in the total issued share capital of the Company and no exercise of Share Options since the Latest Practicable Date save for the issue of A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement)).

To further assess the fairness and reasonableness of the issue price of the Consideration Shares, we have compared the issue price with reference to the historical A Share closing prices. We have reviewed the Share price performance during a period of 12 months prior to 21 May 2021, being the Latest Practicable Date (the "**Review Period**"). We consider that a period of 12 months is adequate to illustrate the Share price performance for conducting a reasonable comparison between the closing price of the Shares and the issue price of the Consideration Shares. The chart below illustrates (i) the daily closing price per A Share; (ii) the daily closing price per H Share; (iii) the issue price for the Consideration Shares during the Review Period.



Sources: Website of the Hong Kong Stock Exchange and 巨潮資訊網 (Cninfo*, www.cninfo.com.cn, being a website designated by CSRC for the purpose of information disclosure) ("***Cninfo***")

Note: The trading of the A Shares was suspended from 14 January 2021 until the resumption of trading applied to the Shanghai Stock Exchange on 28 January 2021, right after the entering into the Acquisition Agreement on 27 January 2021.

During the Review Period, the issue price of the Consideration Shares of RMB2.51 per Consideration Share is in the range of the closing price of A Share, which fluctuated between RMB1.82 per A Share and RMB3.44 per A Share with an average of RMB2.48 per A Share. The issue price of the Consideration Shares of RMB2.51 per Consideration Share also represents a premium of approximately 1.2% over the average closing price of approximately RMB2.48 per A Share during the Review Period. In addition, given the issue price of Consideration Shares was determined on 27 January 2021, being the date of the Announcement and the passing of the resolutions of the Board in respect of the Proposed Acquisition, hence prior to 27 January 2021, the issue price of the Consideration Shares represents a premium over each of the respective closing prices per A Share for 117 trading days (out of 165 trading days from the commencement of the Review Period to 13 January 2021, being the last trading day before the publication of the Announcement).

Having considered the above and in particular that the issue price of the Consideration Shares (i) is in compliance with applicable PRC rules and regulations, (ii) represents a premium over the consolidated net asset value per Share attributable to the Shareholders (excluding holders of other equity instruments) as at 31 December 2020; (iii) represents a premium over each of the respective closing prices per A Share for a majority period from the commencement of the Review Period to the date of the Announcement; and (iv) represents a premium to the average closing price per A Share during the Review Period, we are of the view that the issue price of the Consideration Shares is fair and reasonable so far as the Independent Shareholders are concerned.

3.4 Assessment of the fairness and reasonableness of other terms of the Acquisition Agreement, the Supplemental Agreement and the Compensation Agreement

The lock-up period

Pursuant to the stipulations in the Administrative Measures for Material Assets Restructuring, where the subscriber is the controlling shareholder, actual controller or related person controlled by a listed company, the shares of a listed company subscribed through asset acquisition shall not be transferred within 36 months from the date of issue of shares. If the closing price of a listed company's stock for 20 consecutive trading days is lower than the issue price within 6 months after the completion of the transaction, or the closing price at the end of the 6-month period after the transaction is completed is lower than the issue price, the lock-up period for the company's shares shall automatically extend for at least 6 months.

Pursuant to the Acquisition Agreement and the Supplemental Agreement, COSCO SHIPPING Investment has undertaken that it shall not transfer any of the Consideration Shares within 36 months from the date of issue of the Consideration Shares, which are also in compliance to the Administrative Measures for Material Assets Restructuring.

The Compensation Agreement

We understand that as part of the Proposed Acquisition, the Compensation Agreement is entered between the Company and COSCO SHIPPING Investment. Under the Compensation Agreement, COSCO SHIPPING Investment undertakes that the future income attributable to the Performance Compensation Assets shall not be lower than the respective future estimated income attributable to the Performance Compensation Assets as set out in the relevant Asset Valuation Reports. The compensation arrangement under the Compensation Agreement is made pursuant to the requirements of the Administrative Measures for Material Asset Restructuring and other relevant PRC laws and regulations, since the appraised values of such certain patents of DFIC Qidong and Universal Technology in the relevant Asset Valuation Reports were determined based on the income approach.

The valuation of these patents involves the projection of future income to be generated from these patents which is subject to uncertainties and variations. The compensation arrangement is therefore considered as an additional assurance to the Company in the case that the future actual income derived from the Performance Compensation Assets is lower than the respective future estimated income attributable to the Performance Compensation Assets as set out in the relevant Asset Valuation Reports.

Having considered the above, in particular (i) the consideration of the Proposed Acquisition is fair and reasonable as discussed in sections "3.2 Assessment on the fairness and reasonableness of the consideration" and "3.3 Assessment on the fairness and reasonableness on the issue price of the Consideration Shares"; and (ii) the other key terms of the Acquisition Agreement, the Supplemental Agreement and the Compensation Agreement are determined in accordance to the relevant applicable PRC laws and regulations, we are of the view that the terms of the Acquisition Agreement (as supplemented by the Supplemental Agreement) and the Compensation Agreement are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned.

4. The Proposed Non-Public Issuance of A Shares

On 27 January 2021, the Board has approved the Proposed Non-public Issuance of A Shares to raise ancillary funds simultaneously with the Proposed Acquisition. On 29 April 2021, the Board has approved the additional terms of the Proposed Non-public Issuance of A Shares to raise ancillary funds after the determination of the final consideration for the Proposed Acquisition. The total amount of ancillary funds to be raised under the Proposed Non-public Issuance of A Shares shall not be more than RMB1,464,000,000 (inclusive of the CS Subscription), which does not exceed 100% of the final consideration for the Proposed Acquisition and the number of A Shares to be issued shall not exceed 30% of the issued share capital of the Company prior to completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares.

The Proposed Non-public Issuance of A Shares is subject to the approval of the CSRC and the completion of the Proposed Acquisition, but the Proposed Acquisition is not conditional on the completion of the Proposed Non-public Issuance of A Shares.

4.1 Principal terms of the Proposed Non-public Issuance of A Shares

The terms of the Proposed Non-public Issuance of A Shares are summarized below. Please refer to the Letter from the Board for details.

Target subscribers:	The Proposed Non-public Issuance of A Shares will be carried out by way of non-public issue of A Shares to not more than 35 specific target subscribers (including China Shipping). As at the Latest Practicable Date, apart from the CS Subscription Agreement, the Company has not entered into any agreement with any potential subscribers in respect of the Proposed Non-public Issuance of A Shares. It is currently expected that the other subscribers under the Proposed Non-public Issuance of A Shares will not be the connected persons of the Company and the subscription by those other subscribers under the Proposed Non-public Issuance of A Shares will not trigger a general offer obligation of those other subscribers under the Takeovers Code.
Number of A Shares to be issued and amount of funds raised:	The total amount of ancillary funds to be raised under the Proposed Non-public Issuance of A Shares shall not be more than RMB1,464,000,000 (inclusive of the CS Subscription), which does not exceed 100% of the final consideration for the Proposed Acquisition and the number of A Shares to be issued shall not exceed 30% of the issued share capital of the Company prior to completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares. The final number of A Shares to be issued under the Proposed Non-public Issuance of A Shares shall be determined by the Board and its authorized person(s) with the authorization by the Shareholders at the EGM and the Class Meetings and actual market conditions at the time of the issuance, subject to the maximum number of A Shares as approved by the CSRC.

China Shipping undertakes to subscribe for such number of A Shares for an amount of RMB600 million and not more than the limit of the proceeds to be raised under the Proposed Non-public Issuance of A Shares as approved by the CSRC.

The number of A Shares to be issued under the Proposed Non-public Issuance of A Shares will be adjusted if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue, rights issue or capitalization issue) between the Price Determination Date and the date of issuance of the A Shares under the Proposed Non-public Issuance of A Shares in accordance with the applicable PRC laws and regulations.

Price Determination Date, pricing principles and issue price: The Proposed Non-public Issuance of A Shares will be conducted by way of a price inquiry process conducted in accordance with the requirements under the Rules for the Implementation of Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》), which involves the issuance of invitation for subscription to eligible specific target subscribers after obtaining approval documents from the CSRC (as further set out in the section headed "Letter from the Board – X. IMPLICATIONS UNDER THE TAKEOVERS CODE – Special Deal in relation to the Proposed Non-public Issuance of A Shares" in this Circular). The Price Determination Date shall be the first day of the Offering Period.

The issue price shall not be lower than the Benchmark Price, being (i) 80% of the Average Trading Price (being the average trading price of the A Shares during the 20 trading days immediately preceding the Price Determination Date); or (ii) the Floor Price (being the latest audited net asset per Share of the Company before the issuance of A Shares under the Proposed Non-public Issuance of A Shares), whichever is higher. According to the 2020 Annual Report, the audited net asset per Share of the Company (representing audited net assets per share attributable to the Shareholders (and excluding holders of other equity instruments)) as at 31 December 2020 was approximately RMB1.59 (rounded up to the nearest two decimal places).

The final issue price will be determined by negotiations between the Board and its authorized person(s) with the authorization by the Shareholders at the EGM and the PRC independent financial adviser (the lead underwriter) based on the price inquiry results in accordance with the relevant PRC laws and regulations.

Lock-up period: China Shipping shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within 36 months from the date of completion of the Proposed Non-public Issuance of A Shares. In addition, each of China Shipping and COSCO SHIPPING undertakes that it shall not transfer any of the Shares directly or indirectly owned by it prior to the completion of the Restructuring within 18 months from the date of completion of the Restructuring.

All other target subscribers shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within six months from the date of completion of the Proposed Non-public Issuance of A Shares.

For the details of use of proceeds, please refer to the Letter to the Board.

4.2 Principal terms of the CS Subscription Agreement

As part of the Proposed Non-public Issuance of A Shares, on 27 January 2021, the Company and China Shipping entered into the CS Subscription Agreement pursuant to which China Shipping has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, such number of A Shares for an amount of RMB600 million and not more than the limit of the proceeds to be raised under the Proposed Non-public Issuance of A Shares as approved by the CSRC.

The principal terms of the CS Subscription Agreement are summarized as follows. For details, please refer to the Letter from the Board.

Date: 27 January 2021

Parties: (1) the Company, as the issue: and

(2) China Shipping, as the subscriber

Number of A Shares to be issued:	China Shipping has agreed to subscribe for such number of A Shares in cash based on the final issue price of A Shares under the Proposed Non-public Issuance of A Shares, for an amount of RMB600 million. If the total amount of issuance under the Proposed Non-public Issuance of A Shares as approved by the CSRC is less than RMB600 million, the subscription amount of China Shipping shall be accordingly adjusted according to such approved issuance amount. The number of A Shares to be issued to China Shipping shall be determined based on (i) the final subscription amount, divided by (ii) the final issue price of A Shares under the Proposed Non-public Issuance of A Shares (rounded down to the nearest whole number).
Subscription price, pricing principles and method of payment:	The subscription price shall not be lower than the Benchmark Price. The final subscription price will be equivalent to the final issue price under the Proposed Non-public Issuance of A Shares, which will be determined by negotiations between the Board and its authorized person(s) with the authorization by the Shareholders at the EGM and the PRC independent financial adviser (the lead underwriter) based on the price inquiry results in accordance with the relevant PRC laws and regulations. China Shipping will not participate in the price inquiry exercise for the Proposed Non-public Issuance of A Shares, but will accept the price inquiry results and subscribe for the A Shares at the same issue price as other target subscribers. If the issue price cannot be determined through the price inquiry exercise, China Shipping shall subscribe for the A Shares at the Benchmark Price.
Lock-up period:	China Shipping undertakes not to transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within 36 months from the date of completion of the Proposed Non-public Issuance of A Shares.

4.3 Reasons for the benefits of the Proposed Non-public Issuance of A Shares

As disclosed in the Update Announcement, the net proceeds from the Proposed Non-public Issuance of A Shares (after deducting all applicable costs and expenses incurred in connection with the Proposed Non-public Issuance of A Shares) are intended to be used in following manners: (i) approximately RMB194 million will be allocated for container production lines technology transformation project of DFIC Qidong; (ii) approximately RMB200 million will be allocated for container production lines technology transformation project of DFIC Qingdao; (iii) approximately RMB92 million will be allocated for logistics equipment transformation project of DFIC Ningbo; (iv) approximately RMB88 million will be allocated for information system upgrade and setup project of Universal Technology; and (v) approximately RMB890 million will be allocated for replenishment of the working capital of the Company. Before the receipt of the proceeds to be raised from the Proposed Non-public Issuance of A Shares, the Company will, depending on the status of the projects, finance these projects by funds raised through other means of financing, which will be substituted by the proceeds raised from the Proposed Non-public Issuance of A Shares in accordance with relevant procedures as required by applicable laws and regulations once the same becomes available.

According to the 2020 Annual Report, in 2020, under the severity of the global COVID-19 pandemic, the Company made efforts to explore diversified development by strengthening product R&D and expanding container business in the fields of environmental protection, healthcare, special logistics, agriculture and scientific research etc., with a view to improving its comprehensive competitiveness. As advised by the management of the Company, we are given to understand that it is the Group's development plan to integrate the Group's container manufacturing assets, optimizing production capacity, enhancing technological capabilities, and facilitating synergy between leasing and manufacturing, and hence the management of the Company are of the view that the Proposed Acquisition is a major step to achieve its strategy. Upon the completion of the Proposed Acquisition, it is the Group's intention to further develop the Target Companies by undertaking projects involving (i) container production lines technology transformation or (ii) logistics equipment transformation; or (iii) information system upgrade. As advised by the management of the Company, the total investment on the aforesaid projects amounts to approximately RMB647.9 million and the management of the Company intends to allocate approximately RMB574 million of the net proceeds from the Proposed Non-public Issuance of A Shares to finance the said projects.

According to the 2020 Annual Report, as at 31 December 2020, the Group's cash and bank balances were approximately RMB12,046.8 million. Further to our discussion with the management of the Company, we are given to understand that it is important to maintain sufficient cash resources for its day-to-day business in view of the impact of the COVID-19 pandemic, although the Group has sufficient internal resources to finance the abovementioned projects for the Target Companies. Further, we note from the 2020 Annual Report that as at 31 December 2020, the Group's total bank loans and other borrowings were approximately RMB92,780.7 million, of which approximately RMB47,252.7 million is repayable within one year. It is the intention of the Group to maintain an appropriate composition of equity and debt to constantly achieve an effective capital structure. Part of the proceeds raised from the Proposed Non-public Issuance of A Shares is intended to replenish the working capital of the Company, which would improve the overall financial position.

In addition, the CS Subscription demonstrates the confidence China Shipping places in the Company and China Shipping's continuous support to the Company's future development, which are conducive to boosting the confidence of the Shareholders and potential investors in the Company.

Based on the above, in particular, (i) the proceeds raised from the Proposed Non-public Issuance of A Shares are proposed to be used for the development of the projects of the Target Companies and the replenishment of the working capital of the Company, which is in line with the strategic development objectives of the Group; and (ii) the capital raised from the Proposed Non-public Issuance of A Shares would improve the overall financial position and facilitate the future development of the Group, we concur with the view of the Directors that the Proposed Non-pubic Issuance of A Shares is in the interests of the Company and the Shareholders as a whole.

4.4 Fairness and reasonableness on the issue price and subscription price in relation to the Proposed Non-public Issuance of A Shares

Pursuant to the decisions (the "**New Decisions**") announced by the CSRC on 14 February 2020 (the "**Effective Date**"), namely "Decision on Amending the Administration Measures on Securities Issuance of Listed Companies" (《關於修改<上市公司證券發行管理辦法>的決定》) and the "Decision on Amending the Implementation Rules for the Non-public Issue of Shares by Listed Companies" (《關於修改<上市公司非公開發行股票實施細則>的決定》) (中國證監會公告[2020]11號), in which, among others, the issue price of A shares under non-public issuance of A shares is adjusted from not less than 90% to not less than 80% of the average trading price of the company's shares during the 20 trading days preceding the pricing benchmark date (the "**Revised Pricing Criteria**").

After taking into account the above and in light of (i) the A Shares being listed on the Shanghai Stock Exchange; and (ii) China Shipping being the controlling shareholder of the Company, we have compared the terms of the Proposed Non-public Issuance of A Shares against those of similar non-public issuance of A shares (the "**Transaction Comparable(s)**") to controlling shareholder and/or a group of subscribers including controlling shareholder and other investor(s) proposed by companies listed on both (i) the Hong Kong Stock Exchange and (ii) Shanghai Stock Exchange from the Effective Date up to the Latest Practicable Date. We consider comparison of the pricing mechanism of the Transaction Comparables and that of the Proposed Non-public Issuance of A Shares to be fair and representative in further assessing the fairness and reasonableness of the issue price and the subscription price. To the best of our knowledge, we have identified nine Transaction Comparables, which represent an exhaustive list under the above selection criteria and we consider the sample size is sufficient to reflect the adoption of the new implementation rules based on the New Decisions and the recent market practices. Based on our review, we note that the basis for issue price for the Transaction Comparables basically follow the PRC Company Law under the New Decisions and the

Revised Pricing Criteria, which requires that the issue price to be not less than 80% of the average trading price of the A shares during the 20 trading days preceding the pricing benchmark date. Summarized below are our relevant findings:

Company (Stock code)	**Publication date of announcement**	**Basis for the determination of issue price**
Shanghai Pharmaceuticals Holding Co., Ltd.* (2607.HK) (601607.SH)	12 May 2021	Not lower than (i) 80% of the average trading price of the A shares during the 20 trading days immediately preceding the price determination date; and (ii) the latest audited net asset per share of the company, whichever is higher
China Eastern Airlines Corporation Limited (670.HK) (600115.SH)	02 February 2021	Not lower than (i) 80% of the average trading price of the A shares during the 20 trading days immediately preceding the price determination date; and (ii) the latest audited net asset per share of the company, whichever is higher
Luoyang Glass Company Limited* (1108.HK) (600876.SH)	30 December 2020	Not lower than (i) 80% of the average trading price of the A shares during the 20 trading days immediately preceding the price determination date; and (ii) the latest audited net asset per share of the company, whichever is higher
China Suntien Green Energy Corporation Limited* (956.HK) (600956.SH) ("**Suntien**")	21 December 2020 5 March 2021 *(Note)*	Not lower than (i) 80% of the average trading price of the A shares during the 20 trading days immediately preceding the price determination date; and (ii) the latest audited net asset per share of the company, whichever is higher

Company (Stock code)	Publication date of announcement	Basis for the determination of issue price
Postal Savings Bank of China Co., Ltd. (1658.HK) (601658.SH)	30 November 2020	Not lower than (i) 80% of the average trading price of the A shares during the 20 trading days immediately preceding the price determination date; and (ii) the latest audited net asset per share of the company, whichever is higher
Tianjin Capital Environmental Protection Group Company Limited (1065.HK) (600874.SH)	13 July 2020	Not lower than 80% of the average trading price of the A shares during the 20 trading days immediately preceding the price determination date
Dalian Port (PDA) Company Limited* (now known as Liaoning Port Co., Ltd.*) (2880.HK) (601880.SH)	07 July 2020	Not lower than 80% of the average trading price of the A shares during the 20 trading days immediately preceding the price determination date
Dynagreen Environmental Protection Group Co., Ltd.* (1330.HK) (601330.SH)	29 May 2020	Not lower than (i) 80% of the average trading price of the A shares during the 20 trading days immediately preceding the price determination date; and (ii) the latest audited net asset per share of the company, whichever is higher
First Tractor Company Limited* (38.HK) (601038.SH)	23 April 2020	Not lower than 80% of the average trading price of the A shares during the 20 trading days immediately preceding the price determination date
The Company (2866.HK) (601866.SH)	27 January 2021	Not lower than (i) 80% of the average trading price of the A shares during the 20 trading days immediately preceding the price determination date; and (ii) the latest audited net asset per share of the company, whichever is higher

Note: As the resolutions regarding the proposed non-public issuance dated 21 December 2020 were not passed at Suntien's A Share class meeting, the proposal was not implemented. Another proposal of non-public issuance of A Shares was announced by Suntien on 5 March 2021.

Except for the Revised Pricing Criteria, we notice that the pricing mechanism of six out of nine Transaction Comparables included additional pricing basis, being the latest audited net asset value per share, representing the minimum issue price in the event that the market price of A shares trades below their net asset value per share. Therefore, we consider that the basis in determining the issue price of the Proposed Non-public Issuance of A Shares is not less favourable than those of the Transaction Comparables and hence is on normal commercial terms and is fair and reasonable as far as the Independent Shareholders are concerned.

Lock-up period

As mentioned in the New Decisions, the shares which will be subscribed by the listed companies' controlling shareholder, beneficial owner, or their controlled enterprise person shall not be transferred for an 18-month period while all other target subscribers shall not transfer the A Shares subscribed under the non-public issuance of A shares within six months from the date of completion.

According to the terms of the Proposed Non-public Issuance of A Shares and the CS Subscription Agreement, China Shipping shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within 36 months from the date of completion of the Proposed Non-public Issuance of A Shares while all other target subscribers shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within six months from the date of completion of the Proposed Non-public Issuance of A Shares, which follows the requirement under the New Decisions.

Having considered that (i) a lock-up arrangement is required by the New Decisions; and (ii) the Proposed Non-public Issuance of A Shares' lock-up arrangement for China Shipping's subscription will be stricter than the lock-up arrangement for independent investors' subscription (i.e. six months), we consider that such arrangement is on normal commercial term and fair and reasonable.

Having considered the above, in particular, (i) the issue price and the subscription price follows the Revised Pricing Criteria; and (ii) the lock up arrangement under the Proposed Non-public Issuance of A Shares and the CS Subscription Agreement follows the requirement under the New Decisions, we are of the view that the terms of the Proposed Non-public Issuance of A Shares and the CS Subscription Agreement are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned.

5. Financing Alternatives of the Company

As advised by the Directors, other than the issuance of the Consideration Shares and the Proposed Non-public Issuance of A Shares, the Company has considered the feasibility of other fundraising methods such as internal resources, debt financing and other forms of equity financing for the Proposed Acquisition and the Proposed Non-public Issuance of A Shares.

(i) Internal resources

As advised by the Directors, they have considered using internal resources to settle the consideration payable under Acquisition Agreement (as supplemented by the Supplemental Agreement) and to finance the plans under the Proposed Non-public Issuance of A Shares. However, we are given to understand that it is important to maintain sufficient cash resources for its day-to-day business in view of the impact of the COVID-19 pandemic. As such, the Directors consider that it is not appropriate to use the Group's internal resources to settle the consideration under the Proposed Acquisition and to finance the plans under the Proposed Non-public Issuance of A Shares.

(ii) Debt financing

The Directors are of the view that debt financing might not be the most practicable financing plan for the Group to meet its capital needs, as financing through bank borrowing may involve lengthy negotiation with banks, and will incur higher finance costs to the Group. According to the 2020 Annual Report, the Group's net gearing ratio (i.e. total debts less cash and cash equivalents over total equity) was approximately 402% and further raising capital from debt financing may lead to increase in the Company's gearing position. In addition, taking into account the current gearing level of the Group and the net current liabilities of the Group as at 31 December 2020, the Directors considered that further debt financing eventually may increase the Group's financial risks, and worsen the Group's ability to continue as going concern and competitiveness in the industry.

(iii) Other equity financing alternatives

As advised by the Directors, the Company has also considered other means of equity financing including H Shares equity financing such as private placement, rights issue, or open offer. However, given that the issued H Share capital of the Company is significantly lower than the issued A Share capital of the Company, the expected size of fund to be raised will be less than approximately RMB1,464,000,0000. In addition, there is a significant premium of the price of A Shares trading on the Shanghai Stock Exchange over the price of H Shares trading on the Hong Kong Stock Exchange. If the Company conducts a fund-raising exercise by issuing both new A Shares and new H Shares, assuming a pricing basis of not less than the average trading price of the A Share in the 20 trading days preceding the base day, the issue price will represent a premium over the historical trading prices of H Shares which the H Shareholders are not likely to subscribe the new H Shares.

Referring to the chart as set out in section headed "3.3 Assessment on the fairness and reasonableness on the issue price of the Consideration Shares" of this letter, which also illustrates a comparison between the daily closing prices of the A Share and the daily closing price of the H Share (presented in RMB equivalent based on an exchange rate of RMB1 to HK1.187) for the Review Period. During the Review Period, the closing prices of the H Share were in the range of HK$0.72 (or approximately RMB0.61) to HK$1.72 (or approximately RMB1.45) as per H Share and the closing prices of the A Share were in the range of RMB1.82 to RMB3.44 as per A Share during the Review Period.

In other words, the closing prices of H shares were lower than those of A Shares during the Review Period. If the Company were to conduct a fund-raising exercise by issuance of new H Shares with a proceed of approximately RMB1,464,000,000, assuming that an equivalent pricing basis is adopted to determine the benchmark price for the H Shares issuance, the number of H Shares to be issued will be substantially more than that required for the Proposed Non-public Issuance of A Shares and the Consideration Shares. This would lead to a greater dilution effect on the shareholding of the existing Shareholders and would not be in the interests of the Independent Shareholders.

As for the issuance of A Shares under the public channel and the non-public channel, the Company has taken into account the regulatory requirement set forth in "Regulatory Requirements for Guiding and Regulating the Financing Behavior of Listed Companies (Revised Edition)" (《關於引導規範上市公司融資行為的監管要求(修訂版)》) published by the CSRC on 14 February 2020, where a listed company conduct fundraising through means other than non-public issuance or placement of shares and preferred shares or issuance to designated persons assigned by the board of directors, the proportion used in supplement of working capital and debt repayment shall not exceed 30% of the total amount of funds raised. Taking into account the Company's intention to use approximately RMB890 million, which accounted for approximately 60.8% of the fund raised, to replenish the working capital of the Company with an aim to enhance its overall financial position, equity financing through public issuance of A Share would not be an appropriate fund-raising method for the Group.

Based on the above, in particular, (i) it is the Group's intention to maintain sufficient cash resources for its day-to-day operations; (ii) debt financing might not be appropriate, taking into account the net current liabilities of the Group and net gearing ratio of the Group of approximately 402% as at 31 December 2020; (iii) the issued H Share capital of the Company is significantly lower than the issued A Share capital of the Company; (iv) the greater dilution effect to the shareholding of the existing Shareholders if the Company conducts a fund-raising exercise by issuance of new H Shares in Hong Kong with a proceed of RMB1,464,000,000 with the same pricing basis as the Proposed

Non-public Issuance of A Shares; and (v) issuance of A Shares under the public channel may not be appropriate as the Company intends to use approximately 60.8% of the fund raised to replenish the working capital of the Company, we concur with the Directors' view that it is in the interests of the Company and the Shareholders as a whole to raise funds by the issue of Consideration Shares to settle the consideration payable under the Acquisition Agreement (as supplemented by the Supplemental Agreement) and the Proposed Non-public Issuance of A Shares (including the subscription of A Shares by China Shipping).

6. Possible Effects of the Proposed Acquisition and the Proposed Non-Public Issuance of A Shares

6.1 Possible dilution to the shareholding of the existing Shareholders

As at the Latest Practicable Date, (i) the total issued share capital of the Company is 11,608,125,000 Shares, which comprises 7,932,125,000 A Shares (inclusive of 79,627,003 A Shares repurchased and held by the Company as treasury shares for implementation of the A Share Option Incentive Scheme pursuant to the Company Law of the PRC and the Articles of Association, further details of which are set out in the announcement of the Company dated 24 January 2019 and the circular of the Company dated 1 February 2019) and 3,676,000,000 H Shares; and (ii) there are 79,627,003 outstanding Share Options granted under the A Share Option Incentive Scheme, upon exercise of which, 79,627,003 A Shares will be transferred by the Company (out of the aforementioned treasury shares of the Company) to the holders of the Share Options. The exercise of the Share Options will not result in any change in the total issued share capital of the Company.

For illustration purpose, set out below is the shareholding structure of the Company:

(i) as at the Latest Practicable Date;

(ii) immediately after completion of the Proposed Acquisition (assuming that (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will not be paid prior to the issue of the Consideration Shares and there will not be any adjustments to the issue price of the Consideration Shares of RMB2.51 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement)); and

(iii) immediately after completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares (assuming that (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will not be paid prior to the issue of the Consideration Shares and there will not be any adjustments to the issue price of the Consideration Shares of RMB2.51 per Consideration Share; (b) the issue price of the Proposed Non-public Issuance of A Shares is the same as the issue price of the Consideration Shares; (c) the total amount of ancillary funds to be raised under the Proposed Non-public Issuance of A Shares will be RMB1,464,000,000, of which, RMB600,000,000 will be subscribed by China Shipping and the remaining RMB864,000,000 will be subscribed by other independent third parties; and (d) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement) and under the Proposed Non-public Issuance of A Shares):

		Shareholding as at the Latest Practicable Date			Shareholding immediately after completion of the Proposed Acquisition			Shareholding immediately after completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares		
Name of Shareholder	Class of Shares	Number of Shares	Approximate percentage of the issued A Share capital *(%)*	Approximate percentage of the total issued share capital *(%)*	Number of Shares	Approximate percentage of the issued A Share capital *(%)*	Approximate percentage of the total issued share capital *(%)*	Number of Shares	Approximate percentage of the issued A Share capital *(%)*	Approximate percentage of the total issued share capital *(%)*
COSCO SHIPPING, its associates and parties acting in concert with it *(Note 1)*										
COSCO SHIPPING	A	47,570,789	0.60	0.41	47,570,789	0.51	0.37	47,570,789	0.48	0.35
China Shipping	A	4,410,624,386	55.60	38.00	4,410,624,386	47.17	33.86	4,649,668,210	46.80	34.16
COSCO SHIPPING Investment	A	–	–	–	1,419,074,539	15.18	10.89	1,419,074,539	14.28	10.43
Ocean Fortune	H	100,944,000	–	0.87	100,944,000	–	0.77	100,944,000	–	0.74
Asset Management Plan *(Note 2)*	H	6,900,000	–	0.06	6,900,000	–	0.05	6,900,000	–	0.05
Sub-total *(Note 3)*		**4,566,039,175**	**-**	**39.33**	**5,985,113,714**	**-**	**45.94**	**6,224,157,538**	**-**	**45.73**
Treasury shares held by the Company	A	79,627,003	1.00	0.69	79,627,003	0.85	0.61	79,627,003	0.80	0.59
Public A Shareholders	A	3,394,302,822	42.80	29.25	3,394,302,822	36.30	26.06	3,738,525,930	37.63	27.47
Public H Shareholders	H	3,568,156,000	–	30.74	3,568,156,000	–	27.39	3,568,156,000	–	26.22
Total *(Note 3)*		**11,608,125,000**	**-**	**100.00**	**13,027,199,539**	**-**	**100.00**	**13,610,466,471**	**-**	**100.00**

Notes:

1. *As at the Latest Practicable Date, 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company, are held by COSCO SHIPPING, 4,410,624,386 A Shares, representing approximately 38.00% of the total issued share capital of the Company, are held by China Shipping, and 100,944,000 H Shares, representing approximately 0.87% of the total issued share capital of the Company, are held by Ocean Fortune, an indirect wholly-owned subsidiary of COSCO SHIPPING.*

2. *As at the Latest Practicable Date, 6,900,000 H Shares, representing approximately 0.06% of the total issued share capital of the Company, are held under the Asset Management Plan voluntarily invested by Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui (each of whom is an executive Director) and certain other existing and former supervisor, senior management and employees of the Company, who are considered to be acting in concert with COSCO SHIPPING.*

3. *The approximate percentage figures are rounded to the nearest two decimal places and therefore, may not add up to 100% due to rounding.*

Based on the above, immediately after completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares, (i) the shareholding of the public A Shareholders will be decreased from approximately 29.25% to approximately 27.47%; and (ii) the shareholding of the public H Shareholders will be decreased from approximately 30.74% to approximately 26.22%.

As set out in the Letter from the Board, if the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will be paid prior to the issue of the Consideration Shares, the issue price of the Consideration Shares will be adjusted to RMB2.46 per Consideration Share and the total number of Consideration Shares to be issued will be adjusted to 1,447,917,519 A Shares. In such circumstances, for illustration purpose, set out below is the shareholding structure of the Company:

(i) as at the Latest Practicable Date;

(ii) immediately after completion of the Proposed Acquisition (assuming that (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will be paid prior to the issue of the Consideration Shares and there will not be any further adjustments to the issue price of the Consideration Shares of RMB2.46 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement)); and

(iii) immediately after completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares (assuming that (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will be paid prior to the issue of the Consideration Shares and there will not be any further adjustments to the issue price of the Consideration Shares of RMB2.46 per Consideration Share; (b) the issue price of the Proposed Non-public Issuance of A Shares is the same as the issue price of the Consideration Shares; (c) the total amount of ancillary funds to be raised under the Proposed Non-public Issuance of A Shares will be RMB1,464,000,000, of which, RMB600,000,000 will be subscribed by China Shipping and the remaining RMB864,000,000 will be subscribed by other independent third parties; and (d) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement) and under the Proposed Non-public Issuance of A Shares):

		Shareholding as at the Latest Practicable Date			Shareholding immediately after completion of the Proposed Acquisition			Shareholding immediately after completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares		
Name of Shareholder	Class of Shares	Number of Shares	Approximate percentage of the issued A Share capital *(%)*	Approximate percentage of the total issued share capital *(%)*	Number of Shares	Approximate percentage of the issued A Share capital *(%)*	Approximate percentage of the total issued share capital *(%)*	Number of Shares	Approximate percentage of the issued A Share capital *(%)*	Approximate percentage of the total issued share capital *(%)*
COSCO SHIPPING, its associates and parties acting in concert with it *(Note 1)*										
COSCO SHIPPING	A	47,570,789	0.60	0.41	47,570,789	0.51	0.36	47,570,789	0.48	0.35
China Shipping	A	4,410,624,386	55.60	38.00	4,410,624,386	47.02	33.78	4,654,526,825	46.66	34.10
COSCO SHIPPING Investment	A	–	–	–	1,447,917,519	15.44	11.09	1,447,917,519	14.52	10.61
Ocean Fortune	H	100,944,000	–	0.87	100,944,000	–	0.77	100,944,000	–	0.74
Asset Management Plan *(Note 2)*	H	6,900,000	–	0.06	6,900,000	–	0.05	6,900,000	–	0.05
Sub-total *(Note 3)*		**4,566,039,175**	**-**	**39.33**	**6,013,956,694**	**-**	**46.06**	**6,257,859,133**	**-**	**45.84**
Treasury shares held by the Company	A	79,627,003	1.00	0.69	79,627,003	0.85	0.61	79,627,003	0.80	0.58
Public A Shareholders	A	3,394,302,822	42.80	29.25	3,394,302,822	36.19	26.00	3,745,522,334	37.55	27.44
Public H Shareholders	H	3,568,156,000	–	30.74	3,568,156,000	–	27.33	3,568,156,000	–	26.14
Total *(Note 3)*		**11,608,125,000**	**-**	**100.00**	**13,056,042,519**	**-**	**100.00**	**13,651,164,470**	**-**	**100.00**

Notes:

1. *As at the Latest Practicable Date, 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company, are held by COSCO SHIPPING, 4,410,624,386 A Shares, representing approximately 38.00% of the total issued share capital of the Company, are held by China Shipping, and 100,944,000 H Shares, representing approximately 0.87% of the total issued share capital of the Company, are held by Ocean Fortune, an indirect wholly-owned subsidiary of COSCO SHIPPING.*

2. *As at the Latest Practicable Date, 6,900,000 H Shares, representing approximately 0.06% of the total issued share capital of the Company, are held under the Asset Management Plan voluntarily invested by Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui (each of whom is an executive Director) and certain other existing and former supervisor, senior management and employees of the Company, who are considered to be acting in concert with COSCO SHIPPING.*

3. *The approximate percentage figures are rounded to the nearest two decimal places and therefore, may not add up to 100% due to rounding.*

Based on the above, immediately after completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares, (i) the shareholding of the public A Shareholders will be decreased from approximately 29.25% to approximately 27.44%; and (ii) the shareholding of the public H Shareholders will be decreased from approximately 30.74% to approximately 26.14%. Although there will be a dilution to the shareholding interest of existing public shareholders of H Shares as a result of the Proposed Non-public Issuance of A Shares, we have, however, taken into account (i) the reasons for and benefits of the Proposed Acquisition and Proposed Non-public Issuance of A Shares as set out in the sections headed "2. Reasons for and benefits of the Proposed Acquisition" and "4.3 Reasons for and benefits of the Proposed Non-public Issuance of A Shares; (ii) the alternative fund-raising methods available to the Company as set out in the section headed "5. Financing alternatives of the Company"; (iii) the fairness and reasonableness of the basis of determining the consideration payable under the Acquisition Agreement (as supplemented by the Supplemental Agreement) as set out in the sections headed "3.2 Assessment on the fairness and reasonableness of the consideration"; (iv) the fairness and reasonableness on the issue price of the Consideration Shares as set out in the sections headed "3.3 Assessment on the fairness and reasonableness on the issue price of the Consideration Shares"; and (v) the fairness and reasonableness of the basis of determining the issue price and subscription price of the A Shares to be issued as set out in the section headed "4.4 Fairness and reasonableness on the issue price and subscription price in relation to the Proposed Non-public Issuance of A Shares", we consider that the Proposed Acquisition and the Proposed Non-public Issuance of A Shares is an acceptable means of funds-raising by the Company and the shareholding dilution effects upon completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares is acceptable so far as the Independent Shareholders are concerned.

6.2 Financial effects to the Group

As disclosed in the Letter from the Board, upon completion of the Proposed Acquisition, each of the Target Companies will become a wholly-owned subsidiary of the Company and the financial information of the Target Companies will be consolidated into the consolidated financial statements of the Group. The unaudited pro forma financial information of the Enlarged Group as included in Appendix III to the Circular (the "**Pro Forma Financial Information**") has been prepared by the Directors for illustrative purposes only, based on their judgements, estimation and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Proposed Acquisition been upon completion in any future periods or any future dates.

(i) Earnings

According to the accountants' report on the Target Companies as set out in Appendix II-A to II-D to the Circular, all of the Target Companies were profit-making for the year ended 31 December 2020. Based on the Pro Forma Financial Information, as a result of the Proposed Acquisition, the Enlarged Group would record a net profit from continuing operation of approximately RMB1,451.7 million, as compared to a net profit from continuing operation of the Group of approximately RMB1,442.2 million for the year ended 31 December 2020. The actual effect on earnings or losses of the Group will depend on the future financial performance of the Target Companies.

As advised by the management of the Company, save for all relevant transaction costs and professional fees related to the Proposed Non-public Issuance of A Share, there will be no immediate effect on earnings arising from the Proposed Non-public Issuance of A Shares. However, having considered that part of the proceeds raised from the Proposed Non-public Issuance of A Shares will be used for the development of the Target Companies, the Directors consider that it may help to improve the sustainability of the Company.

(ii) Net assets value

As set out in the Pro Forma Financial Information, the unaudited pro forma net assets value of the Enlarged Group would be approximately RMB27.4 billion, representing an increase of approximately RMB3.0 billion when compared to the audited consolidated net assets value of the Group as at 31 December 2020 of approximately RMB24.4 billion. As noted above, it is expected to have a positive effect on the net assets value of the Group immediately following the Proposed Acquisition.

We note that the audited net assets value per Share attributable to the Shareholders (and excluding holders of other equity instruments) as at 31 December 2020 amounted to approximately RMB1.59 per Share (calculated based on 11,608,125,000 Shares in issue as at the Latest Practicable Date). Upon completion of the Proposed Acquisition, the number of Share in issue will increase to 13,027,199,539 (assuming that (i) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will not be paid prior to the issue of the Consideration Shares and there will not be any adjustments to the issue price of the Consideration Shares of RMB2.51 per Consideration Shares; and (ii) there will be no change in the total issued share capital of the Company and no exercise of Share Options since the Latest Practicable Date save for the issue of A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement)). On such basis, the unaudited pro forma net assets value per Share attributable to the Shareholders (and excluding holders of other equity instruments) will be approximately RMB1.64 per Share as at 31 December 2020.

The Directors expect that the Group's net assets value would also increase after completion of the Proposed Non-public Issuance of A Shares as the net proceeds from the Proposed Non-public Issuance of A Shares will bring in additional funds to the Group.

(iii) Effect of working capital

As stated in the Letter from the Board, the consideration of the Proposed Acquisition will be satisfied by the issuance and allotment of Consideration Shares by the Company to the vendor. Therefore, there will not be any cash flow burden of the Group arising from settlement of the consideration of the Proposed Acquisition. As stated in the Letter from the Board, the total amount of ancillary funds to be raised under the Proposed Non-public Issuance of A Share shall not be more than RMB1,464,000,000. Despite the final number of A Shares to be issued under the Proposed Non-public Issuance of A Shares will be determined and calculated upon determination and finalization of the issue price, the Proposed Non-public Issuance of A Shares is expected to have a positive effect on the bank and cash balances of the Group upon completion.

We note from the Pro Forma Financial Information, the Enlarged Group would have cash and cash equivalent balance of approximately RMB12.8 billion as at 31 December 2020 and as set out in the section headed "4. WORKING CAPITAL" in the Appendix I to the Circular, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements for the next 12 months from the date of this Circular taking into account the financial resources available to the Enlarged Group, including internally generated funds and available banking facilities.

(iv) Gearing

Based on the Pro Forma Financial Information, the gearing ratio (i.e. net debt over shareholders' equity) was 363% as compared to the gearing ratio of the Group of 402% as at 31 December 2020, mainly attributable to an increase in net assets value by RMB3 billion. As noted above, it is expected to have a positive effect on the gearing of the Group immediately following the Proposed Acquisition.

It is expected the Proposed Non-public Issuance of A Shares will have a positive effect on the Group's gearing in view of the fact that additional funds will be brought to the Group without any increase in debt.

Based on the above, we concur with the Directors' view that the Proposed Acquisition and the Proposed Non-public Issuance of A Shares would have an overall positive effect on the financial position of the Group. It should be noted that the aforementioned analysis is for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares.

7. The Whitewash Waiver

As at the Latest Practicable Date, COSCO SHIPPING and parties acting in concert with it control or are entitled to exercise control 39.61% of the voting rights in the Company. Immediately following completion of the Proposed Acquisition, assuming that:

(i) (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will not be paid prior to the issue of the Consideration Shares and there will not be any adjustments to the issue price of the Consideration Shares of RMB2.51 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement), the aggregate shareholding of and the aggregate voting rights held by COSCO SHIPPING and parties acting in concert with it in the Company will increase to approximately 45.94% and approximately 46.23%, respectively, representing the maximum shareholding and voting rights held by COSCO SHIPPING and parties acting in concert with it in the Company immediately following completion of the Proposed Acquisition based on the foregoing assumptions; and

(ii) (a) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will be paid prior to the issue of the Consideration Shares and there will not be any further adjustments to the issue price of the Consideration Shares of RMB2.46 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement), the aggregate shareholding of and the aggregate voting rights held by COSCO SHIPPING and the parties acting in concert with it in the Company will increase to approximately 46.06% and approximately 46.35%, respectively, representing the maximum shareholding and voting rights held by COSCO SHIPPING and the parties acting in concert with it in the Company immediately following completion of the Proposed Acquisition based on the foregoing assumptions.

The difference between the percentage of shareholding and the percentage of the voting rights is due to the 79,627,003 A Shares repurchased and held by the Company as treasury shares, which do not carry any voting rights, for implementation of the A Share Option Incentive Scheme.

Accordingly, upon completion of the Proposed Acquisition, pursuant to Rule 26.1 of the Takeovers Code, COSCO SHIPPING will be required to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by COSCO SHIPPING and parties acting in concert with it, unless the Whitewash Waiver from strict compliance with Rule 26.1 of the Takeovers Code is obtained from the Executive. An application has been made to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it is minded to grant the Whitewash Waiver subject to (i) the approval of the Whitewash Waiver by at least 75% of the independent votes that are cast either in person or by proxy at the EGM; and (ii) the approval of the Proposed Acquisition by more than 50% of the independent votes that are cast either in person or by proxy at the EGM as required under the Takeovers Code. The Proposed Acquisition will not proceed if the Whitewash Waiver is not obtained or if the Whitewash Waiver is not approved by the Independent Shareholders.

The Proposed Acquisition is conditional on, among other things, the granting of the Whitewash Waiver by the Executive and the approval of the Proposed Acquisition and the Whitewash Waiver by the Independent Shareholders at the EGM. Such condition precedent cannot be waived under the terms of the Acquisition Agreement (as supplemented by the Supplemental Agreement). If the Whitewash Waiver is not granted by the Executive or the Whitewash Waiver is not approved by the Independent Shareholders, the Acquisition Agreement will lapse and the Proposed Acquisition will not proceed. The approval of the Whitewash Waiver by the Independent Shareholders will be therefore necessary for the Group to proceed to the completion of the Proposed Acquisition.

Having considered the reasons for and benefits of the Proposed Acquisition as mentioned in the previous sections in this letter, in particular, (i) the reasons for and benefits of the Proposed Acquisition as set out in the sections headed "2. Reasons for and benefits of the Proposed Acquisition"; (ii) the alternative fund-raising methods available to the Company as set out in the section headed "5. Financing alternatives of the Company"; (iii) the fairness and reasonableness of the basis of determining the consideration payable under the Acquisition Agreement (as supplemented by the Supplemental Agreement) as set out in the sections headed "3.2 Assessment on the fairness and reasonableness of the consideration" and "3.3 Assessment on the fairness and reasonableness on the issue price of the Consideration Shares"; and (iv) the dilution effect to the Independent Shareholders as a result of the Proposed Acquisition is acceptable; we are of the view that the granting of the Whitewash Waiver, which is a condition precedent for the completion of the Proposed Acquisition, is fair and reasonable as far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

8. The Special Deal

According to the applicable PRC laws, regulations and regulatory requirements, foreign investors cannot subscribe in non-public issue of A shares of listed companies by way of cash unless they are approved qualified foreign institutional investors or foreign strategic investors. In order to ensure the independence of the H Shareholders, and after considering the relevant

PRC laws, regulations and regulatory requirements, the scope of the target subscribers under the Proposed Non-public Issuance of A Shares will exclude all the H Shareholders (including approved qualified foreign institutional investors, foreign strategic investors and approved PRC investors which could invest in H Shares, including the qualified domestic institutional investors and the southbound trading investors under the Shanghai-Hong Kong Stock Connect). According to the PRC Legal Advisers, the aforementioned scope of target subscribers is in compliance with the relevant PRC laws, regulations and regulatory requirements.

In addition, the identity of the target subscribers (other than China Shipping) cannot be pre-determined as at the Latest Practicable Date and will only be determined after completion of the price inquiry process in accordance with the requirements under the Rules for the Implementation of Non-public Issuance of A Shares by Listed Companies (《上市公司非公開發行股票實施細則》), which will only be conducted after the obtaining of the approval in respect of the Proposed Non-public Issuance of A Shares from the Shareholders at the EGM and the Class Meetings and the CSRC and the commencement of the Offering Period of the Proposed Non-public Issuance of A Shares in accordance with the relevant PRC laws and regulations. Pursuant to the Rules for the Implementation of Non-public Issuance of A Shares by Listed Companies (《上市公司非公開發行股票實施細則》), (i) investors who have submitted a letter of intent in respect of the Proposed Non-public Issuance of A Shares to the Company after the Announcement (which may or may not be a Shareholder); and (ii) the top 20 Shareholders as at the date immediately preceding the commencement of the Offering Period will be invited to subscribe for A Shares under the Proposed Non-public Issuance of A Shares, and their subscription (or any other subscriber who is a Shareholder) may be accepted by the Company. Accordingly, the Proposed Non-public Issuance of A Shares will constitute a Special Deal under Rule 25 of the Takeovers Code which is not capable of being extended to all Shareholders and requires the consent of the Executive. An application has been made by the Company to the Executive for its consent to the Special Deal pursuant to Rule 25 of the Takeovers Code.

Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly stating that in its opinion, the terms of the Special Deal are fair and reasonable and (ii) the approval of the Special Deal by the Independent Shareholders by way of poll at the H Share Class Meeting. COSCO SHIPPING and parties acting in concert with it (including the participants of the Asset Management Plan in respect of the H Shares held thereunder) and those who are involved in or interested in the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal will be required to abstain from voting on the resolution to be proposed at the H Shares Class Meeting to approve the Special Deal. If such consent is not obtained or if the Special Deal is not approved by the Independent Shareholders, the Proposed Acquisition, the Proposed Non-public Issuance of A Shares and the CS Subscription will not proceed.

As set out in the Letter from the Board, we are given to understand that;

(i) Pursuant to Rules 23 and 24 of the Rules for the Implementation of Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》), where the board resolution of the company has not identified specific target subscribers for the non-public issuance of shares, the sponsor, being the PRC independent financial adviser (the lead underwriter) of the Company in respect of the Proposed Non-public Issuance of A Shares, shall issue invitation for subscription to eligible specific target subscribers after obtaining approval documents from the CSRC and on the date immediately preceding the commencement of the offering period in respect of the issuance. The list of eligible specific target subscribers shall include: (i) investors who have submitted a letter of intent after the announcement of the board resolution by the company (which may or may not be a shareholder); (ii) the top 20 shareholders of the company as at the date immediately preceding the commencement of the offering period; and (iii) not less than 20 securities investment fund management companies, 10 securities companies and five insurance institutional investors, which are eligible under the Measures for the Administration of Securities Offering and Underwriting (《證券發行與承銷管理辦法》).

(ii) According to the relevant provisions such as the Rules for the Implementation of the Non-public Issuance of A Shares by Listed Companies (《上市公司非公開發行股票實施細則》), the final price will be determined by negotiations between the Board and its authorized person(s) with the authorization by the Shareholders at the EGM and the Class Meetings and the PRC independent financial adviser (the lead underwriter) based on the price inquiry results in accordance with the relevant PRC laws and regulations.

    Pursuant to the Letter from the Board, China Shipping will not participate in the price inquiry exercise for the Proposed Non-public Issuance of A Shares, but will accept the price inquiry results and subscribe for the A Shares at the same issue price as other target subscribers.

(iii) the H Shareholders (other than China Shipping) are not entitled to subscribe for A Shares under the Proposed Non-public Issuance of A Shares; and

(iv) COSCO SHIPPING and its associates and parties acting in concert with it (including the participants of the Asset Management Plan in respect of the H Shares held thereunder) and those who are involved in or interested in the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal will be required to abstain from voting on the relevant resolutions to be proposed at the EGM, the A Shares Class Meeting and/or the H Shares Class Meeting. In particular, (i) each of COSCO SHIPPING, China Shipping, Ocean Fortune and the Asset Management Plan will abstain from voting on the relevant resolutions to be proposed at the EGM; (ii) each of COSCO SHIPPING and China Shipping will abstain from voting on the relevant resolutions to be proposed at the A Shares Class Meeting; and (iii) each of Ocean Fortune and the Asset Management Plan will abstain from voting on the relevant resolutions to be proposed at the H Shares Class Meeting.

Taking into account (i) the Special Deal is in compliance with the Rules for the Implementation of Non-public Issuance of A Shares by Listed Companies (《上市公司非公開發行股票實施細則》); (ii) China Shipping will not participate in pricing exercise for the Proposed Non-public Issuance of A Shares, but will accept results of market inquiry and subscribe for the A Shares at the same subscription price as other target subscribers; (iii) all the A Shareholders, who are interested to participate in the Proposed Non-public Issuance of A Shares, are entitled to express interest and participate to subscribe; (iv) all the H Shareholders are not entitled to subscribe for A Shares under the Proposed Non-public Issuance of A Shares to ensure the independence of H Shareholders; (v) COSCO SHIPPING and its associates and parties acting in concert with it (including the participants of the Asset Management Plan in respect of the H Shares held thereunder) and those who are involved in or interested in the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal will be required to abstain from voting on the relevant resolutions to be proposed at the EGM, the A Shares Class Meeting and/or the H Shares Class Meeting; (vi) greater dilution effect to the shareholding of the existing Shareholders would be resulted if the Company conducts a fund-raising exercise by issuance of new H Shares in Hong Kong; and (vii) all Independent Shareholders are entitled to vote at the EGM and the Class Meetings for or against the special resolution in relation to the Special Deal, we are of the view that the approval of the Special Deal by the Independent Shareholders at the EGM and/or the Class Meetings is fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

CONCLUSION AND RECOMMENDATION

Having taken into account the above-mentioned principal factors and reasons, including:

- the analysis on the financial performance and financial position of the Group as set out in sections headed "1.2 Financial performance of the Group", "1.3 Financial position of the Group and "1.4 Our observations";

- the reasons for and benefits of the Proposed Acquisition as set out in the section headed "2. Reasons for and benefits of the Proposed Acquisition";

- the fairness and reasonableness of the terms of the Acquisition Agreement (as supplemented by the Supplemental Agreement) as discussed in the sections headed "3. Key terms of the Acquisition Agreement and the Supplemental Agreement"; "3.1 Final consideration of the Proposed Acquisition", "3.2 Assessment on the fairness and reasonableness of the consideration"; "3.3 Assessment on the fairness and reasonableness on the issue price of the Consideration Shares", and "3.4 Assessment of the fairness and reasonableness of other terms of the Acquisition Agreement, Supplemental Agreement and the Compensation Agreement";

- the fairness and reasonableness of the terms of the Proposed Non-public Issuance of A Shares and the CS Subscription Agreement as set out in the section headed "4.4 Fairness and reasonableness on the issue price and subscription price in relation to the Proposed Non-public Issuance of A Shares";

- the reasons for and benefits of the Proposed Non-public Issuance of A Shares and the CS Subscription Agreement as set out in the section headed "4.3 Reasons for and benefits of the Proposed Non-public Issuance of A Shares";

- the issue of the Consideration Shares and the Proposed Non-public Issuance of A Shares are reasonable financing means available to the Group as compared to debt financing and other means of equity financing;

- the dilution effect to the Independent Shareholders as a result of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares is acceptable;

- the Proposed Acquisition and the Proposed Non-public Issuance of A Shares would have an overall positive effect on the financial position of the Group;

- the analysis on fairness and reasonableness of granting the Whitewash Waiver as set out in the section headed "7. The Whitewash Waiver", and

- the analysis on fairness and reasonableness of the Special Deal as set out in the section headed "8. The Special Deal",

we are of the opinion that while the Proposed Acquisition and Proposed Non-public Issuance of A Shares are not conducted in the ordinary and usual course of business of the Group, the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and the Special Deal are in the interests of the Company and the Shareholders as a whole, and the terms of the Acquisition Agreement (as supplemented by the Supplemental Agreement) and the Proposed Non-public Issuance of A Shares and the CS Subscription Agreement, the Whitewash Waiver and the Special Deal are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders concerned.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Wavier and the Special Deal to be proposed at the EGM and the Class Meetings.

* *For identification purpose only*

Yours faithfully,
For and on behalf of
Messis Capital Limited

Thomas Lai	**Vincent Cheung**
Chief Executive Officer	*Managing Director*

Mr. Thomas Lai is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Messis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.

Mr. Vincent Cheung is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Messis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 12 years of experience in corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

Summary of financial results

The Group

The following is a summary of (i) the audited consolidated financial results of the Group for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020, as extracted from the annual reports of the Company for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 and which were prepared in accordance with Hong Kong Financial Reporting Standards; and (ii) the unaudited consolidated financial results of the Group for each of the three months ended 31 March 2020 and 31 March 2021, as extracted from the announcement of the Company dated 29 April 2021 in relation to the first quarterly report and which were prepared in accordance with the Generally Accepted Accounting Principles of the PRC.

The auditors' reports issued by the auditors of the Company, Ernst & Young, in respect of the audited consolidated financial statements of the Group for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

Save as disclosed below, there was no item of any income or expense which was material in respect of the consolidated financial results of the Group for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 and for each of the three months ended 31 March 2020 and 31 March 2021.

Summary of consolidated financial results of the Group for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 which were prepared in accordance with Hong Kong Financial Reporting Standards

	For the year ended 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Audited)*
		(Restated)	*(Restated)*
CONTINUING OPERATIONS			
REVENUE	14,421,919	9,665,682	12,020,213
Cost of sales	(10,834,932)	(7,202,187)	(9,615,277)
Gross profit	3,586,987	2,463,495	2,404,936
Other income	286,950	330,133	393,967
Other gains/(loses), net	155,593	919,235	(272,695)
Selling and administrative expenses	(1,373,487)	(1,178,677)	(930,121)
Expected credit losses	(622,339)	(417,563)	(289,157)
Finance costs	(2,253,120)	(3,540,784)	(3,406,547)
Share of profits/(losses) of:			
Associates	1,985,148	2,292,840	2,314,450
Joint ventures	(4,774)	(1,077)	6,467

	For the year ended 31 December		
	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Audited)*
		(Restated)	*(Restated)*
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	1,760,958	867,602	221,300
Income tax expenses	(318,773)	(199,749)	(356,208)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	1,442,185	667,853	(134,908)
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	688,086	1,076,880	1,571,183
PROFIT FOR THE YEAR	2,130,271	1,744,733	1,436,275
Attributable to:			
Owners of the parent	2,130,271	1,744,733	1,384,257
Non-controlling interests	–	–	52,018
	2,130,271	1,744,733	1,436,275
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (expressed in RMB per share)			
Basic and diluted			
– For profit for the year	0.1556	0.1285	0.1000
– For profit from continuing operations	0.0964	0.0355	0.1000
PROFIT FOR THE YEAR	2,130,271	1,744,733	1,436,275
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Associates:			
Share of other comprehensive (loss)/income	(173,894)	302,336	177,395
Reclassification to profit or loss	(168,459)	–	–
	(342,353)	302,336	177,395

	For the year ended 31 December		
	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Audited)*
		(Restated)	*(Restated)*
Share of other comprehensive loss of joint ventures	(12)	(59)	51
Effective portion of cash flow hedges	(11,751)	(30,084)	2,775
Exchange differences on translation of foreign operations	684,783	(187,211)	(581,687)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	330,667	84,982	(401,466)
Other comprehensive income that may not be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive (loss)/income of associates	(13,390)	51,295	(39,256)
Net other comprehensive (loss)/income that may not be reclassified to profit or loss in subsequent periods	(13,390)	51,295	(39,256)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	317,277	136,277	(440,722)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,447,548	1,881,010	995,553
Attributable to:			
Owners of the parent	2,447,548	1,881,010	943,535
Non-controlling interests	–	–	52,018
	2,447,548	1,881,010	995,553
DIVIDENDS	645,596	518,782	384,035
PROPOSED FINAL DIVIDEND (RMB) PER ORDINARY SHARE	0.056	0.045	0.033

Summary of consolidated financial results of the Group for each of the three months ended 31 March 2020 and 31 March 2021 which were prepared in accordance with the Generally Accepted Accounting Principles of the PRC

Item		For the three months ended 31 March	
		2021	**2020**
		RMB	*RMB*
		(Unaudited)	*(Unaudited)*
I.	**Total operating revenue**	5,278,855,022.04	3,455,372,160.49
	Including: Revenue from operations	5,267,071,876.84	3,443,612,007.07
	Interest income	–	–
	Premiums earned	–	–
	Handling charges and commission income	11,783,145.20	11,760,153.42
II.	**Total cost of sales**	4,732,966,323.42	3,329,331,430.51
	Including: Operating cost	4,048,740,165.65	2,423,874,894.68
	Interest expenses	–	–
	Handling charges and commission expenses	–	–
	Surrender payment	–	–
	Net expenditure for compensation payments	–	–
	Net provision for insurance liability	–	–
	Policyholder dividend expenses	–	–
	Reinsurance costs	–	–
	Taxes and surcharges	32,317,100.71	12,095,231.67
	Selling expenses	1,391,738.70	3,021,386.28
	Administrative expenses	309,229,825.05	246,990,580.50
	Research and development expenses	2,359.07	–
	Finance costs	341,285,134.24	643,349,337.38
	Including: Interest expenses	368,085,721.36	680,881,076.46
	Interest income	17,451,489.52	34,417,404.67
	Add: Other gains	1,986,226.52	9,749,405.14
	Investment income (loss is represented by "-")	552,125,297.97	529,765,831.20
	Including: Gains from investment in associates and joint ventures	493,232,927.18	519,009,505.82
	Derecognition gains on financial assets measured at amortized cost	–	–
	Gains from foreign currency exchange (loss is represented by "-")	–	–

Item		For the three months ended 31 March	
		2021	**2020**
		RMB	*RMB*
		(Unaudited)	*(Unaudited)*
	Gains from net exposure to hedging (loss is represented by "-")	–	–
	Gains from changes in fair value (loss is represented by "-")	-18,245,655.12	-217,042,559.99
	Credit impairment loss (loss is represented by "-")	-122,634,927.05	-78,037,364.77
	Asset impairments loss (loss is represented by "-")	–	–
	Gains from disposal of assets (loss is represented by "-")	2,469,652.25	6,725,467.06
III.	**Profit from operations (loss is represented by "-")**	961,589,293.19	377,201,508.62
	Add: Non-operating income	217,183.06	269,754.82
	Less: Non-operating expenses	30,040,215.18	5,010,160.07
IV.	**Total profit (total loss is represented by "-")**	931,766,261.07	372,461,103.37
	Less: Income tax expenses	104,262,668.78	30,503,369.82
V.	**Net profit (net loss is represented by "-")**	827,503,592.29	341,957,733.55
	(I) Classified by continuity of operation		
	1. Net profit from continuing operations (net loss expressed with "-")	827,503,592.29	341,957,733.55
	2. Net profit from discontinued operations (net loss expressed with "-")	–	–
	(II) Classified by ownership of equity		
	1. Net profit attributable to owners of the parent company (net loss expressed with "-")	827,503,592.29	341,957,733.55
	2. Gains or losses of minority interests (net loss expressed with "-")	–	–

Item	For the three months ended 31 March 2021 RMB (Unaudited)	2020 RMB (Unaudited)
VI. Net other comprehensive income after taxes	-48,131,937.40	-108,436,282.78
(I) Net other comprehensive income attributable to owners of the parent company after taxes	-48,131,937.40	-108,436,282.78
1. Items that may not be reclassified to profit or loss	-2,721,279.90	–
(1) Changes from the re-measurement of defined benefit plans	–	–
(2) Other comprehensive income that may not be reclassified to profit or loss under the equity method	-2,721,279.90	–
(3) Changes in fair value of investments in other equity instruments	–	–
(4) Changes in fair value of enterprise's own credit risk	–	–
2. Items that may be reclassified to profit or loss	-45,410,657.50	-108,436,282.78
(1) Other comprehensive income that may be reclassified to profit or loss under the equity method	-43,642,741.96	77,329,885.86
(2) Changes in fair value of other debt investments	–	–
(3) Financial assets reclassified into other comprehensive income	–	–
(4) Credit impairment provision for other debt investments	–	–
(5) Reserve for cash flow hedging	16,012,773.34	-17,195,709.29
(6) Exchange differences from translation of financial statements	-17,780,688.88	-168,570,459.35
(7) Others	–	–
(II) Net other comprehensive income attributable to minority interests after taxes	–	–

Item		For the three months ended 31 March	
		2021	**2020**
		RMB	*RMB*
		(Unaudited)	*(Unaudited)*
VII.	**Total comprehensive income**	779,371,654.89	233,521,450.77
	(I) Total comprehensive income attributable to owners of the parent company	779,371,654.89	233,521,450.77
	(II) Total comprehensive income attributable to minority shareholders	–	–
VIII.	**Earnings per share:**		
	(I) Basic earnings per share (RMB per share)	0.06680	0.02490
	(II) Diluted earnings per share (RMB per share)	0.06680	0.02490

No dividend was proposed or paid by the Company for the three months ended 31 March 2020 and the three months ended 31 March 2021.

The Target Group

The following is a summary of the audited financial results of DFIC Qidong, the DFIC Qingdao Group, DIFC Ningbo and Universal Technology for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020, as extracted from the accountants' report of the Target Companies set out in Appendices II-A to II-D to this Circular.

Save as disclosed below, there was no item of any income or expense which was material in respect of the financial results of DFIC Qidong, the DFIC Qingdao Group, DIFC Ningbo and Universal Technology for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020.

Summary of statements of profits or loss and other comprehensive income of DFIC Qidong for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 which were prepared in accordance with Hong Kong Financial Reporting Standards

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
REVENUE	3,967,331	2,059,798	4,200,705
Cost of sales	(3,733,698)	(2,173,775)	(3,864,419)
Gross profit	233,633	(113,977)	336,286
Other income	7,946	5,637	4,675
Other gains/(losses), net	52,509	(46,608)	(33,802)
Selling, administrative and general expenses	(201,791)	(80,377)	(117,542)
Expected credit losses	–	(7,257)	1,516
Other expenses	(527)	(61)	(49)
Finance costs	(11,235)	(11,807)	(30,133)
PROFIT/(LOSS) BEFORE TAX	80,535	(254,450)	160,951
Income tax (expense)/credit	(20,134)	2,130	–
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	60,401	(252,320)	160,951
Attributable to:			
Owners of the parent	60,401	(252,320)	160,951
Non-controlling interests	–	–	–
	60,401	(252,320)	160,951

No dividend was proposed or paid by DFIC Qidong for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020. As DFIC Qidong is a limited liability company established in the PRC which does not have a share capital, earnings per share is not applicable.

Summary of consolidated statements of profits or loss and other comprehensive income of the DFIC Qingdao Group for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 which were prepared in accordance with Hong Kong Financial Reporting Standards

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
REVENUE	1,643,952	2,086,017	2,585,263
Cost of sales	(1,583,979)	(2,069,917)	(2,321,683)
Gross profit	59,973	16,100	263,580
Other income	1,276	3,709	44,082
Other gains/(losses), net	10,552	(23,406)	(38,544)
Selling, administrative and general expenses	(58,424)	(69,438)	(110,037)
Expected credit losses	–	(1,977)	(3,039)
Other expenses	(613)	(7,164)	(80)
Finance costs	(679)	(4,462)	(27,852)
PROFIT/(LOSS) BEFORE TAX	12,085	(86,638)	128,110
Income tax expense	(2,248)	(17)	(10,746)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	9,837	(86,655)	117,364
Attributable to:			
Owners of the parent	9,837	(86,655)	117,364
Non-controlling interest	–	–	–
	9,837	(86,655)	117,364
DIVIDENDS	63,352	–	331,603

No dividend was proposed or paid by DFIC Qingdao for the year ended 31 December 2019. As DFIC Qingdao is a limited liability company established in the PRC which does not have a share capital, earnings per share and dividend per share are not applicable.

Summary of statements of profits or loss and other comprehensive income of DFIC Ningbo for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 which were prepared in accordance with Hong Kong Financial Reporting Standards

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
REVENUE	2,135,077	1,188,147	1,322,117
Cost of sales	(1,948,646)	(1,202,120)	(1,218,792)
Gross profit	186,431	(13,973)	103,325
Other income	6,431	4,961	5,303
Other gains, net	23,523	13,693	(15,477)
Selling, administrative and general expenses	(73,383)	(53,464)	(39,076)
Expected credit losses	–	(9)	(8)
Other expenses	(100)	–	(137)
Finance costs	(5,433)	(7,114)	(18,692)
PROFIT/(LOSS) BEFORE TAX	137,469	(55,906)	35,238
Income tax expense	(34,909)	(2,208)	(4,794)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	102,560	(58,114)	30,444
Attributable to:			
Owners of the parent	102,560	(58,114)	30,444
Non-controlling interests	–	–	–
	102,560	(58,114)	30,444

No dividend was proposed or paid by DFIC Ningbo for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020. As DFIC Ningbo is a limited liability company established in the PRC which does not have a share capital, earnings per share is not applicable.

Summary of statements of profits or loss and other comprehensive income of Universal Technology for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 which were prepared in accordance with Hong Kong Financial Reporting Standards

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
REVENUE	46,968	31,320	91,835
Cost of sales	–	(63)	(45)
Gross profit	46,968	31,257	91,790
Other income	555	915	538
Other gains/(losses), net	–	24	(32)
Selling, administrative and general expenses	(29,626)	(31,951)	(83,542)
Other expenses	–	(4)	(486)
Finance costs	–	–	(135)
PROFIT BEFORE TAX	17,897	241	8,133
Income tax expense	–	–	(1,548)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	17,897	241	6,585
Attributable to:			
Owners of the parent	17,897	241	6,585
Non-controlling interests	–	–	–
	17,897	241	6,585

No dividend was proposed or paid by Universal Technology for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020. As Universal Technology is a limited liability company established in the PRC which does not have a share capital, earnings per share is not applicable.

Consolidated financial statements

The Company is required to set out or refer to in this circular the consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in the audited consolidated financial statements of the Group for the year ended 31 December 2018 (the "**2018 Financial Statements**"), the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the "**2019 Financial Statements**"), the audited consolidated financial statements of the Group for the year ended 31 December 2020 (the "**2020 Financial Statements**"), and the unaudited consolidated financial statements of the Group for the three months ended 31 March 2021 (the "**2021 First Quarterly Report**"), together with the significant accounting policies and the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The 2018 Financial Statements are set out from pages 86 to 212 in the annual report of the Company for the year ended 31 December 2018 (the "**2018 Annual Report**"), which was published on 26 April 2019. The 2018 Annual Report is posted on the website of the Company (http://development.coscoshipping.com) and the Hong Kong Stock Exchange (www.hkexnews.hk) and is accessible via the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn20190426653.pdf

The 2019 Financial Statements are set out from pages 91 to 220 in the annual report of the Company for the year ended 31 December 2019 (the "**2019 Annual Report**"), which was published on 27 April 2020. The 2019 Annual Report is posted on the website of the Company (http://development.coscoshipping.com) and the Hong Kong Stock Exchange (www.hkexnews.hk) and is accessible via the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042700731.pdf

The 2020 Financial Statements are set out from pages 99 to 230 in the annual report of the Company for the year ended 31 December 2020 (the "**2020 Annual Report**"), which was published on 23 April 2021. The 2020 Annual Report is posted on the website of the Company (http://development.coscoshipping.com) and the Hong Kong Stock Exchange (www.hkexnews.hk) and is accessible via the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0423/2021042300513.pdf

The 2021 First Quarterly Report published on 29 April 2021 is posted on the website of the Company (http://development.coscoshipping.com) and the Hong Kong Stock Exchange (www.hkexnews.hk) and is accessible via the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042902593.pdf

The 2018 Financial Statements, 2019 Financial Statements and 2020 Financial Statements (but not any other parts of the 2018 Annual Report, 2019 Annual Report or 2020 Annual Report in which they respectively appear) and the 2021 First Quarterly Report are incorporated by reference into this circular and form part of this circular.

2. STATEMENT OF INDEBTEDNESS

Debt securities and term loans

As at 31 March 2021, save as disclosed in respect of the borrowings and indebtedness of the Enlarged Group below, the Enlarged Group has no debt securities issued or outstanding, or authorized or otherwise created but unissued, and no term loans, distinguishing between guaranteed, unguaranteed, secured (whether the security is provided by the Enlarged Group or by independent third parties) or unsecured.

Borrowings and indebtedness

As at 31 March 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group has outstanding borrowings and indebtedness of approximately RMB114,505 million, comprising secured bank and other loans of approximately RMB32,640 million, unsecured bank and other loans of approximately RMB65,440 million, RMB bonds of approximately RMB16,308 million and lease liabilities of approximately RMB117 million.

Contingent liabilities

As at 31 March 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group has no material contingent liabilities or guarantees.

Mortgages and charges

As at 31 March 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group's general banking facilities and the above outstanding secured borrowings were secured by the Group's property, plant and equipment, certain equity investments and certain bank deposits.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, bank loans and overdrafts or other similar borrowings or indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities as at 31 March 2021.

The Directors confirm that there was no material change in the indebtedness status of the Enlarged Group since 31 March 2021 up to the Latest Practicable Date.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In 2021, it is expected that the global economy will gradually recover, and China's economy will steadily continue its positive growth. The supply-demand balance in the shipping market is expected to improve, and the global trade landscape will see structural changes. Financial market regulation is moving towards a well-established risk control mechanism with tightening financial policies. In the future, the normalization of epidemic prevention and control and changes in economic policies of major economies will present new uncertainties, and global economy and trade will reach a new balance. Currently, the sound momentum of the new economy, the ongoing advancement of high-tech industries, and the construction of a dual circulation development pattern will bring many opportunities for the upstream and downstream of the shipping industry chain. In this context, the shipping finance ecosystem empowered by supply chain finance is expected to improve gradually.

The Company has made great progress in its shipping finance business, especially in industry-finance integration. The Company made new breakthroughs in combining leasing and manufacturing and combining leasing and shipping, and saw its supply chain finance platform take shape, marking achievements in shipping finance investment. The Company will thoroughly implement the new development concept and accelerate the construction of a new development pattern to fit into the dual circulation strategy, build a new ecosystem and develop a first-class enterprise. To this end, the Company will focus on the principal shipping and logistics business to build an integrated supply chain finance service platform, and resolutely empower the principal business with industry-finance integration, so as to enhance the ability of value creation and achieve high-quality development.

In terms of shipping and industry-related leasing segment, the Company will deepen the integration of industry and finance, build industry influence, integrate resources and leverage its professional and platform advantages to develop external business; capitalize on the industrial chain advantages of the container leasing and manufacturing business to strengthen synergy between leasing and manufacturing, increase the proportion of reefer and special containers, and reinforce market-oriented development and international expansion; promote new modes of cooperation with big clients and extend the container leasing industry chain to increase profit growth drivers.

In terms of container manufacturing segment, the Company will continue to implement the Restructuring, with a view to optimizing production capacity, increasing product diversification and maximizing synergy. The Company will extend the container industry chain, actively expand into markets, strengthen industry benchmarking, improve management practices, enhance quality and efficiency, and speed up technology research and development to enhance comprehensive competitiveness, so as to develop a leading company with high intelligence and a high capacity utilization rate.

In terms of investment and services segment, the Company will provide industry-finance services based on the principal shipping business, build an innovative investment platform, promote the development of industrial funds to empower the principal business, explore and develop industry-finance business, and further enhance the advantages of its integrated supply chain finance services. As to investment management business, the Company will, with a focus on "facilitating industry development with finance", constantly optimize asset allocation, uphold diversified investment strategies, explore and research the fields of major transportation and technological innovation, and tap investment opportunities to improve investment returns.

4. WORKING CAPITAL

After due and careful enquiry, taking into account the financial resources available to the Enlarged Group, including internally generated funds and available banking facilities, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular.

5. NO MATERIAL CHANGE OF THE GROUP

The Directors confirmed that there was no material change in the financial or trading position or outlook of the Group since 31 December 2020 (being the date to which the latest audited consolidated financial statements of the Group were made up) and up to and including the Latest Practicable Date.

6. NO MATERIAL CHANGE OF THE TARGET GROUP

The directors of the Target Companies confirmed that there was no material change in the financial or trading position or outlook of the Target Group since 31 December 2020 (being the date to which the latest audited financial statements of the Target Group were made up) and up to and including the Latest Practicable Date.

The following is the text of a report in respect of DFIC Qidong received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, for the purpose of inclusion in this circular.

Ernst & Young
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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF DONG FANG INTERNATIONAL CONTAINER (QIDONG) CO., LTD. TO THE DIRECTORS OF COSCO SHIPPING DEVELOPMENT CO., LTD.

Introduction

We report on the historical financial information of Dong Fang International Container (Qidong) Co., Ltd. (the "Target Company") set out on pages II-A-3 to II-A-7, which comprises the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Company for each of the years ended 31 December 2018, 2019 and 2020 (the "Relevant Periods"), and the statements of financial position of the Target Company as at 31 December 2018, 2019 and 2020 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-A-3 to II-A-45 forms an integral part of this report, which has been prepared for inclusion in the circular of COSCO SHIPPING Development Co., Ltd. (the "Company") dated 24 May 2021 (the "Circular") in connection with the proposed acquisition of 100% equity interest of Target Company (the "Proposed Acquisition").

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation 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 the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' 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 accountants' 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 accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation 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 accountants' report, a true and fair view of the financial position of the Target Company as at 31 December 2018, 2019 and 2020 and of the financial performance and cash flows of the Target Company for each of the Relevant Periods in accordance with the basis of presentation 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 and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-A-3 have been made.

Dividends

We refer to note 9 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Periods.

Ernst & Young
Certified Public Accountants
Hong Kong
24 May 2021

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

The financial statements of the Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

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

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**Year ended 31 December 2018** *RMB'000*	**Year ended 31 December 2019** *RMB'000*	**Year ended 31 December 2020** *RMB'000*
REVENUE	*5.1*	3,967,331	2,059,798	4,200,705
Cost of sales		(3,733,698)	(2,173,775)	(3,864,419)
Gross profit		233,633	(113,977)	336,286
Other income	*5.2*	7,946	5,637	4,675
Other gains/(losses), net	*5.3*	52,509	(46,608)	(33,802)
Selling, administrative and general expenses		(201,791)	(80,377)	(117,542)
Expected credit losses		–	(7,257)	1,516
Other expenses		(527)	(61)	(49)
Finance costs	*7*	(11,235)	(11,807)	(30,133)
PROFIT/(LOSS) BEFORE TAX	*6*	80,535	(254,450)	160,951
Income tax (expense)/credit	*8*	(20,134)	2,130	–
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		60,401	(252,320)	160,951
Attributable to:				
Owners of the parent		60,401	(252,320)	160,951
Non-controlling interests		–	–	–
		60,401	(252,320)	160,951

STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2018** *RMB'000*	**31 December 2019** *RMB'000*	**31 December 2020** *RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*10*	869,526	774,596	772,617
Prepaid land lease payments	*11*	206,964	–	–
Right-of-use assets	*12*	–	179,082	183,975
Intangible assets	*13*	148	123	724
Other long-term prepayments		50,974	51,809	45,166
Total non-current assets		1,127,612	1,005,610	1,002,482
CURRENT ASSETS				
Inventories	*15*	459,153	237,796	417,352
Trade and notes receivables	*16*	840,711	306,240	974,051
Prepayments and other receivables	*17*	170,326	330,851	721,202
Prepaid land lease payments	*11*	4,562	–	–
Financial assets at fair value through profit or loss	*18*	–	25,000	–
Pledged deposits	*19*	18,197	144	–
Cash and cash equivalents	*20*	105,969	91,813	337,572
Total current assets		1,598,918	991,844	2,450,177
Total assets		2,726,530	1,997,454	3,452,659
CURRENT LIABILITIES				
Trade and notes payables	*21*	563,123	230,507	502,096
Other payables and accruals	*22*	300,586	187,919	407,648
Contract liabilities	*23*	80,090	4,065	5,393
Bank and other borrowings	*24*	132,919	300,000	1,100,000
Lease liabilities	*25*	–	2,253	3,227
Tax payable		1,935	–	–
Total current liabilities		1,078,653	724,744	2,018,364
NET CURRENT ASSETS		520,265	267,100	431,813
TOTAL ASSETS LESS CURRENT LIABILITIES		1,647,877	1,272,710	1,434,295
NON-CURRENT LIABILITIES				
Bank and other borrowings	*24*	125,000	–	–
Lease liabilities	*25*	–	2,153	2,787
Total non-current liabilities		125,000	2,153	2,787
Net assets		1,522,877	1,270,557	1,431,508
EQUITY				
Paid-in capital	*26*	1,409,599	1,409,599	1,409,599
Share premium		975	975	975
Special reserves		–	672	–
Surplus reserves		5,185	5,271	6,837
Retained profits/ (accumulated losses)		107,118	(145,960)	14,097
Total equity		1,522,877	1,270,557	1,431,508

STATEMENT OF CHANGES IN EQUITY

	Paid-in capital *RMB'000* *(note 26)*	**Share premium** *RMB'000*	**Special reserves** *RMB'000*	**Surplus reserves (a)** *RMB'000*	**Retained profits** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2018	1,409,599	975	–	5,185	46,717	1,462,476
Profit and total comprehensive income for the year	–	–	–	–	60,401	60,401
At 31 December 2018 and 1 January 2019	1,409,599	975	–	5,185	107,118	1,522,877
Loss and total comprehensive loss for the year	–	–	–	–	(252,320)	(252,320)
Transfer from retained profits	–	–	2,262	86	(2,348)	–
Utilisation of reserve funds	–	–	(1,590)	–	1,590	–
At 31 December 2019 and 1 January 2020	1,409,599	975	672	5,271	(145,960)	1,270,557
Profit and total comprehensive income for the year	–	–	–	–	160,951	160,951
Transfer from retained profits	–	–	5,991	1,566	(7,557)	–
Utilisation of reserve funds	–	–	(6,663)	–	6,663	–
At 31 December 2020	1,409,599	975	–	6,837	14,097	1,431,508

(a) In accordance with the PRC regulations and the articles of association of the Company, before distributing the net profit of each year, the Target Company registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of this reserve reaches 50% of its share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares.

STATEMENT OF CASH FLOWS

	Notes	For the year ended 31 December 2018	2019	2020
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash generated from operations		43,077	343,212	(640,971)
Income tax paid		(21,199)	(4,065)	–
Net cash flows generated from/(used in) operating activities	27(b)	21,878	339,147	(640,971)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		–	103	1,357
Purchases of items of property, plant and equipment		(69,404)	(30,225)	(65,914)
Proceeds on items of disposals of property, plant and equipment		2,560	22,350	101
Purchases of financial assets at fair value through profit or loss		–	(25,000)	(400,000)
Proceeds from disposal of financial assets at fair value through profit or loss		–	–	425,383
(Increase)/decrease in amounts due from a related party		–	(195,333)	191,875
Decrease in cash pooling investment		–	–	(26,514)
Net cash flows (used in)/generated from investing activities		(66,844)	(228,105)	126,288
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank and other borrowings		15,674	756,696	1,710,000
Repayment of bank and other borrowings		–	(714,615)	(910,000)
Interest paid		(11,235)	(11,545)	(29,120)
Payment of principal portion of lease liabilities		–	(1,733)	(688)
Decrease in amounts due to related parties		–	(154,546)	–
Net cash flows generated from/(used in) financing activities		4,439	(125,743)	770,192
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(40,527)	(14,701)	255,509
Cash and cash equivalents at beginning of year		94,331	105,969	91,813
Effect of foreign exchange rate changes		52,165	545	(9,750)
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	105,969	91,813	337,572

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Dong Fang International Container (Qidong) Co., Ltd. (the "Target Company") is a limited liability company established in the People's Republic of China (the "PRC"). The address of the Target Company's registered office is located at No. 1, Taiping Road, Huiping Town, Qidong City, Jiangsu Province, the PRC.

During the Relevant Periods, the Target Company was principally involved in the following principal activities:

- manufacture and sale of dry freight, specialised and refrigerated containers; and
- provision of cargo storage and cargo transportation agent services.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Target Company are COSCO SHIPPING Investment Holding Co., Limited incorporated in Hong Kong, China and China COSCO Shipping Corporation Limited established in the PRC.

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2020, including HKFRS 9 *Financial Instruments*, and HKFRS 15 *Revenue from Contracts with Customers*, together with the relevant transitional provisions, have been early adopted by the Target Company in the preparation of the Historical Financial Information throughout the Relevant Periods, except for HKFRS 16 *Leases* ("HKFRS 16").

The Target Company has adopted HKFRS 16 *Leases* for the first time on 1 January 2019. The nature and the impact of HKFRS 16 are described below:

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Target Company has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Target Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

As a lessee, the Target Company previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Target Company. Under HKFRS 16, the Target Company applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for the elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Target Company recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Target Company applied the incremental borrowing rate at 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Target Company elected to present the right-of-use assets separately in the statement of financial position.

The Target Company has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.

Financial impact at 1 January 2019

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease)
	RMB'000
Assets	
Decrease in the non-current portion of prepaid land lease payments	(206,964)
Increase in right-of-use assets	211,526
Decrease in the current portion of prepaid land lease payments	(4,562)
Increase in total assets and retained profits	–

The Historical Financial Information has been prepared under the historical cost convention.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Target Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3,6]

Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[3,5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021*[7]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation *5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

7 Effective for annual periods beginning on or after 1 April 2021

While the adoption of some of the new and revised HKFRSs may result in changes in accounting policies, none of these HKFRSs is expected to have a significant impact on the Target Company's results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Target Company measures its certain financial instruments at fair value at the end of each Relevant Periods. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Target Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Target Company;
- (ii) has significant influence over the Target Company; or
- (iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Target Company are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Target Company are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to the parent of the Target Company.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less Accumulated depreciation and depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.5% to 5.0%
Machinery, motor vehicles and office equipment	5% to 19.2%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress are stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress are reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line based on its estimated useful life of 3 to 10 years.

Leases (applicable from 1 January 2019)

The Target Company assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lessee

The Target Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Target Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	50 years
Buildings	5 to 10 years
Machinery, motor vehicles and office equipment	5 to 10 years

If ownership of the leased asset transfers to the Target Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target Company and payments of penalties for termination of a lease, if the lease term reflects the Target Company exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Target Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Target Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipments that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Lessor

When the Target Company acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Target Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Target Company allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee are accounted for as finance leases.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Target Company, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Company is the lessor, assets leased by the Target Company under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the profit or loss on the straight-line basis over the lease terms. Where the Target Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Target Company has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Company initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Target Company has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Target Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the profit or loss.

This category includes derivative instruments and equity investments which the Target Company had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Target Company and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss.

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Target Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Company could be required to repay.

Impairment of financial assets

The Target Company recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Target Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Target Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target Company may also consider a financial asset to be in default when internal or external information indicates that the Target Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The calculation of ECLs is based on probability of default ("PD") approach with key elements as follows:

- PD: an estimate of the likelihood of default over a given time horizon;
- Loss Given Default ("LGD"): an estimate of the loss arising in the case where a default occurs at a given time; and
- Exposure at Default ("EAD"): an estimate of the exposure at a future default date.

Forward looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information, such as GDP growth.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

ECLs in Stage 1 and Stage 2 are measured on a collective basis. Meanwhile, in Stage 3, ECLs are measured on an individual basis.

Simplified approach

For trade receivables that do not contain a significant financing component or when the Target Company applies the practical expedient of not adjusting the effect of a significant financing component, the Target Company applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. For trade receivables related to customers that are the immediate holding company or fellow subsidiaries controlled by the same immediate holding company, the Target Company generally assesses the loss allowance to be minimal. For trade receivables related to customers that are in financial difficulties or in default, ECLs are measured on an individual basis. In addition, the Target Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Target Company's financial liabilities include trade payables, financial liabilities included in other payables and accruals, bank and other borrowings, and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided using the liability method, on temporary differences at the end of the Relevant Periods arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the Relevant Periods are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Company expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Target Company will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Target Company and the customer at contract inception. When the contract contains a financing component which provides the Target Company with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of containers

Revenue from the sale of containers is recognised on a bill-and-hold basis. A bill-and-hold arrangement is a contract under which the Target Company bills a customer for a product but the Target Company retains physical possessions of the product until it is transferred to the customer at a point in time in the future. The Target Company assesses when all of the following criteria are met:

- Upon completion of manufacturing, the Target Company demonstrates that the container meets the agreed-upon specifications in the contract to the customer;
- The customer has requested the bill-and-hold arrangement;
- The container has been identified separately as belonging to the customer;
- The container is ready for physical transfer to the customer; and
- The Target Company cannot have the ability to use the container or to direct it to another customer.

When all of the criteria above are met, the performance obligation is satisfied and revenue is recognised accordingly. Under such arrangement, payment in advance is normally required and the normal credit term for the residual consideration is 30 to 90 days upon satisfaction of performance obligation.

(b) Rendering of services

The Target Company provides cargo storage and cargo transportation agent services. The performance obligation is satisfied over time as services are rendered. Payment is generally due within 30 to 45 days upon completion of service and acceptance by the customer.

Revenue from other sources

Operating lease income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Target Company transfers the related goods or services. Contract liabilities are recognised as revenue when the Target Company performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

The Target Company has participated in central pension schemes for its employees in the PRC pursuant to the relevant laws and regulations of the PRC. The Target Company makes monthly contributions and the contributions are charged to profit or loss on an accrual basis. The Target Company has no further obligations beyond the contributions made.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Target Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The Historical Financial Information are presented in RMB, which is the Target Company's functional currency. Each entity in the Target Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Target Company are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Target Company initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Target Company determines the transaction date for each payment or receipt of the advance consideration.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Target Company's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Target Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Determination of significant increases in credit risk

The calculation of ECLs under general approach are required to be categorised into different stages according to the changes in credit risk to apply respective calculation mechanics.

The Target Company considers whether the credit risk of a financial asset has increased significantly since initial recognition with the following non-exhaustive factors:

- past due over 90 days;
- an actual or expected significant change in the operating results of the borrower; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of ECLs

The Target Company uses PD approach under general approach and a provision matrix under simplified approach, respectively, in calculation of ECLs. The Target Company estimates PD, LGD and provision rate, respectively, by reference to the internal historical credit loss experience and external information.

Useful lives and residual values of property, plant and equipment

Management determines the estimated useful lives and residual values for the Target Company's property, plant and equipment by reference to the Target Company's business model, its asset management policy, the industry practice, expected usage of the asset, and the current scrap values of steel in an active market at each measurement date. The depreciation expense will change where the useful lives or residual values of property, plant and equipment are different from the previous estimates.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 14 to the Historical Financial Information.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in market conditions. Management reassesses these estimates at the end of the Relevant Periods after considering specific factors such as the ageing of the inventories, the subsequent or estimated selling price and forecasted market demand.

4. OPERATING SEGMENT INFORMATION

The Target Company is principally involved in manufacture and sale of dry freight, specialised and refrigerated containers and provision of cargo storage and cargo transportation agent services.

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Target Company that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to management of the Target Company, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Target Company as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

(a) Revenue from external customers

	Year ended 31 December 2018 *RMB'000*	**Year ended 31 December 2019** *RMB'000*	**Year ended 31 December 2020** *RMB'000*
Hong Kong, China	3,830,593	1,935,016	4,033,272
Mainland China	136,738	124,782	167,433
	3,967,331	2,059,798	4,200,705

The revenue information above is based on the locations of the customers.

(b) Non-current assets

All the non-current assets of the Target Company are located at Mainland China. The non-current asset information is based on the locations of the Target Company which own the assets and excludes financial instruments and deferred tax assets.

Information about a major customer

The revenue generated from sales to customers which individually contributed more than 10% to the Target Company's total revenue during the Relevant Periods is set out below:

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Customer A	–	303,138	3,014,504
Customer B	3,549,740	470,524	–
Customer C	–	266,053	–
	3,549,740	1,039,715	3,014,504

5. REVENUE, OTHER INCOME AND GAINS/(LOSSES)

An analysis of revenue, other income and gains/(losses) is as follows:

(1) Revenue

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers:			
Sales of containers	3,926,958	2,007,667	4,172,340
Cargo service income	37,475	47,852	23,760
	3,964,433	2,055,519	4,196,100
Other revenue:			
Operating lease income	2,898	4,279	4,605
	2,898	4,279	4,605
	3,967,331	2,059,798	4,200,705

The disaggregation of the Target Company's revenue from contracts with customers, including sales of goods and rendering of services above is as follows:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Customers' geographical location			
Hong Kong, China	3,819,223	1,761,916	3,018,835
Mainland China	133,840	269,617	1,150,957
Others	11,370	23,986	26,308
	3,964,433	2,055,519	4,196,100
Timing of revenue recognition			
Goods transferred at a point in time	3,964,433	2,055,519	4,196,100

The following table shows the amounts of revenue recognised in the Relevant Periods that were included in the contract liabilities at the beginning of the Relevant Periods:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the Relevant Periods:			
Sale of containers	64,751	80,090	4,065

(2) Other income

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Interest income	1,915	1,645	3,257
Government grants related to the ordinary course of business	6,031	3,992	1,206
Fees refunded for individual income tax withheld	–	–	212
	7,946	5,637	4,675

(3) Other gains/(losses), net

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Loss on disposal of items of property, plant and equipment	–	(56,801)	(22)
Changes in fair value of financial assets at fair value through profit or loss	–	–	383
Net foreign exchange gain/(loss)	52,165	9,423	(34,456)
Others	344	770	293
	52,509	(46,608)	(33,802)

6. PROFIT/(LOSS) BEFORE TAX

The Target Company's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Cost of goods sold		3,465,497	1,982,158	3,535,130
Depreciation of property, plant and equipment	*10*	82,071	77,985	66,355
Amortisation of prepaid land lease payments	*11*	3,879	–	–
Depreciation of right-of-use assets	*12*	–	5,792	5,211
Amortisation of intangible assets	*13*	25	25	139
Employee benefit expense:				
Wages and salaries		267,028	215,391	295,516
Pension scheme contributions (defined contribution scheme)		4,581	4,072	3,801
		271,609	219,463	299,317
Expense relating to short-term leases		–	42	473
Foreign exchange differences, net	*5.3*	(52,165)	(9,423)	34,456
Write-down of inventories to net realisable value		–	13,001	(3,779)
Impairment of/(reversal of impairment) trade receivables	*33*	–	7,257	(3,522)
Impairment of other receivables		–	–	2,005

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Interest on debts and borrowings	11,235	11,541	29,941
Interest on lease liabilities	–	266	192
	11,235	11,807	30,133

8. INCOME TAX

According to the Corporate Income Tax ("CIT") Law of the PRC, which was effective from 1 January 2008, the CIT rate applicable to the Target Company was 25% for the years ended 31 December 2018, 2019 and 2020.

Taxes or profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Target Company operates.

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Current income tax:			
Mainland China	20,134	(2,130)	–

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rate for the country in which the Target Company is domiciled to the tax expense at the effective tax rate, is as follows:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Profit/(loss) before tax	80,535	(254,450)	160,951
Tax at the statutory tax rate	20,134	(63,613)	40,238
Adjustments in respect of current tax of previous periods	–	(2,130)	–
Additional deduction of research and development expenses	–	(573)	(1,786)
Expenses not deductible for tax	–	78	110
Tax losses not recognised	–	57,455	–
Temporary differences not recognized	–	6,653	–
Tax losses utilised from previous periods	–	–	(33,400)
Temporary differences utilised from previous periods	–	–	(5,162)
	20,134	(2,130)	–

9. DIVIDENDS

No dividend has been paid or declared by the Target Company during the Relevant Periods.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machinery, motor vehicles and office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2018:				
Cost	524,323	594,554	125,373	1,244,250
Accumulated depreciation and impairment	(60,404)	(219,326)	–	(279,730)
Net carrying amount	463,919	375,228	125,373	964,520
At 1 January 2018, net of accumulated depreciation and impairment	463,919	375,228	125,373	964,520
Additions	–	24,399	–	24,399
Disposals	–	(2,661)	(34,661)	(37,322)
Depreciation	(23,854)	(58,217)	–	(82,071)
Transfers	64,470	–	(64,470)	–
At 31 December 2018, net of accumulated depreciation and impairment	504,535	338,749	26,242	869,526
At 31 December 2018:				
Cost	589,557	609,945	26,242	1,225,744
Accumulated depreciation and impairment	(85,022)	(271,196)	–	(356,218)
Net carrying amount	504,535	338,749	26,242	869,526

	Buildings *RMB'000*	Machinery, motor vehicles and office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2019:				
Cost	589,557	609,945	26,242	1,225,744
Accumulated depreciation and impairment	(85,022)	(271,196)	–	(356,218)
Net carrying amount	504,535	338,749	26,242	869,526
At 1 January 2019, net of accumulated depreciation and impairment	504,535	338,749	26,242	869,526
Additions	–	1,178	28,085	29,263
Disposals	–	(5,992)	(29,941)	(35,933)
Depreciation	(23,238)	(54,747)	–	(77,985)
Transfers	481	7,730	(18,486)	(10,275)
At 31 December 2019, net of accumulated depreciation and impairment	481,778	286,918	5,900	774,596

	Buildings RMB'000	Machinery, motor vehicles and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2019:				
Cost	589,925	608,190	5,900	1,204,015
Accumulated depreciation and impairment	(108,147)	(321,272)	–	(429,419)
Net carrying amount	481,778	286,918	5,900	774,596
At 1 January 2020:				
Cost	589,925	608,190	5,900	1,204,015
Accumulated depreciation and impairment	(108,147)	(321,272)	–	(429,419)
Net carrying amount	481,778	286,918	5,900	774,596
At 1 January 2020, net of accumulated depreciation and impairment	481,778	286,918	5,900	774,596
Additions	–	–	72,794	72,794
Disposals	(6)	(185)	(679)	(870)
Depreciation	(17,201)	(49,154)	–	(66,355)
Transfers	5,206	41,792	(54,546)	(7,548)
At 31 December 2020, net of accumulated depreciation and impairment	469,777	279,371	23,469	772,617
At 31 December 2020:				
Cost	595,094	648,746	23,469	1,267,309
Accumulated depreciation and impairment	(125,317)	(369,375)	–	(494,692)
Net carrying amount	469,777	279,371	23,469	772,617

11. PREPAID LAND LEASE PAYMENTS

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000
At beginning of year	173,977	211,526	–
Effect of adoption of HKFRS 16	–	(211,526)	–
Additions	41,428	–	–
Amortisation	(3,879)	–	–
At end of year:	211,526	–	–
Current portion	(4,562)	–	–
Non-current portion	206,964	–	–

12. RIGHT-OF-USE ASSETS

	Prepaid land lease payments *RMB'000*	Buildings *RMB'000*	Machinery, motor vehicles and office equipment *RMB'000*	Total *RMB'000*
At 1 January 2019:				
Cost	228,094	–	212	228,306
Accumulated depreciation	(16,568)	–	(39)	(16,607)
Net carrying amount	211,526	–	173	211,699
At 31 December 2018, net of accumulated depreciation	–	–	–	–
Effect of adoption of HKFRS16	211,526	–	173	211,699
At 1 January 2019, net of accumulated depreciation	211,526	–	173	211,699
Additions	–	6,139	–	6,139
Transfers	10,275	–	–	10,275
Disposals	(43,239)	–	–	(43,239)
Depreciation	(5,537)	(213)	(42)	(5,792)
At 31 December 2019, net of accumulated depreciation	173,025	5,926	131	179,082
At 31 December 2019:				
Cost	191,190	6,139	212	197,541
Accumulated depreciation	(18,165)	(213)	(81)	(18,459)
Net carrying amount	173,025	5,926	131	179,082
At 1 January 2020:				
Cost	191,190	6,139	212	197,541
Accumulated depreciation	(18,165)	(213)	(81)	(18,459)
Net carrying amount	173,025	5,926	131	179,082
At 1 January 2020, net of accumulated depreciation	173,025	5,926	131	179,082
Additions	–	–	3,391	3,391
Transfers	6,808	–	–	6,808
Disposals	–	(95)	–	(95)
Depreciation	(3,964)	(780)	(467)	(5,211)
At 31 December 2020, net of accumulated depreciation	175,869	5,051	3,055	183,975
At 31 December 2020:				
Cost	197,999	6,044	3,603	207,646
Accumulated depreciation	(22,130)	(993)	(548)	(23,671)
Net carrying amount	175,869	5,051	3,055	183,975

13. INTANGIBLE ASSET

	Computer software
	RMB'000
At 1 January 2018:	
Cost	249
Accumulated amortisation	(76)
Net carrying amount	173
At 1 January 2018, net of accumulated amortisation	173
Amortisation	(25)
At 31 December 2018, net of accumulated amortisation	148
At 31 December 2018:	
Cost	249
Accumulated amortisation	(101)
Net carrying amount	148
At 1 January 2019:	
Cost	249
Accumulated amortisation	(101)
Net carrying amount	148
At 1 January 2019, net of accumulated amortisation	148
Amortisation	(25)
At 31 December 2019, net of accumulated amortisation	123
At 31 December 2019:	
Cost	249
Accumulated amortisation	(126)
Net carrying amount	123

	Computer software
	RMB'000
At 1 January 2020:	
Cost	249
Accumulated amortisation	(126)
Net carrying amount	123
At 1 January 2020, net of accumulated amortisation	123
Transfers	740
Amortisation	(139)
At 31 December 2020, net of accumulated amortisation	724
At 31 December 2020:	
Cost	989
Accumulated amortisation	(265)
Net carrying amount	724

14. DEFERRED TAX

Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences arisen in Mainland China as it is not considered probable that taxable profits will be available against which the tax losses and deductible temporary differences can be utilised.

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Tax losses	–	229,818	96,219
Deductible temporary differences	1,431	28,043	7,395
	1,431	257,861	103,614

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

15. INVENTORIES

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	175,136	163,379	265,568
Work in progress	98,122	–	–
Finished goods	185,895	78,620	152,005
Provision for write-down of inventories	–	(4,203)	(221)
	459,153	237,796	417,352

16. TRADE AND NOTES RECEIVABLES

	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000
Trade receivables	840,711	313,497	973,809
Notes receivable	–	–	3,977
Impairment	–	(7,257)	(3,735)
	840,711	306,240	974,051

Credit terms in a range within two months are granted to those customers with a good payment history.

An ageing analysis of the trade and notes receivables as at the end of each of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000
Within 1 year	837,860	303,413	974,051
1 to 2 years	2,851	689	–
2 to 3 years	–	2,138	–
	840,711	306,240	974,051

Further qualitative and quantitative information regarding credit risk and ECLs of trade receivables is disclosed in note 33 to the Historical Financial Information.

17. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000
Prepayments	112,898	83,846	551,442
Other receivables	47,522	240,244	47,358
Input value-added tax	9,906	6,761	97,893
Cash pooling investment	–	–	26,514
Impairment	–	–	(2,005)
	170,326	330,851	721,202

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000
Unlisted debt investments	–	25,000	–

The above unlisted investments were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

19. PLEDGED DEPOSITS

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Other pledged deposits	18,197	144	–

20. CASH AND CASH EQUIVALENTS

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Cash and bank balances	105,969	91,813	337,572

Cash and bank balances of the Target Company denominated in Renminbi ("RMB") amounted to RMB440, RMB43,361,000 and RMB8,013,000 as at 31 December 2018, 2019 and 2020, respectively. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Target Company and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

21. TRADE AND NOTES PAYABLES

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Trade payables	563,123	230,507	468,562
Notes payable	–	–	33,534
	563,123	230,507	502,096

An ageing analysis of the trade and notes payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Within 90 days	563,123	230,469	502,096

The trade and notes payables are non-interest-bearing and are normally settled within 90 days.

22. OTHER PAYABLES AND ACCRUALS

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Payroll and bonus payables	23,287	50,439	115,761
Other payables	267,347	123,571	282,185
Indirect tax payables	9,952	13,570	8,541
Interest payable	–	339	1,161
	300,586	187,919	407,648

23. CONTRACT LIABILITIES

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Sales of containers	80,090	4,065	5,393

24. BANK AND OTHER BORROWINGS

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Guaranteed bank loans	132,919	–	500,000
Borrowings from related parties-unsecured	125,000	–	–
Unsecured interest-bearing loans from related parties	–	300,000	600,000
	257,919	300,000	1,100,000
Current portion	(132,919)	(300,000)	(1,100,000)
Non-current portion	125,000	–	–

The effective interest rate of bank and other borrowings are as follows:

	31 December 2018		
	Effective interest rate	Maturity	
	(%)		*RMB'000*
Current			
Bank loans-guaranteed	3.32-5.00	2019	132,919
Non-current			
Borrowings from related parties-unsecured	3.6975	2020	125,000
			257,919

	31 December 2019		
	Effective interest rate	Maturity	
	(%)		*RMB'000*
Current			
Borrowings from related parties-unsecured	3.6975	2020	300,000

	31 December 2020		
	Effective interest rate	Maturity	
	(%)		*RMB'000*
Current			
Bank loans-guaranteed	3.5175	2021	500,000
Borrowings from related parties-unsecured	3.4000	2021	600,000
			1,100,000

Maturity profile of bank and other borrowings as at 31 December 2018, 31 December 2019 and 31 December 2020 is as follows:

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Within one year or on demand	132,919	300,000	1,100,000
In the second year	125,000	–	–
	257,919	300,000	1,100,000

The Target Company's guranteed bank loans as at 31 December 2018 disclosed above were guaranteed by the former immediate holding company of the Target Company.

The Target Company's guranteed bank loans as at 31 December 2020 disclosed above were guaranteed by the immediate holding company of the Target Company.

25. LEASE LIABILITIES

	For the year ended 31 December 2019	For the year ended 31 December 2020
	RMB'000	*RMB'000*
At beginning of year	–	4,406
Additions	6,139	3,391
Payments	(1,999)	(1,880)
Accretion of interest	266	192
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(95)
At end of year	4,406	6,014
Current portion	(2,253)	(3,227)
Non-current portion	2,153	2,787

Maturity profile of lease liabilities as at 31 December 2019 and 31 December 2020 is as follows:

	31 December 2019	**31 December 2020**
	RMB'000	*RMB'000*
Within one year	2,400	3,431
In the second year	2,200	2,848
Total undiscounted lease liabilities	4,600	6,279
Discount amount	(194)	(265)
Total present value of lease liabilities	4,406	6,014
Current portion	(2,253)	(3,227)
Non-current portion	2,153	2,787
Within one year	2,253	3,227
In the second year	2,153	2,787
Total present value of lease liabilities	4,406	6,014

26. PAID-IN CAPITAL

	31 December 2018	**31 December 2019**	**31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-in capital	1,409,599	1,409,599	1,409,599

27. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2019 and the year ended 31 December 2020, the Target Company had non-cash additions to right-of-use assets and lease liabilities of RMB6,139,000 and RMB3,391,000, respectively.

(b) A reconciliation of the profit/(loss) before tax to cash generated from operations is as follows:

	Notes	**31 December 2018**	**31 December 2019**	**31 December 2020**
		RMB'000	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before tax		80,535	(254,450)	160,951
Adjustments for:				
Finance costs		11,235	11,807	30,133
Interest income		–	(103)	(1,357)
Loss on disposal of items of property, plant and equipment		–	56,801	22
Changes in fair value of financial assets at fair value through profit or loss		–	–	(383)
Depreciation of property, plant and equipment	*10*	82,071	77,985	66,355
Amortisation of prepaid land lease payments	*11*	3,879	–	–
Depreciation of right-of-use assets	*12*	–	5,792	5,211

	Notes	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000
Amortisation of intangible assets	13	25	25	139
Impairment of/(reversal of impairment) trade receivables	33	–	7,257	(3,522)
Impairment of other receivables		–	–	2,005
Write-down of inventories to net realisable value		–	13,001	(3,779)
		177,745	(81,885)	255,775
Decrease/(increase) in inventories		177,846	208,356	(175,777)
Decrease/(increase) in trade and notes receivables		208,105	527,214	(664,289)
Decrease/(increase) in prepayments and other receivables		173,026	75,628	(543,897)
Decrease in pledged deposits		–	18,053	144
(Decrease)/increase in trade payables		(294,180)	(332,654)	271,627
(Decrease)/increase in other payables and accruals		(414,864)	4,525	214,118
Increase/(decrease) in contract liabilities		15,399	(76,025)	1,328
Cash generated from/(used in) operations		43,077	343,212	(640,971)
Income tax paid		(21,199)	(4,065)	–
Net cash flows generated from/(used in) operating activities		21,878	339,147	(640,971)

(c) Changes in liabilities arising from financing activities

	Bank and other borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2018	242,245	–
Changes from financing cash flows	15,674	–
At 31 December 2018 and 1 January 2019	257,919	–
Changes from financing cash flows	42,081	(1,999)
New leases	–	6,139
Interest expense	–	266
At 31 December 2019 and 1 January 2020	300,000	4,406
Changes from financing cash flows	800,000	(1,880)
New leases	–	3,391
Interest expense	–	192
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(95)
At 31 December 2020	1,100,000	6,014

(d) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Within operating activities	42	473
Within financing activities	1,999	1,880

28. OPERATING LEASE ARRANGEMENTS

As lessor

The Target Company leases its land under operating lease arrangements. The details of revenue from operating lease income are included in note 5.1 to the Historical Financial Information.

At the end of each of Relevant Periods, the undiscounted lease payments receivable by the Target Company in future periods under the non-cancellable operating lease with its tenant are as follows:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Within one year	3,780	3,780	3,780
After one year but within two years	–	460	220
	3,780	4,240	4,000

As lessee

The Target Company has various lease contracts for prepaid land lease payments, buildings and machinery, motor vehicles and office equipment used in its operation. Lease terms of these lease contracts are included in note 2.3 to the Historical Financial Information. Generally, the Target Company is restricted from assigning and subleasing the leased assets outside the Target Company.

(a) Right-of-use assets and lease liabilities

Detailed information regarding right-of-use assets and lease liabilities has been set out in notes 12 and 25, respectively, to the Historical Financial Information.

(b) The amounts recognised in profit or loss in relation to lessee accounting are as follows:

	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Interest on lease liabilities	266	192
Depreciation charge of right-of-use assets	5,792	5,212
Expense relating to short-term leases	42	473

(c) Non-cash additions to right-of-use assets and lease liabilities are disclosed in note 27 (a) to the Historical Financial Information.

29. COMMITMENTS

At the end of the Relevant Periods, the Target Company did not have any significant commitments.

30. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Target Company had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Interest income from:			
Immediate holding company	–	208	1,220
Fellow subsidiaries	–	546	2,017
Interest expenses to:			
Fellow subsidiaries	–	1,910	12,162
Sales of goods to:			
Immediate holding company	–	303,138	3,014,504
Fellow subsidiaries	475,010	412,991	989,461
Former fellow subsidiaries	3,569,028	492,764	–
Purchases of goods from:			
Fellow subsidiaries	32,416	114,146	899,212
Receiving of services from:			
Fellow subsidiaries	63,569	96,349	152,324
Borrowings from:			
Fellow subsidiaries	–	300,000	1,130,000
Borrowings to:			
Immediate holding company	–	195,334	140,132

The related party transactions above were made according to the published prices or interest rates and conditions similar to those offered to the respective major customers.

(b) Commitments with related parties

The tables below summarise the commitments with fellow subsidiaries:

As lessor

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Within one year	3,540	3,540	3,540

(c) Outstanding balances with related parties

		Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Amounts due from:				
Immediate holding company		–	289,628	849,294
Fellow subsidiaries	*(i)*	61	179,451	26,534
Former fellow subsidiaries		602,370	–	–
Amounts due to:				
Immediate holding company		–	23,748	22,934
Fellow subsidiaries		87,702	146,159	355,462
Former fellow subsidiaries		230,246	–	–
Loans from:				
A fellow subsidiary	*(ii)*	–	300,000	600,000
Lease liabilities due to:				
Fellow subsidiaries		–	–	2,983

Notes:

(i) The Target Company placed a certain portion of its cash at a certain fellow subsidiary. All of the deposits at the end of each of the Relevant Periods were demand deposits, and were therefore, presented in cash and cash equivalents. Interest was charged according to the rates and terms agreed with the fellow subsidiary.

(ii) Details of the Target Company's loans from the fellow subsidiary at the end of each of the Relevant Periods are included in note 24 to the Historical Financial Information.

Save as disclosed above, the rest of the outstanding balances with related parties were unsecured, non-interest-bearing and had no fixed repayment terms.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets – at fair value through profit or loss

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Financial assets at fair value through profit or loss	–	25,000	–

Financial assets – at amortised cost

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Trade and notes receivables	840,711	306,240	974,051
Financial assets included in prepayments and other receivables	47,522	240,244	71,867
Pledged deposits	18,197	144	–
Cash and cash equivalents	105,969	91,813	337,572
	1,012,399	638,441	1,383,490

Financial liabilities – at amortised cost

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	563,123	230,507	502,096
Financial liabilities included in other payables and accruals	267,347	123,910	283,346
Bank and other borrowings	257,919	300,000	1,100,000
Lease liabilities	–	4,406	6,014
	1,088,389	658,823	1,891,456

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Target Company's financial instruments, other than those measured at fair value or with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		
	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings	125,000	–	–

	Fair values		
	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings	117,305	–	–

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and notes receivables, financial assets included in prepayments and other receivables, trade and notes payables, financial liabilities included in other payables and accruals, the current portion of bank and other borrowings and the current portion of lease liabilities, respectively, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The non-current portion of lease liabilities of the Target Company approximates to their fair value due to their carrying amounts are present value and internal rates of return are close to rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Target Company's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair value of the non-current portion of bank and other borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The differences between the carrying amounts and fair values of those financial liabilities are not significant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Target Company's financial instruments:

Financial assets measured at fair value

31 December 2019

	Fair value measurement categorised into			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at fair value through profit or loss	–	–	25,000	25,000

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and liabilities.

All financial assets at fair value through profit or loss categorised into level 3 represent wealth management products issued by banks in Mainland China. The Target Company has estimated their fair value by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The recurring fair value measurement for the Target Company's financial assets at fair value through profit or loss was performed using significant unobservable inputs (Level 3) as at 31 December 2019. Set out below is a summary of the valuation techniques used and the key input to the valuation:

	Valuation technique	**Significant unobservable input**	**Range**	**Sensitivity of fair value to the input**
Financial assets at fair value through profit or loss	Discounted cash flow method	Discount rate per annum	2019: 4.7%	2019: 5% increase/decrease would result in decrease/increase in fair value by 2.2%

The movements in financial assets categorised into Level 3 during the year are as follows:

	Financial assets at fair value through profit or loss
	RMB'000
At 1 January 2018, at 31 December 2018 and at 1 January 2019	–
Purchases	25,000
31 December 2019 and at 1 January 2020	25,000
Purchases	400,000
Disposals	(425,383)
Total gains recognised in the profit or loss included in other income and gains	383
As at 31 December 2020	–

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Company's principal financial instruments comprise bank and other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Target Company's operations. The Target Company has various other financial assets and liabilities such as trade and notes receivables and trade and notes payables, which arise directly from its operations.

The main risks arising from the Target Company's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Target Company has transactional currency exposures. These exposures arise from sales in US$ other than the Target Company's functional currency, which is RMB.

The following table demonstrates the sensitivity at the end of each of the Relevant periods to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Target Company's profit before tax (due to changes in the fair value of monetary assets and liabilities):

	Increase/(decrease) in US$ rate *(RMB'000)*	**(Decrease)/increase in profit before tax** *(RMB'000)*
Year ended 31 December 2018		
If US$ weakens against RMB	1%	(7,994)
If US$ strengthens against RMB	(1%)	7,994
Year ended 31 December 2019		
If US$ weakens against RMB	1%	(3,472)
If US$ strengthens against RMB	(1%)	3,472
Year ended 31 December 2020		
If US$ weakens against RMB	1%	(3,207)
If US$ strengthens against RMB	(1%)	3,207

Credit risk

The Target Company is exposed to credit risk primarily from finance lease receivables, factoring receivables and trade receivables in its operation.

The Target Company trades only with recognised and creditworthy third parties. It is the Target Company's policy that all counterparties are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis.

(a) Maximum credit risk exposure

The credit risk of the Target Company's financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments without taking account of any collateral held or other credit enhancements.

(b) Impairment assessment

The detailed accounting policy and significant accounting judgements and estimates for impairment in relation to credit risk are given in notes 2.3 and 3 to the Historical Financial Information, respectively.

The movements in the provision for impairment of trade receivables, which account for the primary credit risk of the Target Company, are as follows:

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	–	–	7,257
Impairment losses recognised/(reversed)	–	7,257	(3,522)
At 31 December	–	7,257	3,735

(c) Credit quality

The Target Company manages the credit quality by credit risk rating grades, classified in descending credit quality order as neither past due nor impaired, not past due and individually impaired, past due but not impaired, past due and collectively impaired and past due and individually impaired.

Trade receivables, which account for the primary credit risk of the Target Company, are classified as follows:

Trade receivables

	31 December 2018 Ageing based on the invoice date				
	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	837,860	2,851	–	–	840,711

	31 December 2019 Ageing based on the invoice date				
	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	94,294	–	–	–	94,294
Past due and collectively impaired	–	766	2,851	–	3,617
Not past due and collectively impaired	215,586	–	–	–	215,586
	309,880	766	2,851	–	313,497

	31 December 2020 Ageing based on the invoice date				
	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	853,271	–	–	–	853,271
Not past due and collectively impaired	120,538	–	–	–	120,538
	973,809	–	–	–	973,809

(d) Concentration

Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Target Company as the receivables are widely dispersed in different sectors and industries.

Liquidity risk

The Target Company aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Target Company finances its working capital requirements through a combination of funds generated from operations, bank and other borrowings and lease liabilities.

The table below summarises the maturity profile of the Target Company's financial liabilities at 31 December based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of each of the Relevant Periods.

The maturity profile of the Target Company's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

31 December 2018

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	563,123	–	–	–	563,123
Financial liabilities included in other payables and accruals	267,347	–	–	–	267,347
Bank and other borrowings	137,332	129,622	–	–	266,954
Total	967,802	129,622	–	–	1,097,424

31 December 2019

	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	230,507	–	–	–	230,507
Financial liabilities included in other payables and accruals	123,910	–	–	–	123,910
Bank and other borrowings	311,093	–	–	–	311,093
Lease liabilities	2,400	2,200	–	–	4,600
Total	667,910	2,200	–	–	670,110

31 December 2020

	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	502,096	–	–	–	502,096
Financial liabilities included in other payables and accruals	283,346	–	–	–	283,346
Bank and other borrowings	1,137,988	–	–	–	1,137,988
Lease liabilities	3,431	2,848	–	–	6,279
Total	1,926,861	2,848	–	–	1,929,709

Capital management

The primary objectives of the Target Company's capital management are to safeguard the Target Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Company monitors capital using a gearing ratio, which is total borrowings divided by total equity. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000
Bank and other borrowings	257,919	300,000	1,100,000
Total equity	1,522,877	1,270,577	1,431,508
Gearing ratio	16.94%	23.61%	76.84%

34. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2020.

The following is the text of a report in respect of the DFIC Qingdao Group received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, for the purpose of inclusion in this circular.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF DONG FANG INTERNATIONAL CONTAINER (QINGDAO) CO., LTD. AND ITS SOLE SUBSIDIARY TO THE DIRECTORS OF COSCO SHIPPING DEVELOPMENT CO., LTD.

Introduction

We report on the historical financial information of Dong Fang International Container (Qingdao) Co., Ltd. (the "Target Company") and its sole subsidiary (hereinafter collectively referred to as the "Target Group") set out on pages II-B-3 to II-B-7, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Group for each of the years ended 31 December 2018, 2019 and 2020 (the "Relevant Periods"), and the consolidated statements of financial position of the Target Group as at 31 December 2018, 2019 and 2020 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-B-3 to II-B-49 forms an integral part of this report, which has been prepared for inclusion in the circular of COSCO SHIPPING Development Co., Ltd. (the "Company") dated 24 May 2021 (the "Circular") in connection with the proposed acquisition of 100% equity interest of Target Company (the "Proposed Acquisition").

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the 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 the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' 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 accountants' 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 accountants consider internal control relevant to the entity's preparation of the 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 accountants' report, a true and fair view of the financial position of the Target Group as at 31 December 2018, 2019 and 2020 and of the financial performance and cash flows of the Target Group for each of the Relevant Periods 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 and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-B-3 have been made.

Dividends

We refer to note 9 to the Historical Financial Information which contains information about the dividends paid by the Target Company in respect of the Relevant Periods.

Ernst & Young
Certified Public Accountants
Hong Kong
24 May 2021

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

The financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**Year ended 31 December 2018** *RMB'000*	**Year ended 31 December 2019** *RMB'000*	**Year ended 31 December 2020** *RMB'000*
REVENUE	*5.1*	1,643,952	2,086,017	2,585,263
Cost of sales		(1,583,979)	(2,069,917)	(2,321,683)
Gross profit		59,973	16,100	263,580
Other income	*5.2*	1,276	3,709	44,082
Other gains/(losses), net	*5.3*	10,552	(23,406)	(38,544)
Selling, administrative and general expenses		(58,424)	(69,438)	(110,037)
Expected credit losses		–	(1,977)	(3,039)
Other expenses		(613)	(7,164)	(80)
Finance costs	*7*	(679)	(4,462)	(27,852)
PROFIT/(LOSS) BEFORE TAX	*6*	12,085	(86,638)	128,110
Income tax expense	*8*	(2,248)	(17)	(10,746)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		9,837	(86,655)	117,364
Attributable to owners of the parent		9,837	(86,655)	117,364

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2018** *RMB'000*	**31 December 2019** *RMB'000*	**31 December 2020** *RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*10*	673,821	733,358	711,329
Investment properties	*11*	16,279	15,620	15,077
Prepaid land lease payments	*12*	97,419	–	–
Right-of-use assets	*13*	–	113,708	106,185
Intangible assets	*14*	298	535	385
Total non-current assets		787,817	863,221	832,976
CURRENT ASSETS				
Inventories	*16*	293,132	255,481	454,497
Trade receivables	*17*	529,400	559,997	912,772
Prepayments and other receivables	*18*	170,882	279,600	431,239
Cash and cash equivalents	*19*	7,807	133,967	67,090
Total current assets		1,001,221	1,229,045	1,865,598
Total assets		1,789,038	2,092,266	2,698,574
CURRENT LIABILITIES				
Trade and notes payables	*20*	248,668	270,448	321,788
Other payables and accruals	*21*	63,950	153,211	204,238
Contract liabilities	*22*	23,207	13,709	7,992
Bank and other borrowings	*23*	–	280,000	1,000,000
Lease liabilities	*24*	–	5,035	1,119
Tax payable		31	–	2,555
Total current liabilities		335,856	722,403	1,537,692
NET CURRENT ASSETS		665,365	506,642	327,906
TOTAL ASSETS LESS CURRENT LIABILITIES		1,453,182	1,369,863	1,160,882
NON-CURRENT LIABILITIES				
Lease liabilities	*24*	–	1,119	–
Government grants	*25*	–	2,421	8,798
Total non-current liabilities		–	3,540	8,798
Net assets		1,453,182	1,366,323	1,152,084
EQUITY				
Paid-in capital	*26*	864,398	864,398	864,398
Other reserves		100,270	100,879	117,507
Retained profits		488,514	401,046	170,179
Total equity		1,453,182	1,366,323	1,152,084

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	**Paid-in capital** *RMB'000 (note 26)*	**Special reserves (a)** *RMB'000*	**Surplus reserves (a)(b)** *RMB'000*	**Retained profits** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2018		864,398	–	98,698	543,601	1,506,697
Profit and total comprehensive income for the year		–	–	–	9,837	9,837
Dividends declared	*9*	–	–	–	(63,352)	(63,352)
Transfer from retained profits		–	–	1,572	(1,572)	–
At 31 December 2018		864,398	–	100,270	488,514	1,453,182
Effect of adoption of HKFRS 16 *(note 2.1)*		–	–	–	(204)	(204)
At 1 January 2019 (restated)		864,398	–	100,270	488,310	1,452,978
Loss and total comprehensive loss for the year		–	–	–	(86,655)	(86,655)
Transfer from retained profits		–	1,454	–	(1,454)	–
Utilisation of reserve funds		–	(845)	–	845	–
At 31 December 2019 and 1 January 2020		864,398	609	100,270	401,046	1,366,323
Profit and total comprehensive income for the year		–	–	–	117,364	117,364
Dividends declared	*9*	–	–	–	(331,603)	(331,603)
Transfer from retained profits		–	3,950	17,237	(21,187)	–
Utilisation of reserve funds		–	(4,559)	–	4,559	–
At 31 December 2020		864,398	–	117,507	170,179	1,152,084

(a) These reserve accounts comprised the consolidated reserves of RMB100,270,000, RMB100,879,000 and RMB117,507,000 in the consolidated statements of financial position as at 31 December 2018, 2019 and 2020, respectively.

(b) In accordance with the PRC regulations and the articles of association of the companies of the Target Group, before distributing the net profit of each year, companies of the Target Group registered in the PRC are required to set aside 10% of their statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of this reserve reaches 50% of each PRC entity's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash generated from operations		152,422	67,225	(403,836)
Income tax paid		(6,589)	(47)	(8,623)
Net cash flows generated from/(used in) operating activities	27(b)	145,833	67,178	(412,459)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		–	30	828
Purchases of items of property, plant and equipment and intangible assets		(191,688)	(194,379)	(48,113)
Proceeds from disposal of items of property, plant and equipment		–	36,492	227
Receipt of government grants for property, plant and equipment		–	–	38,250
Decrease in amounts due from related parties		–	(55,810)	51,495
Decrease in cash pooling		–	–	(54,275)
Net cash flows used in investing activities		(191,688)	(213,667)	(11,588)
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank and other borrowings		96,090	693,515	1,660,000
Repayment of bank and other borrowings		(96,090)	(413,515)	(940,000)
Payment of principal portion of lease liabilities		–	(3,835)	(4,991)
Interest paid		(679)	(4,462)	(27,111)
Dividends paid to owners of the parent		(63,352)	–	(321,656)
Net cash flows (used in)/generated from financing activities		(64,031)	271,703	366,242
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(109,886)	125,214	(57,805)
Cash and cash equivalents at beginning of year		115,393	7,807	133,967
Effect of foreign exchange rate changes, net		2,300	946	(9,072)
CASH AND CASH EQUIVALENTS AT END OF YEAR	19	7,807	133,967	67,090

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Dong Fang International Container (Qingdao) Co., Ltd. (the "Target Company") is a limited liability company established in the People's Republic of China (the "PRC"). The address of the Target Company's registered office is located at 373 Maoshan Road, Qingdao Economic and Technological Development Zone, Qingdao, Shandong Province, PRC.

During the Relevant Periods, the Target Company and its sole subsidiary were principally involved in the following principal activities:

- manufacture and sale of dry freight, specialised and refrigerated containers; and
- provision of cargo storage and cargo transportation agent services.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Target Company are COSCO Shipping Investment Holding Co., Limited incorporated in Hong Kong, China and China COSCO Shipping Corporation Limited established in the PRC.

As at the end of the Relevant Periods, the Target Company had direct interest in its sole subsidiary, which is a private limited liability company, the particulars of which are set out below:

Name	Place and date of establishment/ registration and place of operations	Registered share capital	Percentage of equity attributable to the Target Company		Principal activities
			Direct	Indirect	
Dong Fang International Port (Qidong) Co., Ltd.	PRC/Mainland China 18 April 2011	RMB154,000,000	100%	–	Cargo storage and cargo transportation agent services

Dong Fang International Port (Qidong) Co., Ltd. is registered as a limited liability company under PRC law. The statutory financial statements for the year ended 31 December 2018 prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Shandong Ruder Certified Public Accountants Co., Ltd., certified public accountants registered in the PRC, and the statutory financial statements for the years ended 31 December 2019 and 2020 prepared under PRC GAAP were audited by Ernst & Young Hua Ming.

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2020, including HKFRS 9 *Financial Instruments*, and HKFRS 15 *Revenue from Contracts with Customers*, together with the relevant transitional provisions, have been early adopted by the Target Group in the preparation of the Historical Financial Information throughout the Relevant Periods, except for HKFRS 16 *Leases* ("HKFRS 16").

The Target Group has adopted HKFRS 16 *Leases* for the first time on 1 January 1 2019. The nature and the impact of HKFRS 16 are described below:

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Target Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Target Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

As a lessee, the Target Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Target Group. Under HKFRS 16, the Target Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for the elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Target Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Target Group applied the incremental borrowing rate at 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Target Group elected to present the right-of-use assets separately in the statement of financial position.

The Target Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.

Financial impact at 1 January 2019

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease)
	RMB'000
Assets	
Decrease in the non-current portion of prepaid land lease payments	(97,419)
Increase in right-of-use assets	104,238
Decrease in the current portion of prepaid land lease payments	(2,246)
Increase in total assets	4,573

	Increase/(decrease)
	RMB'000
Liabilities	
Increase in lease liabilities	4,777
Increase in total liabilities	4,777
Decrease in retained profits	(204)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as of 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	5,178
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(162)
	5,016
Weighted average incremental borrowing rate as at 1 January 2019	3.6975%
Lease liabilities as at 1 January 2019	4,777

The Historical Financial Information has been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Target Company and its sole subsidiary (collectively referred to as the "Group") for the Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Group the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Target Group's voting rights and potential voting rights.

The financial statements of the sole subsidiary are prepared for the same Relevant Periods as the Target Company, using consistent accounting policies. The results of subsidiary are consolidated from the date on which the Target Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Target Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Target Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Target Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Target Group had directly disposed of the related assets or liabilities.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3,6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[3,5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021*[7]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation *5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

7 Effective for annual periods beginning on or after 1 April 2021

While the adoption of some of the new and revised HKFRSs may result in changes in accounting policies, none of these HKFRSs is expected to have a significant impact on the Target Group's results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Target Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Target Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Target Group;
- (ii) has significant influence over the Target Group; or
- (iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the parent of the Target Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less Accumulated depreciation and depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	1.8% to 5.0%
Machinery, motor vehicles and office equipment	4.8% to 22.3%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress are stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress are reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on a straight-line basis to write off the cost of each item of investment properties. The principal annual rate used for this purpose is 3.33%.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line based on its estimated useful life of 3 to 10 years.

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Leases (applicable from 1 January 2019)

The Target Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Target Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Target Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	40 to 50 years
Buildings	3 to 5 years
Machinery, motor vehicles and office equipment	3 to 5 years

If ownership of the leased asset transfers to the Target Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target Group and payments of penalties for termination of a lease, if the lease term reflects the Target Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Target Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Target Group applies the short-term lease recognition exemption to its short-term leases (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipments that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Target Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Target Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Target Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee are accounted for as finance leases.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Target Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

When the Target Group is a lessor under finance leases, an amount representing the minimum lease payment receivables and initial direct costs is included in the consolidated statement of financial position as finance lease receivables. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present value is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Target Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Target Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Target Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Target Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Group continues to recognise the transferred asset to the extent of the Target Group's continuing involvement. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Group could be required to repay.

Impairment of financial assets

The Target Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Target Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Target Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target Group may also consider a financial asset to be in default when internal or external information indicates that the Target Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The calculation of ECLs is based on probability of default ("PD") approach with key elements as follows:

- PD: an estimate of the likelihood of default over a given time horizon;

- Loss Given Default ("LGD"): an estimate of the loss arising in the case where a default occurs at a given time; and

- Exposure at Default ("EAD"): an estimate of the exposure at a future default date.

Forward looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information, such as GDP growth.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

ECLs in Stage 1 and Stage 2 are measured on a collective basis. Meanwhile, in Stage 3, ECLs are measured on an individual basis.

Simplified approach

For trade receivables that do not contain a significant financing component or when the Target Company applies the practical expedient of not adjusting the effect of a significant financing component, the Target Company applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. For trade receivables related to customers that are the immediate holding company or fellow subsidiaries controlled by the same immediate holding company, the Target Company generally assesses the loss allowance to be minimal. For trade receivables related to customers that are in financial difficulties or in default, ECLs are measured on an individual basis. In addition, the Target Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Target Group's financial liabilities include trade payables, financial liabilities included in other payables and accruals, bank and other borrowings, and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Target Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Target Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Target Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Target Group and the customer at contract inception. When the contract contains a financing component which provides the Target Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of containers

Revenue from the sale of containers is recognised on a bill-and-hold basis. A bill-and-hold arrangement is a contract under which the Target Group bills a customer for a product but the Target Group retains physical possessions of the product until it is transferred to the customer at a point in time in the future. The Target Group assesses when all of the following criteria are met:

- Upon completion of manufacturing, the Target Group demonstrates that the container meets the agreed-upon specifications in the contract to the customer;
- The customer has requested the bill-and-hold arrangement;
- The container has been identified separately as belonging to the customer;
- The container is ready for physical transfer to the customer; and
- The Target Group cannot have the ability to use the container or to direct it to another customer.

When all of the criteria above are met, the performance obligation is satisfied and revenue is recognised accordingly. Under such arrangement, payment in advance is normally required and the normal credit term for the residual consideration is 30 to 90 days upon satisfaction of performance obligation.

(b) Rendering of services

The Target Group provides cargo storage and cargo transportation agent services. The performance obligation is satisfied over time as services are rendered. Payment is generally due within 30 to 45 days upon completion of service and acceptance by the customer.

Revenue from other sources

Operating lease income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Target Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Target Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

The Target Group has participated in central pension schemes for its employees in the PRC pursuant to the relevant laws and regulations of the PRC. The Target Group makes monthly contributions and the contributions are charged to profit or loss on an accrual basis. The Target Group has no further obligations beyond the contributions made.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Target Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The Historical Financial Information are presented in RMB, which is the Target Company's functional currency. Each entity in the Target Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Target Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Target Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Target Group determines the transaction date for each payment or receipt of the advance consideration.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Target Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Target Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Determination of significant increases in credit risk

The calculation of ECLs under general approach are required to be categorised into different stages according to the changes in credit risk to apply respective calculation mechanics.

The Target Group considers whether the credit risk of a financial asset has increased significantly since initial recognition with the following non-exhaustive factors:

- past due over 90 days;
- an actual or expected significant change in the operating results of the borrower; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of ECLs

The Target Group uses PD approach under general approach and a provision matrix under simplified approach, respectively, in calculation of ECLs. The Target Group estimates PD, LGD and provision rate, respectively, by reference to the internal historical credit loss experience and external information.

Useful lives and residual values of property, plant and equipment

Management determines the estimated useful lives and residual values for the Target Group's property, plant and equipment by reference to the Target Group's business model, its asset management policy, the industry practice, expected usage of the asset, and the current scrap values of steel in an active market at each measurement date. The depreciation expense will change where the useful lives or residual values of property, plant and equipment are different from the previous estimates.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 15 to the Historical Financial Information.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in market conditions. Management reassesses these estimates at the end of the Relevant Periods after considering specific factors such as the ageing of the inventories, the subsequent or estimated selling price and forecasted market demand.

4. OPERATING SEGMENT INFORMATION

The Target Group is principally involved in manufacture and sale of dry freight, specialised and refrigerated containers and provision of cargo storage and cargo transportation agent services.

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Target Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to management of the Target Company, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and management reviewed the financial results of the Target Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

(a) Revenue from external customers

	Year ended 31 December 2018	**Year ended 31 December 2019**	**Year ended 31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Hong Kong, China	1,262,918	929,482	1,931,713
Mainland China	47,132	174,866	268,821
Others	330,708	980,042	381,087
	1,640,758	2,084,390	2,581,621

The revenue information above is based on the locations of the customers.

(b) Non-current assets

All the non-current assets of the Target Group are located in the PRC.

As at 31 December 2018, 2019 and 2020, all the non-current assets of the Target Group are located at Mainland China. The non-current asset information is based on the locations of the Target Company or its sole subsidiary which own the assets and excludes financial instruments and deferred tax assets.

Information about a major customer

The revenue generated from sales to customers which individually contributed more than 10% to the Target Group's total revenue during the Relevant Periods is set out below:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Customer A	–	515,353	1,916,489
Customer B	584,178	206,807	–
	584,178	722,160	1,916,489

5. REVENUE, OTHER INCOME AND GAINS/(LOSSES)

An analysis of revenue, other income and gains/(losses) is as follows:

(1) Revenue

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Revenue from contracts with customers:			
Sales of containers	1,585,554	2,047,762	2,544,113
Cargo service income	55,204	36,628	37,508
	1,640,758	2,084,390	2,581,621
Revenue from other sources:			
Operating lease income	3,194	1,627	3,642
	3,194	1,627	3,642
	1,643,952	2,086,017	2,585,263

The disaggregation of the Target Group's revenue from contracts with customers, including sales of goods and rendering of services above is as follows:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Geographical markets			
Hong Kong, China	1,262,918	929,482	1,931,713
Mainland China	47,132	174,866	268,821
Others	330,708	980,042	381,087
	1,640,758	2,084,390	2,581,621

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Timing of revenue recognition			
Goods transferred at a point in time	1,585,554	2,047,762	2,544,113
Services transferred over time	55,204	36,628	37,508
	1,640,758	2,084,390	2,581,621

The following table shows the amounts of revenue recognised in the Relevant Periods that were included in the contract liabilities at the beginning of the Relevant Periods:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the Relevant Periods:			
Sale of containers	4,132	23,207	13,709

(2) Other income

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Interest income	396	613	2,503
Government grants not related to the ordinary course of business	1	166	38,250
Government grants related to the ordinary course of business	–	746	2,745
Others	879	2,184	584
	1,276	3,709	44,082

(3) Other gains/(losses), net

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Losses on disposal of items of property, plant and equipment	–	(27,779)	(939)
Net foreign exchange gain/(loss)	10,552	4,373	(37,605)
	10,552	(23,406)	(38,544)

6. PROFIT/(LOSS) BEFORE TAX

The Target Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	**Year ended 31 December 2018** *RMB'000*	**Year ended 31 December 2019** *RMB'000*	**Year ended 31 December 2020** *RMB'000*
Cost of goods sold		1,353,775	1,786,213	2,045,936
Depreciation of property, plant and equipment	*10*	35,714	60,398	50,512
Depreciation of investment properties	*11*	185	659	543
Depreciation of right-of-use assets	*13*	–	5,926	7,523
Amortisation of prepaid land lease payments	*12*	2,245	–	–
Amortisation of intangible assets	*14*	267	148	150
Employee benefit expense:				
Wages and salaries		222,363	305,582	314,075
Pension scheme contributions (defined contribution scheme)		15,366	6,401	4,897
		237,729	311,983	318,972
Foreign exchange differences, net		(10,552)	(4,373)	37,605
Write-down of inventories to net realisable value		–	15,437	282
Impairment of trade receivables	*33*	–	1,977	3,037
Impairment of other receivables		–	–	2

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December 2018 *RMB'000*	**Year ended 31 December 2019** *RMB'000*	**Year ended 31 December 2020** *RMB'000*
Interest on borrowings	679	4,190	27,698
Interest on lease liabilities	–	272	154
	679	4,462	27,852

8. INCOME TAX

According to the Corporate Income Tax ("CIT") Law of the PRC, which was effective from 1 January 2008, the CIT rate applicable to the Target Company and its sole subsidiary established in the PRC was 25% for the Relevant Periods.

	Year ended 31 December 2018	**Year ended 31 December 2019**	**Year ended 31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Current – Mainland China			
Charge for the year	2,248	–	10,746
Overprovision in prior years	–	17	–
	2,248	17	10,746

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rate for Mainland China in which the Target Company and its sole subsidiary are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December 2018	**Year ended 31 December 2019**	**Year ended 31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before tax	12,085	(86,638)	128,110
Tax at the statutory tax rate	3,021	(21,660)	32,028
Adjustments in respect of current tax of previous periods	–	17	–
Income not subject to tax	(2,248)	–	–
Expenses not deductible for tax	61	98	229
Additional deduction of research and development expenses	–	(268)	(360)
Tax losses and temporary differences not recognised	1,414	21,830	–
Tax losses utilised from previous periods	–	–	(19,734)
Temporary differences utilised from previous periods	–	–	(1,417)
	2,248	17	10,746

9. DIVIDENDS

Dividends of approximately RMB63,352,000, nil and RMB331,603,000 were declared to the sole shareholder of the Target Company during the years ended 31 December 2018, 2019 and 2020, respectively.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machinery, motor vehicles and office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2018:				
Cost	217,417	264,051	48,022	529,490
Accumulated depreciation and impairment	(59,780)	(120,235)	–	(180,015)
Net carrying amount	157,637	143,816	48,022	349,475
At 1 January 2018, net of accumulated depreciation and impairment	157,637	143,816	48,022	349,475
Additions	477	25,292	353,892	379,661
Disposals	–	(3,137)	–	(3,137)
Depreciation	(12,413)	(23,301)	–	(35,714)
Transfers	190,467	52,377	(259,308)	(16,464)
At 31 December 2018, net of accumulated depreciation and impairment	336,168	195,047	142,606	673,821
At 31 December 2018:				
Cost	414,981	320,713	142,606	878,300
Accumulated depreciation and impairment	(78,813)	(125,666)	–	(204,479)
Net carrying amount	336,168	195,047	142,606	673,821

	Buildings *RMB'000*	Machinery, motor vehicles and office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2019:				
Cost	414,981	320,713	142,606	878,300
Accumulated depreciation and impairment	(78,813)	(125,666)	–	(204,479)
Net carrying amount	336,168	195,047	142,606	673,821
At 1 January 2019, net of accumulated depreciation and impairment	336,168	195,047	142,606	673,821
Additions	1,581	20,770	171,951	194,302
Disposals	(33,839)	(1,717)	–	(35,556)
Depreciation	(11,661)	(48,737)	–	(60,398)
Transfers	253	227,471	(266,535)	(38,811)
At 31 December 2019, net of accumulated depreciation and impairment	292,502	392,834	48,022	733,358
At 31 December 2019:				
Cost	370,745	559,853	48,022	978,620
Accumulated depreciation and impairment	(78,243)	(167,019)	–	(245,262)
Net carrying amount	292,502	392,834	48,022	733,358

	Buildings *RMB'000*	Machinery, motor vehicles and office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2020:				
Cost	370,745	559,853	48,022	978,620
Accumulated depreciation and impairment	(78,243)	(167,019)	–	(245,262)
Net carrying amount	292,502	392,834	48,022	733,358
At 1 January 2020, net of accumulated depreciation and impairment	292,502	392,834	48,022	733,358
Additions	113	8,300	21,231	29,644
Disposals	(259)	(902)	–	(1,161)
Depreciation	(10,044)	(40,468)	–	(50,512)
Transfers	43,743	5,705	(49,448)	–
At 31 December 2020, net of accumulated depreciation and impairment	326,055	365,469	19,805	711,329
At 31 December 2020:				
Cost	414,295	571,716	19,805	1,005,816
Accumulated depreciation and impairment	(88,240)	(206,247)	–	(294,487)
Net carrying amount	326,055	365,469	19,805	711,329

11. INVESTMENT PROPERTY

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
At beginning of year:			
Cost	–	16,464	16,464
Accumulated depreciation and impairment	–	(185)	(844)
Net carrying amount	–	16,279	15,620
At beginning of year, net of accumulated depreciation and impairment	–	16,279	15,620
Transfer from construction in progress	16,464	–	–
Depreciation	(185)	(659)	(543)
At end of year, net of accumulated depreciation and impairment	16,279	15,620	15,077
At end of year:			
Cost	16,464	16,464	16,464
Accumulated depreciation and impairment	(185)	(844)	(1,387)
Net carrying amount	16,279	15,620	15,077

The Target Group's investment property represents one industrial property located in Qingdao, Shandong Province, PRC.

The investment property is leased under an operating lease, further summary details of which are included in note 28 to the Historical Financial Information.

Fair value hierarchy

The investment property was valued based on a valuation performed by an independent professionally qualified valuer, at RMB18,307,000, RMB17,752,000 and RMB17,197,000 as at 31 December 2018, 2019 and 2020, respectively. Each year, the directors of the Target Group decide which external valuer to be responsible for the external valuations of the Target Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed.

The following tables illustrate the fair value measurement hierarchy of the Target Group's investment property:

31 December 2018

	Fair value measurement categorised into			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Industrial property	–	–	18,307	18,307

31 December 2019

	Fair value measurement categorised into			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Industrial property	–	–	17,752	17,752

31 December 2020

	Fair value measurement categorised into			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Industrial property	–	–	17,197	17,197

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment property:

	Valuation technique	Significant unobservable inputs	Weighted average
			RMB'000
31 December 2018			
Industrial property	Market comparison method	Estimated value (per sq.ft.)	2
31 December 2019			
Industrial property	Market comparison method	Estimated value (per sq.ft.)	2
31 December 2020			
Industrial property	Market comparison method	Estimated value (per sq.ft.)	2

12. PREPAID LAND LEASE PAYMENTS

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	101,910	99,665	–
Effect of adoption of HKFRS 16	–	(99,665)	–
Amortisation	(2,245)	–	–
At end of year:	99,665	–	–
Current portion	(2,246)	–	–
Non-current portion	97,419	–	–

13. RIGHT-OF-USE ASSETS

	Prepaid land lease payments	Buildings	Machinery, motor vehicles and office equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019: (Effect of adoption of HKFRS 16)				
Cost	112,285	8,852	–	121,137
Accumulated depreciation	(12,620)	(4,279)	–	(16,899)
Net carrying amount	99,665	4,573	–	104,238

	Prepaid land lease payments	Buildings	Machinery, motor vehicles and office equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018, net of accumulated depreciation	–	–	–	–
Effect of adoption of HKFRS 16	99,665	4,573	–	104,238
At 1 January 2019, net of accumulated depreciation	99,665	4,573	–	104,238
Additions	–	5,212	401	5,613
Transfer from construction in progress	38,504	–	–	38,504
Disposal	(28,721)	–	–	(28,721)
Depreciation	(1,994)	(3,855)	(77)	(5,926)
At 31 December 2019, net of accumulated depreciation	107,454	5,930	324	113,708
At 31 December 2019:				
Cost	117,650	14,064	401	132,115
Accumulated depreciation	(10,196)	(8,134)	(77)	(18,407)
Net carrying amount	107,454	5,930	324	113,708

	Prepaid land lease payments	Buildings	Machinery, motor vehicles and office equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020:				
Cost	117,650	14,064	401	132,115
Accumulated depreciation	(10,196)	(8,134)	(77)	(18,407)
Net carrying amount	107,454	5,930	324	113,708
At 1 January 2020, net of accumulated depreciation	107,454	5,930	324	113,708
Depreciation	(2,545)	(4,897)	(81)	(7,523)
At 31 December 2020, net of accumulated depreciation	104,909	1,033	243	106,185
At 31 December 2020:				
Cost	117,650	14,064	401	132,115
Accumulated depreciation	(12,741)	(13,031)	(158)	(25,930)
Net carrying amount	104,909	1,033	243	106,185

14. INTANGIBLE ASSETS

	Computer software *RMB'000*	Patents *RMB'000*	Total *RMB'000*
At 1 January 2018:			
Cost	396	1,800	2,196
Accumulated amortisation and impairment	(153)	(1,478)	(1,631)
Net carrying amount	243	322	565
At 1 January 2018, net of accumulated amortisation and impairment	243	322	565
Amortisation provided during the year	(40)	(227)	(267)
At 31 December 2018, net of accumulated amortisation and impairment	203	95	298
At 31 December 2018:			
Cost	396	1,800	2,196
Accumulated amortisation and impairment	(193)	(1,705)	(1,898)
Net carrying amount	203	95	298
At 1 January 2019:			
Cost	396	1,800	2,196
Accumulated amortisation and impairment	(193)	(1,705)	(1,898)
Net carrying amount	203	95	298
At 1 January 2019, net of accumulated amortisation and impairment	203	95	298
Additions	78	–	78
Transfer from construction in progress	307	–	307
Amortisation provided during the year	(53)	(95)	(148)
At 31 December 2019, net of accumulated amortisation and impairment	535	–	535
At 31 December 2019:			
Cost	781	1,800	2,581
Accumulated amortisation and impairment	(246)	(1,800)	(2,046)
Net carrying amount	535	–	535

	Computer software *RMB'000*	Patents *RMB'000*	Total *RMB'000*
At 1 January 2020:			
Cost	781	1,800	2,581
Accumulated amortisation and impairment	(246)	(1,800)	(2,046)
Net carrying amount	535	–	535
At 1 January 2020, net of accumulated amortisation and impairment	535	–	535
Amortisation provided during the year	(150)	–	(150)
At 31 December 2020, net of accumulated amortisation and impairment	385	–	385
At 31 December 2020:			
Cost	781	1,800	2,581
Accumulated amortisation and impairment	(396)	(1,800)	(2,196)
Net carrying amount	385	–	385

15. DEFERRED TAX

Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences arisen in Mainland China as it is not considered probable that taxable profits will be available against which the tax losses and deductible temporary differences can be utilised.

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Tax losses	–	78,935	–
Deductible temporary differences	1,431	9,816	15,482
	1,431	88,751	15,482

There are no income tax consequences attaching to the payment of dividends by the Target Company to its shareholders.

16. INVENTORIES

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Raw materials	134,239	180,156	298,540
Work in progress	18,391	–	–
Finished goods	140,502	80,519	156,014
Provision for write-down of inventories	–	(5,194)	(57)
	293,132	255,481	454,497

17. TRADE RECEIVABLES

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	529,400	561,974	917,786
Impairment	–	(1,977)	(5,014)
	529,400	559,997	912,772

Credit terms in a range within three months are granted to those customers with a good payment history.

An ageing analysis of the trade receivables as at the end of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	527,300	523,564	897,854
1 to 2 years	2,100	34,858	14,918
2 to 3 years	–	1,575	–
	529,400	559,997	912,772

Further qualitative and quantitative information regarding credit risk and ECLs of trade receivables is disclosed in note 33 to the Historical Financial Information.

18. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	108,509	170,253	287,918
Other receivables	167	56,958	1,263
Input value-added tax	59,960	51,775	87,353
Prepaid land lease payments	2,246	–	–
Prepaid income tax	609	432	
Cash pooling investment	–	–	54,275
Others	–	5	–
Impairment	–	–	(2)
	170,882	279,600	431,239

19. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	7,807	133,967	67,090

Cash and bank balances of the Target Group denominated in Renminbi ("RMB") amounted to RMB6,848,000, RMB18,150,000 and RMB4,584,000 as at 31 December 2018, 2019 and 2020, respectively. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Target Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

20. TRADE AND NOTE PAYABLES

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	248,668	270,448	311,563
Notes payable	–	–	10,225
	248,668	270,448	321,788

An ageing analysis of the trade and notes payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	248,668	270,448	321,788

The trade and notes payables are non-interest-bearing and are normally settled within 90 days.

21. OTHER PAYABLES AND ACCRUALS

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Payroll and bonus payables	39,599	104,051	133,881
Other payables	22,484	46,989	57,375
Indirect tax payables	1,867	1,855	2,056
Dividend payable	–	–	9,947
Interest payable	–	316	979
	63,950	153,211	204,238

22. CONTRACT LIABILITIES

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Sales of containers	23,207	13,709	7,992

23. BANK AND OTHER BORROWINGS

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Guaranteed bank loans	–	–	400,000
Unsecured interest-bearing loans from related parties	–	280,000	600,000
	–	280,000	1,000,000

The effective interest rate of bank and other borrowings are as follows:

	31 December 2019		
	Effective interest rate	**Maturity**	
	(%)		*RMB'000*
Current			
Borrowings from related parties-unsecured	3.6975	2020	280,000

	31 December 2020		
	Effective interest rate	**Maturity**	
	(%)		*RMB'000*
Current			
Bank loans – guaranteed	3.5175	2021	400,000
Borrowings from related parties-unsecured	3.4000	2021	600,000
			1,000,000

Maturity profile of bank and other borrowings as at 31 December 2019 and 2020 is as follows:

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Within one year	–	280,000	1,000,000

The Target Group's guaranteed bank loans as at 31 December 2020 disclosed above are guaranteed by the immediate holding company of the Target Group.

24. LEASE LIABILITIES

	For the year ended 31 December 2019 *RMB'000*	For the year ended 31 December 2020 *RMB'000*
At end of previous year	–	6,154
Effect of adoption of HKFRS 16	4,777	–
At beginning of year	4,777	6,154
Additions	5,613	–
Payments	(4,508)	(5,189)
Accretion of interest	272	154
At end of year	6,154	1,119
Current portion	(5,035)	(1,119)
Non-current portion	1,119	–

Maturity profile of lease liabilities as at 31 December 2019 and 2020 is as follows:

	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Within one year	5,189	1,133
In the second year	1,133	–
Total undiscounted lease liabilities	6,322	1,133
Discount amount	(168)	(14)
Total present value of lease liabilities	6,154	1,119
Current portion	(5,035)	(1,119)
Non-current portion	1,119	–

	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Within one year	5,035	1,119
In the second year	1,119	–
Total present value of lease liabilities	6,154	1,119

25. GOVERNMENT GRANTS

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
At beginning of year	–	–	2,421
Additions	–	2,660	7,094
Released to profit or loss	–	(239)	(717)
At end of year	–	2,421	8,798

26. PAID-UP CAPITAL

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-up capital	864,398	864,398	864,398

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2019 and the year ended 31 December 2020, the Target Group had non-cash additions to right-of-use assets and lease liabilities of RMB5,212,000 and nil, respectively.

(b) A reconciliation of the profit/(loss) before tax to cash generated from operations is as follows:

	Notes	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020
		RMB'000	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before tax		12,085	(86,638)	128,110
Adjustments for:				
Finance costs		679	4,462	27,852
Interest income		–	(30)	(828)
Loss on disposal of items of property, plant and equipment	*5.3*	–	27,779	939
Depreciation of property, plant and equipment	*10*	35,714	60,398	50,512
Depreciation of investment properties	*11*	185	659	543
Depreciation of right-of-use assets	*13*	–	5,926	7,523
Amortisation of prepaid land lease payments	*12*	2,245	–	–
Amortisation of intangible assets	*14*	267	148	150
Impairment of trade receivables	*33*	–	1,977	3,037
Impairment of other receivables		–	–	2
Write-down of inventories to net realisable value		–	15,437	282
		51,175	30,118	218,122
Decrease/(increase) in inventories		59,925	22,214	(199,298)
Decrease/(increase) in trade receivables		71,637	(32,574)	(355,812)
Decrease/(increase) in prepayments and other receivables		30,120	(52,908)	(148,861)
(Decrease)/increase in trade and note payables		(78,748)	21,780	51,340
(Decrease)/increase in other payables and accruals		(762)	88,093	36,390
Increase/(decrease) in contract liabilities		19,075	(9,498)	(5,717)
Cash generated from/(used in) operations		152,422	67,225	(403,836)
Income tax paid		(6,589)	(47)	(8,623)
Net cash flows generated from/(used in) operating activities		145,833	67,178	(412,459)

(c) Changes in liabilities arising from financing activities

	Bank and other borrowings *RMB'000*	Lease liabilities *RMB'000*
At 1 January 2018 and at 31 December 2018	–	–
Effect of adoption of HKFRS 16	–	4,777
At 1 January 2019	–	4,777
Changes from financing cash flows	280,000	(4,508)
New leases	–	5,613
Interest expense	–	272
At 31 December 2019 and 1 January 2020	280,000	6,154
Changes from financing cash flows	720,000	(5,189)
Interest expense	–	154
At 31 December 2020	1,000,000	1,119

(d) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Within financing activities	4,508	5,189

28. OPERATING LEASE ARRANGEMENTS

As lessor

The Target Group leases its investment property (note 11) representing one industrial property in Mainland China under an operating lease arrangement. The terms of the lease require the tenant to pay a security deposit and provide for a fixed rent rate throughout the lease period. The details of revenue from operating lease income are included in note 5.1 to the financial statements.

At the end of each of Relevant Periods, the undiscounted lease payments receivable by the Target Group in future periods under the non-cancellable operating lease with its tenant are as follows:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Within one year	–	3,215	3,215
After one year but within two years	–	3,215	3,215
After two years but within three years	–	3,215	3,215
After three years but within four years	–	3,215	3,215
After four years but within five years	–	3,215	3,215
After five years	–	14,466	11,251
	–	30,541	27,326

As lessee

The Target Group has various lease contracts for prepaid land lease payments, buildings and motor vehicles used in its operation. Lease terms of these lease contracts are included in note 2.3 to the Historical Financial Information. Generally, the Target Group is restricted from assigning and subleasing the leased assets outside the Target Group.

(a) Right-of-use assets and lease liabilities

Detailed information regarding right-of-use assets and lease liabilities has been set out in notes 13 and 24, respectively, to the Historical Financial Information.

(b) The amounts recognised in profit or loss in relation to lessee accounting are as follows:

	31 December 2019	**31 December 2020**
	RMB'000	*RMB'000*
Interest on lease liabilities	272	154
Depreciation charge of right-of-use assets	5,926	7,523

(c) Non-cash additions to right-of-use assets and lease liabilities are disclosed in note 27(a) to the Historical Financial Information.

(d) Operating lease commitments as at 31 December 2018

At 31 December 2018, the Target Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2018
	RMB'000
Within one year	5,178

29. COMMITMENTS

At the end of the Relevant Periods, the Target Group did not have any significant commitments.

30. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Target Group had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Interest income from:			
Immediate holding company	–	59	830
Fellow subsidiaries	–	342	1,637
Interest expenses to:			
Fellow subsidiaries	–	1,783	10,785
Sales of goods to:			
Immediate holding company	–	515,353	1,916,489
Fellow subsidiaries	75	72,101	25,098
Former fellow subsidiaries	584,378	206,973	–
Purchases of goods from:			
Fellow subsidiaries	828	10,110	57,834
Former fellow subsidiaries	2,851	2,914	–
Rendering of services to:			
Fellow subsidiaries	52,052	34,941	36,999
Receiving of services from:			
Fellow subsidiaries	5,308	14,027	103,377
Former fellow subsidiaries	4,000	1,665	–
Borrowings from:			
Fellow subsidiaries	–	280,000	1,160,000
Borrowings to:			
Immediate holding company	–	55,810	210,198

The related party transactions above were made according to the published prices or interest rates and conditions similar to those offered to the respective major customers.

(b) Outstanding balances with related parties

		December 2018 *RMB'000*	December 2019 *RMB'000*	December 2020 *RMB'000*
Amounts due from:				
Immediate holding company		–	495,573	694,450
Fellow subsidiaries	*(i)*	70,175	101,161	56,246
Former fellow subsidiaries	*(i)*	211,990	–	–
Amount invested into the cash pooling managed by a fellow subsidiary		–	–	54,275
Amounts due to:				
Immediate holding company		–	–	9,947
Fellow subsidiaries		53	18,013	42,914
Former fellow subsidiaries		1,589	–	–
Loans from:				
A fellow subsidiary	*(ii)*	–	280,000	600,000

Notes:

(i) The Target Group placed a certain portion of its cash at a certain fellow subsidiary. All of the deposits at each of the end of the Relevant Periods were demand deposits, and were therefore, presented in cash and cash equivalents. Interest was charged according to the rates and terms agreed with the fellow subsidiary.

(ii) Details of the Target Group's loans from the fellow subsidiary as at the end of the Relevant Periods are included in note 23 to the Historical Financial Information.

Save as disclosed above, the rest of the outstanding balances with related parties were unsecured, non-interest-bearing and had no fixed repayment terms.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of Relevant Periods are as follows:

Financial assets – at amortised cost

	31 December 2018	**31 December 2019**	**31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	529,400	559,997	912,772
Financial assets included in prepayments and other receivables	167	56,958	55,536
Cash and cash equivalents	7,807	133,967	67,090
	537,374	750,922	1,035,398

Financial liabilities – at amortised cost

	31 December 2018	**31 December 2019**	**31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Trade and notes payables	248,668	270,448	321,788
Financial liabilities included in other payables and accruals	22,484	47,305	68,301
Bank and other borrowings	–	280,000	1,000,000
Lease liabilities	–	6,154	1,119
	271,152	603,907	1,391,208

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments and other receivables, trade and notes payables, financial liabilities included in other payables and accruals, bank and other borrowings and current portion of lease liabilities, respectively, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The non-current portion of lease liabilities of the Target Group approximates to their fair value because their carrying amounts are present value and internal rates of return are close to rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Target Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments comprise bank and other borrowings, lease liabilities and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Target Group's operations. The Target Group has various other financial assets and liabilities such as trade receivables, and trade and notes payables, which arise directly from its operations.

The main risks arising from the Target Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Target Group has transactional currency exposures. These exposures arise from sales in US$ other than the Target Group's functional currency, which is RMB.

The following table demonstrates the sensitivity at the end of the Relevant Periods to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Target Group's profit before tax (due to changes in the fair value of monetary assets and liabilities):

	Increase/(decrease) in US$ rate *(RMB'000)*	**(Decrease)/increase in profit before tax** *(RMB'000)*
Year ended 31 December 2018		
If US$ weakens against RMB	1%	(3,843)
If US$ strengthens against RMB	(1%)	3,843
Year ended 31 December 2019		
If US$ weakens against RMB	1%	(6,470)
If US$ strengthens against RMB	(1%)	6,470
Year ended 31 December 2020		
If US$ weakens against RMB	1%	(2,127)
If US$ strengthens against RMB	(1%)	2,127

Credit risk

The Target Group is exposed to credit risk primarily from trade receivables in its operation.

The Target Group trades only with recognised and creditworthy related parties and third parties. It is the Target Group's policy that all counterparties are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis.

(a) Maximum credit risk exposure

The credit risk of the Target Group's financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments without taking account of any collateral held or other credit enhancements.

(b) Impairment assessment

The detailed accounting policy and significant accounting judgements and estimates for impairment in relation to credit risk are given in notes 2.3 and 3 to the Historical Financial Information, respectively.

The movements in the provision for impairment of trade receivables, which account for the primary credit risk of the Target Group, are as follows:

	Year ended 31 December 2018	**Year ended 31 December 2019**	**Year ended 31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	–	–	1,977
Impairment losses recognised	–	1,977	3,037
At 31 December	–	1,977	5,014

(c) ***Credit quality***

The Target Group manages the credit quality by credit risk rating grades, classified in descending credit quality order as neither past due nor impaired, not past due and individually impaired, past due but not impaired, past due and collectively impaired and past due and individually impaired.

Trade receivables, which account for the primary credit risk of the Target Group, are classified as follows:

Trade receivables

	31 December 2018				
	Ageing based on the invoice date				
	Within 1 year	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Past due but not impaired	–	2,100	–	–	2,100
Neither past due nor impaired	527,300	–	–	–	527,300
	527,300	2,100	–	–	529,400

	31 December 2019				
	Ageing based on the invoice date				
	Within 1 year	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Past due but not impaired	–	34,858	–	–	34,858
Neither past due nor impaired	476,822	–	–	–	476,822
Past due and collectively impaired	–	–	2,100	–	2,100
Not past due and collectively impaired	48,194	–	–	–	48,194
	525,016	34,858	2,100	–	561,974

	31 December 2020 Ageing based on the invoice date				
	Within 1 year	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Past due but not impaired	–	14,918	–	–	14,918
Neither past due nor impaired	731,789	–	–	–	731,789
Not past due and collectively impaired	171,079	–	–	–	171,079
	902,868	14,918	–	–	917,786

(d) Concentration

Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Target Group as the receivables are widely dispersed in different sectors and industries.

Liquidity risk

The Target Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Target Group finances its working capital requirements through a combination of funds generated from operations, bank and other borrowings and lease liabilities.

The table below summarises the maturity profile of the Target Group's financial liabilities at 31 December based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of each of the Relevant Periods.

The maturity profile of the Target Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

31 December 2018

	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes payables	248,668	–	–	–	248,668
Financial liabilities included in other payables and accruals	22,484	–	–	–	22,484
Total	271,152	–	–	–	271,152

31 December 2019

	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and notes payables	270,448	–	–	–	270,448
Financial liabilities included in other payables and accruals	47,305	–	–	–	47,305
Bank and other borrowings	290,353	–	–	–	290,353
Lease liabilities	5,189	1,133	–	–	6,322
Total	613,295	1,133	–	–	614,428

31 December 2020

	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and notes payables	321,788	–	–	–	321,788
Financial liabilities included in other payables and accruals	68,301	–	–	–	68,301
Bank and other borrowings	1,034,470	–	–	–	1,034,470
Lease liabilities	1,133	–	–	–	1,133
Total	1,425,692	–	–	–	1,425,692

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018, 2019 and 2020.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Group may seek for new capital investment or new debts. No changes were made in the objectives, policies or processes for managing capital, during the Relevant Periods.

The Target Group monitors capital using a gearing ratio, which is total borrowings divided by total equity. The gearing ratios as at the end of the Relevant Periods were as follows:

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Bank and other borrowings	–	280,000	1,000,000
Total equity	1,453,182	1,366,323	1,152,084
Gearing ratio	–	20.49%	86.80%

34. STATEMENT OF FINANCIAL POSITION OF THE TARGET COMPANY

Information about the statement of financial position of the Target Company at the end of the Relevant Periods is as follows:

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	537,591	592,362	560,797
Investment properties	16,279	15,620	15,077
Prepaid land lease payments	69,031	–	–
Investment in a subsidiary	154,000	154,000	154,000
Right-of-use assets	–	110,257	105,942
Intangible assets	298	535	385
Total non-current assets	777,199	872,774	836,201
CURRENT ASSETS			
Inventories	292,396	254,718	453,848
Trade receivables	458,679	488,020	860,188
Prepayments and other receivables	167,928	274,927	428,962
Cash and cash equivalents	6,421	130,940	65,029
Total current assets	925,424	1,148,605	1,808,027
Total assets	1,702,623	2,021,379	2,644,228
CURRENT LIABILITIES			
Trade and notes payables	246,174	269,801	320,650
Other payables and accruals	62,308	138,777	188,992
Contract liabilities	23,207	13,709	7,992
Bank and other borrowings	–	280,000	1,000,000
Lease liabilities	–	1,863	1,119
Total current liabilities	331,689	704,150	1,518,753
NET CURRENT ASSETS	593,735	444,455	289,274
TOTAL ASSETS LESS CURRENT LIABILITIES	1,370,934	1,317,229	1,125,475

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
NON-CURRENT LIABILITIES			
Lease liabilities	–	1,119	–
Government grants	–	2,421	8,798
Total non-current liabilities	–	3,540	8,798
Net assets	1,370,934	1,313,689	1,116,677
EQUITY			
Paid-in capital	864,398	864,398	864,398
Other reserves (note)	92,045	92,654	105,565
Retained profits (note)	414,491	356,637	146,714
Total equity	1,370,934	1,313,689	1,116,677

Note: A summary of the Target Company's reserves and retained profits is as follows:

	Special reserve *RMB'000*	Surplus reserves *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2018	–	92,045	483,742	575,787
Loss and total comprehensive loss for the year	–	–	(5,899)	(5,899)
Dividends declared	–	–	(63,352)	(63,352)
At 31 December 2018	–	92,045	414,491	506,536
Effect of adoption of HKFRS 16 *(note 2.1)*	–	–	(204)	(204)
At 1 January 2019 (restated)	–	92,045	414,287	506,332
Loss and total comprehensive loss for the year	–	–	(57,041)	(57,041)
Transfer from retained profits	1,454	–	(1,454)	–
Utilisation of reserve funds	(845)	–	845	–
At 31 December 2019 and 1 January 2020	609	92,045	356,637	449,291
Profit and total comprehensive profit for the year	–	–	134,591	134,591
Dividends declared	–	–	(331,603)	(331,603)
Transfer from retained profits	3,950	13,520	(17,470)	–
Utilisation of reserve funds	(4,559)	–	4,559	–
At 31 December 2020	–	105,565	146,714	252,279

35. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group or any of its sole subsidiary in respect of any period subsequent to 31 December 2020.

The following is the text of a report in respect of DFIC Ningbo received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, for the purpose of inclusion in this circular.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF DONG FANG INTERNATIONAL CONTAINER (NINGBO) CO., LTD. TO THE DIRECTORS OF COSCO SHIPPING DEVELOPMENT CO., LTD.

Introduction

We report on the historical financial information of Dong Fang International Container (Ningbo) Co., Ltd. (the "Target Company") set out on pages II-C-3 to II-C-7, which comprises the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Company for each of the years ended 31 December 2018, 2019 and 2020 (the "Relevant Periods"), and the statements of financial position of the Target Company as at 31 December 2018, 2019 and 2020 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-C-3 to II-C-41 forms an integral part of this report, which has been prepared for inclusion in the circular of COSCO SHIPPING Development Co., Ltd. (the "Company") dated 24 May 2021 (the "Circular") in connection with the proposed acquisition of 100% equity interest of Target Company (the "Proposed Acquisition").

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation 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 the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' 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 accountants' 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 accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation 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 accountants' report, a true and fair view of the financial position of the Target Company as at 31 December 2018, 2019 and 2020 and of the financial performance and cash flows of the Target Company for each of the Relevant Periods in accordance with the basis of presentation 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 and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-C-3 have been made.

Dividends

We refer to note 9 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Periods.

Ernst & Young
Certified Public Accountants
Hong Kong
24 May 2021

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

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

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**Year ended 31 December 2018**	**Year ended 31 December 2019**	**Year ended 31 December 2020**
		RMB'000	*RMB'000*	*RMB'000*
REVENUE	*5.1*	2,135,077	1,188,147	1,322,117
Cost of sales		(1,948,646)	(1,202,120)	(1,218,792)
Gross profit		186,431	(13,973)	103,325
Other income	*5.2*	6,431	4,961	5,303
Other gains, net	*5.3*	23,523	13,693	(15,477)
Selling, administrative and general expenses		(73,383)	(53,464)	(39,076)
Expected credit losses		–	(9)	(8)
Other expenses		(100)	–	(137)
Finance costs	*7*	(5,433)	(7,114)	(18,692)
PROFIT/(LOSS) BEFORE TAX	*6*	137,469	(55,906)	35,238
Income tax expense	*8*	(34,909)	(2,208)	(4,794)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		102,560	(58,114)	30,444
Attributable to:				
Owners of the parent		102,560	(58,114)	30,444
Non-controlling interests		–	–	–
		102,560	(58,114)	30,444

STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2018** *RMB'000*	**31 December 2019** *RMB'000*	**31 December 2020** *RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*10*	162,516	165,989	181,332
Prepaid land lease payments	*11*	35,633	–	–
Right-of-use assets	*12*	–	35,633	34,637
Intangible assets	*13*	104	353	317
Total non-current assets		198,253	201,975	216,286
CURRENT ASSETS				
Inventories	*14*	280,495	106,444	130,599
Trade receivables	*15*	322,667	257,122	352,509
Prepayments and other receivables	*16*	47,117	351,080	610,141
Prepaid land lease payments	*11*	997	–	–
Loans and receivables		–	50,000	–
Pledged deposits	*17*	7,978	120	120
Cash and cash equivalents	*18*	192,022	60,878	42,129
Total current assets		851,276	825,644	1,135,498
Total assets		1,049,529	1,027,619	1,351,784
CURRENT LIABILITIES				
Trade and notes payables	*19*	331,393	122,544	162,880
Other payables and accruals	*20*	67,367	73,434	100,192
Contract liabilities	*21*	–	21,471	46
Bank and other borrowings	*22*	131,870	352,322	600,000
Tax payable		6,831	4,187	4,794
Total current liabilities		537,461	573,958	867,912
NET CURRENT ASSETS		313,815	251,686	267,586
TOTAL ASSETS LESS CURRENT LIABILITIES		512,068	453,661	483,872
NON-CURRENT LIABILITIES				
Government grants		2,168	1,875	1,642
Total non-current liabilities		2,168	1,875	1,642
Net assets		509,900	451,786	482,230
EQUITY				
Paid-in capital	*23*	161,633	161,633	161,633
Surplus reserves		41,509	41,509	44,554
Share premium		6,882	6,882	6,882
Retained profits		299,876	241,762	269,161
Total equity		509,900	451,786	482,230

STATEMENT OF CHANGES IN EQUITY

	Paid-in capital *RMB'000* *(note 23)*	Share premium *RMB'000*	Surplus reserves (a) *RMB'000*	Retained profits *RMB'000*	Total equity *RMB'000*
At 1 January 2018	161,633	6,882	36,192	204,192	408,899
Profit and total comprehensive income for the year	–	–	–	102,560	102,560
Transfer from retained profits	–	–	5,317	(5,317)	–
Others	–	–	–	(1,559)	(1,559)
At 31 December 2018 and 1 January 2019	161,633	6,882	41,509	299,876	509,900
Loss and total comprehensive loss for the year	–	–	–	(58,114)	(58,114)
At 31 December 2019 and 1 January 2020	161,633	6,882	41,509	241,762	451,786
Profit and total comprehensive income for the year	–	–	–	30,444	30,444
Transfer from retained profits	–	–	3,045	(3,045)	–
At 31 December 2020	161,633	6,882	44,554	269,161	482,230

(a) In accordance with the PRC regulations and the articles of association of the Company, before distributing the net profit of each year, the Target Company registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of this reserve reaches 50% of its share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares.

STATEMENT OF CASH FLOWS

	For the year ended 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operating operations	704	(86,183)	(237,892)
Income tax paid	(34,909)	(2,208)	(4,794)
Net cash flows used in operating activities	(34,205)	(88,391)	(242,686)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	(12,864)	(23,840)	(29,424)
Proceeds on items of disposals of property, plant and equipment	17	64	204
Decrease in other receivables	–	(230,215)	226,116
Decrease in cash pooling investment	–	–	(200,149)
Net cash flows used in investing activities	(12,847)	(253,991)	(3,253)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans	179,917	392,376	1,200,000
Repayment of interest-bearing bank borrowings	(146,060)	(174,166)	(952,550)
Interest paid	(5,433)	(7,114)	(18,692)
Net cash flows generated from financing activities	28,424	211,096	228,758
NET DECREASE IN CASH AND CASH EQUIVALENTS	(18,628)	(131,285)	(17,181)
Cash and cash equivalents at beginning of year	188,775	192,022	60,878
Effect of foreign exchange rate changes	21,875	141	(1,568)
CASH AND CASH EQUIVALENTS AT END OF YEAR	192,022	60,878	42,129

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Dong Fang International Container (Ningbo) Co., Ltd. (the "Target Company") is a limited liability company registered in Ningbo City, Zhejiang Province, the People's Republic of China, and was established in July 2005. The Target Company's registered address is No. 101, Qihang North Road, Zhanqi Town, Ningbo City, Zhejiang Province.

During the Relevant Periods, the Target Company was principally involved in the following principal activities:

- manufacture and sale of dry freight, specialised and refrigerated containers; and
- provision of cargo storage and cargo transportation agent services.

In May 2019, the Target Company's original parent company Singamas Container Enterprise Co., Ltd. and COSCO Shipping Financial Holdings Co., Ltd. signed an Equity Transfer Agreement, pursuant to which Singamas Container Enterprise Co., Ltd. will transfer the Target Company to COSCO Shipping Financial Holdings Co., Ltd. 100% equity. On 23 July 2019, the 100% equity of Target Company delivery completed the industrial and commercial registration change, COSCO Shipping Financial Holdings Co., Ltd. transferred 100% of the Target Company's equity, and the Target Company's name changed from Ningbo Pacific Container Co., Ltd. to Dong Fang International Container (Ningbo) Co., Ltd.

After the above equity transfer, the parent company of the Target Company became COSCO Shipping Financial Holdings Co., Ltd. established in Hong Kong, China, and the ultimate controlling party became China COSCO Shipping Group Co., Ltd. established in China.

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2020, including HKFRS 9 *Financial Instruments*, and HKFRS 15 *Revenue from Contracts with Customers*, together with the relevant transitional provisions, have been early adopted by the Target Company in the preparation of the Historical Financial Information throughout the Relevant Periods, except for HKFRS 16 *Leases* ("HKFRS 16").

The Target Company has adopted HKFRS 16 *Leases* for the first time on 1 January 2019. The nature and the impact of HKFRS 16 are described below:

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Target Company has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Target Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

As a lessee, the Target Company previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Target Company. Under HKFRS 16, the Target Company applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for the elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Target Company recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Target Company applied the incremental borrowing rate at 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Target Company elected to present the right-of-use assets separately in the statement of financial position.

The Target Company has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Target Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3,6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[3,5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021*[7]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation *5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

7 Effective for annual periods beginning on or after 1 April 2021

While the adoption of some of the new and revised HKFRSs may result in changes in accounting policies, none of these HKFRSs is expected to have a significant impact on the Target Company's results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Target Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and non-current assets a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to the parent of the Target Company.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less Accumulated depreciation and depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.5% to 5.0%
Machinery, motor vehicles and office equipment	5% to 19.2%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress are stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. construction in progress are reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line based on its estimated useful life 3 to 10 years.

Leases (applicable from 1 January 2019)

The Target Company assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lessee

The Target Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Target Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	50 years

If ownership of the leased asset transfers to the Target Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target Company and payments of penalties for termination of a lease, if the lease term reflects the Target Company exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Target Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Target Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Lessor

When the Target Company acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Target Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Target Company allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee are accounted for as finance leases.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Target Company, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Company is the lessor, assets leased by the Target Company under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the profit or loss on the straight-line basis over the lease terms. Where the Target Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Target Company has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Company initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Target Company has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Target Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the profit or loss.

This category includes derivative instruments and equity investments which the Target Company had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Target Company and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss.

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Target Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Company could be required to repay.

Impairment of financial assets

The Target Company recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Target Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Target Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target Company may also consider a financial asset to be in default when internal or external information indicates that the Target Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The calculation of ECLs is based on probability of default ("PD") approach with key elements as follows:

- PD: an estimate of the likelihood of default over a given time horizon;
- Loss Given Default ("LGD"): an estimate of the loss arising in the case where a default occurs at a given time; and
- Exposure at Default ("EAD"): an estimate of the exposure at a future default date.

Forward looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information, such as GDP growth.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

ECLs in Stage 1 and Stage 2 are measured on a collective basis. Meanwhile, in Stage 3, ECLs are measured on an individual basis.

Simplified approach

For trade receivables that do not contain a significant financing component or when the Target Company applies the practical expedient of not adjusting the effect of a significant financing component, the Target Company applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. For trade receivables related to customers that are the immediate holding company or fellow subsidiaries controlled by the same immediate holding company, the Target Company generally assesses the loss allowance to be minimal. For trade receivables related to customers that are in financial difficulties or in default, ECLs are measured on an individual basis. In addition, the Target Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Target Company's financial liabilities include trade payables, financial liabilities included in other payables and accruals, bank and other borrowings, and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the Relevant Periods are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Company expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Target Company will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Target Company and the customer at contract inception. When the contract contains a financing component which provides the Target Company with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of containers

Revenue from the sale of containers is recognised on a bill-and-hold basis. A bill-and-hold arrangement is a contract under which the Target Company bills a customer for a product but the Target Company retains physical possessions of the product until it is transferred to the customer at a point in time in the future. The Target Company assesses when all of the following criteria are met:

- Upon completion of manufacturing, the Target Company demonstrates that the container meets the agreed-upon specifications in the contract to the customer;
- The customer has requested the bill-and-hold arrangement;
- The container has been identified separately as belonging to the customer;
- The container is ready for physical transfer to the customer; and
- The Target Company cannot have the ability to use the container or to direct it to another customer.

When all of the criteria above are met, the performance obligation is satisfied and revenue is recognised accordingly. Under such arrangement, payment in advance is normally required and the normal credit term for the residual consideration is 30 to 90 days upon satisfaction of performance obligation.

(b) Rendering of services

The Target Company provides cargo storage and cargo transportation agent services. The performance obligation is satisfied over time as services are rendered. Payment is generally due within 30 to 45 days upon completion of service and acceptance by the customer.

Revenue from other sources

Operating lease income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Target Company transfers the related goods or services. Contract liabilities are recognised as revenue when the Target Company performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

The Target Company has participated in central pension schemes for its employees in the PRC pursuant to the relevant laws and regulations of the PRC. The Target Company makes monthly contributions and the contributions are charged to profit or loss on an accrual basis. The Target Company has no further obligations beyond the contributions made.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Target Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These Historical Financial Information are presented in RMB, which is the Target Company's functional currency. Each entity in the Target Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Target Company are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Target Company initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Target Company determines the transaction date for each payment or receipt of the advance consideration.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Target Company's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Target Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Determination of significant increases in credit risk

The calculation of ECLs under general approach are required to be categorised into different stages according to the changes in credit risk to apply respective calculation mechanics.

The Target Company considers whether the credit risk of a financial asset has increased significantly since initial recognition with the following non-exhaustive factors:

- past due over 90 days;
- an actual or expected significant change in the operating results of the borrower; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of ECLs

The Target Company uses PD approach under general approach and a provision matrix under simplified approach, respectively, in calculation of ECLs. The Target Company estimates PD, LGD and provision rate, respectively, by reference to the internal historical credit loss experience and external information.

Useful lives and residual values of property, plant and equipment

Management determines the estimated useful lives and residual values for the Target Company's property, plant and equipment by reference to the Target Company's business model, its asset management policy, the industry practice, expected usage of the asset, and the current scrap values of steel in an active market at each measurement date. The depreciation expense will change where the useful lives or residual values of property, plant and equipment are different from the previous estimates.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in market conditions. Management reassesses these estimates at each reporting date after considering specific factors such as the ageing of the inventories, the subsequent or estimated selling price and forecasted market demand.

4. OPERATING SEGMENT INFORMATION

The Target Company is principally involved in manufacture and sale of dry freight, specialised and refrigerated containers and provision of cargo storage and cargo transportation agent services.

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Target Company that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to management of the Target Company, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Target Company as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

(a) Revenue from external customers

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Hong Kong, China	2,124,764	734,461	1,091,888
Mainland China	10,313	44,199	230,229
Other countries	–	409,487	–
	2,135,077	1,188,147	1,322,117

The revenue information above is based on the locations of the customers.

(b) Non-current assets

All the non-current assets of the Target Company are located at Mainland China. The non-current asset information is based on the locations of the Target Company or its subsidiaries which own the assets and excludes financial instruments and deferred tax assets.

Information about a major customer

The revenue generated from sales to customers which individually amounted to more than 10% to the Target Company's total revenue during the Relevant Periods is set out below:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
CONTAINERS NO.1 INC.	461,704	–	–
Florens Maritime Limited	–	232,961	507,742
	461,704	232,961	507,742

5. REVENUE, OTHER INCOME AND GAINS/(LOSSES)

An analysis of revenue, other income and gains/(losses) is as follows:

(1) Revenue

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Revenue from contracts with customers:	2,135,077	1,188,147	1,322,117
Other revenue:			
Government grants	1,751	3,260	2,184
Interest income	4,680	1,701	2,983
Others	–	–	136
	6,431	4,961	5,303

The disaggregation of the Target Company's revenue from contracts with customers, including sales of goods and rendering of services above is as follows:

	Year ended 31 December 2018 *RMB'000*	**Year ended 31 December 2019** *RMB'000*	**Year ended 31 December 2020** *RMB'000*
Customers' geographical location			
Hong Kong, China	2,124,764	1,143,948	1,091,888
Mainland China	10,313	44,199	230,229
	2,135,077	1,188,147	1,322,117

	Year ended 31 December 2018 *RMB'000*	**Year ended 31 December 2019** *RMB'000*	**Year ended 31 December 2020** *RMB'000*
Timing of revenue recognition			
Goods transferred at a point in time	2,135,077	1,188,147	1,322,117

(2) Other income

	Year ended 31 December 2018 *RMB'000*	**Year ended 31 December 2019** *RMB'000*	**Year ended 31 December 2020** *RMB'000*
Customers' geographical location			
Interest income	4,680	1,701	2,983
Government grants related to the ordinary course of business	1,751	3,260	2,184
Others	–	–	136
	6,431	4,961	5,303

(3) Other gains/(losses), net

	Year ended 31 December 2018 *RMB'000*	**Year ended 31 December 2019** *RMB'000*	**Year ended 31 December 2020** *RMB'000*
Net foreign exchange gain/(loss)	22,472	13,605	(15,554)
Others	1,051	88	77
	23,523	13,693	(15,477)

6. PROFIT/(LOSS) BEFORE TAX

The Target Company's profit before tax is arrived at after charging/(crediting):

	Notes	**Year ended 31 December 2018** *RMB'000*	**Year ended 31 December 2019** *RMB'000*	**Year ended 31 December 2020** *RMB'000*
Cost of goods sold		1,948,646	1,202,120	1,218,792
Depreciation of property, plant and equipment	*10*	15,451	15,089	13,494
Depreciation of right-of-use assets	*12*	–	997	996
Amortisation of intangible assets	*13*	56	58	63
Employee benefit expense:				
Wages and salaries		172,715	150,920	162,425
Pension scheme contributions (defined contribution scheme)		6,004	4,249	864
		178,719	155,169	163,289
Foreign exchange differences, net	*5.3*	22,472	13,605	15,554
Interest income		4,680	1,701	2,983
Write-down of inventories to net realisable value		–	8,520	–
Impairment of property, plant and equipment		–	1,477	–
Impairment of other receivables		–	9	8

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December 2018 *RMB'000*	**Year ended 31 December 2019** *RMB'000*	**Year ended 31 December 2020** *RMB'000*
Interest on debts and borrowings	(5,433)	(7,114)	(18,692)

8. INCOME TAX

According to the Corporate Income Tax ("CIT") Law of the PRC, which was effective from 1 January 2008, the CIT rate applicable to the Target Company and its subsidiaries established in the PRC was 25% for the years ended 31 December 2018, 2019 and 2020.

Taxes or profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Target Company operates.

	Year ended 31 December 2018 *RMB'000*	**Year ended 31 December 2019** *RMB'000*	**Year ended 31 December 2020** *RMB'000*
Current income tax:			
Mainland China	34,909	2,208	4,794

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the country or jurisdiction in which the Target Company is domiciled to the tax expense at the effective tax rate, is as follows:

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before tax	137,469	(55,906)	35,238
Tax at the statutory tax rate	34,367	(13,976)	8,809
Adjustments in respect of current tax of previous periods	–	2,208	–
Additional deduction of research and development expenses	–	(44)	(415)
Expenses not deductible for tax	–	45	74
Tax losses utilised from previous periods	–	–	(3,674)
Temporary differences utilised from previous periods	542	13,975	–
	34,909	2,208	4,794

9. DIVIDENDS

No dividend has been paid or declared by the Target Company during the Relevant Periods.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery, motor vehicles and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020:				
Cost	322,800	8,778	427	332,005
Accumulated depreciation and impairment	(159,916)	(6,100)	–	(166,016)
Net carrying amount	162,884	2,678	427	165,989
At 1 January 2020, net of accumulated depreciation and impairment	162,884	2,678	427	165,989
Additions	–	–	29,398	29,398
Disposals	(405)	(156)	–	(561)
Depreciation	(13,110)	(384)	–	(13,494)
Transfers	10,410	868	(11,278)	–
At 31 December 2020, net of accumulated depreciation and impairment	159,779	3,006	18,547	181,332
At 31 December 2020:				
Cost	327,674	10,042	18,547	356,263
Accumulated depreciation and impairment	(167,895)	(7,036)	–	(174,931)
Net carrying amount	159,779	3,006	18,547	181,332

	Buildings *RMB'000*	Machinery, motor vehicles and office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2019:				
Cost	299,323	8,659	5,461	313,443
Accumulated depreciation and impairment	(145,022)	(5,905)	–	(150,927)
Net carrying amount	154,301	2,754	5,461	162,516
At 1 January 2019, net of accumulated depreciation and impairment	154,301	2,754	5,461	162,516
Additions	–	–	23,533	23,533
Disposals	(4,330)	(641)	–	(4,971)
Depreciation	(14,894)	(195)	–	(15,089)
Transfers	27,807	760	(28,567)	–
At 31 December 2019, net of accumulated depreciation and impairment	162,884	2,678	427	165,989
At 31 December 2019:				
Cost	322,800	8,778	427	332,005
Accumulated depreciation and impairment	(159,916)	(6,100)	–	(166,016)
Net carrying amount	162,884	2,678	427	165,989

	Buildings *RMB'000*	Machinery, motor vehicles and office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2018:				
Cost	294,808	6,206	318	301,332
Accumulated depreciation and impairment	(131,844)	(3,632)	–	(135,476)
Net carrying amount	162,964	2,574	318	165,856
At 1 January 2018, net of accumulated depreciation and impairment	162,964	2,574	318	165,856
Additions	6,439	1,282	13,045	20,766
Disposals	(670)	(83)	(7,902)	(8,655)
Depreciation	(14,470)	(981)	–	(15,451)
At 31 December 2018, net of accumulated depreciation and impairment	154,263	2,792	5,461	162,516
At 31 December 2018:				
Cost	300,577	7,405	5,461	313,443
Accumulated depreciation and impairment	(146,314)	(4,613)	–	(150,927)
Net carrying amount	154,263	2,792	5,461	162,516

11. PREPAID LAND LEASE PAYMENTS

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
At beginning and end of year:	36,630	–	–
Current portion	997	–	–
Non-current portion	35,633	–	–

12. RIGHT-OF-USE ASSETS

	Prepaid land lease payments *RMB'000*
At 1 January 2020:	
Cost	49,836
Accumulated depreciation	(14,203)
Net carrying amount	35,633
At 1 January 2020, net of accumulated depreciation	35,633
Depreciation	(996)
At 31 December 2020, net of accumulated depreciation	34,637
At 31 December 2020:	
Cost	49,836
Accumulated depreciation	(15,199)
Net carrying amount	34,637

	Prepaid land lease payments *RMB'000*
At 1 January 2019:	
Cost	49,836
Accumulated depreciation	(13,206)
Net carrying amount	36,630
At 1 January 2019, net of accumulated depreciation	36,630
Depreciation	(997)
At 31 December 2019, net of accumulated depreciation	35,633
At 31 December 2019:	
Cost	49,836
Accumulated depreciation	(14,203)
Net carrying amount	35,633

13. INTANGIBLE ASSET

	Computer software
	RMB'000
At 1 January 2020:	
Cost	862
Accumulated amortisation	(509)
Net carrying amount	353
At 1 January 2020, net of accumulated amortisation	353
Additions-acquired separately	27
Amortisation	(63)
At 31 December 2020, net of accumulated amortisation	317
At 31 December 2020:	
Cost	889
Accumulated amortisation	(572)
Net carrying amount	317

	Computer software
	RMB'000
At 1 January 2019:	
Cost	556
Accumulated amortisation	(452)
Net carrying amount	104
At 1 January 2019, net of accumulated amortisation	104
Additions-acquired separately	306
Amortisation	(57)
At 31 December 2019, net of accumulated amortisation	353
At 31 December 2019:	
Cost	862
Accumulated amortisation	(509)
Net carrying amount	353

	Computer software
	RMB'000
At 1 January 2018:	
Cost	556
Accumulated amortisation	(396)
Net carrying amount	160
At 1 January 2018, net of accumulated amortisation	160
Amortisation	(56)
At 31 December 2018, net of accumulated amortisation	104
At 31 December 2018:	
Cost	556
Accumulated amortisation	(452)
Net carrying amount	104

14. INVENTORIES

	31 December 2018	**31 December 2019**	**31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	57,927	93,119	125,203
Work in progress	104,305	–	–
Finished goods	118,263	18,300	5,396
Provision for write-down of inventories	–	(4,975)	–
	280,495	106,444	130,599

15. TRADE RECEIVABLES

	31 December 2018	**31 December 2019**	**31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	322,667	257,122	352,509

The credit period is generally one month, extending up to three months for major customers. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

	31 December 2018	**31 December 2019**	**31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	322,667	257,122	352,509

Further qualitative and quantitative information regarding credit risk and ECLs of trade receivables is disclosed in note 30 to the Historial Financial Information.

16. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	36,291	105,229	166,221
Other receivables	260	230,381	210,375
Others	10,566	15,479	233,562
Impairment allowance	–	(9)	(17)
	47,117	351,080	610,141

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2020, 2019 and 2018, the loss allowance was assessed to be minimal.

17. PLEDGED DEPOSITS

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Other pledged deposits	7,978	120	120

18. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	192,022	60,878	42,129

Cash and bank balances of the Target Company denominated in Renminbi ("RMB") are amounted to RMB190,357,000, RMB53,141,000 and RMB4,010,000 as at 31 December 2018, 2019 and 2020, respectively. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Target Company, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

19. TRADE AND NOTES PAYABLES

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Trade payables	144,727	122,544	142,847
Notes payable	186,666	–	20,033
	331,393	122,544	162,880

An ageing analysis of the trade and notes payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Within 90 days	331,393	122,544	162,880

The trade and notes payables are non-interest-bearing and are normally settled within 90 days.

20. OTHER PAYABLES AND ACCRUALS

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Other payables	35,324	21,478	20,774
Payroll payables	30,032	51,569	75,872
Interest payable	–	387	640
Other tax payable	2,011	–	2,906
	67,367	73,434	100,192

21. CONTRACT LIABILITIES

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
Sales of containers	–	21,471	46

22. BANK AND OTHER BORROWINGS

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Secured bank loans	20,000	–	200,000
Borrowings from related parties-unsecured	–	300,000	400,000
Unsecured interest-bearing loans from related parties	111,870	52,322	–
	131,870	352,322	600,000
Current portion	(131,870)	(352,322)	(600,000)
Non-current portion	–	–	–

The effective interest rate of bank and other borrowings are as follows:

	31 December 2018		
	Effective interest rate (%)	*Maturity*	*RMB'000*
Current			
Bank loans-guaranteed	5.00	2019	20,000
Unsecured interest-bearing loans from related parties	3.6842-4.7878	2019	111,870
			131,870

	31 December 2019		
	Effective interest rate (%)	*Maturity*	*RMB'000*
Current			
Borrowings from related parties-unsecured	3.6975	2020	300,000
Unsecured interest-bearing loans from related parties	3.5741	2020	52,322
			352,322

	31 December 2020		
	Effective interest rate (%)	*Maturity*	*RMB'000*
Current			
Bank loans-guaranteed	3.5175	2021	200,000
Borrowings from related parties-unsecured	3.4000	2021	400,000
			600,000

23. PAID-IN CAPITAL

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-in capital	161,633	161,633	161,633

24. NOTES TO THE STATEMENT OF CASH FLOWS

(a) A reconciliation of the profit before tax to cash generated from operations is as follows:

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax	137,469	(55,906)	35,238
Adjustments for:			
Finance costs	5,433	7,114	18,692
Gain/(loss) on disposal of items of property, plant and equipment	58	(29)	109
Depreciation of property, plant and equipment	16,129	18,549	13,740
Amortisation of intangible assets	1,052	1,055	1,059
Impairment of other receivables	–	9	8
Impairment of property, plant and equipment	–	1,477	–
Write-down of inventories to net realisable value	–	8,520	–
(Increase)/Decrease in inventories	(52,250)	174,051	(24,155)
Decrease/(increase) in trade and notes receivables	72,399	65,545	(95,387)
Decrease/(increase) in prepayments and other receivables	91,840	(115,776)	(233,468)
(Decrease)/increase in trade payables	(264,373)	(15,434)	68,152
(Decrease) in other payables and accruals	(7,053)	(194,818)	(455)
Increase/(decrease) in contract liabilities	–	19,460	(21,425)
Cash generated from/(used in) operations	704	(86,183)	(237,892)
Income tax paid	(34,909)	(2,208)	(4,794)
Net cash flows used in operating activities	(34,205)	(88,391)	(242,686)

(b) Changes in liabilities arising from financing activities

	Bank and other borrowings
	RMB'000
At 31 December 2017 and 1 January 2018	65,342
Changes from financing cash flows	66,528
At 31 December 2018 and 1 January 2019	131,870
Changes from financing cash flows	285,794
At 31 December 2019 and 1 January 2020	417,664
Changes from financing cash flows	314,206
At 31 December 2020	731,870

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	Year ended 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*
Within operating activities	254	189

25. OPERATING LEASE ARRANGEMENTS

As lessee

The Target Company has various lease contracts for prepaid land lease payments, buildings and machinery, motor vehicles and office equipment used in its operation. Lease terms of these lease contracts are included in note 2.3 to the Historical Financial Information. Generally, the Target Company is restricted from assigning and subleasing the leased assets outside the Target Company.

(a) Right-of-use assets and lease liabilities

Detailed information regarding right-of-use assets a has been set out in note 12 to the Historical Financial Information.

(b) The amounts recognised in profit or loss in relation to lessee accounting are as follows:

	31 December 2019	31 December 2020
	RMB'000	*RMB'000*
Expense relating to short-term leases	254	189

26. COMMITMENTS

At the end of the Relevant Periods, the Target Company did not have any significant commitments.

27. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Target Company had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Interest income from:			
Immediate holding company	–	231	1,657
Fellow subsidiaries	–	327	1,320
Interest expenses to:			
Fellow subsidiaries	–	1,910	8,250
Former fellow subsidiaries	475	–	–
Sales of goods to:			
Immediate holding company	–	359,531	1,078,183
Fellow subsidiaries	–	33,413	181,643
Former fellow subsidiaries	1,345,454	278,044	–
Purchases of goods from:			
Fellow subsidiaries	2,487	6,965	60,858
Receiving of services from:			
Fellow subsidiaries	4,501	3,840	13,683

The related party transactions above were made according to the published prices or interest rates and conditions similar to those offered to the respective major customers.

(b) Outstanding balances with related parties

		Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Amounts due from:				
Immediate holding company		–	487,337	352,509
Fellow subsidiaries	*(i)*	–	50,000	410,209
Former fellow subsidiaries		199,925	–	–
Amounts due to:				
Fellow subsidiaries		5,505	17,118	34,563
Former fellow subsidiaries		1,606	60	–
Loans from:				
Fellow subsidiaries	*(ii)*	–	300,000	400,000

Notes:

(i) The Target Company placed a certain portion of its cash at a certain fellow subsidiary. All of deposits at each of the end of the Relevant Periods were demand deposits, and were therefore, presented in cash and cash equivalents. Interest was charged according to the rates and terms agreed with the fellow subsidiary.

(ii) Details of the Target Company's loans from the fellow subsidiaries at the end of the Relevant Periods are included in note 22 to the Historical Financial Information.

Save as disclosed above, the rest of the outstanding balances with related parties were unsecured, non-interest-bearing and had no fixed repayment terms.

28. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the Relevant Periods are as follows:

Financial assets – at amortised cost

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Trade and notes receivables	322,667	257,122	352,509
Financial assets included in prepayments and other receivables	47,117	351,080	610,141
Pledged deposits	7,978	120	120
Cash and cash equivalents	192,022	60,878	42,129
	569,784	669,200	1,004,899

Financial liabilities – at amortised cost

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Trade and notes payables	331,393	122,544	162,880
Financial liabilities included in other payables and accruals	67,367	73,434	100,192
Bank and other borrowings	131,870	352,322	600,000
	530,630	548,300	863,072

29. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Target Company's financial instruments, other than those measured at fair value or with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		
	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings	131,870	352,322	600,000

	Fair values		
	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings	123,740	330,601	563,010

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and notes receivables, financial assets included in prepayments and other receivables, trade and notes payables, financial liabilities included in other payables and accruals, the current portion of bank and other borrowings and the current portion of lease liabilities, respectively, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The non-current portion of lease liabilities of the Target Company approximate to their fair values due to their carrying amounts are present value and internal rates of return are close to rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Target Company's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair value of the non-current portion of bank and other borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The differences between the carrying amounts and fair values of those financial liabilities are not significant.

Fair value hierarchy

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and liabilities.

All financial assets at fair value through profit or loss categorised into level 3 represent wealth management products issued by banks in Mainland China. The Target Company has estimated their fair value by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Company's principal financial instruments, other than derivatives, comprise bank and other borrowings, corporate bonds, lease liabilities and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Target Company's operations. The Target Company has various other financial assets and liabilities such as trade and notes receivables, and trade and notes payables, which arise directly from its operations.

The main risks arising from the Target Company's financial instruments are foreign currency risk, credit risk, liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Target Company has transactional currency exposures. These exposures arise from sales in US$ other than the Target Company's functional currency, which is RMB.

The following table demonstrates the sensitivity at the end of the Relevant Periods to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Target Company's profit before tax (due to changes in the fair value of monetary assets and liabilities):

	Increase/(decrease) in US$ rate *(RMB'000)*	**(Decrease)/increase in profit before tax** *(RMB'000)*
Year ended 31 December 2018		
If US$ weakens against RMB	1%	(786)
If US$ strengthens against RMB	(1%)	786
Year ended 31 December 2019		
If US$ weakens against RMB	1%	(4,952)
If US$ strengthens against RMB	(1%)	4,952
Year ended 31 December 2020		
If US$ weakens against RMB	1%	(3,311)
If US$ strengthens against RMB	(1%)	3,311

Credit risk

The Target Company is exposed to credit risk primarily from finance lease receivables, factoring receivables and trade receivables in its operation.

The Target Company trades only with recognised and creditworthy third parties. It is the Target Company's policy that all counterparties are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis.

(a) Maximum credit risk exposure

The credit risk of the Target Company's financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments without taking account of any collateral held or other credit enhancements.

(b) Impairment assessment

The detailed accounting policy and significant accounting judgements and estimates for impairment in relation to credit risk are given in notes 2.3 and 3 to the financial statements, respectively.

(c) Credit quality

The Target Company manages the credit quality by credit risk rating grades, classified in descending credit quality order as neither past due nor impaired, not past due and individually impaired, past due but not impaired, past due and collectively impaired and past due and individually impaired.

Trade receivables, which account for the primary credit risk of the Target Company, are classified as follows:

Trade receivables

	31 December 2018 **Ageing based on the invoice date**				
	Within 1 year	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	322,667	–	–	–	322,667

	31 December 2019				
	Ageing based on the invoice date				
	Within 1 year	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	257,122	–	–	–	257,122

	31 December 2020				
	Ageing based on the invoice date				
	Within 1 year	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	352,509	–	–	–	352,509

(d) Concentration

Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Target Company as the receivables are widely dispersed in different sectors and industries.

Liquidity risk

The Target Company aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Target Company finances its working capital requirements through a combination of funds generated from operations, bank and other borrowings, corporate bonds and lease liabilities.

The table below summarises the maturity profile of the Target Company's financial liabilities at 31 December based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of the Relevant Periods.

The maturity profile of the Target Company's financial liabilities as at the end of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

31 December 2018

	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes payables	331,393	–	–	–	331,393
Financial liabilities included in other payables and accruals	67,367	–	–	–	67,367
Bank and other borrowings	131,870	–	–	–	131,870
Total	530,630	–	–	–	530,630

31 December 2019

	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes payables	122,544	–	–	–	122,544
Financial liabilities included in other payables and accruals	73,434	–	–	–	73,434
Bank and other borrowings	352,322	–	–	–	352,322
Total	548,300	–	–	–	548,300

31 December 2020

	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes payables	162,880	–	–	–	162,880
Financial liabilities included in other payables and accruals	100,192	–	–	–	100,192
Bank and other borrowings	600,000	–	–	–	600,000
Total	863,072	–	–	–	863,072

The primary objectives of the Target Company's capital management are to safeguard the Target Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018, 31 December 2019 and 31 December 2020.

The Target Company monitors capital using a gearing ratio, which is total borrowings divided by total equity. The gearing ratios as at the end of the Relevant Periods were as follows:

	31 December 2018	**31 December 2019**	**31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings	131,870	352,322	600,000
Total equity	509,900	451,786	482,230
Gearing ratio	25.86%)	77.98%	124.42%

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2020.

The following is the text of a report in respect of Universal Technology received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, for the purpose of inclusion in this circular.

EY 安永

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF SHANGHAI UNIVERSAL LOGISTICS TECHNOLOGY CO., LTD. TO THE DIRECTORS OF COSCO SHIPPING DEVELOPMENT CO., LTD.

Introduction

We report on the historical financial information of Shanghai Universal Logistics Technology Co., Ltd. (the "Target Company") set out on pages II-D-3 to II-D-7, which comprises the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Company for each of the years ended 31 December 2018, 2019 and 2020 (the "Relevant Periods"), and the statements of financial position of the Target Company as at 31 December 2018, 2019 and 2020 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-D-3 to II-D-35 forms an integral part of this report, which has been prepared for inclusion in the circular of COSCO SHIPPING Development Co., Ltd. (the "Company") dated 24 May 2021 (the "Circular") in connection with the proposed acquisition of 100% equity interest of Target Company (the "Proposed Acquisition").

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the 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 the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' 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 accountants' 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 accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation 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 accountants' report, a true and fair view of the financial position of the Target Company as at 31 December 2018, 2019 and 2020 and of the financial performance and cash flows of the Target Company for each of the Relevant Periods in accordance with the basis of presentation 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 and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-D-3 have been made.

Dividends

We refer to note 9 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Periods.

Ernst & Young
Certified Public Accountants
Hong Kong
24 May 2021

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**Year ended 31 December 2018** *RMB'000*	**Year ended 31 December 2019** *RMB'000*	**Year ended 31 December 2020** *RMB'000*
REVENUE	*5.1*	46,968	31,320	91,835
Cost of sales		–	(63)	(45)
Gross profit		46,968	31,257	91,790
Other income	*5.2*	555	915	538
Other gains/(losses), net	*5.3*	–	24	(32)
Selling, administrative and general expenses		(29,626)	(31,951)	(83,542)
Other expenses		–	(4)	(486)
Finance costs	*7*	–	–	(135)
PROFIT BEFORE TAX	*6*	17,897	241	8,133
Income tax expense	*8*	–	–	(1,548)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		17,897	241	6,585
Attributable to:				
Owners of the parent		17,897	241	6,585
Non-controlling interests		–	–	–
		17,897	241	6,585

STATEMENT OF FINANCIAL INFORMATION

	Notes	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	10	807	763	2,267
Intangible assets	11	720	623	526
Total non-current assets		1,527	1,386	2,793
CURRENT ASSETS				
Trade receivables	12	13,093	4,508	55,612
Prepayments and other receivables	13	118,523	53,372	203,752
Cash and cash equivalents	14	3,352	25,078	295,902
Total current assets		134,968	82,958	555,266
Total assets		136,495	84,344	558,059
CURRENT LIABILITIES				
Other payables and accruals	15	108,132	55,419	522,168
Tax payable		–	–	(8)
Total current liabilities		108,132	55,419	522,160
NET CURRENT ASSETS		26,836	27,539	33,106
TOTAL ASSETS LESS CURRENT LIABILITIES		28,363	28,925	35,899
NON-CURRENT LIABILITIES				
Other long term payables		–	321	710
Total non-current liabilities		–	321	710
Net assets		28,363	28,604	35,189
EQUITY				
Paid-in capital	16	34,266	34,266	34,266
Surplus reserves		1,093	1,093	1,093
Retained profits		(6,996)	(6,755)	(170)
Total equity		28,363	28,604	35,189

STATEMENT OF CHANGES IN EQUITY

	Paid-in capital *RMB'000* *(note 16)*	Surplus reserves *(a)* *RMB'000*	Retained profits *RMB'000*	Total equity *RMB'000*
At 1 January 2018	34,266	1,093	(24,893)	10,466
Profit and total comprehensive income for the year	–	–	17,897	17,897
Transfer from retained profits	–	–	–	–
At 31 December 2018 and 1 January 2019	34,266	1,093	(6,996)	28,363
Profit and total comprehensive loss for the year	–	–	241	241
Transfer from retained profits	–	–	–	–
At 31 December 2019 and 1 January 2020	34,266	1,093	(6,755)	28,604
Profit and total comprehensive income for the year	–	–	6,585	6,585
Transfer from retained profits	–	–	–	–
At 31 December 2020	34,266	1,093	(170)	35,189

(a) In accordance with the PRC regulations and the articles of association of the Company, before distributing the net profit of each year, the Target Company registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of this reserve reaches 50% of its share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares.

STATEMENT OF CASH FLOWS

		For the year ended 31 December		
		2018	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES	*17*			
Cash generated (used in)/from operations		(2,629)	21,669	(8,005)
Income tax paid		–	–	–
NET CASH FLOWS (USED IN)/ FROM OPERATING ACTIVITIES		(2,629)	21,669	(8,005)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(157)	–	(2,114)
Proceeds on items of disposals of property, plant and equipment		–	57	6
NET CASH FLOWS (USED IN)/ FROM INVESTING ACTIVITIES		(157)	57	(2,108)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in cash pooling		–	–	280,937
Dividends paid		(4,450)	–	–
NET CASH FLOWS (USED IN)/ FROM FINANCING ACTIVITIES		(4,450)	–	280,937
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(7,236)	21,726	270,824
Cash and cash equivalents at beginning of year		10,588	3,352	25,078
Effect of foreign exchange rate changes		–	–	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,352	25,078	295,902
Cash and bank balances		3,352	25,078	295,902
Cash and cash equivalents as stated in the statements of financial position and statements of cash flows		3,352	25,078	295,902

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Shanghai Universal Logistics Technology Co., Ltd. (the "Target Company") is a limited company incorporated in the PRC on 24 September 2008. The registered office of the Target Company is located on the, No. 1050, Dongdaming Road, Hongkou District, Shanghai.

During the Relevant Periods, the principal activities of the Target Company were container related business.

After the equity transfer, the Target Company's immediate holding company became COSCO Shipping Financial Holdings Co., Limited, a company incorporated in Hong Kong and its ultimate holding company became China COSCO Shipping Corporation Limited, a state owned enterprise established in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2020, including HKFRS 9 *Financial Instruments*, and HKFRS 15 *Revenue from Contracts with Customers*, together with the relevant transitional provisions, have been early adopted by the Target Company in the preparation of the Historical Financial Information throughout the Relevant Periods, except for HKFRS 16 *Leases* ("HKFRS 16").

The Target Company has adopted HKFRS 16 *Leases* for the first time on 1 January 2019. The nature and the impact of HKFRS 16 are described below:

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Target Company has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Target Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

As a lessee, the Target Company previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Target Company. Under HKFRS 16, the Target Company applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Target Company recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Target Company applied the incremental borrowing rate at 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Target Company elected to present the right-of-use assets separately in the statement of financial position.

The Target Company has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Target Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3, 6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[3, 5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021*[7]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation *5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

7 Effective for annual periods beginning on or after 1 April 2021

While the adoption of some of the new and revised HKFRSs may result in changes in accounting policies, none of these HKFRSs is expected to have a significant impact on the Target Company's results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Target Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and non-current assets a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to the parent of the Target Company.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less Accumulated depreciation and depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Plant and machinery	9.6% to 19.2%
Motor vehicles	12%
Office equipment	19.2%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress are stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. construction in progress are reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line based on its estimated useful life of 10 years.

Leases (applicable from 1 January 2019)

The Target Company assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Target Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Target Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Buildings	3 years
Machinery, motor vehicles and office equipment	5 to 10 years

If ownership of the leased asset transfers to the Target Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target Company and payments of penalties for termination of a lease, if the lease term reflects the Target Company exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Target Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Target Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipments that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Company as a lessor

When the Target Company acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Target Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Target Company allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee are accounted for as finance leases.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Target Company, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Company is the lessor, assets leased by the Target Company under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Target Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Target Company has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Company initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Target Company has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Target Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Target Company had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Target Company and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss.

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Target Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Company could be required to repay.

Impairment of financial assets

The Target Company recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Target Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Target Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target Company may also consider a financial asset to be in default when internal or external information indicates that the Target Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The calculation of ECLs is based on probability of default ("PD") approach with key elements as follows:

- PD: an estimate of the likelihood of default over a given time horizon;
- Loss Given Default ("LGD"): an estimate of the loss arising in the case where a default occurs at a given time; and
- Exposure at Default ("EAD"): an estimate of the exposure at a future default date.

Forward looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information, such as GDP growth.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

ECLs in Stage 1 and Stage 2 are measured on a collective basis. Meanwhile, in Stage 3, ECLs are measured on an individual basis.

Simplified approach

For trade receivables that do not contain a significant financing component or when the Target Company applies the practical expedient of not adjusting the effect of a significant financing component, the Target Company applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. For trade receivables related to customers that are the immediate holding company or fellow subsidiaries controlled by the same immediate holding company, the Target Company generally assesses the loss allowance to be minimal. For trade receivables related to customers that are in financial difficulties or in default, ECLs are measured on an individual basis. In addition, the Target Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Target Company's financial liabilities include trade payables, financial liabilities included in other payables and accruals, bank and other borrowings, and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided using the liability method, on temporary differences at the end of the Relevant Periods arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the Relevant Periods are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Company expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Target Company will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Target Company and the customer at contract inception. When the contract contains a financing component which provides the Target Company with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of containers

Revenue from the sale of containers is recognised on a bill-and-hold basis. A bill-and-hold arrangement is a contract under which the Target Company bills a customer for a product but the Target Company retains physical possessions of the product until it is transferred to the customer at a point in time in the future. The Target Company assesses when all of the following criteria are met:

- Upon completion of manufacturing, the Target Company demonstrates that the container meets the agreed-upon specifications in the contract to the customer;
- The customer has requested the bill-and-hold arrangement;
- The container has been identified separately as belonging to the customer;
- The container is ready for physical transfer to the customer; and
- The Target Company cannot have the ability to use the container or to direct it to another customer.

When all of the criteria above are met, the performance obligation is satisfied and revenue is recognised accordingly. Under such arrangement, payment in advance is normally required and the normal credit term for the residual consideration is 30 to 90 days upon satisfaction of performance obligation.

(b) Rendering of services

The Target Company provides cargo storage and cargo transportation agent services. The performance obligation is satisfied over time as services are rendered. Payment is generally due within 30 to 45 days upon completion of service and acceptance by the customer.

Revenue from other sources

Operating lease income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Target Company transfers the related goods or services. Contract liabilities are recognised as revenue when the Target Company performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

The Target Company has participated in central pension schemes for its employees in the PRC pursuant to the relevant laws and regulations of the PRC. The Target Company makes monthly contributions and the contributions are charged to profit or loss on an accrual basis. The Target Company has no further obligations beyond the contributions made.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the Historical Financial Information.

Interim dividends are simultaneously proposed and declared, because the Target Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The Historical Financial Information are presented in RMB, which is the Target Company's functional currency. Each entity in the Target Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Target Company are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Target Company initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Target Company determines the transaction date for each payment or receipt of the advance consideration.

The preparation of the Target Company's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Target Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Determination of significant increases in credit risk

The calculation of ECLs under general approach are required to be categorised into different stages according to the changes in credit risk to apply respective calculation mechanics.

The Target Company considers whether the credit risk of a financial asset has increased significantly since initial recognition with the following non-exhaustive factors:

- past due over 90 days;
- an actual or expected significant change in the operating results of the borrower; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of ECLs

The Target Company uses PD approach under general approach and a provision matrix under simplified approach, respectively, in calculation of ECLs. The Target Company estimates PD, LGD and provision rate, respectively, by reference to the internal historical credit loss experience and external information.

Useful lives and residual values of property, plant and equipment

Management determines the estimated useful lives and residual values for the Target Company's property, plant and equipment by reference to the Target Company's business model, its asset management policy, the industry practice, expected usage of the asset, and the current scrap values of steel in an active market at each measurement date. The depreciation expense will change where the useful lives or residual values of property, plant and equipment are different from the previous estimates.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in market conditions. Management reassesses these estimates at each reporting date after considering specific factors such as the ageing of the inventories, the subsequent or estimated selling price and forecasted market demand.

4. OPERATING SEGMENT INFORMATION

The Target Company is principally involved in manufacture and sale of dry freight, specialised and refrigerated containers and provision of cargo storage and cargo transportation agent services.

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Target Company that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to management of the Target Company, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Target Company as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

(a) Revenue from external customers

	Year ended 31 December 2018	**Year ended 31 December 2019**	**Year ended 31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Mainland China	46,968	31,320	91,835

The revenue information above is based on the locations of the customers.

(b) Non-current assets

All the non-current assets of the Target Company are located at Mainland China. The non-current asset information is based on the locations of the Target Company or its subsidiaries which own the assets and excludes financial instruments and deferred tax assets.

Information about a major customer

The revenue generated from sales to customers which individually amounted to more than 10% to the Target Company's total revenue during the Relevant Periods is set out below:

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Customer A	11,879	7,667	42,016
Customer B	5,308	12,874	38,030
Customer C	7,287	2,704	11,118
	24,474	23,245	91,164

5. REVENUE, OTHER INCOME AND GAINS/(LOSSES)

An analysis of revenue, other income is as follows:

(1) Revenue

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers:			
Shipping related services	46,968	31,240	91,755
Leasing	–	80	80
	46,968	31,320	91,835

The disaggregation of the Target Company's revenue from contracts with customers, including sales of goods and rendering of services above is as follows:

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Customers' geographical location			
Mainland China	46,968	31,320	91,835

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Timing of revenue recognition			
Goods transferred at a point in time	46,968	31,320	91,835

The carrying amounts of trade receivables in relation to revenue from contracts with customers under HKFRS 15 as at 31 December 2020 were RMB91,835,000, 2019: RMB31,320,000 and 2018: RMB46,968,000.

(2) Other income

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000
Interest income	364	259	222
Government grants related to the ordinary course of business	191	601	198
Fees refunded for individual income tax withheld	–	55	118
	555	915	538

(3) Other gains/(losses), net

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000
Gain/(loss) on disposal of items of property, plant and equipment	–	24	(32)

6. PROFIT BEFORE TAX

The Target Company's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000
Cost of services provided		–	(63)	(45)
Depreciation of property, plant and equipment	*10*	322	410	572
Depreciation of right-of-use assets		–	–	–
Amortisation of intangible assets	*11*	97	97	97
Employee benefit expense:				
Wages and salaries		20,541	24,967	78,296
Pension scheme contributions (defined contribution scheme)		1,726	1,686	1,072
		22,267	26,653	79,368
Interest income	*5.2*	364	259	222

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Interest on debts and borrowings	–	–	135

8. INCOME TAX

According to the Corporate Income Tax ("CIT") Law of the PRC, which was effective from 1 January 2008, the CIT rate applicable to the Target Company and its subsidiaries established in the PRC was 25% for the years ended 31 December 2020, 2019 and 2018.

Taxes or profits assessable elsewhere have been calculated at the rates of tax prevailing in the county in which the Target Company operates.

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Current income tax:			
Mainland China	–	–	1,548

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the country in which the Target Company is domiciled to the tax expense at the effective tax rate, is as follows:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Profit before tax	17,897	241	8,133
Tax at the statutory tax rate	2,953	40	1,342
Adjustments in respect of current tax of previous periods	1,521	20	691
Additional deduction of research and development expenses	–	–	–
Expenses not deductible for tax	–	–	–
Income not subject to tax	79	23	127
Tax losses not recognised	–	–	–
Tax losses utilised from previous periods	(4,553)	(83)	(612)
Temporary differences utilised from previous periods	–	–	–
	–	–	1,548

9. DIVIDENDS

No dividend has been paid or declared by the Target Company during the Relevant Periods.

10. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery *RMB'000*	Buildings *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Total *RMB'000*
At 1 January 2020:					
Cost	114	60	950	2,543	3,667
Accumulated depreciation and impairment	(78)	(26)	(482)	(2,318)	(2,904)
Net carrying amount	36	34	468	225	763
At 1 January 2020, net of accumulated depreciation and impairment	36	34	468	225	763
Additions	–	1,953	–	161	2,114
Disposals	–	–	–	(38)	(38)
Depreciation	(5)	(414)	(67)	(86)	(572)
Transfers	–	–	–	–	–
At 31 December 2020, net of accumulated depreciation and impairment	31	1,573	401	262	2,267
At 31 December 2020:					
Cost	114	2,013	950	1,740	4,817
Accumulated depreciation and impairment	(83)	(440)	(549)	(1,478)	(2,550)
Net carrying amount	31	1,573	401	262	2,267

	Plant and machinery *RMB'000*	Buildings *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Total *RMB'000*
At 1 January 2019:					
Cost	114	60	554	3,050	3,778
Accumulated depreciation and impairment	(73)	–	(385)	(2,513)	(2,971)
Net carrying amount	41	60	169	537	807
At 31 December 2018, net of accumulated depreciation and impairment	41	60	169	537	807
At 1 January 2019, net of accumulated depreciation and impairment	41	60	169	537	807
Additions	–	–	396	6	402
Disposals	–	–	–	(36)	(36)
Depreciation	(5)	(26)	(97)	(282)	(410)
Transfers	–	–	–	–	–

	Plant and machinery *RMB'000*	Buildings *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Total *RMB'000*
At 31 December 2019, net of accumulated depreciation and impairment	36	34	468	225	763
At 31 December 2019:					
Cost	114	60	950	2,543	3,667
Accumulated depreciation and impairment	(78)	(26)	(482)	(2,318)	(2,904)
Net carrying amount	36	34	468	225	763

	Plant and machinery *RMB'000*	Buildings *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Total *RMB'000*
At 1 January 2018:					
Cost	79	60	554	2,928	3,621
Accumulated depreciation and impairment	(62)	–	(342)	(2,245)	(2,649)
Net carrying amount	17	60	212	683	972
At 1 January 2018, net of accumulated depreciation and impairment	17	60	212	683	972
Additions	35	–	–	122	157
Disposals	–	–	–	–	–
Depreciation	(11)	–	(43)	(268)	(322)
Transfers	–	–	–	–	–
At 31 December 2018, net of accumulated depreciation and impairment	41	60	169	537	807
At 31 December 2018:					
Cost	114	60	554	3,050	3,778
Accumulated depreciation and impairment	(73)	–	(385)	(2,513)	(2,971)
Net carrying amount	41	60	169	537	807

11. INTANGIBLE ASSET

	Computer software
	RMB'000
At 1 January 2020:	
Cost	972
Accumulated amortisation	349
Net carrying amount	623
At 1 January 2020, net of accumulated amortisation	623
Cost	–
Amortisation	(97)
At 31 December 2020, net of accumulated amortisation	526
At 31 December 2020:	
Cost	972
Accumulated amortisation	(446)
Net carrying amount	526

	Computer software
	RMB'000
At 1 January 2019:	
Cost	972
Accumulated amortisation	(252)
Net carrying amount	720
At 1 January 2019, net of accumulated amortisation	720
Amortisation	(97)
At 31 December 2019, net of accumulated amortisation	623
At 31 December 2019:	
Cost	972
Accumulated amortisation	(349)
Net carrying amount	623

	Computer software
	RMB'000
At 1 January 2018:	
Cost	950
Accumulated amortisation	(155)
Net carrying amount	795
At 1 January 2018, net of accumulated amortisation	795
Additions	22
Amortisation	(97)
At 31 December 2018, net of accumulated amortisation	720
At 31 December 2018:	
Cost	972
Accumulated amortisation	(252)
Net carrying amount	720

12. TRADE RECEIVABLES

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	13,093	4,508	55,612

The credit period is generally one month, extending up to three months for major customers. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	13,093	4,508	55,612

Credit terms in a range within two months are granted to those customers with a good payment history.

13. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	612	131	5
Other receivables	117,911	53,241	203,747
	118,523	53,372	203,752

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2020, 2019 and 2018, the loss allowance was assessed to be minimal.

14. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	3,352	25,078	295,902

Cash and bank balances of the Target Company denominated in Renminbi ("RMB") are amounted to RMB3,352,000, RMB25,078,000, RMB295,902,000 as at 31 December 2018, 2019 and 2020, respectively. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Target Company and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

15. OTHER PAYABLES AND ACCRUALS

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Other payables	108,095	51,688	218,735
Payroll payables	37	3,731	22,387
Others	–	–	281,046
	108,132	55,419	522,168

16. PAID-IN CAPITAL

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-in capital	34,266	34,266	34,266

17. NOTES TO THE STATEMENT OF CASH FLOWS

A reconciliation of the profit before tax to cash generated from operations is as follows:

	31 December 2018 *RMB'000*	31 December 2019 *RMB'000*	31 December 2020 *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	17,897	241	8,133
Adjustments for:			
(Gain)/loss on disposal of property, plant and equipment	–	(24)	32
Depreciation of property, plant and equipment	321	384	156
Amortisation of intangible assets	97	97	97
Amortisation of Long-term deferred expenses	294	25	415
	18,609	723	8,833
(Increase)/decrease in trade and notes receivables	(9,756)	8,585	(51,104)
(Increase)/decrease in prepayments and other receivables	(117,014)	64,737	(150,272)
Increase/(decrease) in other payables and accruals	105,532	(52,376)	184,538
Cash (used in)/generated from operations	(2,629)	21,669	(8,005)
Net cash flows (used in)/generated from operating activities	(2,629)	21,669	(8,005)

18. OPERATING LEASE ARRANGEMENTS

As lessor

The Target Company leases its land under operating lease arrangements. The details of revenue from operating lease income are included in note 5.1 to the Historical Financial Information.

At the end of each of Relevant Periods, the undiscounted lease payments receivable by the Target Company in future periods under the non-cancellable operating lease with its tenant are as follows:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Within one year	–	80	80
	–	80	80

As lessee

The Target Company has various lease contracts for buildings and machinery, motor vehicles and office equipment used in its operation. Lease terms of these lease contracts are included in note 2.3 to the Historical Financial Information. Generally, the Target Company is restricted from assigning and subleasing the leased assets outside the Target Company.

(a) The amounts recognised in profit or loss in relation to lessee accounting are as follows:

	31 December 2018	**31 December 2019**	**31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Expense relating to short-term leases	–	2,121	1,490

19. COMMITMENTS

At the end of the Relevant Periods, the Target Company did not have any significant commitments.

20. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Target Company had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December 2018	**Year ended 31 December 2019**	**Year ended 31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Interest income from:			
Fellow subsidiaries	–	21	222
Interest expenses to:			
Fellow subsidiaries	–	–	135
Rendering of service to:			
Fellow subsidiaries	24,474	23,245	91,164
Former fellow subsidiaries	14,691	5,538	–
Operating lease to:			
Fellow subsidiaries	–	80	80

The related party transactions above were made according to the published prices or interest rates and conditions similar to those offered to the respective major customers.

(b) Commitments with related parties

The tables below summarise the commitments with fellow subsidiaries:

As lessor

	Year ended 31 December 2018	**Year ended 31 December 2019**	**Year ended 31 December 2020**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	–	80	80

(c) Outstanding balances with related parties

	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from:			
Fellow subsidiaries	7,593	57,298	255,720
Former fellow subsidiaries	118,042	–	–
Amounts due to:			
Fellow subsidiaries	1,721	51,128	491,287
Former fellow subsidiaries	105,173	–	–

Notes:

(i) The Target Company placed a certain portion of its cash at a certain fellow subsidiary. All of the deposits at each of the end of Relevant Periods were demand deposits, and were therefore, presented in cash and cash equivalents. Interest was charged according to the rates and terms agreed with the fellow subsidiary.

Save as disclosed above, the rest of the outstanding balances with related parties were unsecured, non-interest-bearing and had no fixed repayment terms.

21. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the Relevant Periods are as follows:

Financial assets – at amortised cost

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	13,093	4,508	55,612
Financial assets included in prepayments, other receivables and other assets	118,523	53,372	203,752
Cash and cash equivalents	3,352	25,078	295,902
	134,968	82,958	555,266

Financial liabilities – at amortised cost

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Financial liabilities included in other payables and accruals	108,132	55,419	522,168

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Company's principal financial instruments, other than derivatives, comprise bank and other borrowings, cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Target Company's operations. The Target Company has various other financial assets and liabilities such as trade and notes receivables, and trade and notes payables, which arise directly from its operations.

The main risks arising from the Target Company's financial instruments are interest rate risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Target Company is exposed to credit risk primarily from finance lease receivables, factoring receivables and trade receivables in its operation.

The Target Company trades only with recognised and creditworthy third parties. It is the Target Company's policy that all counterparties are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis.

(a) Maximum credit risk exposure

The credit risk of the Target Company's financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments without taking account of any collateral held or other credit enhancements.

(b) Credit quality

The Target Company manages the credit quality by credit risk rating grades, classified in descending credit quality order as neither past due nor impaired, not past due and individually impaired, past due but not impaired, past due and collectively impaired and past due and individually impaired.

Trade receivables, which account for the primary credit risk of the Target Company, are classified as follows:

	31 December 2018 Ageing based on the invoice date				
	Within 1 year	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	13,093	–	–	–	13,093

	31 December 2019 Ageing based on the invoice date				
	Within 1 year	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	4,508	–	–	–	4,508

	31 December 2020 Ageing based on the invoice date				
	Within 1 year	**1-2 years**	**2-3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	55,612	–	–	–	55,612

(c) Concentration

Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Target Company as the receivables are widely dispersed in different sectors and industries.

Liquidity risk

The Target Company aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Target Company finances its working capital requirements through a combination of funds generated from operations, bank and other borrowings, corporate bonds and lease liabilities.

The table below summarises the maturity profile of the Target Company's financial liabilities at 31 December based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of the Relevant Periods.

The maturity profile of the Target Company's financial liabilities as at the end of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

31 December 2018

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables and accruals	108,132	–	–	–	108,132

31 December 2019

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables and accruals	55,419	–	–	–	55,419

31 December 2020

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables and accruals	522,168	–	–	–	522,168

Capital management

The primary objectives of the Target Company's capital management are to safeguard the Target Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Company monitors capital using a gearing ratio, which is total borrowings divided by total equity. The gearing ratios as at the end of the Relevant Periods were as follows:

	31 December 2018	31 December 2019	31 December 2020
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings	–	–	–
Total equity	28,363	28,604	35,189
Gearing ratio	–	–	–

23. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2020.

The following is the text of the unaudited pro forma financial information of the Enlarged Group received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, for the purpose of inclusion in this circular.

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INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the Directors of COSCO SHIPPING Development Co., Ltd.

We have completed our assurance engagement to report on the compilation of pro forma financial information of COSCO SHIPPING Development Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 31 December 2020, the pro forma consolidated statement of profit or loss and the pro forma consolidated statement of comprehensive income for the year ended 31 December 2020 and related notes as set out in Appendix III to the Circular dated 24 May 2021 (the "Circular") issued by the Company (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix III to the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the Target Companies (hereinafter referred to as the "Proposed Acquisition") on the Group's financial position as at 31 December 2020 and the Group's financial performance for the year ended 31 December 2020 as if the Proposed Acquisition had taken place at 31 December 2020 and 1 January 2020, respectively. As part of this process, information about the Group's financial position and financial performance has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 December 2020, on which an audit report has been published.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the 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 ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "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 behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, 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 Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the 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 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 accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the 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 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 Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Proposed Acquisition on unadjusted financial information of the Group as if the Proposed Acquisition 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 Proposed Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the 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 Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Proposed Acquisition, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Proposed Acquisition in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the 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 Pro Forma Financial Information has been properly compiled on the basis stated;

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

24 May 2021

A. BASIS OF PREPARATION OF THE PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The pro forma consolidated statement of financial position as at 31 December 2020, the pro forma consolidated statement of profit or loss and the pro forma consolidated statement of comprehensive income for the year ended 31 December 2020 of the Enlarged Group (collectively referred to as the "Pro Forma Financial Information") have been prepared by the directors of the Company (the "Directors) in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for illustrative purpose only.

The Pro Forma Financial Information has been prepared based on the Directors' judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position and the financial performance of the Enlarged Group had the Proposed Acquisition been completed as at 31 December 2020 and 1 January 2020, where applicable, or any future dates.

The pro forma consolidated statement of financial position, the pro forma consolidated statement of profit or loss and the pro forma consolidated statement of comprehensive income of the Enlarged Group have been prepared based on the audited consolidated statement of financial position, the audited consolidated statement of profit or loss and the audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2020, which have been extracted from the Group's published 2020 annual report, and the audited consolidated statement of financial position, the audited consolidated statement of profit or loss and the audited consolidated statement of comprehensive income of the Target Companies for the year ended 31 December 2020, which have been extracted from the accountants' report of the Target Companies set out in Appendices II-A to II-D to this Circular, after making pro forma adjustments that are directly attributable to the Proposed Acquisition and factually supportable, as set out below.

The Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in the Company's published 2020 annual report, the accountants' reports of the Target Companies as set out in Appendix I-A to I-D to the Circular and other financial information included elsewhere in the Circular. The Pro Forma Financial Information does not take into account the financial effect arising from any trading or other transactions subsequent to the dates of the respective financial statements of the companies comprising the Enlarged Group.

B. PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Pro Forma Consolidated Statement of Financial Position of the Enlarged Group as at 31 December 2020

	The Group as at 31 December 2020	The combined figure of the Target Companies as at 31 December 2020	Pro Forma Adjustments				The Enlarged Group as at 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*				*RMB'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
NON-CURRENT ASSETS							
Property, plant and equipment	55,324,708	1,667,545	102,348	–	(352,850)	–	56,741,751
Investment properties	98,144	15,077	–	–	–	–	113,221
Right-of-use assets	222,407	324,797	–	–	–	(3,211)	543,993
Intangible assets	39,256	1,952	143,387	–	–	–	184,595
Investments in joint ventures	180,727	–	–	–	–	–	180,727
Investments in associates	20,841,847	–	–	–	–	–	20,841,847
Financial assets at fair value through profit or loss	3,932,754	–	–	–	–	–	3,932,754
Finance lease receivables	27,568,809	–	–	–	–	–	27,568,809
Factoring receivables	365,032	–	–	–	–	–	365,032
Deferred tax assets	284,670	–	–	–	–	–	284,670
Other long term prepayments	45,984	45,166	–	–	–	–	91,150
Total non-current assets	108,904,338	2,054,537	245,735	–	(352,850)	(3,211)	110,848,549
CURRENT ASSETS							
Inventories	962,410	1,002,448	–	–	–	–	1,964,858
Trade and note receivables	2,445,764	2,294,944	–	–	–	(107,869)	4,632,839
Prepayment and other receivable	1,054,541	1,966,334	41,950	–	–	(691,046)	2,371,779
Financial assets at fair value through profit or loss	654,224	–	–	–	–	–	654,224
Finance lease receivables	18,296,935	–	–	–	–	–	18,296,935
Factoring receivables	1,083,635	–	–	–	–	–	1,083,635
Pledged and time deposits	590,146	120	–	–	–	–	590,266
Cash and cash equivalents	12,046,801	742,693	–	–	–	–	12,789,494
Total current assets	37,134,456	6,006,539	41,950	–	–	(798,915)	42,384,030
Total assets	146,038,794	8,061,076	287,685	–	(352,850)	(802,126)	153,232,579

	The Group as at 31 December 2020	The combined figure of the Target Companies as at 31 December 2020	Pro Forma Adjustments				The Enlarged Group as at 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*				*RMB'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
CURRENT LIABILITIES							
Trade payables	3,100,895	986,764	–	–	–	(52,257)	4,035,402
Other payables and accruals	4,771,247	1,234,246	–	–	–	(465,612)	5,539,881
Contract liabilities	162,354	13,431	–	–	–	–	175,785
Derivative financial instruments	8,654	–	–	–	–	–	8,654
Bank and other borrowings	47,252,731	2,700,000	–	–	–	(281,046)	49,671,685
Corporate bonds	9,272,114	–	–	–	–	–	9,272,114
Lease liabilities	100,998	4,346	–	–	–	(1,677)	103,667
Tax payable	198,482	7,341	–	–	–	–	205,823
Total current liabilities	64,867,475	4,946,128	–	–	–	(800,592)	69,013,011
NET CURRENT LIABILITIES	(27,733,019)	1,060,411	41,950	–	–	1,677	(26,628,981)
TOTAL ASSETS LESS CURRENT LIABILITIES	81,171,319	3,114,948	287,685	–	(352,850)	(1,534)	84,219,568
NON-CURRENT LIABILITIES							
Bank and other borrowings	45,527,948	–	–	–	–	–	45,527,948
Corporate bonds	8,287,546	–	–	–	–	–	8,287,546
Lease liabilities	53,858	2,787	–	–	–	(1,550)	55,095
Derivative financial instruments	12,285	–	–	–	–	–	12,285
Deferred tax liabilities	104,888	–	–	–	–	–	104,888
Government grants	9,934	10,440	–	–	–	–	20,374
Other long term payables	2,804,852	710	–	–	–	–	2,805,562
Total non-current liabilities	56,801,311	13,937	–	–	–	(1,550)	56,813,698
Net assets	24,370,008	3,101,011	287,685	–	(352,850)	16	27,405,870

	The Group as at 31 December 2020	The combined figure of the Target Companies as at 31 December 2020	Pro Forma Adjustments				The Enlarged Group as at 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*				*RMB'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
EQUITY							
Equity attributable to owners of the Target							
Share capital	11,608,125	2,469,896	–	(1,050,821)	–	–	13,027,200
Treasury shares	(233,428)	–	–	–	–	–	(233,428)
Special reserves	1,360	–	–	–	–	–	1,360
Other reserves	(2,722,662)	177,848	310,257	1,050,821	–	–	(1,183,736)
Other equity instruments	6,000,000	–	–	–	–	–	6,000,000
Retained profits	12,206,348	453,267	(22,572)	–	(352,850)	16	12,284,209
Other comprehensive loss	(2,489,735)	–	–	–	–	–	(2,489,735)
Total equity	24,370,008	3,101,011	287,685	–	(352,850)	16	27,405,870

Pro Forma Consolidated Statement of Profit or Loss of the Enlarged Group for the year ended 31 December 2020

	The Group for the year ended 31 December 2020	The combined figure of the Target Companies for the year ended 31 December 2020	Pro Forma Adjustments			The Enlarged Group for the year ended 31 December 2020
	RMB'000	*RMB'000*		*RMB'000*		*RMB'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
CONTINUING OPERATIONS	*(Note 1)*	*(Note 2)*	*(Note 3)*	*(Note 6)*	*(Note 7)*	
REVENUE	14,421,919	8,199,920	–	(950,180)	(6,009,175)	15,662,484
Cost of sales	(10,834,932)	(7,404,939)	(7,093)	950,079	5,719,796	(11,577,089)
Gross profit	3,586,987	794,981	(7,093)	(101)	(289,379)	4,085,395
Other income	286,950	54,598	–	–	–	341,548
Other gains/(losses), net	155,593	(88,607)	–	–	–	66,986
Selling, administrative and general expenses	(1,373,487)	(350,197)	(8,270)	80	–	(1,731,874)
Expected credit losses	(622,339)	(1,531)	–	(1,138)	–	(625,008)
Finance costs	(2,253,120)	(76,812)	–	37	–	(2,329,895)
Share of profits of associates	1,985,148	–	–	–	–	1,985,148
Share of losses of joint ventures	(4,774)	–	–	–	–	(4,774)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	1,760,958	332,432	(15,363)	(1,122)	(289,379)	1,787,526
Income tax expenses	(318,773)	(17,088)	–	–	–	(335,861)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	1,442,185	315,344	(15,363)	(1,122)	(289,379)	1,451,665
DISCONTINUED OPERATION						
Profit for the year from a discontinued operation	688,086	–	–	–	–	688,086
PROFIT FOR THE YEAR	2,130,271	315,344	(15,363)	(1,122)	(289,379)	2,139,751

Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group for the year ended 31 December 2020

	The Group for the year ended 31 December 2020	The combined figure of the Target Companies for the year ended 31 December 2020	Pro Forma Adjustments			The Enlarged Group for the year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 6)*	*(Note 7)*	
Profit for the year	2,130,271	315,344	(15,363)	(1,122)	(289,379)	2,139,751
Other comprehensive income						
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:						
Associates:						
Share of other comprehensive loss	(173,894)	–	–	–	–	(173,894)
Reclassification to profit or loss	(168,459)	–	–	–	–	(168,459)
	(342,353)	–	–	–	–	(342,353)
Share of other comprehensive loss of joint ventures	(12)	–	–	–	–	(12)
Effective portion of cash flow hedges	(11,751)	–	–	–	–	(11,751)
Exchange differences on translation of foreign operations	684,783	–	–	–	–	684,783
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	330,667	–	–	–	–	330,667
Other comprehensive loss that may not be reclassified to profit or loss in subsequent periods:						
Share of other comprehensive loss of associates	(13,390)	–	–	–	–	(13,390)
Net other comprehensive loss income that may not be reclassified to profit or loss in subsequent periods	(13,390)	–	–	–	–	(13,390)

	The Group for the year ended 31 December 2020	The combined figure of the Target Companies for the year ended 31 December 2020	Pro Forma Adjustments			The Enlarged Group for the year ended 31 December 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 6)*	*(Note 7)*	
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	317,277	–	–	–	–	317,277
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,447,548	315,344	(15,363)	(1,122)	(289,379)	2,457,028
Total comprehensive income attributable to:						
Owners of the parent	2,447,548	315,344	(15,363)	(1,122)	(289,379)	2,457,028
Non-controlling interests	–	–	–	–	–	–
	2,447,548	315,344	(15,363)	(1,122)	(289,379)	2,457,028

1. The amounts of the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and the consolidated statement of comprehensive income for the year ended 31 December 2020 are extracted from the published 2020 annual report of the Company.

2. The combined figures of Target Companies are extracted from the accountants' report as set out in Appendices II-A to II-D to the Circular.

3. Both the Company and Target Companies are ultimately controlled by China COSCO Shipping Corporation Limited. For accounting purpose, the Proposed Acquisition is considered to be a business combination under common control. The Target Companies' assets and liabilities are included in the consolidated financial statements of the Enlarged Group based on the carrying amounts as reflected in the financial statements of the ultimate controlling shareholder.

4. The adjustment represents the estimated financial impact of the issuance of A shares by the Company to COSCO SHIPPING Investment in exchange for all the existing issued shares of the Target Companies as at 31 December 2020 and the elimination of the Company's investment in the Target Companies using merger accounting.

   The adjustments as at 31 December 2020 include: (i) a net increase in share capital of RMB1,419,074,539 representing the issuance of 1,419,074,539 A shares by the Company at par value of RMB1 each less elimination of share capital of the Target Companies as of RMB2,469,896,000 as at 31 December 2020, (ii) a resulting adjustment to capital reserves as the pro forma consolidated statement of the financial position of Enlarged Group is prepared by applying the accounting principal underlying business combination under common control and the differences between the total consideration of shares issued and net assets of The Target Companies acquired will be adjusted directly into equity.

5. During the year ended 31 December 2020, COSCO SHIPPING Investment purchased the containers from DFIC Qidong, DFIC Qingdao and DFIC Ningbo. Then, COSCO SHIPPING Investment sold these containers to the Group.

   The containers purchased from COSCO SHIPPING Investment will be recorded as inventory in the consolidated financial statements of the Group, except for the containers purchased by Florens International Limited (a wholly-owned subsidiary of the Company) and its subsidiaries (the "Florens Group") for leasing to other parties which will be recorded as fixed assets in the consolidated financial statements of the Group.

   The pro forma adjustment reflects the impact of unrealized profit on fixed assets purchased by Florens Group as at 31 December 2020.

6. The adjustment represents the elimination of inter-company balances as at 31 December 2020 and inter-company transactions for the year ended 31 December 2020 between the Group and the Target Companies.

7. As mentioned in Note 5, the pro forma adjustment reflects the elimination of the transactions among DFIC Qidong, DFIC Qingdao and DFIC Ningbo, COSCO SHIPPING Investment and the Group.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET COMPANIES

1. DFIC Qidong

Set out below is the management discussion and analysis of the operation results and the business review of DFIC Qidong for the three financial years ended 31 December 2018, 2019 and 2020.

Business review

DFIC Qidong is a limited liability company established in the PRC and is principally engaged in the manufacturing of dry freight, specialized and refrigerated containers.

Revenue

For the three years ended 31 December 2018, 2019 and 2020, the revenue of DFIC Qidong was approximately RMB3,967,331,000, RMB2,059,798,000 and RMB4,200,705,000, respectively.

The decrease in revenue of approximately 48.08% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily attributable to the slump in the container manufacturing industry in 2019, whereby, customers' demand for containers decreased, resulting in a significant decline in container sales. The increase in revenue of approximately 103.94% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

Cost of sales

For the three years ended 31 December 2018, 2019 and 2020, the cost of sales of DFIC Qidong was approximately RMB3,733,698,000, RMB2,173,775,000 and RMB3,864,419,000, respectively.

The decrease in cost of sales of approximately 41.78% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was in line with the downward trend of revenue. The increase in cost of sales of approximately 77.77% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was in line with the growth trend of revenue.

Gross profit/(loss)

For the three years ended 31 December 2018, 2019 and 2020, the gross profit of DFIC Qidong was approximately RMB233,633,000, RMB(113,977,000) and RMB336,286,000, respectively.

The turnaround from gross profit for the year ended 31 December 2018 to gross loss for the year ended 31 December 2019 was primarily attributable to the industry downturn leading to a sharp decline in sales. The turnaround from gross loss for the year ended 31 December 2019 to gross profit for the year ended 31 December 2020 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

Other income

The other income of DFIC Qidong primarily consists of interest income, government grants related to the ordinary course of business and fees refunded for individual income tax withheld.

For the three years ended 31 December 2018, 2019 and 2020, other income of approximately RMB7,946,000, RMB5,637,000 and RMB4,675,000 was recorded, respectively.

Other gains/(losses) (net)

The other gains or losses of DFIC Qidong primarily consist of losses on disposal of property, plant and equipment, changes in fair value of financial assets at fair value through profit or loss, and net foreign exchange gains or losses.

For the three years ended 31 December 2018, 2019 and 2020, other gains of approximately RMB52,509,000, RMB(46,608,000) and RMB(33,802,000) were recorded, respectively.

The turnaround from other gains for the year ended 31 December 2018 to other losses for the year ended 31 December 2019 was primarily attributable to the losses on disposal of property, plant and equipment in 2019. The decrease in other losses of approximately 27.48% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the overall impact of the turnaround from net foreign exchange gains in 2019 to net foreign exchange losses in 2020 and that there was no losses on disposal of property, plant and equipment in 2020.

Administrative expenses

The administrative expenses of DFIC Qidong primarily consist of selling, administrative and research and development expenses.

For the three years ended 31 December 2018, 2019 and 2020, the administrative expenses of DFIC Qidong was approximately RMB201,791,000, RMB80,377,000 and RMB117,542,000, respectively.

The decrease in administrative expenses of approximately 60.17% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily attributable to a sharp decrease in sales expenses due to the downturn of the industry. The increase in administrative expenses of approximately of approximately 46.24% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the substantial increase in consulting service fees.

Finance costs

The finance costs of DFIC Qidong primarily consist of interest on debts and borrowings and interest on lease liabilities.

For the three years ended 31 December 2018, 2019 and 2020, the finance costs of DFIC Qidong was approximately RMB11,235,000, RMB11,807,000 and RMB30,133,000, respectively.

The finance costs for the year ended 31 December 2019 and for the year ended 31 December 2018 were on similar level. The increase in finance costs of approximately 155.21% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was mainly attributable to the additional short-term loans obtained by DFIC Qidong for the increase in production capacity.

Profit/(loss) before tax and profit/(loss) for the year

As a result of the factors above, for the three years ended 31 December 2018, 2019 and 2020, the profit before tax of DFIC Qidong was approximately RMB80,535,000, RMB(254,450,000) and RMB160,951,000, respectively and the profit of DFIC Qidong was approximately RMB60,401,000, RMB(252,320,000) and RMB160,951,000, respectively.

The turnaround from profit for the year ended 31 December 2018 to loss for the year ended 31 December 2019 was primarily attributable to the industry downturn leading to a sharp decline in sales. The turnaround from loss for the year ended 31 December 2019 to profit for the year ended 31 December 2020 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

Liquidity, financial resources and capital structure

The following table sets forth a summary of DFIC Qidong's financial position as at the dates indicated below:

	As at 31 December 2018 (audited) *RMB'000*	**As at 31 December 2019** (audited) *RMB'000*	**As at 31 December 2020** (audited) *RMB'000*
Non-current assets	1,127,612	1,005,610	1,002,482
Current assets	1,598,918	991,844	2,450,177
Total assets	2,726,530	1,997,454	3,452,659
Non-current liabilities	125,000	2,153	2,787
Current liabilities	1,078,653	724,744	2,018,364
Total liabilities	1,203,653	726,897	2,021,151
Net current assets	520,265	267,100	431,813
Net assets	1,522,877	1,270,557	1,431,508

Treasury policies

DFIC Qidong finances its working capital primarily through a combination of funds generated from operations, bank and other borrowings and lease liabilities.

Cash and cash equivalents

As at 31 December 2018, 31 December 2019 and 31 December 2020, the cash and cash equivalents of DFIC Qidong were approximately RMB105,969,000, RMB91,813,000 and RMB337,572,000, respectively.

The decrease in cash and cash equivalents of DFIC Qidong of approximately 13.36% from 31 December 2018 to 31 December 2019 was primarily attributable to the increase in repayment of bank and other borrowings in 2019. The increase in cash and cash equivalents of DFIC Qidong of approximately 267.67% from 31 December 2019 to 31 December 2020 was primarily attributable to the overall impact of the increase in new bank and other borrowings and the decrease in inventories, prepayments and receivables in 2020.

The cash and cash equivalents of DFIC Qidong were all denominated in RMB and US$, with approximately 17%, 53% and 98% being denominated in US$ as at 31 December 2018, 31 December 2019 and 31 December 2020, respectively.

Cash flow

The following table sets forth a summary of the cash flow of DFIC Qidong extracted from the statement of cash flow of DFIC Qidong for the periods indicated below:

	For the year ended 31 December 2018	**For the year ended 31 December 2019**	**For the year ended 31 December 2020**
	(audited)	(audited)	(audited)
	RMB'000	*RMB'000*	*RMB'000*
Net cash flows generated from/(used in) operating activities	21,878	339,147	(640,971)
Net cash flows generated from/(used in) investing activities	(66,844)	(228,105)	126,288
Net cash flows generated from/(used in) financing activities	4,439	(125,743)	770,192
Net (decrease)//increase in cash and cash equivalents	(40,527)	(14,701)	255,509
Cash and cash equivalents at end of year	105,969	91,813	337,572

Borrowings

The borrowings of DFIC Qidong primarily consist of bank and other borrowings. For the three years ended 31 December 2018, 2019 and 2020, the interest rate per annum of the bank and other borrowings ranged from 3.32% to 5.00%, 3.6975% and 3.40% to 3.5175%, respectively. As at 31 December 2019 and 31 December 2020, the bank and other borrowings of DFIC Qidong were all denominated in RMB. As at 31 December 2018, approximately 34% and 66% of the bank and other borrowings of DFIC Qidong was denominated in RMB and US$, respectively.

As at 31 December 2018, the total borrowings of DFIC Qidong were approximately RMB257,919,000, of which RMB132,919,000 were repayable within one year and RMB125,000,000 were repayable within two year. As at 31 December 2019, the total borrowings of DFIC Qidong was approximately RMB300,000,000, all of which were repayable within one year. As at 31 December 2020, the total borrowings of DFIC Qidong were approximately RMB1,100,000,000, all of which was repayable within one year.

As at 31 December 2018, 31 December 2019 and 31 December 2020, the bank and other borrowings of DFIC Qidong was not secured by its assets, but certain bank and other borrowings in the amount of RMB132,919,000 as at 31 December 2018, and RMB500,000,000 as at 31 December 2020 were primarily secured by a parent guarantee.

Capital commitments

As at 31 December 2018, 31 December 2019 and 31 December 2020, DFIC Qidong did not have any outstanding capital commitments.

Gearing ratio

As at 31 December 2018, 31 December 2019 and 31 December 2020, the gearing ratio of DFIC Qidong (calculated as a percentage of the total borrowings to total equity of DFIC Qidong) was approximately 16.94%, 23.61% and 76.84%, respectively.

Hedging

DFIC Qidong did not (i) enter into any financial instruments for hedging purposes and (ii) have any currency borrowings or other hedging instruments for foreign currency net investments for the three years ended 31 December 2018, 2019 and 2020.

Significant investments held

DFIC Qidong did not hold any significant investment for the three years ended 31 December 2018, 2019 and 2020.

Material acquisitions and disposals

DFIC Qidong did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures for the three years ended 31 December 2018, 2019 and 2020.

DFIC Qidong has no specific future plans for material investments or capital assets.

Employees and remuneration policies

As at 31 December 2018, 31 December 2019 and 31 December 2020, the total number of employees of DFIC Qidong was 1,935, 1,742 and 2,987, respectively.

For the three years ended 31 December 2018, 31 December 2019 and 31 December 2020, the total employee remuneration expenses (including directors' remuneration) of DFIC Qidong were approximately RMB271,609,000, RMB219,463,000 and RMB299,317,000, respectively.

DFIC Qidong contributes to defined contribution retirement schemes which are available to its employees in accordance with the relevant laws and regulations in the PRC. Employees are also entitled to discretionary bonus which is linked to the operating results of DFIC Qidong. DFIC Qidong provides periodic training to its employees with a view to constantly improving their skills and knowledge in the industry. New employees are given orientation trainings, while other trainings on topics such as safety, specific skills and quality control as well as other on-the-job trainings are arranged for different employees according to their positions and needs from time to time. Save as disclosed above, there are no other remuneration policies, bonus and share option schemes for the employees of DFIC Qidong.

Charges on assets

As at 31 December 2018, 31 December 2019 and 31 December 2020, DFIC Qidong did not have any charge on its assets.

Exposure to fluctuations in exchange rates and related hedges

The sales of DFIC Qidong are primarily conducted in RMB and US$. For the year ended 31 December 2018, 31 December 2019 and 31 December 2020, approximately 88%, 30% and 40% of the sales of DFIC Qidong was denominated in US$, and DFIC Qidong recorded net foreign exchange gains of RMB52,165,000, net foreign exchange gains of RMB9,423,000 and net foreign exchange losses of RMB34,456,000 primarily due to fluctuations in the exchange rate between US$ and RMB. DFIC Qidong did not use any financial instruments to hedge its exposure to such foreign exchange risk, but sought to manage such exposure by making US$ borrowings from time to time. The management of DFIC Qidong monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Contingent liabilities

As at 31 December 2018, 31 December 2019 and 31 December 2020, DFIC Qidong had no material contingent liabilities.

2. DFIC Qingdao Group

Set out below is the management discussion and analysis of the operation results and the business review of the DFIC Qingdao Group for the three financial years ended 31 December 2018, 2019 and 2020.

Business review

DFIC Qingdao is a limited liability company established in the PRC and the DFIC Qingdao Group is principally engaged in the manufacturing of dry freight, specialized and refrigerated containers.

Revenue

For the three years ended 31 December 2018, 2019 and 2020, the revenue of the DFIC Qingdao Group was approximately RMB1,643,952,000, RMB2,086,017,000 and RMB2,585,263,000, respectively.

The increase in revenue of approximately 26.89% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily attributable to the increase in orders for containers being allocated to the DFIC Qingdao Group following the implementation of the integration of sales channels strategy by the Group pursuant to the entrustment arrangement between Shanghai Universal Logistics Equipment Co., Ltd. (a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company) and COSCO SHIPPING Investment in respect of the Target Companies, despite the industry downturn. The increase in revenue of approximately 23.93% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

Cost of sales

For the three years ended 31 December 2018, 2019 and 2020, the cost of sales of the DFIC Qingdao Group was approximately RMB1,583,979,000, RMB2,069,917,000 and RMB2,321,683,000, respectively.

The increase in cost of sales of approximately 30.68% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was in line with the growth trend of revenue. The increase in cost of sales of approximately 12.16% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was in line with the growth trend of revenue.

Gross profit/(loss)

For the three years ended 31 December 2018, 2019 and 2020, the gross profit of the DFIC Qingdao Group was approximately RMB59,973,000, RMB16,100,000 and RMB263,580,000, respectively.

The decrease in gross profit for the year ended 31 December 2019 as compared with 31 December 2018 was primarily attributable to the industry downturn leading to a sharp decline in margin. The increase in gross loss for the year ended 31 December 2020 as compared with 31 December 2019 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

Other income

The other income of the DFIC Qingdao Group primarily consists of interest income, government grants and others.

For the three years ended 31 December 2018, 2019 and 2020, other income of approximately RMB1,276,000, RMB3,709,000 and RMB44,082,000 was recorded, respectively. The substantial increase in other income of approximately 1,088.51% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the government grants of RMB38,250,000 received in 2020.

Other gains/(losses) (net)

The other gains of the DFIC Qingdao Group primarily consist of losses on disposal of items of property, plant and equipment and net foreign exchange gains or losses.

For the three years ended 31 December 2018, 2019 and 2020, other gains of approximately RMB10,552,000, RMB(23,406,000) and RMB(38,544,000) were recorded, respectively.

The turnaround from other gains for the year ended 31 December 2018 to other losses for the year ended 31 December 2019 was primarily attributable to the losses on disposal of property, plant and equipment in 2019. The increase in other losses of approximately 64.68% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the turnaround from net foreign exchange gains in 2019 to net foreign exchange losses in 2020.

Administrative expenses

The administrative expenses of the DFIC Qingdao Group primarily consist of selling, administrative and research and development expenses.

For the three years ended 31 December 2018, 2019 and 2020, the administrative expenses of the DFIC Qingdao Group was approximately RMB58,424,000, RMB69,438,000 and RMB110,037,000, respectively.

The increase in administrative expenses of approximately 18.85% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily attributable to the increase in consulting service fee payable to Universal Technology in relation to research and development. The increase in administrative expenses of approximately of approximately 58.47% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the sharp increase in consulting service fees payable to Universal Technology in relation to its provision of container related information technology support, research and development, patent application and holding, and integrated management services and the substantial increase of commission fee in that year.

Finance costs

The finance costs of the DFIC Qingdao Group primarily consist of interest on borrowing and interest on lease liabilities.

For the three years ended 31 December 2018, 2019 and 2020, the finance costs of the DFIC Qingdao Group was approximately RMB679,000, RMB4,462,000 and RMB27,852,000, respectively.

The increase in finance costs of approximately 557.14% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily attributable to the increase in borrowing. The increase in finance costs of approximately 524.20% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the further increase in borrowing.

Profit/(loss) before tax and profit/(loss) for the year

As a result of the factors above, for the three years ended 31 December 2018, 2019 and 2020, the profit before tax of the DFIC Qingdao Group was approximately RMB12,085,000, RMB(86,638,000) and RMB128,110,000, respectively and the profit of the DFIC Qingdao Group was approximately RMB9,837,000, RMB(86,655,000) and RMB117,364,000, respectively.

The turnaround from profit for the year ended 31 December 2018 to loss for the year ended 31 December 2019 was primarily attributable to the industry downturn leading to a sharp decline in margin. The turnaround from loss for the year ended 31 December 2019 to profit for the year ended 31 December 2020 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

Liquidity, financial resources and capital structure

The following table sets forth a summary of the DFIC Qingdao Group's financial position as at the dates indicated below:

	As at 31 December 2018 (audited) *RMB'000*	**As at 31 December 2019** (audited) *RMB'000*	**As at 31 December 2020** (audited) *RMB'000*
Non-current assets	787,817	863,221	832,976
Current assets	1,001,221	1,229,045	1,865,598
Total assets	1,789,038	2,092,266	2,698,574
Non-current liabilities	0	3,540	8,798
Current liabilities	335,856	722,403	1,537,692
Total liabilities	335,856	725,943	1,546,490
Net current assets	665,365	506,642	327,906
Net assets	1,453,182	1,366,323	1,152,084

Treasury policies

The DFIC Qingdao Group finances its working capital primarily through a combination of funds generated from operations, bank and other borrowings and lease liabilities.

Cash and cash equivalents

As at 31 December 2018, 31 December 2019 and 31 December 2020, the cash and cash equivalents of the DFIC Qingdao Group were approximately RMB7,807,000, RMB133,967,000 and RMB67,090,000, respectively.

The increase in cash and cash equivalents of the DFIC Qingdao Group of approximately 1,615.99% from 31 December 2018 to 31 December 2019 was primarily attributable to the increase in new bank and other borrowings in 2019. The decrease in cash and cash equivalents of the DFIC Qingdao Group of approximately 49.92% from 31 December 2019 to 31 December 2020 was primarily attributable to the decrease in inventories, prepayments and receivables in 2020.

The cash and cash equivalents of the DFIC Qingdao Group were all denominated in RMB and US$ with approximately 12%, 86% and 93% being denominated in US$ as at 31 December 2018, 31 December 2019 and 31 December 2020, respectively.

Cash flow

The following table sets forth a summary of the cash flow of the DFIC Qingdao Group extracted from the statement of cash flow of the DFIC Qingdao Group for the periods indicated below:

	For the year ended 31 December 2018	**For the year ended 31 December 2019**	**For the year ended 31 December 2020**
	(audited)	(audited)	(audited)
	RMB'000	*RMB'000*	*RMB'000*
Net cash flows generated from/(used in) operating activities	145,833	67,178	(412,459)
Net cash flows generated from/(used in) investing activities	(191,688)	(213,667)	(11,588)

	For the year ended 31 December 2018 (audited) *RMB'000*	For the year ended 31 December 2019 (audited) *RMB'000*	For the year ended 31 December 2020 (audited) *RMB'000*
Net cash flows generated from/(used in) financing activities	(64,031)	271,703	366,242
Net (decrease)//increase in cash and cash equivalents	(109,886)	125,214	(57,805)
Cash and cash equivalents at end of year	7,807	133,967	67,090

Borrowings

The borrowings of DFIC Qingdao primarily consist of bank and other borrowings. For the two years ended 31 December 2019 and 2020, the interest rate per annum of the bank and other borrowings ranged from 3.6975% and 3.4000% to 3.5175% respectively. The bank and other borrowings of the DFIC Qingdao Group were all denominated in RMB.

As at 31 December 2018, the DFIC Qingdao Group did not have any borrowings. As at 31 December 2019, the total borrowings of the DFIC Qingdao Group were approximately RMB280,000,000, all of which was repayable within one year. As at 31 December 2020, the total borrowings of the DFIC Qingdao Group were approximately RMB1,000,000,000, all of which was repayable within one year.

As at 31 December 2018, 31 December 2019 and 31 December 2020, the bank and other borrowings of the DFIC Qingdao Group was not secured by its assets, but certain bank and other borrowings in the amount of RMB400,000,000 as at 31 December 2020 were primarily secured by a parent guarantee.

Capital commitments

As at 31 December 2018, 31 December 2019 and 31 December 2020, the DFIC Qingdao Group did not have any outstanding capital commitments.

Gearing ratio

As at 31 December 2019 and 31 December 2020, the gearing ratio of the DFIC Qingdao Group (calculated as a percentage of the total borrowings to total equity of the DFIC Qingdao Group) was approximately 20.49% and 86.80%, respectively.

Hedging

The DFIC Qingdao Group did not (i) enter into any financial instruments for hedging purposes and (ii) have any currency borrowings or other hedging instruments for foreign currency net investments for the three years ended 31 December 2018, 2019 and 2020.

Significant investments held

The DFIC Qingdao Group did not hold any significant investment for the three years ended 31 December 2018, 2019 and 2020.

Material acquisitions and disposals

The DFIC Qingdao Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures for the three years ended 31 December 2018, 2019 and 2020.

The DFIC Qingdao Group has no specific future plans for material investments or capital assets.

Employees and remuneration policies

As at 31 December 2018, 31 December 2019 and 31 December 2020, the total number of employees of the DFIC Qingdao Group was 1,863, 2,313 and 2,411, respectively.

For the three years ended 31 December 2018, 31 December 2019 and 31 December 2020. the total employee remuneration expenses (including directors' remuneration) of the DFIC Qingdao Group were approximately RMB237,729,000, RMB311,983,000 and RMB318,972,000, respectively.

The DFIC Qingdao Group contributes to defined contribution retirement schemes which are available to its employees in accordance with the relevant laws and regulations in the PRC. Employees are also entitled to discretionary bonus which is linked to the operating results of the DFIC Qingdao Group. The DFIC Qingdao Group provides periodic training to its employees with a view to constantly improving their skills and knowledge in the industry. New employees are given orientation trainings, while other trainings on topics such as safety, specific skills and quality control as well as other on-the-job trainings are arranged for different employees according to their positions and needs from time to time. Save as disclosed above, there are no other remuneration policies, bonus and share option schemes for the employees of the DFIC Qingdao Group.

Charges on assets

As at 31 December 2018, 31 December 2019 and 31 December 2020, the DFIC Qingdao Group did not have any charge on its assets

Exposure to fluctuations in exchange rates and related hedges

The sales of the DFIC Qingdao Group are primarily conducted in RMB and US$. For the year ended 31 December 2018, 31 December 2019 and 31 December 2020, approximately 60%, 47% and 90% of the sales of the DFIC Qingdao Group was denominated in US$, and the DFIC Qingdao Group recorded net foreign exchange gains of RMB10,552,000, net foreign exchange gains of RMB4,373,000 and net foreign exchange losses of RMB37,605,000 primarily due to fluctuations in the exchange rate between US$ and RMB. The DFIC Qingdao Group did not use any financial instruments to hedge its exposure to such foreign exchange risk, but he management of the DFIC Qingdao Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Contingent liabilities

As at 31 December 2018, 31 December 2019 and 31 December 2020, the DFIC Qingdao Group had no material contingent liabilities.

3. DFIC Ningbo

Set out below is the management discussion and analysis of the operation results and the business review of DFIC Ningbo for the three financial years ended 31 December 2018, 2019 and 2020.

Business review

DFIC Ningbo is a limited liability company established in the PRC and is principally engaged in the manufacturing of dry freight and specialized containers.

Revenue

For the three years ended 31 December 2018, 2019 and 2020, the revenue of DFIC Ningbo was approximately RMB2,135,077,000, RMB1,188,147,000 and RMB1,322,117,000, respectively.

The decrease in revenue of approximately 44.35% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily attributable to the slump in the container manufacturing industry in 2019, whereby, customers' demand for containers decreased, resulting in a significant decline in container sales. The increase in revenue of approximately 11.28% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

Cost of sales

For the three years ended 31 December 2018, 2019 and 2020, the cost of sales of DFIC Ningbo was approximately RMB1,948,646,000, RMB1,202,120,000 and RMB1,218,792,000, respectively.

The decrease in cost of sales of approximately 38.31% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was in line with the decrease trend of revenue. The cost of sales for the year ended 31 December 2020 and the year ended 31 December 2019 were on similar level.

Gross profit

For the three years ended 31 December 2018, 2019 and 2020, the gross profit of DFIC Ningbo was approximately RMB186,431,000, RMB(13,973,000) and RMB103,325,000, respectively.

The turnaround from gross profit for the year ended 31 December 2018 to gross loss for the year ended 31 December 2019 was primarily attributable to the industry downturn leading to a sharp decline in sales. The turnaround from gross loss for the year ended 31 December 2019 to gross profit for the year ended 31 December 2020 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

Other income

The other income of DFIC Ningbo primarily consists of interest income, government grants and others.

For the three years ended 31 December 2018, 2019 and 2020, other income of approximately RMB6,431,000, RMB4,961,000 and RMB5,303,000 was recorded, respectively.

Other gains/(losses) (net)

The other gains of DFIC Ningbo primarily consist of net foreign exchange gain/(loss) and others.

For the three years ended 31 December 2018, 2019 and 2020, other gains of approximately RMB23,523,000, RMB13,693,000 and RMB(15,477,000) were recorded, respectively.

The decrease in other gains of approximately 41.79% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily attributable to the decrease in net foreign exchange gains in 2019. The turnaround from other gains for the year ended 31 December 2019 to other losses for the year ended 31 December 2020 was primarily attributable to the turnaround from net foreign exchange gains in 2019 to net foreign exchange losses in 2020.

Administrative expenses

The administrative expenses of DFIC Ningbo primarily consist of selling, administrative and research and development expenses.

For the three years ended 31 December 2018, 2019 and 2020, the administrative expenses of DFIC Ningbo was approximately RMB73,383,000, RMB53,464,000 and RMB39,076,000, respectively.

The decrease in administrative expenses of approximately 27.14% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily attributable to a sharp decrease in sales expenses due to the downturn of the industry. The decrease in administrative expenses of approximately 26.91% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable the decrease of storage management cost and sales cost as a result of quick sales of finished product containers in response to increased market demand.

Finance costs

The finance costs of DFIC Ningbo primarily consist of interest on debts and borrowings and interest on lease liabilities.

For the three years ended 31 December 2018, 2019 and 2020, the finance costs of DFIC Ningbo was approximately RMB5,433,000, RMB7,114,000 and RMB18,692,000, respectively.

The increase in finance costs of approximately 30.94% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily attributable to the increase in borrowing. The increase in finance costs of approximately 162.75% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the further increase in borrowing.

Profit/(loss) before tax and profit/(loss) for the year

As a result of the factors above, for the three years ended 31 December 2018, 2019 and 2020, the profit before tax of DFIC Ningbo was approximately RMB137,469,000, RMB(55,906,000) and RMB35,238,000, respectively and the profit of DFIC Ningbo was approximately RMB102,560,000, RMB(58,114,000) and RMB30,444,000, respectively.

The turnaround from profit for the year ended 31 December 2018 to loss for the year ended 31 December 2019 was primarily attributable to the industry downturn leading to a sharp decline in sales. The turnaround from loss for the year ended 31 December 2019 to profit for the year ended 31 December 2020 was primarily attributable to the shortage in supply of containers and the gradual recovery of economic activities in the PRC in the second half of 2020, which led to the substantial growth of container sales and increase in container price.

Liquidity, financial resources and capital structure

The following table sets forth a summary of DFIC Ningbo's financial position as at the dates indicated below:

	As at 31 December 2018 (audited) *RMB'000*	**As at 31 December 2019** (audited) *RMB'000*	**As at 31 December 2020** (audited) *RMB'000*
Non-current assets	198,253	201,975	216,286
Current assets	851,276	825,644	1,135,498
Total assets	1,049,529	1,027,619	1,351,784
Non-current liabilities	2,168	1,875	1,642
Current liabilities	537,461	573,958	867,912
Total liabilities	539,629	575,833	869.554
Net current assets	313,815	251,686	267,586
Net assets	509,900	451,786	482,230

Treasury policies

DFIC Ningbo finances its working capital primarily through a combination of funds generated from operations, bank and other borrowings.

Cash and cash equivalents

As at 31 December 2018, 31 December 2019 and 31 December 2020, the cash and cash equivalents of DFIC Ningbo were approximately RMB192,022,000, RMB60,878,000 and RMB42,129,000, respectively.

The decrease in cash and cash equivalents of DFIC Ningbo of approximately 68.30% from 31 December 2018 to 31 December 2019 was primarily attributable to the decrease in other receivables in 2019. The decrease in cash and cash equivalents of DFIC Ningbo of approximately 30.80% from 31 December 2019 to 31 December 2020 was primarily attributable to the overall impact of the increase in new bank and other borrowings and the increase in net cash used in operating activities.

The cash and cash equivalents of DFIC Ningbo were all denominated in RMB and US$, with approximately 5%, 13% and 90% being denominated in US$ as at 31 December 2018, 31 December 2019 and 31 December 2020, respectively.

Cash flow

The following table sets forth a summary of the cash flow of DFIC Ningbo extracted from the statement of cash flow of DFIC Ningbo for the periods indicated below:

	For the year ended 31 December 2018	**For the year ended 31 December 2019**	**For the year ended 31 December 2020**
	(audited)	(audited)	(audited)
	RMB'000	*RMB'000*	*RMB'000*
Net cash flows generated from/(used in) operating activities	(34,205)	(88,391)	(242,686)
Net cash flows generated from/(used in) investing activities	(12,847)	(253,991)	(3,253)

	For the year ended 31 December 2018 (audited) *RMB'000*	For the year ended 31 December 2019 (audited) *RMB'000*	For the year ended 31 December 2020 (audited) *RMB'000*
Net cash flows generated from/(used in) financing activities	28,424	211,096	228,758
Net (decrease)//increase in cash and cash equivalents	(18,628)	(131,285)	(17,181)
Cash and cash equivalents at end of year	192,022	60,878	42,129

Borrowings

The borrowings of DFIC Ningbo primarily consist of bank and other borrowings. For the three years ended 31 December 2018, 2019 and 2020, the interest rate per annum of the bank and other borrowings ranged from 3.6842% to 5.00%, 3.5741% to 3.6975%, and 3.4000% to 3.5175%, respectively. As at 31 December 2018, approximately 15% and 85% of the bank and other borrowings of DFIC Ningbo was denominated in RMB and US$, respectively. As at 31 December 2019, approximately 85% and 15% of the bank and other borrowings of DFIC Ningbo was denominated in RMB and US$, respectively. As at 31 December 2020, the bank and other borrowings of DFIC Ningbo were all denominated in RMB.

As at 31 December 2018, the total borrowings of DFIC Ningbo were approximately RMB131,870,000, all of which was repayable within one year. As at 31 December 2019, the total borrowings of DFIC Ningbo were approximately RMB352,322,000, all of which was repayable within one year. As at 31 December 2020, the total borrowings of DFIC Ningbo were approximately RMB600,000,000, all of which was repayable within one year.

As at 31 December 2018, 31 December 2019 and 31 December 2020, the bank and other borrowings of DFIC Ningbo was not secured by its assets, certain bank and other borrowings in the amount of RMB20,000,000 as at 31 December 2018 and RMB200,000,000 as at 31 December 2020 were primarily secured by a parent guarantee.

Capital commitments

As at 31 December 2018, 31 December 2019 and 31 December 2020, DFIC Ningbo did not have any outstanding capital commitments.

Gearing ratio

As at 31 December 2018, 31 December 2019 and 31 December 2020, the gearing ratio of DFIC Ningbo (calculated as a percentage of the total borrowings to total equity of DFIC Ningbo) was approximately 25.86%, 77.98% and 124.42%, respectively.

Hedging

DFIC Ningbo did not (i) enter into any financial instruments for hedging purposes and (ii) have any currency borrowings or other hedging instruments for foreign currency net investments for the three years ended 31 December 2018, 2019 and 2020.

Significant investments held

DFIC Ningbo did not hold any significant investment for the three years ended 31 December 2018, 2019 and 2020.

Material acquisitions and disposals

DFIC Ningbo did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures for the three years ended 31 December 2018, 2019 and 2020.

DFIC Ningbo has no specific future plans for material investments or capital assets.

Employees and remuneration policies

As at 31 December 2018, 31 December 2019 and 31 December 2020, the total number of employees of DFIC Ningbo was 850, 858 and 1,192, respectively.

For the three years ended 31 December 2018, 31 December 2019 and 31 December 2020. the total employee remuneration expenses (including directors' remuneration) of DFIC Ningbo were approximately RMB178,719,000, RMB155,169,000 and RMB163,289,000, respectively.

DFIC Ningbo contributes to defined contribution retirement schemes which are available to its employees in accordance with the relevant laws and regulations in the PRC. Employees are also entitled to discretionary bonus which is linked to the operating results of DFIC Ningbo. DFIC Ningbo provides periodic training to its employees with a view to constantly improving their skills and knowledge in the industry. New employees are given orientation trainings, while other trainings on topics such as safety, specific skills and quality control as well as other on-the-job trainings are arranged for different employees according to their positions and needs from time to time. Save as disclosed above, there are no other remuneration policies, bonus and share option schemes for the employees of DFIC Ningbo.

Charges on assets

As at 31 December 2018, 31 December 2019 and 31 December 2020, DFIC Ningbo did not have any charge on its assets.

Exposure to fluctuations in exchange rates and related hedges

The sales of DFIC Ningbo are primarily conducted in RMB and US$. For the year ended 31 December 2018, 31 December 2019 and 31 December 2020, approximately 90%, 30% and 30% of the sales of DFIC Ningbo was denominated in US$, and DFIC Ningbo recorded net foreign exchange gains of RMB22,472,000, net foreign exchange gains of RMB13,605,000 and net foreign exchange losses of RMB15,554,000 primarily due to fluctuations in the exchange rate between US$ and RMB. DFIC Ningbo did not use any financial instruments to hedge its exposure to such foreign exchange risk, but sought to manage such exposure by making US$ borrowings from time to time. The management of DFIC Qidong monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Contingent liabilities

As at 31 December 2018, 31 December 2019 and 31 December 2020, DFIC Ningbo had no material contingent liabilities.

4. Universal Technology

Set out below is the management discussion and analysis of the operation results and the business review of Universal Technology for the three financial years ended 31 December 2018, 2019 and 2020.

Business review

Universal Technology is a limited liability company established in the PRC and is principally engaged in the provision of technical, development and management services of container manufacturing, and primarily provide such services to DFIC Qidong, the DFIC Qingdao Group and DFIC Ningbo.

Revenue

For the three years ended 31 December 2018, 2019 and 2020, the revenue of Universal Technology was approximately RMB46,968,000, RMB31,320,000 and RMB91,835,000, respectively.

The decrease in revenue of approximately 33.32% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily attributable to the slump in the container manufacturing industry in 2019, which led to the deterioration of the operating results of DFIC Qidong, the DFIC Qingdao Group and DFIC Ningbo and the corresponding decrease in business volume of Universal Technology. The increase in revenue of approximately 193.22% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the increase in revenue of DFIC Qidong, the DFIC Qingdao Group and DFIC Ningbo and the corresponding increased demand for the services of Universal Technology in 2020.

Cost of sales

In light of the nature of the business of Universal Technology, the cost of sales of Universal Technology was at a minimal level.

For the three years ended 31 December 2018, 2019 and 2020, the cost of sales of Universal Technology was approximately RMB0, RMB63,000 and RMB45,000, respectively.

Gross profit

For the three years ended 31 December 2018, 2019 and 2020, the gross profit of Universal Technology was approximately RMB46,968,000, RMB31,257,000 and RMB91,790,000, respectively.

The decrease in gross profit of approximately 33.45% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily attributable to the decrease in business volume. The increase in gross profit of approximately 193.66% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the increase in business volume.

Other income

The other income of Universal Technology primarily consists of interest income, government grants and fees refunded for individual income tax withheld.

For the three years ended 31 December 2018, 2019 and 2020, other income of approximately RMB555,000, RMB915,000 and RMB538,000 was recorded, respectively.

Administrative expenses

For the three years ended 31 December 2018, 2019 and 2020, the administrative expenses of Universal Technology was approximately RMB29,626,000, RMB31,951,000 and RMB83,542,000, respectively.

The increase in administrative expenses of approximately 7.85% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily attributable to the increase in management costs due to the increased number of service personnel. The increase in administrative expenses of approximately of approximately 161.47% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the expansion of the scale of service and the number of management personnel in light of the increase in business volume and the improved operating results in 2020.

Profit before tax and profit for the year

As a result of the factors above, for the three years ended 31 December 2018, 2019 and 2020, the profit before tax of Universal Technology was approximately RMB17,897,000, RMB241,000 and RMB8,133,000, respectively and the profit of Universal Technology was approximately RMB17,897,000, RMB241,000 and RMB6,585,000, respectively.

The decrease in profit of Universal Technology of approximately 98.65% for the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily attributable to the decrease in business volume. The increase in profit of Universal Technology of approximately 2,632.37% for the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily attributable to the increase in business volume.

Liquidity, financial resources and capital structure

The following table sets forth a summary of Universal Technology's financial position as at the dates indicated below:

	As at 31 December 2018	**As at 31 December 2019**	**As at 31 December 2020**
	(audited)	(audited)	(audited)
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	1,527	1,386	2,793
Current assets	134,968	82,958	555,266
Total assets	136,495	84,344	558,059
Non-current liabilities	0	321	710
Current liabilities	108,132	55,419	522,160
Total liabilities	108,132	55,740	522,870
Net current assets	26,836	27,539	33,106
Net assets	28,363	28,604	35,189

Treasury policies

Universal Technology finances its working capital primarily through the funds generated from operations.

Cash and cash equivalents

As at 31 December 2018, 31 December 2019 and 31 December 2020, the cash and cash equivalents of Universal Technology were approximately RMB3,352,000, RMB25,078,000 and RMB295,902,000, respectively.

The increase in cash and cash equivalents of Universal Technology of approximately 648.15% from 31 December 2018 to 31 December 2019 was primarily attributable to the decrease in trade and notes receivables and prepayments and other receivables, leading to the net cash generated from operating activities. The increase in cash and cash equivalents of Universal Technology of approximately 1,079.93% from 31 December 2019 to 31 December 2020 was primarily attributable to increase in cash from cash pooling.

The cash and cash equivalents of Universal Technology were all denominated in RMB.

Cash flow

The following table sets forth a summary of the cash flow of Universal Technology extracted from the statement of cash flow of Universal Technology for the periods indicated below:

	For the year ended 31 December 2018 (audited) *RMB'000*	For the year ended 31 December 2019 (audited) *RMB'000*	For the year ended 31 December 2020 (audited) *RMB'000*
Net cash flows generated from/(used in) operating activities	(2,629)	21,669	(8,005)
Net cash flows generated from/(used in) investing activities	(157)	57	(2,108)
Net cash flows generated from/(used in) financing activities	(4,450)	–	280,937
Net (decrease)/increase in cash and cash equivalents	(7,236)	21,726	270,824
Cash and cash equivalents at end of year	3,352	25,078	295,902

Borrowings and gearing ratio

For the three years ended 31 December 2018, 2019 and 2020, Universal Technology did not have any borrowings. As such, gearing ratio is not applicable for Universal Technology.

Capital commitments

As at 31 December 2018, 31 December 2019 and 31 December 2020, Universal Technology did not have any outstanding capital commitments.

Hedging

Universal Technology did not (i) enter into any financial instruments for hedging purposes and (ii) have any currency borrowings or other hedging instruments for foreign currency net investments for the three years ended 31 December 2018, 2019 and 2020.

Significant investments held

Universal Technology did not hold any significant investment for the three years ended 31 December 2018, 2019 and 2020.

Material acquisitions and disposals

Universal Technology did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures for the three years ended 31 December 2018, 2019 and 2020.

Universal Technology has no specific future plans for material investments or capital assets.

Employees and remuneration policies

As at 31 December 2018, 31 December 2019 and 31 December 2020, the total number of employees of Universal Technology was 79, 54 and 51, respectively.

For the three years ended 31 December 2018, 31 December 2019 and 31 December 2020, the total employee remuneration expenses (including directors' remuneration) of Universal Technology were approximately RMB22,267,000, RMB26,653,000 and RMB79,368,000, respectively.

Universal Technology contributes to defined contribution retirement schemes which are available to its employees in accordance with the relevant laws and regulations in the PRC. Employees are also entitled to discretionary bonus which is linked to the operating results of Universal Technology. Universal Technology provides periodic training to its employees with a view to constantly improving their skills and knowledge in the industry. New employees are given orientation trainings, while other trainings on topics such as management skills, industry knowledge and corporate culture as well as other on-the-job trainings are arranged for different employees according to their positions and needs from time to time. Save as disclosed above, there are no other remuneration policies, bonus and share option schemes for the employees of Universal Technology.

Charges on assets

As at 31 December 2018, 31 December 2019 and 31 December 2020, Universal Technology did not have any charge on its assets.

Exposure to fluctuations in exchange rates and related hedges

All of Universal Technology's revenue and expenses are denominated in RMB and most of Universal Technology's assets and liabilities are denominated in RMB. Universal Technology also uses RMB as its reporting currency. As such, Universal Technology's operations have not been subject to any significant foreign exchange risk and Universal Technology did not use any financial instruments to hedge its exposure to such risk. The management of Universal Technology monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Contingent liabilities

As at 31 December 2018, 31 December 2019 and 31 December 2020, Universal Technology had no material contingent liabilities.

5. Outlook and future prospects of the Target Companies

The Target Companies are principally engaged in design, research and development, manufacture, sales and delivery of containers and the related businesses. In particular, DFIC Qidong, the DFIC Qingdao Group and DFIC Ningbo are principally engaged in the manufacturing of dry freight, specialized and refrigerated containers, while Universal Technology provides technical and development services of container manufacturing to DFIC Qidong, the DFIC Qingdao Group and DFIC Ningbo.

The container manufacturing and related businesses of the Target Companies are primarily driven by global trade and global economy. In 2019, against the backdrop of the continued trade frictions, the global economic growth and demand for containers slowed down, which led to sluggish business results of the Target Companies. Due to the outbreak of the COVID-19 pandemic, the global economy and global trade further slumped in the first half of 2020, and the weak demand for containers and the decline in the manufacturing activities of the Target Companies continued.

However, since the second half of 2020, as the COVID-19 pandemic has been brought under control in the PRC, the productivity and exports of the PRC gradually recovered, which stimulated demand for containers. In addition, under the impact of the COVID-19 pandemic, there was a decline in the conveyance volume of ports in Europe and the United States, which has led to a reduction in the efficiency of container turnover and a structural and geographical shortage of containers globally. As a result, the market has seen a sharp increase in demand for containers which boosted the price of containers and the business results of the Target Companies.

With the expectation that the COVID-19 pandemic can be brought under control and the rolling out of vaccination in major countries, it is expected that there will be continued recovery in the global economy and global trade, which will support a stable demand for containers. The Target Companies will continue to improve the existing products and will strengthen its research and development on design and manufacturing of various types of containers, raising production efficiency and quality as well as enhancing its product portfolio and overall competitiveness.

The Asset Valuation Report was prepared in Chinese and the English translation is for reference only. In the event of any discrepancy between the English translation of the Asset Valuation Report and the Chinese version, the Chinese version shall prevail.

This Report is prepared in accordance with PRC Asset Valuation Standards

Asset Valuation Report

on Value of All Shareholders' Equity Interests in
Dong Fang International Container (Qidong) Co., Ltd.
Involved in the Proposed Acquisition of 100% of the Equity Interests in Four Companies
Held by COSCO SHIPPING Investment Holdings Co., Ltd.
through the Issuance of Shares by COSCO SHIPPING Development Co., Ltd.

Zhong Tong Ping Bao Zi [2021] No. 12085

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Disclaimer, Summary, Text and Annexes

China Tong Cheng Assets Appraisal Co., Ltd.
27 April 2021

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中通诚资产评估有限公司
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Disclaimer

I. This Asset Valuation Report is prepared in accordance with the Basic Asset Valuation Standards issued by the Ministry of Finance and the Practice Guidelines for Asset Valuation and the Professional Code of Ethics for the Valuation of Assets issued by the China Appraisal Society.

II. The clients or other users of the Asset Valuation Report shall use the Asset Valuation Report in accordance with the laws and administrative rules and regulations and within the scope of use set out in this Asset Valuation Report. We and the asset appraisers take no responsibility for any non-compliance with the above-mentioned requirements for the use of the Asset Valuation Report by the clients or other users of the Asset Valuation Report.

This Asset Valuation Report shall only be used by the clients, other users of the Asset Valuation Report as agreed in the Asset Valuation Engagement Contract and users of the Asset Valuation Report as required by laws and administrative regulations. Save for the above, no other institution or individual shall be the user of this report.

We and the asset appraisers advise that users of the Asset Valuation Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

III. We and the asset appraisers have abided by the principles of independence, objectivity and impartiality, complied with the laws, administrative regulations and asset valuation standards, and have assumed responsibilities for the Asset Valuation Report issued in accordance with laws.

IV. The list of assets and liabilities and other relevant materials of the valuation target involved should be declared by the clients and the appraised entity and certified by signature, seal or other means permitted by laws. The clients and other relevant parties shall be responsible for the truthfulness, completeness and legality of the materials provided by them in accordance with laws.

V. We and the asset appraisers have no existing or expected relationship of interests with the valuation target set out in the Asset Valuation Report or with the relevant parties, and have no prejudice against the relevant parties.

VI. The asset appraisers have conducted on-site inspection on the valuation target and the assets involved in the Asset Valuation Report, and given necessary consideration to the legal ownership status of the valuation target and the assets involved, conducted verification on the relevant information regarding the legal ownership of the relevant assets, and made proper disclosure in respect of the issues identified and required the clients and other relevant parties to consummate the titles to meet the requirements on issuing the Asset Valuation Report.

VII. The analyses, judgments, and conclusions in the Asset Valuation Report issued are subject to the assumptions and restrictions in the Asset Valuation Report. The users of the Asset Valuation Report shall take into full account the assumptions, restrictions and special notes specified in the Asset Valuation Report and their impact on the valuation conclusion.

VIII. China Tong Cheng Assets Appraisal Co., Ltd. possesses the Securities and Futures Related Businesses Valuation Qualification Certificate (證券期貨相關業務評估資格證書) issued by the Ministry of Finance of the People's Republic of China and the China Securities Regulatory Commission.

Summary

I. CORRESPONDING ECONOMIC ACTIVITY UNDER THE VALUATION

The corresponding economic activity under the valuation is the proposed acquisition of 100% of the equity interests in four companies, including Dong Fang International Container (Qidong) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares by COSCO SHIPPING Development Co., Ltd., which requires appraisal of the value of all shareholders' equity interests in Dong Fang International Container (Qidong) Co., Ltd. involved in the economic activity.

The economic activity has been approved by China COSCO SHIPPING Corporation Limited and the Resolution at the 46th Meeting of the First Session of the Board of Directors of China COSCO SHIPPING Corporation Limited was issued (20 January 2021).

II. PURPOSE OF VALUATION

COSCO SHIPPING Development Co., Ltd. proposes to acquire 100% of the equity interests in four companies, including Dong Fang International Container (Qidong) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares. An appraisal shall be conducted on the value of all shareholders' equity interests in Dong Fang International Container (Qidong) Co., Ltd. involved in the economic activity to determine its market value on the Valuation Benchmark Date, being 31 December 2020, and provide value reference for the clients.

III. VALUATION TARGET AND SCOPE

The valuation target is the value of all shareholders' equity interests in Dong Fang International Container (Qidong) Co., Ltd.

The valuation scope covers all assets and relevant liabilities of Dong Fang International Container (Qidong) Co., Ltd.

IV. TYPE OF VALUE

Market value.

V. VALUATION BENCHMARK DATE

31 December 2020.

VI. VALUATION METHODOLOGY

The asset-based approach and the income approach were adopted in this valuation. The result derived by using the asset-based approach was adopted as the final valuation conclusion.

VII. VALUATION CONCLUSION AND ITS VALIDITY

Based on the specific circumstances of the valuation, the result derived by using the asset-based approach was adopted as the valuation conclusion.

On the Valuation Benchmark Date, being 31 December 2020, the book value of the assets, liabilities and net assets of Dong Fang International Container (Qidong) Co., Ltd. was RMB3,452,658,300, RMB2,021,150,500 and RMB1,431,507,800, respectively. The total assets, liabilities and net assets were RMB3,591,891,000, RMB2,021,150,500 and RMB1,570,740,500, respectively, after the valuation. The appraised value of total assets represented an appreciation of RMB139,232,700 over the book value with an appreciation rate of 4.03%. The appraised value of net assets represented an appreciation of RMB139,232,700 over the book value with an appreciation rate of 9.73%. Please refer to the table below for details:

Table of Summary of Asset Valuation Results

Valuation Benchmark Date: 31 December 2020

Valuation target: Dong Fang International Container (Qidong) Co., Ltd. *Unit: RMB0'000*

Item		Book Value A	Appraised Value B	Appreciation/ Depreciation C=B-A	Change D=C/A×100%
1	Current assets	245,017.68	247,651.36	2,633.68	1.07%
2	Non-current assets	100,248.15	111,537.74	11,289.59	11.26%
3	Including: Fixed assets	74,883.68	84,136.69	9,253.01	12.36%
4	Construction-in-progress	2,346.86	2,048.11	-298.75	-12.73%
5	Right-of-use assets	810.63	810.63	0.00	0.00%
6	Intangible assets	17,659.27	19,995.15	2,335.88	13.23%
7	Long-term prepaid expenses	31.15	30.60	-0.55	-1.77%
8	Other non-current assets	4,516.56	4,516.56	0.00	0.00%
9	**Total assets**	345,265.83	359,189.10	13,923.27	4.03%
10	Current liabilities	201,836.31	201,836.31	0.00	0.00%
11	Non-current liabilities	278.74	278.74	0.00	0.00%
12	**Total liabilities**	202,115.05	202,115.05	0.00	0.00%
13	**Net assets (Owner's equity)**	143,150.78	157,074.05	13,923.27	9.73%

In summary, the valuation result of all shareholders' equity interests in Dong Fang International Container (Qidong) Co., Ltd. derived by using the asset-based approach was RMB1,570,740,500 (in word: ONE BILLION FIVE HUNDRED SEVENTY MILLION SEVEN HUNDRED FORTY THOUSAND FIVE HUNDRED ONLY, rounding to the nearest hundred), representing an appreciation of RMB139,232,700 over the book value of owner's equity, being RMB1,431,507,800, with an appreciation rate of 9.73%.

The validity of the valuation conclusion revealed in the valuation report shall be one year from the Valuation Benchmark Date, being 31 December 2020, to 30 December 2021.

VIII. SPECIAL MATTERS WITH IMPACTS ON THE VALUATION CONCLUSION

(I) Significant use of expert work and relevant reports

The unqualified audit report issued by Ernst & Young Hua Ming LLP for the years 2019 and 2020 were used in this valuation and the audited book values were adopted as the book values for valuation.

(II) Incomplete or defective ownership information;

(1) As of the Valuation Benchmark Date, the owners registered in the driving permit of vehicles under the valuation scope are inconsistent with the name of the enterprise, details of which are as follows:

License plate no.	Name and model of vehicle	Manufacturer	Unit	Commencement date	Net book value *(RMB)*	Owner registered in the driving permit
Hu NK6813	Volkswagen sedan SVW71810HJ	SAIC Volkswagen	Vehicle	2013.05	16,608.75	Shanghai Baoshan Pacific Container Co., Ltd. (上海寶山太平貨櫃有限公司)
Hu ACT985	Buick MPV SGM6531UAAB	SAIC General Motors	Vehicle	2014.05	28,386.27	Shanghai Pacific International Container Co., Ltd. (上海太平國際貨櫃有限公司)
Hu B98J80	Toyota Camry GTM7251GE	GAC Toyota	Vehicle	2014.07	25,298.00	Shanghai Baoshan Pacific Container Co., Ltd. (上海寶山太平貨櫃有限公司)

According to the enterprise and due to the traffic restriction on vehicles with other cities' license plates in urban areas of Shanghai, the company registered the three vehicles under the name of other companies to facilitate customers' commute and work convenience, but the ownership of such vehicles solely belongs to Dong Fang International Container (Qidong) Co., Ltd. The valuation has not considered the fees on the change of the driving permit and the impacts of contingent ownership disputes.

(2) As of the Valuation Benchmark Date, Dong Fang International Container (Qidong) Co., Ltd. had properties and building of 9,715.31 sq.m. on its book, but it has not applied for the housing ownership certificate and has not obtained permits on listing, approval and construction works planning permits, construction works commencement permits, construction works completion and acceptance filing documents and other approvals. For buildings without ownership certificates, appraisers determined the legal property ownership and the floor area based on relevant materials provided by the valuation target without considering subsequent fees on the application for permits and the impacts of possible fines on incomplete approval procedures. A breakdown of buildings without ownership certificates is set out below:

No.	Ownership certificate no.	Name of buildings	Structure	Date of completion	Floor area (m^2)	Book value (RMB) Original value	Net value
10	Nil	West gate booth	Brick concrete	2016-01-31	48.00	140,679.83	113,922.56
11	Nil	North gate booth	Brick concrete	2016-01-31	82.45	246,694.91	199,773.60
15	Nil	Gate booth	Brick concrete	2014-10-27	51.00	192,756.67	146,626.52
17	Nil	South gate booth-Phase II	Brick concrete	2018-11-29	78.50	389,220.76	363,946.17
18	Nil	North gate booth-Phase II	Brick concrete	2018-11-29	76.00	374,340.10	350,031.84
19	Nil	Thermal test room	Steel structure	2016-01-22	181.00	1,123,896.53	910,131.74
23	Nil	Rigid test room	Steel structure	2016-01-31	306.00	947,803.77	767,531.69
24	Nil	Carpentry yard	Steel structure	2016-01-31	215.00	613,713.74	496,985.49
26	Nil	Forklift repairing room	Steel structure	2014-05-28	345.00	492,254.31	368,597.73
28	Nil	35KV power distribution room	Reinforced concrete	2015-11-30	587.76	988,262.00	793,023.57
30	Nil	Line-B equipment repairing room	Steel structure	2017-08-31	161.50	65,765.77	57,858.00
31	Nil	Line-A equipment repairing room	Steel structure	2017-08-31	105.30	65,765.76	57,857.99
32	Nil	Toilet	Brick concrete	2014-10-20	15.40	80,000.00	60,372.10
33	Nil	Toilet 1	Brick concrete	2015-07-30	29.80	165,854.67	130,648.86
34	Nil	Toilet 2	Brick concrete	2015-07-30	29.80	165,854.67	130,648.86
35	Nil	Toilet 3	Brick concrete	2015-07-30	29.80	90,988.00	71,674.06
36	Nil	Toilet 4	Brick concrete	2015-07-30	29.80	206,499.50	162,666.15

No.	Ownership certificate no.	Name of buildings	Structure	Date of completion	Floor area (m^2)	Book value (RMB) Original value	Net value
41	Nil	Gate booth in living areas	Reinforced concrete	2015-02-25	46.20	176,422.08	137,151.31
42	Nil	Container room in living areas	Steel structure	2015-03-12	6,016.00	15,316,806.45	11,841,294.15
46	Nil	Warehouse for reefer container accessories	Steel structure	2015-07-21	513.00	859,704.14	682,220.80
48	Nil	Ironware warehouse	Steel structure	2015-01-14	288.00	253,500.00	195,041.54
49	Nil	Warehouse for dry container plates	Steel structure	2015-07-21	480.00	1,267,559.95	1,000,492.14

(3) As of the Valuation Benchmark Date, the name of owners registered in the patent certificates for certain intangible assets under the valuation scope are inconsistent with the name of the valuation target, but the ownership of the patents belongs to Dong Fang International Container (Qidong) Co., Ltd. It has completed the procedures on the change of names with the China National Intellectual Property Administration. The valuation has not considered the fees on the change of the owners registered in the patent certificates and the impacts of contingent ownership disputes. Details are set out below:

No.	Name and content	Type of patent	Registered owner	Actual owner	Patent no. or application no.	Patent application date	Date of obtaining patent
1	Manufacturing methods for containers	Invention	Singamas Container Holdings (Shanghai) Limited	Dong Fang International Container (Qidong) Co., Ltd.	200710031865.4	2007/11/28	2013/6/5
2	Open-top containers with top locking devices	Invention	Singamas Container Holdings (Shanghai) Limited	Dong Fang International Container (Qidong) Co., Ltd.	200810068149.8	2008/6/27	2013/6/26
3	A kind of plywood for the bottom of containers	Invention	Singamas Container Technical R&D (Shanghai) Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	200910104903.3	2009/1/4	2012/7/4
4	A kind of welding and positioning process for lining plates of containers	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025167.9	2017/8/16	2018/5/1

No.	Name and content	Type of patent	Registered owner	Actual owner	Patent no. or application no.	Patent application date	Date of obtaining patent
5	A kind of adsorptive dry box for containers	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721029662.7	2017/8/16	2018/5/1
6	A kind of dry box for containers	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721027654.9	2017/8/16	2018/5/1
7	A kind of ventilation system for containers	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721029751.1	2017/8/16	2018/5/1
8	A kind of multi-purpose container	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721027776.8	2017/8/16	2018/5/1
9	A kind of anti-collision device for container corners	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025787.2	2017/8/16	2018/5/4
10	A kind of tank container	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025414.5	2017/8/16	2018/5/8
11	A kind of thermal insulation container	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025125.5	2017/8/16	2018/5/8
12	A kind of container	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025395.6	2017/8/16	2018/5/8
13	A kind of ventilation and heat dissipation devices for containers	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025205.0	2017/8/16	2018/5/8
14	A kind of fire prevention device for containers	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721027778.7	2017/8/16	2018/5/15

No.	Name and content	Type of patent	Registered owner	Actual owner	Patent no. or application no.	Patent application date	Date of obtaining patent
15	A kind of thermal insulation container	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025977.4	2017/8/16	2018/5/18
16	A kind of polyurethane bubbles generation system	Utility model	Shanghai Universal Logistics Technology Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201921683631.2	2019/9/29	2020/7/3

(III) Restrictions on valuation procedures;

Nil.

(IV) Incomplete valuation materials;

Nil.

(V) Pending legal and economic matters on the Valuation Benchmark Date;

Nil.

(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target;

Nil.

(VII) Significant subsequent matters;

Nil.

(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion.

(1) As of the Valuation Benchmark Date, the land demolition funds advanced and the land prepayment actually paid in excess of the agreed price by Dong Fang International Container (Qidong) Co., Ltd. totaled RMB87,101,600.00, which was accounted for as other receivables and other non-current assets of RMB41,936,000.00 and RMB45,165,600.00, respectively. The debtors of the above amounts are the Qidong Municipal Bureau of Finance of Jiangsu Province and the Administration Committee of the Qidong Marine Shipbuilding Industrial Park. Based on the information provided by the enterprise, relevant governments have

undertaken that all amounts except for the land prepayment actually carried forward will be repaid in the form of tax refunds. There was no evidence showing the above amounts cannot be recovered on the Valuation Benchmark Date. The appraised value was determined based on the book value of the above receivables in the valuation.

(2) Based on the explanations provided by the enterprise and as of the Valuation Benchmark Date, the items No. 7 customs bonded yard and No. 20 wharf project in the breakdown of the buildings valuation of the enterprise and the item No. 2 wharf project in the breakdown of the buildings valuation of Dong Fang International Container (Qidong) Co., Ltd. belong to the same building. As the project of Dong Fang International Container (Qidong) Co., Ltd. was first approved for construction, and as the shoreline is under the berth of a public wharf under planning, the self-constructed wharf was stripped off from Dong Fang International Container (Qidong) Co., Ltd.. Dong Fang International Port (Qidong) Co., Ltd. was established to promote the project. As the construction funds preliminarily provided by Dong Fang International Container (Qidong) Co., Ltd. have not been transferred to Dong Fang International Port (Qidong) Co., Ltd., the book value of the wharf was accounted for by the two companies. Upon the confirmation by Dong Fang International Container (Qidong) Co., Ltd. and Dong Fang International Port (Qidong) Co., Ltd., the buildings applied shown as the items No. 7 customs bonded yard and No. 20 wharf project in the breakdown of the buildings valuation of Dong Fang International Container (Qidong) Co., Ltd. belong to Dong Fang International Port (Qidong) Co., Ltd.

Based on the explanations on the ownership of the buildings jointly confirmed by Dong Fang International Container (Qidong) Co., Ltd. and Dong Fang International Port (Qidong) Co., Ltd., the appraised value of the items No. 7 customs bonded yard and No. 20 wharf project in the breakdown of the buildings valuation of Dong Fang International Container (Qidong) Co., Ltd. was accounted in the books of Dong Fang International Port (Qidong) Co., Ltd. in the valuation.

This report together with the conclusion are only intended to be used for the valuation purpose as described herein and for no other purposes.

The above contents are extracted from the text of the Valuation Report. Please read the text of the Valuation Report to understand details of the valuation and correctly comprehend the valuation conclusion.

**Value of All Shareholders' Equity Interests in
Dong Fang International Container (Qidong) Co., Ltd.
Involved in the Proposed Acquisition of 100% of
the Equity Interests in Four Companies
Held by COSCO SHIPPING Investment Holdings Co., Ltd.
through the Issuance of Shares by COSCO SHIPPING Development Co., Ltd.**

Zhong Tong Ping Bao Zi [2021] No. 12085

To: COSCO SHIPPING Development Co., Ltd. and COSCO SHIPPING Investment Holdings Co., Ltd.

Upon your engagement, we, China Tong Cheng Assets Appraisal Co., Ltd., have appraised the market value of all shareholders' equity interests in Dong Fang International Container (Qidong) Co., Ltd. involved in the proposed acquisition of 100% of the equity interests in four companies, including Dong Fang International Container (Qidong) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares by COSCO SHIPPING Development Co., Ltd. as at 31 December 2020, by way of adopting the asset-based approach and the income approach and carrying out necessary valuation procedures in accordance with relevant laws, regulations and asset valuation standards and the principles of independence, objectivity and impartiality. We hereby report the details of the asset valuation as follows.

I. OVERVIEW OF THE CLIENTS, THE APPRAISED ENTITY AND OTHER USERS OF THE ASSET VALUATION REPORT AS AGREED IN THE ASSET VALUATION ENGAGEMENT CONTRACT

(I) Overview of the Clients

The clients of the valuation are COSCO SHIPPING Development Co., Ltd. and COSCO SHIPPING Investment Holdings Co., Ltd.

(1) Client I: COSCO SHIPPING Development Co., Ltd.

Name: COSCO SHIPPING Development Co., Ltd.

Unified social credit code: 91310000759579978L

Nature of company: Joint stock limited company (Sino-foreign joint venture, listed)

Domicile: Room A-538, International Trade Center, China (Shanghai) Pilot Free Trade Zone

Legal representative: Wang Daxiong

Date of establishment: 3 March 2004

Term of operation: 3 March 2004 to no fixed term

Registered capital: RMB11,608,125,000

Scope of business: Ordinary vessel services along domestic coastal areas and the middle and lower reaches of the Yangtze River and feeder liner services for foreign trade lanes in domestic coastal areas, international vessel services (including container liner services), container construction, repair, chartering, vessel chartering, self-owned containers, sales and purchase of vessels for self-use, marine management for domestic coastal ordinary vessels (excluding bulk cargo vessels), engineering management and vessel repair, maintenance, sales, chartering, operation, assets management and other vessel management services. [Projects that need to be approved according to laws can only be operated after being approved by relevant departments].

COSCO SHIPPING Development Co., Ltd. was formerly known as "China Shipping Container Lines Company Limited". The predecessor of China Shipping Container Lines Company Limited is COSCO SHIPPING Lines Co., Ltd., a limited liability company jointly invested and established by China Shipping (Group) Company Limited, China Shipping Development Co. Ltd. and Guangzhou Maritime Transport (Group) Co., Ltd. on 28 August 1997. In March 2004, with China Shipping (Group) Company Limited as the initiator, China Shipping Container Lines Company Limited converted the net assets of the former COSCO SHIPPING Lines Co., Ltd. as at 31 October 2003 into shares and solely sponsored the establishment of an A-share listed company. It completed the initial offering of listed-foreign H shares to overseas investors and was listed for trading on the Hong Kong Stock Exchange in the same year.

COSCO SHIPPING Development Co., Ltd. is a subsidiary of China COSCO SHIPPING Corporation Limited specialized in supply-chain financial services. The company aims to bring into play the advantages in shipping logistics industry and serve upstream and downstream industrial chains with shipping finance as the foundation; to develop industrial cluster with shipping and leasing, container manufacturing, investment and services for the related industries as the core; and to develop into a "one-stop" shipping financial service platform by combining industry with finance, integrating various financial functions, and synergy of various businesses, featuring market mechanism, differentiated advantages and international vision.

COSCO SHIPPING Development Co., Ltd. is among the top global players in the industry with the shipping capacity of its container fleet and the scale of its container leasing business. As of 30 June 2020, the company's container fleet had 86 container vessels, with a total capacity of 581,600 TEU; 4 bulk cargo vessels of 64,000 DWT each; over 90 LNG vessels, heavy crane vessels and oil tankers; and an inventory of containers of approximately 3.65 million TEU. In terms of other industry leasing businesses, the company focuses on the development of financial leasing businesses in the areas of medical services, education, new energy, construction and industrial equipment. In terms of container manufacturing business, Shanghai Universal Logistics Equipment Co., Ltd., a subsidiary of the company, attained an annual manufacturing capacity of 550,000 TEU. The company also focuses on the development of investment and supply-chain financial service business, takes good advantage of its experience in the shipping industry as well as the existing resources of the financial service industry to promote the integration of industry and finance, optimize its business models and achieve the synergetic development of its shipping finance business.

(2) Client II: COSCO SHIPPING Investment Holdings Co., Ltd.

Name: COSCO SHIPPING Investment Holdings Co., Ltd.

Registration No.: 21585899-000-03-18-8

Domicile: 51/F, Cosco Tower, 183 Queen's Road Central, Hong Kong

Type of enterprise: Limited company

COSCO SHIPPING Investment Holdings Co., Ltd. was established in 1998 with a registered capital of HK$500 million. Its predecessor is China Shipping (Hong Kong) Holdings Co., Ltd., a direct wholly-owned subsidiary of the former China Shipping (Group) Company Limited ("China Shipping Group"). It was the "one platform" and "three centers" of the former China Shipping Group in Hong Kong, South Korea, Japan, Australia and other countries and regions, namely the unified overseas investment and financing platform and "the profit center, the regional business management center and the service center".

In 2016, China Ocean Shipping and China Shipping were reorganized as China COSCO SHIPPING Corporation. The new group proposed the establishment of the "6+1" industrial clusters and established the financial segment as one of the pillar industries of the group to develop the financial platform of China COSCO SHIPPING. To achieve such result, COSCO SHIPPING Financial Holdings Co., Ltd. and COSCO SHIPPING Development Co., Ltd. (the former China Shipping Container Lines Co., Ltd.) developed the financial platform of the new group through major asset reorganizations.

On 1 June 2020, COSCO SHIPPING Financial Holdings Co., Ltd. officially changed its name to "COSCO SHIPPING Investment Holdings Co., Ltd.". As the overseas investment holding platform for the shipping and logistics industry of China COSCO SHIPPING Corporation, COSCO SHIPPING Investment Holdings Co., Ltd. will be devoted to the exploration of overseas financial investment businesses in the following years. It will also provide investment management services for China COSCO SHIPPING Corporation and its subsidiaries and integrate resources on the industrial chains to promote the synergetic development of all businesses.

(II) Overview of the Appraised Entity

The appraised entity under the valuation is Dong Fang International Container (Qidong) Co., Ltd.

(1) Registration information

Name: Dong Fang International Container (Qidong) Co., Ltd.

Unified social credit code: 913206815668421866

Type of enterprise: Limited liability company (solely funded by Taiwan, Hong Kong or Macao corporate body)

Domicile: No. 1 Taiping Road, Huiping Town, Qidong City, Jiangsu Province

Legal representative: Bao Hua

Date of establishment: 16 December 2010

Term of operation: 16 December 2010 to 15 December 2060

Registered capital: US$220.00 million

Scope of business: R&D, design, production, sales, installment and technical services for mobile and fixed pressure vessels and energy equipment, design, manufacturing, sales and delivery of containers, leasing of self-owned buildings, land and machinery equipment, design, manufacturing, sales and delivery of offshore containers. (Projects that need to be approved according to laws can only be operated after being approved by relevant departments). Licensed items: interior decoration for residential buildings; goods import and export; technology import and export; production of Class II medical devices; installment, renovation and repairing of special equipment (Projects that need to be approved according to laws can only be operated after being approved by relevant departments and specific licensed projects shall be subject to the results of approval). General items: leasing services on containers; R&D of machinery equipment; sales of machinery equipment; technical services, development of technology, technical consultancy, technical communications, transfer of technology and promotion of technology; sales of Class II medical devices; sales of electric equipment; manufacturing of power transmission and distribution and control equipment; sales of intelligent power transmission and distribution and control equipment; manufacturing of marine energy system and equipment; sales of marine energy system and equipment; sales of relevant equipment on offshore wind power; R&D of relevant systems on offshore wind power (except for projects that require approval in accordance with the law, carry out business activities independently with the business license in accordance with the law).

(2) Historical development, shareholders and contributions

The predecessor of Dong Fang International Container (Qidong) Co., Ltd. is Qidong Singamas Energy Equipment Co., Ltd., which was established with the approval of the document of Shang Zi Shen Zi (2010) No. 06130 issued by the Department of Commerce of Jiangsu Province and the Certificate for Approval of Enterprise Invested by Corporations of Hong Kong, Macau and Taiwan (《中華人民共和國港澳台僑投資企業批准證書》) of Shang Wai Zi Su Fu Zi Zi (2010) No. 89805 issued by the People's Government of Jiangsu Province on 14 December 2010 and set up by Singamas Container Enterprise Co., Ltd.

The registered capital of Qidong Singamas Energy Equipment Co., Ltd. was US$45 million upon its establishment, all of which was invested by Singamas Container Enterprise Co., Ltd. With the approval of the document Su Shang Zi Shen Zi [2013] No. 06031 issued by the Department of Commerce of Jiangsu Province in May 2013, Qidong Singamas Energy Equipment Co., Ltd. was approved to increase its registered capital to US$92.50 million. On 30 June 2015, its registered capital increased to US$147.50 million after the acquisition of Qidong Pacific Logistics Co., Ltd. In December 2015, its registered capital increased to US$220 million.

In July 2019, COSCO SHIPPING Investment Holdings Co., Ltd. acquired 100% of the equity interests in Qidong Singamas Energy Equipment Co., Ltd. owned by Singamas Container Enterprise Co., Ltd. and changed the name of the enterprise to "Dong Fang International Container (Qidong) Co., Ltd.".

As at the Valuation Benchmark Date, the shareholders of Dong Fang International Container (Qidong) Co., Ltd. and their contributions are set out in the table below:

Unit: US$0'000

Name of shareholder	Subscribed contribution	Paid-in contribution	Contribution proportion
COSCO SHIPPING Investment Holdings Co., Ltd.	22,000.00	22,000.00	100%
Total	22,000.00	22,000.00	100%

(3) Corporate structure, organizational structure and employees

As at the Valuation Benchmark Date, Dong Fang International Container (Qidong) Co., Ltd. has 13 functional departments, including the dry container production department, the reefer container production department, the special container production equipment department, the logistics services department (Qidong Port Company for external parties), the equipment engineering center, the safety supervision department, the quality management department, the R&D center, the marketing services department, the procurement department, the materials department, the financial department, the comprehensive management department/corporate culture department/Party-public work department.

The company currently has a total of 3,052 employees, including 218 management members and 2,834 production staff with an average age of 37. 41 employees hold medium and senior professional titles.

(4) Principal businesses

The principal products of Dong Fang International Container (Qidong) Co., Ltd. include dry containers and reefer containers. The specifications of products are mainly standard containers with a height of 20 feet and 40 feet and a small portion of special containers.

Designed production capacity: 2 production lines of dry containers with an annual designed capacity of 300,000 TEU and 1 production line of reefer containers with an annual designed capacity of 60,000 TEU.

(5) Customers and suppliers

(a) Sales and customers

Most of the sales orders, product pricing and sales revenue of Dong Fang International Container (Qidong) Co., Ltd. are under the unified management of the superior company and details are as follows:

Sales orders: The headquarters in Hong Kong and Shanghai negotiate with customers and the orders obtained through the headquarters account for a majority of the overall sales. The business teams of all factories are mainly responsible for undertaking orders allocated by the headquarters and coordinating with the production department, the procurement department, the R&D center and other departments in the arrangement of production. The business team of the Qidong container factory also undertakes certain orders for special containers and the Qidong container factory directly negotiates with customers on such orders.

Sales pricing: The basic prices of containers are determined by the marketing department of the headquarters based on the price of inventories provided by factories and the labor costs and manufacturing fees. The sales staff of the headquarters adjust the basic prices based on the market conditions and the negotiation results with customers to finally determine the prices.

Execution of contracts: There are two ways under which contracts are executed. Firstly, the factory and COSCO SHIPPING Investment Holdings Co., Ltd. sign sales contracts and COSCO SHIPPING Investment Holdings Co., Ltd. signs sales contracts with customers. Secondly, customers directly sign contracts with all factories.

Collection of sales amounts: For sales contracts entered into between COSCO SHIPPING Investment Holdings Co., Ltd. and customers, the sales amounts are collected by COSCO SHIPPING Investment Holdings Co., Ltd. and distributed to all factories based on the capital planning and the capital demands of all factories. For contracts entered into between factories and customers, customers directly make payment to factories.

Allocation of orders: After obtaining orders from customers, the headquarters will designate factories to conduct production based on customers' requirements and the production arrangement of all factories.

After-sale services: The business departments of all factories are mainly responsible for following up.

(b) Suppliers

Major materials (steel materials, stainless steel, stainless iron, wooden plates and paints) required in production are negotiated between the procurement department of Shanghai Universal Logistics Equipment Co., Ltd. and suppliers based on the demands of factories to determine the procurement price and quantity. Each factory enters into procurement contracts with suppliers based on the orders of the procurement department of Shanghai Universal Logistics Equipment Co., Ltd. and makes payment. The factories are responsible for price negotiation, execution of contracts and payment for other materials except for those under centralized procurement.

(6) Historical operations

Dong Fang International Container (Qidong) Co., Ltd. is principally engaged in the production of dry containers, reefer containers and special containers. The specifications of products are standard containers with a height of 20 feet and 40 feet and special containers with customized specifications based on customers' demands.

Dry containers include: standard 20', 20'HC, 40', 40'HC, 45', 48', 53' etc.

Reefer containers include: standard 20'RF, 20'RH, 40'RF, 40'RH etc.

Special containers include: containers with side opening doors, open-top containers, folding containers, sewage treatment containers, logistics containers, electric equipment containers, offshore containers, housing containers, mobile medical shelters and other special customized containers based on demands.

The designed annual capacity includes 300,000 TEU of dry containers with a daily output of 1,000 units of 20’ and 20’HC and 800 units of 40’ and 40’HC per shift. The designed annual capacity is 60,000 TEU of reefer containers with a daily output of 120 units of 40’RH per shift.

Major production equipment includes production equipment for dry containers: pre-processing and molding lines for side plates, pre-processing line for top plates, pre-processing line for thick plates, pre-processing line for profiles, cutting and folding lines for bottom cross beams, rolling line for bottom and side beams, punch, shearing machine for thick and thin plates, bending machine/gantry pressing machine and 2 production lines (including subassembly welding machine, general assembly welding machine, secondary sanding line, tertiary painting line and drying room, refining line, etc.); reefer containers production equipment: integrated line for top, bottom and side beams, foaming production line, press machine (punch), stainless high-speed coil feed line, integrated line for sanding, painting and drying of steel gates, shearing machine for carbon steel, shearing machine for stainless thin plates, bending machine, gantry pressing machine, coil feed line for aluminium plates and 1 production line (including sanding line for front and back frames, welding line for front and back frames, painting line for subassembly makeup, sanding line for bottom frame, general assembly welding machine, secondary sanding line, tertiary painting line and drying room, refining line, etc.).

The production and operation of Dong Fang International Container (Qidong) Co., Ltd. in historical years are set out in the table below:

Unit: RMB0’000

No.	Item	2018	2019	2020
1	Dry containers (TEU)	241,104.00	129,646.00	275,250.00
2	Revenue from dry containers	305,582.61	142,453.28	332,185.58
3	Reef container (TEU)	15,762.80	17,771.00	30,551.60
4	Revenue from reef containers	87,113.20	47,707.10	79,858.13
5	Special containers (TEU)		8,412.14	3,555.43
6	Revenue from special containers		10,606.35	5,190.26
7	Revenue from other businesses	4,037.31	5,213.03	2,836.53
	Total revenue	396,733.12	205,979.77	420,070.46

Major financial data and accounting statements of Dong Fang International Container (Qidong) Co., Ltd. in recent years have been audited by professional auditors and are set out in the table below:

Unit: RMB0'000

Item	31 December 2018	31 December 2019	31 December 2020
Total assets	272,653.00	199,745.40	345,265.83
Including: fixed assets	84,112.62	76,751.37	74,883.68
Total liabilities	120,365.29	72,689.62	202,115.06
Net assets	152,287.71	127,055.78	143,150.78
Item	**2018**	**2019**	**2020**
Revenue	396,733.12	205,979.77	420,070.46
Total profit	8,053.48	-25,512.25	16,162.27
Net profit	6,040.10	-25,299.20	16,162.27

Note: The data for 2018 was from the audit report issued by Nantong Tiancheng Certified Public Accountants (LLP) (南通天晟會計師事務所(特殊普通合夥)). The data for 2019 and 2020 was from the audit report issued by Ernst & Young Hua Ming Certified Public Accountants (LLP).

(III) Relationship between the Clients and the Appraised Entity

COSCO SHIPPING Development Co., Ltd., Client I, proposes to acquire 100% of the equity interests in four companies, including Dong Fang International Container (Qidong) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd., Client II, through the issuance of shares. COSCO SHIPPING Investment Holdings Co., Ltd., Client II, is a shareholder of Dong Fang International Container (Qidong) Co., Ltd., the appraised entity, with a shareholding proportion of 100%.

(IV) Overview of Other Users of the Valuation Report

Except for relevant parties in the economic activity, competent administrative review authorities and other users of the report as provided by national laws and regulations, no other users of the report were provided in the Asset Valuation Engagement Contract.

II. PURPOSE OF VALUATION

As COSCO SHIPPING Development Co., Ltd. proposes to acquire 100% of the equity interests in four companies, including Dong Fang International Container (Qidong) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares, the value of all shareholders' equity interests in Dong Fang International Container (Qidong) Co., Ltd. involved in the economic activity has to be appraised to determine its market value on the Valuation Benchmark Date, being 31 December 2020, and provide value reference for the clients.

The said economic activity has been approved by China COSCO SHIPPING Corporation Limited and the Resolution at the 46th Meeting of the First Session of the Board of Directors of China COSCO SHIPPING Corporation Limited was issued (20 January 2021).

III. VALUATION TARGET AND SCOPE

(I) Valuation Target and Scope

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target is the value of all shareholders' equity interests in Dong Fang International Container (Qidong) Co., Ltd.

The valuation scope covers all assets and liabilities of Dong Fang International Container (Qidong) Co., Ltd. on the Valuation Benchmark Date corresponding to the valuation target. The corresponding accounting statements of the assets and liabilities declared by the enterprise have been audited by Ernst & Young Hua Ming Certified Public Accountants (LLP) and the audit report numbered An Yong Hua Ming (2021) Shen Zi No. 61227808_B01 was issued on 27 April 2021 with unqualified audit opinions. Details of specific assets and liabilities are set out in the table below.

Unit: RMB

No.		Item	Book value
1	**I.**	**Total current assets**	2,450,176,831.16
2		Monetary funds	337,571,951.69
3		Notes receivable	3,977,318.89
4		Trade receivable	970,073,213.34
5		Prepayment	531,931,110.85
6		Other receivables	45,352,646.28
7		Inventories	417,351,626.48
8		Other current assets	143,918,963.63

No.		Item	Book value
9	**II.**	**Total non-current assets**	1,002,481,485.31
10		Fixed assets	748,836,776.72
11		Construction in progress	23,468,589.51
12		Right-of-use assets	8,106,326.56
13		Intangible assets	176,592,650.99
14		Long-term prepaid expenses	311,541.53
15		Other non-current assets	45,165,600.00
16	**III.**	**Total assets**	3,452,658,316.47
17	**IV.**	**Total current liabilities**	2,018,363,144.92
18		Short-term borrowings	1,100,000,000.00
19		Notes payable	33,533,826.79
20		Trade payable	468,561,999.48
21		Receipts in advance	18,500.00
22		Contract liabilities	5,392,612.87
23		Employee compensation payable	115,761,244.09
24		Taxes payable	8,540,537.64
25		Other payables	283,327,713.99
26		Non-current liabilities due within one year	3,226,710.06
27	**V.**	**Total non-current liabilities**	2,787,401.11
28		Lease liabilities-long-term	2,787,401.11
29	**VI.**	**Total liabilities**	2,021,150,546.03
30	**VII.**	**Net assets**	1,431,507,770.44

(II) Layout and Characteristics of Physical Assets

As at the Valuation Benchmark Date, physical assets under the scope of valuation include: inventories, fixed assets and construction in progress. Inventories mainly are raw materials and turnover materials in stock, commissioned processing materials and finished products. Fixed assets mainly include buildings and equipment. Construction in progress mainly includes civil engineering and equipment installment projects. The specific layout is as follows:

(1) Inventories

(a) It has a total of 1,076 items of raw materials, mainly including steel materials, profiles, paints, accessories and other raw materials for product production, and they are placed in the material warehouses of the enterprise.

(b) It has a total of 2,756 items of turnover materials in stock, mainly including labor protection items, spare parts and instruments, and they are placed in the material warehouses of the enterprise.

(c) It has a total of 5 items of commissioned processing materials, most of which are steel rolls and aluminium profiles processed by Qidong Baolin Container Components Co., Ltd. (啟東市寶林集裝箱零部件有限公司) and Shanghai Baoyue Steel Processing and Delivery Co., Ltd. (上海寶越鋼材加工配送有限公司) upon engagement.

(d) It has a total of 31 finished products, mainly including various containers for sale and sample containers.

(2) Buildings under fixed assets

The scope of the valuation covers buildings (structures) owned by Dong Fang International Container (Qidong) Co., Ltd., including a total of 51 buildings with a total floor area of 234,389.94 sq.m. Major buildings include plants, warehouses and apartment buildings, which were completed and put into use in 2013 to 2018. It has a total of 22 structures, most of which are yards, bounding walls and roads and were completed and put into use in 2014 to 2018. Details of major buildings (structures) are as follows:

(a) Reefer Container Plant II: With a steel structure, the building was completed and put into use in May 2015. The building has reinforced concrete independent foundation columns with a floor area of 28,734.47 sq.m. Besides the load-bearing reinforced concrete columns, it also has blockboard walls, cement mortar flooring, steelwork roof, iron gates and aluminium alloy windows. The installment projects include electric appliances, water supply and drainage and fire prevention facilities. It is in good condition with regular repairing and maintenance.

(b) The comprehensive building: With a reinforced concrete structure, the building was completed and put into use in February 2015. The 4-storey building has reinforced concrete independent foundation columns with a floor area of 2,834.34 sq.m. With the external and internal walls painted with coatings and white coatings, the building also has face bricked ground and steelwork roof. The hall and the office area are equipped with glass gates and wooden doors and aluminium alloy windows. The installment projects include electric appliances, water supply and drainage, fire prevention and communications facilities. It is in good condition with regular repairing and maintenance.

(c) Building No. 2 in the living area: With a reinforced concrete structure, the building was completed and put into use in February 2015. The 6-storey building has reinforced concrete independent foundation columns with a floor area of 7,741.33 sq.m. With the external and internal walls painted with coatings and white coatings, the building also has face bricked ground and steelwork roof. It is also equipped with security doors and aluminium alloy windows. The installment projects include electric appliances, water supply and drainage and fire prevention facilities. It is in good condition with regular repairing and maintenance.

(d) The yard in Shichang area: The building has a length of 531.20 meters and a width of 138 meters. The yard project includes civil engineering, roads and water supply and drainage with a floor area of 73,305.60 sq.m. The yard was completed in May 2015 with reinforced concrete roof. It is in good condition with regular repairing and maintenance.

(e) The bounding walls project in the living area: The building refers to bounding walls with a length of 508 meters and a height of approximately 3 meters. It was completed in July 2015 and the external wall was painted with coatings. It is in good condition with regular repairing and maintenance.

As at the Valuation Benchmark Date, a total of 51 buildings were under the scope of valuation. Dong Fang International Container (Qidong) Co., Ltd. had properties and buildings of 31,390.72 sq.m. on the book, but it has not applied for the housing ownership certificate and has not obtained permits on listing, approval and construction works planning permits, construction works commencement permits, construction works completion and acceptance filing documents and other approvals.

As at the Valuation Benchmark Date, the buildings (structures) to be appraised and the land occupied were not under mortgage or guarantee. Besides, the buildings under fixed assets under the scope of valuation were not involved in lawsuits or other matters.

(3) Equipment under fixed assets

(a) Machinery equipment

A total of 3,702 items of machinery equipment were to be appraised, most of which are production equipment and ancillary equipment and facilities for containers. Major equipment includes the production line for containers, steel plate shearers, bending machines, welding machines and other steel processing equipment as well as ancillary craning and power transformer and distribution equipment. Some equipment has been used for a long term and is to be scrapped. Other equipment were under ordinary maintenance and normal use as at the Valuation Benchmark Date.

(b) Vehicles

A total of 14 vehicles were to be appraised and most of them are office vehicles, mainly including Buick GL8, Passat, Toyota Camry, GAC Motor MPV and other models. As at the Valuation Benchmark Date, the vehicles were under normal maintenance and use.

(c) Electronic equipment

A total of 1,210 electric equipment were to be appraised and most of them are computers, printers, air-conditioners and network equipment. Some computers and other equipment have been used for a long term. As at the Valuation Benchmark Date, the equipment were under normal maintenance and use.

(d) Civil engineering

A total of 24 items of civil engineering under construction-in-progress were under the scope of valuation and mainly include civil engineering, plants, equipment foundation, the renovation of structures as well as survey and design fees. They have a book value of RMB9,820,009.01 as at the Valuation Benchmark Date. Details are set out in the table below:

Construction-in-progress – Civil Engineering

No.	Item	Structure	Floor area/Plot	Commencement date	Expected completion date	Visual progress	Payment proportion	Book value *(RMB)*
1	Gas warning devices			2019.11	2020.5	100%	100%	94,339.62
2	QSCLB1061196-SSPC underbed assembly platform – transferred to construction in progress	Reinforced concrete		2019.11	2020.5	100%	100%	197,835.39
3	Apartment area – No. 2, 3 and 4, activity center and marine engineering project-construction drawing design on production plants and the administration department	Reinforced concrete	35,704.98m^2	2020.04	2021.01	100%	36%	920,459.34
4	Renovation of fire prevention facilities for apartment buildings and marine engineering projects	Reinforced concrete		2020.04	2021.01	100%	100%	83,156.55
5	Air-conditioners installment fees on VIP rooms for dry containers and reefer container offices	Reinforced concrete		2020.06	2020.06	100%	100%	7,194.69

No.	Item	Structure	Floor area/Plot	Commencement date	Expected completion date	Visual progress	Payment proportion	Book value
								(RMB)
6	Construction of the forklift repairing room and the temporary drying yard	Concrete	1,329.29m^2	2020.03	2020.8	100%	78%	581,907.87
7	Fire prevention project in the energy equipment production base	Steel structure	35,704.98m^2	2020/4/1	2021.01	74%	74%	805,448.26
8	Domestic sewage treatment project in the plant area	Reinforced concrete		2020.5	2020.10	100%	74%	730,379.54
9	Design fees on ancillary projects on containers production – expansion of the line A of beauty plant – renovation of the black painted drying room for line A of dry containers in Qidong container factory (2020)	Steel structure	374.4m^2	2020.7.3	2020.12	100%	100%	2,512.89
10	Design fees on ancillary projects on containers production – additional floor for the comprehensive building	Reinforced concrete	700m^2	2020.7.3	2020.12	100%	100%	7,195.85
11	Rolling doors for special containers	Steel structure	1,422m^2	2020.11	2020.12	100%	88%	229,380.53
12	Renovation of top, bottom and side frames of plants for dry containers and equipment foundation NO: 30496477			2020.10	Completed			1,157,636.00
13	Expansion of the line A of beauty plant, general assembly and welding plant, the corridor of the additional floor of the comprehensive building and geological survey fees on stairs	Steel structure		2020.09	2020.12	100%	100%	21,698.11

No.	Item	Structure	Floor area/Plot	Commencement date	Expected completion date	Visual progress	Payment proportion	Book value *(RMB)*
14	Additional floor for the comprehensive building in Phase-I of the plant area, survey and comprehensive services for the expansion of the line-A plant	Steel structure, reinforced concrete		2020.10	2020.12	100%	100%	47,169.81
15	Dual-control system on safety production		2,122m^2	2020.12	2021.01	100%	50%	21,359.22
16	Phase-II 2,500KVA power transformer substation for special containers	Reinforced concrete	2,122m^2	2020.09	2020.12	100%	97%	193,685.64
17	Fire prevention project for apartment buildings and energy equipment production base NO: 51702669-51702689	Steel structure	35,704.98m^2	2020/4/1	2021.01	74%	74%	1,850,434.00
18	Phase-II 2,500KVA power transformer substation for special containers	Reinforced concrete	2,122m^2	2020.09	2020.12	100%	97%	473,775.49
19	Machine room for roof smoke exhaust	Steel structure	147.48m^2	2020.11	2020.12	100%	100%	104,320.43
20	Renovation of top, bottom and side frames of plants and equipment foundation	Steel structure	52.95m^{3}x6	2020.10	2020.12	100%	97%	377,523.60
21	Renovation of an open trench on the east of the steel rolls warehouse	Concrete	260m	2020.05	2020.12	100%	74%	368,235.71
22	Sheds foundation and steel structure project	Steel structure		2020.11	2020.12	100%	97%	153,705.00
23	Construction-in-progress in December 2020			2020.12	2021.2			117,637.19
24	Power transmission and distribution-Phase II			2019/8/1	2020.12	100%	100%	1,273,018.28

(e) Equipment installment project

It has a total of 22 items of equipment installment projects and most of them are equipment and facilities under construction, equipment renovation, repair and purchase of office equipment. As at the Valuation Benchmark Date, the book value was RMB13,648,580.50.

(III) Intangible Assets Accounted for or Not Accounted for as Declared by the Enterprise

(1) Intangible assets accounted for as declared by the enterprise

(a) A total of 10 items of land use rights under intangible assets were under the scope of valuation with a total site area of 638,556.48 sq.m. under the land use right certificate. Its original book value was RMB197,998,971.25 and the book value on the Valuation Benchmark Date was RMB175,868,428.14. Details are set out below:

Registration of Land Ownership

No.	Immovable property ownership certificate no.	Registered owner	Land location	Date of issuing certificate	Nature of land	Use of land	Expiry date	Area (m^2)
1	Su (2020) Qidong Immovable Property Right No. 0020014	Dong Fang International Container (Qidong) Co., Ltd.	No. 1 Taiping Road, Huiping Town, Qidong City	2012/4/17	State-owned land transfer	Industrial land	2063/9/21	66,667.00
2	Su (2020) Qidong Immovable Property Right No. 0020014	Dong Fang International Container (Qidong) Co., Ltd.	No. 1 Taiping Road, Huiping Town, Qidong City	2012/12/13	State-owned land transfer	Industrial land	2062/12/13	76,972.00
3	Su (2020) Qidong Immovable Property Right No. 0020014	Dong Fang International Container (Qidong) Co., Ltd.	No. 1 Taiping Road, Huiping Town, Qidong City	2015/5/28	State-owned land transfer	Industrial land	2062/5/28	5,678.00

No.	Immovable property ownership certificate no.	Registered owner	Land location	Date of issuing certificate	Nature of land	Use of land	Expiry date	Area (m^2)
4	Su (2020) Qidong Immovable Property Right No. 0020014	Dong Fang International Container (Qidong) Co., Ltd.	No. 1 Taiping Road, Huiping Town, Qidong City	2016/1/8	State-owned land transfer	Industrial land	2066/1/8	14,221.00
5	Su (2020) Qidong Immovable Property Right No. 0020014	Dong Fang International Container (Qidong) Co., Ltd.	No. 1 Taiping Road, Huiping Town, Qidong City	2013/9/10	State-owned land transfer	Industrial land	2063/9/10	93,662.00
6	Su (2020) Qidong Immovable Property Right No. 0020014	Dong Fang International Container (Qidong) Co., Ltd.	No. 1 Taiping Road, Huiping Town, Qidong City	2017/5/1	State-owned land transfer	Industrial land	2067/5/1	32,333.00
7	Su (2020) Qidong Immovable Property Right No. 0020014	Dong Fang International Container (Qidong) Co., Ltd.	No. 1 Taiping Road, Huiping Town, Qidong City	2020/3/24	State-owned land transfer	Industrial land	2070/3/24	15,507.00
8	Su (2020) Qidong Immovable Property Right No. 0020014	Dong Fang International Container (Qidong) Co., Ltd.	No. 1 Taiping Road, Huiping Town, Qidong City	2020/3/24	State-owned land transfer	Industrial land	2070/3/24	16,851.48
9	Su (2020) Qidong Immovable Property Right No. 0034432	Dong Fang International Container (Qidong) Co., Ltd.	No. 1 Taiping Road, Huiping Town, Qidong City	2013/5/31	State-owned land transfer	Industrial land	2063/6/6	16,665.00
10	Qi Guo Yong 2016 No. 0065	Dong Fang International Container (Qidong) Co., Ltd.	No. 1 Taiping Road, Huiping Town, Qidong City	2016/5/12	State-owned land transfer	Industrial land	2066/3/9	300,000.00

(b) The book value of other intangible assets under intangible assets was RMB724,222.85 and most of them are computer software, financial software and system software. Details are set out in the table below:

No.	Name and content	Date obtained	Expected useful life	Original book value *(RMB)*	Book value *(RMB)*
1	Office software, gateway on Internet behavior management	2014/3/1	10	117,547.01	37,223.09
2	New containers management system	2015/10/1	10	76,000.00	36,100.09
3	CAD software	2015/7/1	10	55,555.56	25,000.11
4	Yonyou ERP system	2020/1/7	10	306,603.75	204,402.51
5	Power station operation and maintenance systems	2020/12/22	10	433,539.82	421,497.05
	Total			989,246.14	724,222.85

(2) Intangible assets not accounted for as declared by the enterprise

As at the Valuation Benchmark Date, a total of 16 patented technologies were not accounted for as declared by Dong Fang International Container (Qidong) Co., Ltd., including 3 invention patents and 13 utility model patents, where all such patents are owned by Dong Fang International Container (Qidong) Co., Ltd.

As at the Valuation Benchmark Date, 2 patented technologies were applied by Dong Fang International Container (Qidong) Co., Ltd. in the production of containers and future revenue of the enterprise under the scope of valuation. Details are set out below:

Other Intangible Assets-Table of Patent Rights

No.	Name and content	Type of patent	Registered owner	Patent no. or application no	Patent application date	Date of obtaining patent	Note
1	Manufacturing methods for containers	Invention	Dong Fang International Container (Qidong) Co., Ltd.	200710031865.4	2007/11/28	2013/6/5	Dry containers
2	A kind of plywood for the bottom of containers	Invention	Dong Fang International Container (Qidong) Co., Ltd.	200910104903.3	2009/1/4	2012/7/4	Dry containers

As at the Valuation Benchmark Date, 14 patented technologies have not been applied by Dong Fang International Container (Qidong) Co., Ltd. in the production of containers and such patented technologies are not relevant to future annual revenue of the enterprise under the scope of valuation. Details are set out below:

Other Intangible Assets – Table of Patent Rights

No.	Name and content	Type of patent	Registered owner	Patent no. or application no.	Patent application date	Date of obtaining patent	Note
1	Open top containers with top locking devices	Invention	Dong Fang International Container (Qidong) Co., Ltd.	200810068149.8	2008/6/27	2013/6/26	Unrelated to product production
2	A kind of polyurethane bubbles generation system	Utility model	Dong Fang International Container (Qidong) Co., Ltd.	201921683631.2	2019/9/29	2020/7/3	Unrelated to product production
3	A kind of welding and positioning process for lining plates of containers	Utility model	Dong Fang International Container (Qidong) Co., Ltd.	201721025167.9	2017/8/16	2018/5/1	Not applied
4	A kind of adsorptive dry box for containers	Utility model	Dong Fang International Container (Qidong) Co., Ltd.	201721029662.7	2017/8/16	2018/5/1	Not applied
5	A kind of dry box for containers	Utility model	Dong Fang International Container (Qidong) Co., Ltd.	201721027654.9	2017/8/16	2018/5/1	Not applied
6	A kind of ventilation system for containers	Utility model	Dong Fang International Container (Qidong) Co., Ltd.	201721029751.1	2017/8/16	2018/5/1	Not applied
7	A kind of multi-purpose container	Utility model	Dong Fang International Container (Qidong) Co., Ltd.	201721027776.8	2017/8/16	2018/5/1	Not applied

No.	Name and content	Type of patent	Registered owner	Patent no. or application no.	Patent application date	Date of obtaining patent	Note
8	A kind of anti-collision devices for container corners	Utility model	Dong Fang International Container (Qidong) Co., Ltd.	201721025787.2	2017/8/16	2018/5/4	Not applied
9	A kind of tank container	Utility model	Dong Fang International Container (Qidong) Co., Ltd.	201721025414.5	2017/8/16	2018/5/8	Not applied
10	A kind of thermal insulation container	Utility model	Dong Fang International Container (Qidong) Co., Ltd.	201721025125.5	2017/8/16	2018/5/8	Not applied
11	A kind of container	Utility model	Dong Fang International Container (Qidong) Co., Ltd.	201721025395.6	2017/8/16	2018/5/8	Not applied
12	A kind of ventilation and heat dissipation devices for containers	Utility model	Dong Fang International Container (Qidong) Co., Ltd.	201721025205.0	2017/8/16	2018/5/8	Not applied
13	A kind of fire prevention devices for containers	Utility model	Dong Fang International Container (Qidong) Co., Ltd.	201721027778.7	2017/8/16	2018/5/15	Not applied
14	A kind of thermal insulation container	Utility model	Dong Fang International Container (Qidong) Co., Ltd.	201721025977.4	2017/8/16	2018/5/18	Not applied

(IV) Type and Quantity of Off-balance-sheet Assets Declared by the Enterprise

Except for the above 16 patented technologies, the appraised entity has not declared any other off-balance-sheet assets.

(V) Type, Quantity and Book Value (or Appraised Value) of Assets Involved in Making Reference to the Conclusions of Reports Issued by Other Institutions

Nil.

IV. TYPE AND DEFINITION OF VALUE

The types of valuation value include the market value and other types of value except for the market value. Other types of value except for the market value generally include (but not limited to) the investment value, the value in use, the liquidation value and the residual value. The purpose of this valuation is to provide a value reference for normal transactions, and there are no special restrictions and requirements on market conditions and the use of valuation target, etc. Therefore, market value is selected as the type of value of this valuation according to industry practice.

Market value refers to the estimated value of the valuation target in an arm's length transaction made in the ordinary course of business on the Valuation Benchmark Date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

V. VALUATION BENCHMARK DATE

The Valuation Benchmark Date for this valuation is 31 December 2020.

Major factors considered by the clients in determining the Valuation Benchmark Date include the time requirement on the implementation of the economic activity. The end of the accounting period was adopted to facilitate the defining of the scope of valuation and the accurate and efficient stocktaking of assets.

VI. BASIS OF VALUATION

(I) Basis of Economic Activity

The Resolution at the 46th Meeting of the First Session of the Board of Directors of China COSCO SHIPPING Corporation Limited (on 20 January 2021) issued by China COSCO SHIPPING Corporation Limited.

(II) Legal Basis Provided by Laws and Regulations

(1) The Asset Appraisal Law of the People's Republic of China (passed at the 21st session of the 12th Standing Committee of the National People's Congress on 2 July 2016);

(2) The Law of the People's Republic of China on the State-owned Assets in Enterprises (passed at the 5th session of the 11th Standing Committee of the National People's Congress on 28 October 2008);

(3) The Measures for the Administration of State-owned Assets Appraisal (Order No. 91 of the State Council in 1991);

(4) The Detailed Rules for the Implementation of the Administrative Measures of State-owned Assets Valuation (Guo Zi Ban Fa [1992] No. 36 issued by former National Administration for State-owned Assets);

(5) The Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council);

(6) The Opinions on Reforming the Administration of State-owned Assets Appraisal and Strengthening Supervision and Administration of Assets Appraisal (Guo Ban Fa [2001] No. 102);

(7) The Interim Measures for the Administration of Valuation of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

(8) The Regulations on Certain Issues Concerning State-owned Assets Appraisal (Order No. 14 of the Ministry of Finance);

(9) The Measures for the Supervision and Administration of the Trading of State-owned Assets of Enterprises (Order No. 32 of the SASAC of the State Council and the Ministry of Finance);

(10) The Notice on the Guidelines on the Publication and Distribution of the Filing of State-owned Assets Appraisal Projects for Enterprises (Guo Zi Fa Chan Quan [2013] No. 64).

(11) The Financial Supervision and Administration Measures on the Assets Evaluation Industry (Order No. 97 of the Ministry of Finance);

(12) The Notice on Strengthening the Administration of State-owned Assets Appraisal of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);

(13) The Notice on Relevant Matters Concerning the Examination of Appraisal Reports on State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);

(14) The Corporate Income Tax Law of the People's Republic of China;

(15) The Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China (Issued under Order No. 512 of the State Council and recently amended under Order No. 714 of the State Council);

(16) The Interim Regulations for the Value-added Tax of the People's Republic of China (Issued under Order No. 134 of the State Council and recently amended under Order No. 691 of the State Council);

(17) The Implementation Rules to the Interim Regulations for the Value-added Tax of the People's Republic of China (Issued under Order No. 50 of the Ministry of Finance and the State Taxation Administration and recently amended under Order No. 65 of the Ministry of Finance and the State Taxation Administration);

(18) The Notice on the Comprehensive Rollout of the Business Tax to Value Added Tax Transformation Pilot Program (Cai Shui [2016] No. 36);

(19) The Circular Relating to Furthering Relevant Policies on Reform of Value-added Tax (Circular [2019] No. 39 jointly issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs).

(III) Basis of Valuation Standards

(1) Basic Asset Valuation Standards (Cai Zi [2017] No. 43);

(2) Professional Code of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);

(3) Practice Guidelines for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

(4) Practice Guidelines for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

(5) Practice Guidelines for Asset Valuation – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);

(6) Practice Guidelines for Asset Valuation – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

(7) Practice Guidelines for Asset Valuation – Engagement of Experts and Relevant Reports (Zhong Ping Xie [2017] No. 35);

(8) Practice Guidelines for Asset Valuation – Enterprise Value (Zhong Ping Xie [2018] No. 38);

(9) Practice Guidelines for Asset Valuation – Asset Valuation Methodology (Zhong Ping Xie [2019] No. 35);

(10) Practice Guidelines for Asset Valuation – Intangible Assets (Zhong Ping Xie [2017] No. 37);

(11) Practice Guidelines for Asset Valuation – Real Estate (Zhong Ping Xie [2017] No. 38);

(12) Practice Guidelines for Asset Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

(13) Guiding Opinions on Professional Asset Valuation (Zhong Ping Xie [2017] No. 49);

(14) Quality Control Guidance on the Business of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46);

(15) Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

(16) Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);

(17) Guiding Opinions on Legal Ownership of the Asset Valuation Target (Zhong Ping Xie [2017] No. 48).

(IV) Ownership Basis

(1) Business licenses;

(2) Land use right certificates;

(3) Building ownership certificates;

(4) Patents certificates;

(5) Driving permits for vehicles.

(V) Pricing Basis and References

(1) The information on financial accounting and operation provided by the enterprise;

(2) Statistical information, technical standards and policy documents issued by relevant authorities of the state;

(3) Relevant enquiry and parameters information collected by the valuation agency;

(4) Profit forecast information provided by the enterprise.

VII. VALUATION METHODOLOGY

(I) Selection of Valuation Methodology

In accordance with the Practice Guidelines for Asset Valuation – Enterprise Value, when performing any appraisal of enterprise value, the suitability of the three basic asset valuation methods, namely the income approach, the market approach and the cost approach (the asset-based approach) shall be analyzed based on the purpose of valuation, the valuation target, the type of value, information gathering, etc. in its selection of valuation methods.

(1) Market approach

As there is limited access to transaction information of property ownership trading market in China and similar enterprises have significant differences in the product structure and principal businesses, it is extremely difficult to select market reference of the same type, therefore the market approach was not adopted in the valuation.

(2) Income approach

The income approach assesses the value of an asset by its expected profitability, which is the essential basis for determining the prevailing fair market value of the asset. As such, the income approach conforms to the basic definition of an asset. The methodology adopted in the income approach is to determine the market value by capitalizing or discounting the expected revenue of the valuation target in the future. The valuation target is a container manufacturer with independent profitability and the adoption of the income approach can reflect the reasonable market value of enterprises in such type of industry, therefore the income approach was adopted in the valuation.

(3) Asset-based approach

As all assets and liabilities of the enterprise may be appraised and recognized on an individual basis with clear structure of assets and liabilities, therefore the asset-based approach was adopted in the valuation.

In conclusion, the asset-based approach and the income approach were adopted in the valuation and the asset-based approach was adopted to determine the valuation conclusion after analysis.

(II) Asset-based Approach

The asset-based approach used in the valuation of the enterprise value is a valuation method for determining the value of the appraised enterprise by appraising the value of all its assets and liabilities on the basis of its balance sheet and those which can be identified off the balance sheet at the Valuation Benchmark Date. In the case of employing the asset-based approach in valuation of the enterprise value, the value of each asset is calculated by choosing a specific applicable valuation method in accordance with its specific circumstances.

The detailed valuation methods involved in this valuation are set out as follows.

(1) Current assets

(a) Monetary funds

For RMB monetary funds, the appraised value of monetary funds in current assets is determined as the verified book value based on the breakdown of all items provided by the enterprise. For foreign monetary funds, the appraised value is determined as the verified book value of foreign currencies multiplying the central parity of foreign currencies on the Valuation Benchmark Date.

(b) Notes receivable, trade receivable, prepayment and other receivables

Based on the breakdown of items for valuation provided by the valuation target, which is the valuation basis, verification was conducted on accounting information and selected large amounts with analysis on the amount, time and reasons of arrears and recovery situation of each receivable, to determine the appraised value of each receivable.

(c) Interest receivable

The appraisers reviewed and verified borrowing contracts, verified the terms and interest rates of borrowings and checked the provision and payment of interest expenses of the enterprise based on valuation procedures. It is verified that the valuation target has made no provisions for interest. The appraised value was determined as the verified book value.

(d) Inventories

(i) Raw materials and turnover materials in stock

Based on the breakdown of items for valuation provided by the valuation target, which is the valuation basis, the appraisers conducted spot sample checks on certain inventories and adopted the replacement procedures to determine the actual amount of raw materials and turnover materials in stock on the Valuation Benchmark Date. It is learnt that the raw materials and turnover materials in stock of the Company have a quick turnover and the materials were purchased recently with no changes in prices generally, and the verified book value was used to determine the appraised value.

(ii) Commissioned processing materials

The appraisers reviewed and verified relevant contracts, accounts and certificates and upon verification, it is found that the accounts are truthful and reasonable. The verified book value was used to determine the appraised value.

(iii) Finished products

The appraisers adopted the following methods in the valuation after determining the truthfulness and completeness of finished products through checking relevant accounts and conducting spot sample checks. For all containers for sale, the appraised value of all finished products was determined as the sales price of all finished products less taxes and surcharges, sales expenses, income taxes and appropriate net profits, that is: appraised value = sales revenue – sales taxes and surcharges – sales expenses – income taxes – appropriate net profits. As the sales of containers is an export business, no sales taxes and surcharges are incurred, the sales expenses are calculated based on the average proportion of sales expenses in revenue in the previous three years. Upon investigation, it is learnt that there are order contracts for the products for sale, hence the rate of deduction of net profits is 0%. For self-owned containers, the appraised value is determined at the book value.

(2) Other current assets mainly include input value added tax and the payment for supplementing the capital pool. Based on the valuation procedures, verification was conducted on the accounting evidence and corporate bills of other current assets. The verified book value was used to determine the appraised value.

(3) Fixed assets – Buildings

(a) Selection of valuation methodology

In accordance with the Practice Guidelines for Asset Valuation – Property, common valuation methods include the market comparison approach, the income approach and the replacement cost approach. An appropriate valuation approach shall be selected in accordance with standards and regulations based on the conditions of the local property market, the specific characteristics of the valuation target and the purpose of the valuation.

As the buildings (structures) are self-built industrial factories and ancillary occupancies, lease cases on similar buildings in surrounding areas cannot be obtained. It is not applicable to adopt the income approach in the valuation.

As the buildings (structures) are self-built industrial buildings, information on the transactions or trading prices of similar buildings in the same or similar areas cannot be collected. Therefore, the market comparison approach to appraise the value of the buildings (structures) to be appraised cannot be adopted.

As the buildings (structures) are self-built industrial buildings, appraisers may adopt the replacement cost approach to appraise the required budget and financial accounts materials on the project and the price information on labor, materials and the shift use of machinery on the Valuation Benchmark Date. The conditions for adopting the replacement cost approach in the valuation can be met.

Based on the above analysis, the replacement cost approach was adopted in the valuation on the buildings (structures) to be appraised.

(b) Replacement cost approach

For the valuation on principally self-built buildings, the full replacement price of a building is calculated in accordance with the amount of construction work and the current fixed standard reference price, construction fees, and loan interest rate based on the construction project data and completion settlement data, while the residual ratio is determined comprehensively in accordance with the useful life and the site survey of the building, and the net appraised value of the building is thereby calculated.

Appraised value of buildings = Full replacement price × Residual ratio

According to the Circular Cai Shui [2016] No. 36, the Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (No. 39 in 2019) issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs and relevant local documents on the adjustment of pricing basis in the industry, the corresponding value-added tax shall be deducted from the full replacement price for immovable properties meeting the conditions for deduction of value-added tax.

(i) Full replacement price

Full replacement price = Construction and installation costs (excluding tax) + Preliminary construction and other costs (excluding tax) + Capital costs

A. Determination of construction and installation costs

1. **Budget (final accounts) adjustment method**

For the building projects with complete materials on completion and final accounts, the appraisers use the current local or industrial standard reference price to calculate the direct standard reference price based on the quantity of work of all segments and items as determined in the original completion materials. The standard construction and installation costs on the Valuation Benchmark Date are estimated based on the corresponding current standard reference price on construction and installation costs and the difference adjustment documents of the place where the project is located.

B. Determination of preliminary and other costs

Preliminary and other costs are based on the investment amount of the valuation target in project construction in accordance with the charging standards of the industry or as stipulated by national or local governments. The name, charging base, charging standards and charging basis of preliminary and other costs are set out in the table below:

Table of Preliminary and Other Costs Charged

No.	Fee	Rate	Rate (tax exclusive)	Charging basis
1	Construction unit administrative fees	0.63%	0.63%	Construction and installation costs
2	Survey and design fees	2.80%	2.64%	Construction and installation costs
3	Project construction supervision fees	1.50%	1.42%	Construction and installation costs
4	Bidding agency fees	0.060%	0.057%	Construction and installation costs
5	Environmental impact assessment fees	0.020%	0.019%	Construction and installation costs
6	Feasibility research fees	0.10%	0.09%	Construction and installation costs
7	Sub-total	5.11%	4.86%	Construction and installation costs

C. Determination of capital costs

According to the normal construction period, the loan interest rate is determined with reference to the loan market quoted interest rate announced by the National Interbank Funding Center on 20 December 2020. Based on the assumption of the average investment of funds during the construction period, the calculation formula of capital costs is as follows:

Capital costs = (Construction and installation costs + Preliminary and other costs) × Loan interest rate × Reasonable construction period ÷ 2

D. Determination of integrated residual ratio

The useful life method and the observation method are mainly used to determine the integrated residual ratio for the buildings in the valuation.

1. **Theoretical residual ratio**

Theoretical residual ratio is the residual rate determined based on the ratio of estimated remaining useful life of buildings to its aggregate useful life. The calculation formula is as follows:

Theoretical residual ratio = Remaining useful life ÷ Economic life × 100%

2. **Residual ratio under the observation method**

The observation method is applied to assess each major part of the buildings from a technical perspective, and to analyze factors such as design, manufacturing, usage, wear and tear, maintenance, improvement and physical life of the asset on a consolidated basis. Impacts of wear and tear and natural deterioration on the functionality and efficiency of the asset will be assessed by comparing the valuation target with itself in new condition. As such, the residual ratio of the buildings would be determined and the substantial depreciation would be estimated.

3. **Integrated residual ratio**

Integrated residual ratio = Theoretical residual ratio × 40% + Residual ratio under the observation method × 60%

4. **Residual ratio would be determined by adopting a reasonable method where:**

- If the residual ratio calculated under the on-site observation method and the theoretical residual ratio differ significantly, upon analysis of the various factors by the appraisers, the relatively reasonable ratio would prevail based on their previous experience.

- For the project which cannot be observed due to certain constraints, the theoretical residual ratio would be normally applied in determining the residual ratio.

(4) Fixed assets – Machinery and equipment

According to the purpose of this valuation and the characteristics of the appraised assets, and assuming the asset is continued to be used according to its current usage, the replacement cost approach would be adopted in this valuation on the basis of on-site investigation.

Basic formula: Appraised value = Full replacement price × Residual ratio

As at the Valuation Benchmark Date, the company was a VAT general taxpayer and the tax-free price was adopted to calculate the purchase costs of equipment in determining the full replacement price.

(a) Determination of full replacement price

(i) Machinery and equipment

A. <u>Determination of full replacement price</u>

For equipment of which current market prices are available, the full replacement price would be determined with reference to the selected prevailing market price after analyzing and taking into account the transportation and miscellaneous fees as well as installation and commissioning fees; for those equipment of which current market prices are not available, the full replacement price would be determined using the market price (to be adjusted correspondingly as the equipment purchase cost) of products with similar function, plus the transportation and miscellaneous fees, installation and commissioning fees as well as other reasonable expenses. The calculation formula is as follows:

Full replacement price = Equipment purchase cost + Transportation and miscellaneous fees + Installation and commissioning fees + Other costs

As at the Valuation Benchmark Date, the company was a VAT general taxpayer and the tax-exclusive price was adopted to calculate the purchase cost of equipment in determining the full replacement price.

B. Determination of major price determination parameters

1. **Equipment purchase cost**

Determination of equipment purchase cost would be mainly based on quotations from the equipment manufacturer and the latest transaction price of the same type of machinery and equipment purchased by the company.

2. **The rate of transportation and miscellaneous fees of equipment**

Transportation and miscellaneous fees of equipment, consisting mainly of the transportation cost, loading and unloading expenses and insurance premium, would be determined generally based on the standard rate as stipulated by the "Manual of Data and Parameters Commonly Used in Asset Appraisal" (資產評估常用數據與參數手冊) in the valuation.

3. **Installation and commissioning fees of equipment**

It would be determined based on the standard rate as stipulated by the "Manual of Data and Parameters Commonly Used in Asset Appraisal" (資產評估常用數據與參數手冊).

4. **Preliminary and other costs**

Preliminary and other costs are based on the investment amount of the valuation target in project construction in accordance with the charging standards of the industry or as stipulated by national or local governments. Preliminary and other costs determined in the valuation of equipment are as follows:

Table of Preliminary and Other Costs Charged

No.	Fee	Rate	Rate (tax exclusive)	Charging basis
1	Construction unit administrative fees	0.63%	0.63%	Construction and installation costs
2	Survey and design fees	2.80%	2.64%	Construction and installation costs
3	Project construction supervision fees	1.50%	1.42%	Construction and installation costs
4	Bidding agency fees	0.060%	0.057%	Construction and installation costs
5	Environmental impact assessment fees	0.020%	0.019%	Construction and installation costs
6	Feasibility research fees	0.10%	0.09%	Construction and installation costs
7	Sub-total	5.11%	4.86%	Construction and installation costs

5. **Capital costs**

According to the normal construction period, the loan interest rate is determined with reference to the loan market quoted interest rate announced by the National Interbank Funding Center on 20 December 2020. Based on the assumption of the average investment of funds during the construction period, the calculation formula of capital costs is as follows:

Capital costs = Purchase cost or construction costs of equipment × Applicable interest rate × Reasonable construction period ÷ 2

(ii) Vehicles

The full replacement price is determined by adding vehicle purchase tax, license fee and other reasonable costs at the prevailing market price.

(iii) Electronic equipment

For the electronic equipment of which prevailing market price is available, the full replacement price is directly determined based on its analyzed and selected prevailing market price; for the electronic equipment of which prevailing market price is unavailable, the full replacement price is determined by selecting the market price of the substitutes with similar function and making corresponding adjustments.

(b) Determination of the residual ratio

(i) For machinery and equipment, the observation method and the useful life method are mainly used to determine the residual ratio. The calculation formula is as follows:

Residual ratio = Residual ratio under the observation method × 60% + Residual ratio under the useful life method × 40%

A. Observation method. The observation method is applied to assess each major part of the appraised equipment from a technical perspective, and to analyze factors such as design, manufacturing, usage, wear and tear, maintenance, repair, extensive repair, improvement and physical life of the asset on a consolidated basis. Impacts of wear and tear and natural deterioration on the functionality and efficiency of the asset will be assessed by comparing the valuation target with itself in new condition. As such, the residual ratio of the appraised equipment would be determined.

B. Useful life method. The calculation formula is as follows:

Residual ratio under the useful life method = (Economic useful life - Used life) / Economic useful life × 100% Economic useful life refers to the term of asset from the date of commencing service to the date of discontinuation when it becomes uneconomical.

(ii) For vehicles, the observation method and the theoretical residual ratio are comprehensively used to determine the residual ratio. The calculation formula is as follows:

Residual ratio = Residual ratio under the observation method × 60% + Theoretical residual ratio × 40%

A. Observation method. The observation method is applied to assess each major part of vehicles from a technical perspective, and considers factors such as design, manufacturing, usage, wear and tear, maintenance, repair and physical life of the asset on a consolidated basis. Impacts of wear and tear and natural deterioration on the functionality and efficiency of the asset will be assessed by comparing the valuation target with itself in new condition. As such, the residual ratio of the appraised vehicles would be determined.

B. Theoretical residual ratio. With reference to the *Regulations on Compulsory Scrapping Standards of Motor Vehicles* (Order No. 12 of 2012 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection), the theoretical residual ratio is determined as the lower of the residual ratio under the useful life method and the residual ratio under the mileage method. The calculation formula for the residual ratio under the useful life method is as follows:

Residual ratio under the useful life method = (Economic useful life - Used life) / Economic useful life × 100%

The calculation formula for the residual ratio under the mileage method is as follows:

Residual ratio under the mileage method = (Specified mileage - Mileage traveled) / Specified mileage × 100%

(iii) Electronic equipment

For electronic equipment, the useful life method is mainly used to determine the residual ratio. The calculation formula is as follows:

Residual ratio under the useful life method = (Economic useful life - Used life) / Economic useful life × 100%

If the residual ratio calculated under the observation method and the residual ratio calculated under the useful life method (or the theoretical residual ratio) differ significantly, the relatively reasonable one of the two may be selected based on experience and judgment after analyzing related reasons. For the equipment which can be used normally, its residual ratio would normally be not less than 10%.

(5) Construction-in-progress – Civil engineering

(a) For completed projects, the appraised value is recognized as the replacement price on the Valuation Benchmark Date using the replacement cost approach.

(b) For project survey fees, the appraised value is recognized as the book value plus the capital costs on the basis that the book value is correct without mistakes.

(6) Construction-in-progress – Equipment installment project

Appraisers have inspected the project contracts and evidence of payment of the enterprise and confirmed that the payment met the contractual requirements. They learnt about the progress of projects through relevant employees of the enterprise and calculated the corresponding reasonable capital costs to determine the final appraised value based on the payment progress for the equipment under construction after verifying the above conditions. For self-developed equipment where the progress cannot be determined, the book value is recognized as the appraised value. For suspended and terminated construction in progress, the appraised value is recognized as nil.

(7) Right-of-use assets

There are two right-of-use assets in total. The first is the right-of-use asset from the lease agreement on the industrial waste sorting warehouse entered into between the valuation target and Qidong Jiaying Recyclable Materials Collection Co., Ltd. on 1 December 2018 with a lease term of four years from 1 December 2018 to 30 November 2022 and a total rent of RMB5,804,774.23. The second is the right-of-use asset from the lease agreement on underbed and bottom beams welding robots entered into between the valuation target and COSCO SHIPPING Development (Tianjin) Leasing Co., Limited on 23 September 2020 with a lease term of two years from 23 September 2020 to 22 September 2022 and a total rent of RMB3,390,477.40.

The appraisers verified the right-of-use assets and ensured the consistency between account certificates, statements and accounts. Therefore, the verified book value was adopted as the appraised value.

(8) Intangible assets – Land use rights

(a) Selection of valuation methods

According to the *Rules for Urban Land Valuation*, the common land valuation approaches include market comparison approach, income reduction approach, hypothetical development approach, cost approximation approach, benchmark land price coefficient correction approach, etc. The selection of valuation approaches should be based on the *Rules for Urban Land Valuation* and the development of local real estate market, combined with the specific characteristics of the valuation target and the valuation purpose, etc., to select appropriate valuation approaches.

In accordance with the technical specifications on land price appraisal and the specific conditions of the valuation target, the market approach and the cost approximation method were adopted in this valuation mainly due to the following reasons:

(i) As relevant land acquisition compensations can be collected for the land parcel to be appraised, the cost approximation method can be adopted in the valuation.

(ii) As sufficient market lease cases in areas surrounding the land parcel with the same use cannot be collected, the income approach was not adopted in the valuation.

(iii) As the complete benchmark land price correction system cannot be obtained in the area where the land parcel is located, it is not appropriate to adopt the benchmark land price coefficient correction approach in the valuation.

(iv) As there are market transaction cases in areas surrounding the land parcel to be appraised, the market approach may be adopted in the valuation.

(b) *Valuation method of the market comparison method:*

The market comparison method represents that when determining the price of the land parcel to be appraised and following the principle of replacement, it compares the transaction cases of similar land use rights in recent period with the land parcel to be appraised and determines the price of the land parcel of the valuation target on the Valuation Benchmark Date based on the known price of the latter with reference to the differences in the transaction conditions, date, region and other individual factors with the land parcel. The calculation formula is:

Comparable price = Comparable land parcel price × Correction of transaction conditions × Correction of transaction dates × Correction of regional factors × Correction of individual factors

Price of land parcel to be appraised = Comparable price × Land parcel area

(c) *Valuation method of the cost approximation method:*

Cost approximation method refers to the valuation method to determine land price by using the sum of various expenses incurred in the development of land as major reference, with a certain amount of profit, interest, tax payable and land value-added gain. The general formula of the cost approximation method is:

Land price = Land acquisition costs and relevant taxes + Land development costs + Investment interest + Investment profits + Land value-added gains

(9) Intangible assets – Other intangible assets – Software

The appraisers recognize the composition of the original book value and the truthfulness and reasonableness of the incurred amortization amount through enquiring the related accounting records based on the original accounting value. For customized software and those not sold in the market but can still be used for the original purpose, the replacement cost is determined based on the book historical cost with reference to the changes in the average salary of employees in the urban information transmission, computer service and software enterprises. Meanwhile, the appraised value of all software is calculated based on the remaining economic life of software and the depreciation rate determined after considering all depreciation factors.

The basic formula: Appraised value = Replacement cost × (1 - Depreciation rate) *(a) Determination of the replacement cost*

For the replacement cost of purchased intangible assets, the price index method to calculate is adopted in the calculation of its replacement cost based on the book historical cost of the intangible assets after adjustment on the price index.

Replacement cost = Book cost of intangible assets × (Price index on the Valuation Benchmark Date / Price index on purchase)

(b) Depreciation rate

Appraisers determine the depreciation rate of intangible assets through comparing the estimation and judgment on the remaining economic life of intangible assets. The calculation formula is as follows:

Depreciation rate = Used life / (Used life + Remaining useful life) × 100%

(10) Intangible assets – Other intangible assets – Patents

Pursuant to the operational standards for the valuation of intangible assets, the cost approach, income approach or market approach can be used for the valuation of patents and technologies according to the prerequisites for utilization and the actual circumstances of the valuation.

Generally speaking, for invention patents and utility model patent technologies, there is usually no correlation between the research and development costs for the technologies and the value of the technologies themselves. Since the technologies to be appraised are products of years of contribution and involve cross-sectional research, together with the reasons associated with the management, it is difficult to calculate the research and development costs and the valuation cannot be conducted by taking costs into account. The cost approach was therefore not adopted in this valuation.

In addition, due to the exclusivity of patent technologies, identifying comparables from market transactions usually proves to be difficult and hence, the market approach was not adopted as well.

Accordingly, based on the actual conditions of patent technologies of the enterprise, this valuation on invention patents and utility model patent technologies was made by taking income into account and the income approach was adopted as a result.

The ideology of the income approach is to estimate the income of products manufactured using the exclusive technologies in the upcoming years and based on a certain profit sharing ratio (which is the contribution ratio of the patent technologies to the income in the upcoming years), to calculate the appraised value by discounting and adding the estimated income using the appropriate discount ratio. The basic formula is as follows:

$$P = \sum_{i=0.5}^{n} \frac{kR_t}{(1+i)^t}$$

Wherein,

P: the value of technology commissioned to be appraised

Rt: the annual income from the technology in the t year

T: the sequence number of the year for valuation

K: the profit sharing ratio of the technology for the income

I: the discount rate

N: the economic income period of the technology

(11) Long-term prepaid expenses

Appraisers viewed fee contracts and verified the revenue period of long-term prepaid expenses based on the valuation procedures in the valuation. For interlocking blocks and cast concrete in W4-W11 area of the steel coil warehouse under odd projects, no valuation on the long-term prepaid expenses on such items was carried out as they have been appraised under the steel coil warehouse. The appraised value of other long-term prepaid expenses is determined at the verified book value.

(12) Other non-current assets

Other non-current assets refer to the land prepayment from the Treasury Division of the Qidong Municipal Bureau of Finance. The appraised value is determined based on the breakdown of items under valuation provided by the valuation target in accordance with the valuation procedures after learning about the reasons of other current assets and conducting sample checks on the original and accounting evidence.

(13) Liabilities

The actual amount of liabilities attributable to the valuation target as at the Valuation Benchmark Date will be accounted for as the appraised value.

(III) Income Approach

The income approach in the appraisal of enterprise value refers to the valuation method used in determining the value of the valuation target by capitalizing or discounting the expected income. Methods frequently used under the income approach include the dividend discount method and the discounted cash flow method.

This valuation adopted the discounting model of free cash flow of firm under the discounted cash flow method. Specifically, using the Weighted Average Cost of Capital (WACC) as the discount rate, the total equity interest of shareholder is arrived at by adding the expected Free Cash Flow of Firm (FCFF) for each of the coming years to the operational asset values plus the value of the surplus assets and non-operational assets to the value of entire assets of the enterprise less the value of interest-bearing debt. The basic formula is as follows:

Total equity interest of shareholders = Operational asset value + Non-operational assets value - Non-operational liabilities value + Surplus assets value - Value of interest-bearing debt

The specific calculation formula is as follows:

$$P = P' + A' - D' - D$$

$$P' = \sum_{i=0.5}^{n} \frac{R_t}{(1+r)^i} + \frac{R_n}{r} x \frac{1}{(1+r)^n}$$

Wherein,

P – the total appraised value of equity interest of shareholders in the valuation target

P' – the discounted value of entire revenue of firm

D – the non-operational liabilities

A' – the non-operational assets

D' – the interest-bearing debt

R_i – the expected income generated in income period No. i in the future (FCFF)

i: the income period, i=0.5, 1.5, 2.5…n

r: the discount rate.

VIII. PROCESS AND IMPLEMENTATION OF VALUATION PROCEDURES

(I) Acceptance of Engagement

Understand the general conditions of the appraised assets and specify the valuation purpose, the valuation target and scope, the valuation benchmark date and other basic matters in valuation after discussions and communications with the clients, accept the engagement after the comprehensive analysis on the professional capability and independence and assessment of business risks and enter into the assets valuation engagement contract. Determine the type of the appraised value, formulate the valuation plan and establish the working group on valuation based on specific circumstances.

(II) On-site inspection and collection of materials

Guide the appraised entity to conduct asset stocktaking and prepare valuation materials and carry out on-site inspection on the valuation target on such basis to collect required information for the asset valuation, understand the asset, business and financial conditions of the valuation target, macro and regional economic factors affecting the operation of the enterprise and the current conditions and prospects of the industry and pay attention to the legal ownership of the valuation target. Verify and validate the materials used in the asset valuation in accordance with laws.

(III) Assessment and estimation

Analyze, summarize and sort the materials on valuation based on the specific circumstances of the asset valuation business and form the basis for the assessment and estimation and the preparation of the valuation report. Select the valuation methodology based on the valuation purpose, the valuation target, the type of value, the collection of materials and relevant conditions as well as the Practice Guidelines for Asset Valuation. Select the corresponding formula and parameters in analysis, calculation and judgment based on the valuation methodology adopted and analyze and judge valuation assumptions and restrictions which may affect the valuation and the valuation conclusion and arrive at the estimation results. Analyze and compare the estimation results arrived at from different methodologies and form the valuation conclusion.

(IV) Issuance of report

The responsible persons of the project prepare the preliminary asset valuation report based on the valuation conclusion after assessment and estimation. The firm carries out internal review on the preliminary asset valuation report in accordance with laws, administrative regulations, the standards for asset appraisal and the internal quality control system and issue the formal asset valuation report after conducting necessary communications on relevant contents of the valuation report with the clients and other relevant parties.

IX. VALUATION ASSUMPTIONS

The main asset valuation assumptions adopted in this valuation report include:

(I) Basic Assumptions

(1) Transaction assumption. The transaction assumption is that all assets to be appraised are in the process of transaction, and the appraisers will make estimation in a simulated market according to the transaction conditions (among others) of assets to be appraised.

(2) Open market assumption. The open market assumption is that assets may be traded freely in a highly competitive market and the price of which is determined based on the judgment of both independent trading parties over the value of assets under certain supply and demand conditions. An open market refers to a market which is highly competitive with various buyers and sellers. In the open market, both parties of a transaction are equal, which means they are given the opportunity and time to acquire sufficient market information. Buyers and sellers are supposed to be acting voluntarily and rationally rather than being coerced or confined during the transaction.

(3) Assumption on continuing operation. Assumption on continuing operation refers to the assumption that the operating activities of an operating entity will continue and will not be suspended or terminated in the foreseeable future.

(II) Specific Assumptions

(1) There will be no significant changes in the relevant prevailing laws, regulations and policies as well as macro-economic situation of the country and place where the valuation target resides, significant changes in the political, economic or social environment in the regions in which the parties to the transaction are located, or material adverse effects arising from other unforeseeable factors and force majeure.

(2) It is assumed that the enterprise will have balanced cash inflows and cash outflows throughout the year based on its actual operation conditions.

(3) It is assumed that the current and future operators and managers of the valuation target exercise due diligence, and the management of such entity are competent in discharging their duties to ensure that the valuation target is able to operate on a going concern basis, the development, production, and operation plans of which can be fulfilled as scheduled.

(4) It is assumed that the valuation target is in full compliance with all relevant national laws and regulations, without committing any significant violation that prejudices corporate development and realization of revenue.

(5) It is assumed that the accounting policies to be adopted by such enterprise in the future are basically consistent with those adopted during the preparation of this report in material aspects.

(6) It is assumed that, based on its current management approaches and standards, the enterprise's scope and model of business will remain consistent with the current orientation.

(7) It is assumed that there will be no material changes in the requirements currently implemented or determined to be implemented regarding the relevant interest rates, exchange rates, taxation bases and tax rates, and government levies according to national regulations.

(8) It is assumed that no other force majeure and unforeseeable factors will have a material adverse effect on the enterprise.

According to the requirements of the asset valuation, these assumptions are deemed to be valid on the Valuation Benchmark Date. We will not accept any responsibility for any different valuation conclusions resulting from any changes in these assumptions when the economic environment changes significantly in the future.

X. VALUATION CONCLUSION

(I) Valuation result using the asset-based approach

On the Valuation Benchmark Date, being 31 December 2020, the book value of the assets, liabilities and net assets of Dong Fang International Container (Qidong) Co., Ltd. was RMB3,452,658,300, RMB2,021,150,500 and RMB1,431,507,800, respectively. The total assets, liabilities and net assets were RMB3,591,891,000, RMB2,021,150,500 and RMB1,570,740,500, respectively, after the valuation. The appraised value of total assets represented an appreciation of RMB139,232,700 over the book value with an appreciation rate of 4.03%. The appraised value of net assets represented an appreciation of RMB139,232,700 over the book value with an appreciation rate of 9.73%. Please refer to the table below for details:

Table of Summary of Asset Valuation Results
Valuation Benchmark Date: 31 December 2020

Valuation target: Dong Fang International Container (Qidong) Co., Ltd. Unit: RMB0'000

Item		Book Value A	Appraised Value B	Appreciation/ Depreciation C=B-A	Appreciation Rate D=C/A×100%
1	Current assets	245,017.68	247,651.36	2,633.68	1.07%
2	Non-current assets	100,248.15	111,537.74	11,289.59	11.26%
3	Including: Fixed assets	74,883.68	84,136.69	9,253.01	12.36%
4	Construction-in-progress	2,346.86	2,048.11	-298.75	-12.73%
5	Right-of-use assets	810.63	810.63	0.00	0.00%
6	Intangible assets	17,659.27	19,995.15	2,335.88	13.23%
7	Long-term prepaid expenses	31.15	30.60	-0.55	-1.77%
8	Other non-current assets	4,516.56	4,516.56	0.00	0.00%
9	**Total assets**	345,265.83	359,189.10	13,923.27	4.03%
10	Current liabilities	201,836.31	201,836.31	0.00	0.00%
11	Non-current liabilities	278.74	278.74	0.00	0.00%
12	**Total liabilities**	202,115.05	202,115.05	0.00	0.00%
13	**Net assets (Owner's equity)**	143,150.78	157,074.05	13,923.27	9.73%

(II) Valuation result using the income approach

On the Valuation Benchmark Date, being 31 December 2020, the appraised value of all shareholders' equity interests in Dong Fang International Container (Qidong) Co., Ltd. was RMB1,548,577,700, representing an appreciation of RMB117,069,900 over the book value of all shareholders' equity interests of RMB1,431,507,800 with an appreciation rate of 8.18%.

(III) Differences between the two valuation results on all shareholders' equity interests are set out in the table below:

Unit: RMB0'000

Valuation Approach	Book Value	Appraised Value	Appreciation	Appreciation Rate
Asset-based approach	143,150.78	157,074.05	13,923.27	9.73%
Income approach		154,857.77	11,706.99	8.18%
Differences between the approaches		2,216.28		

(IV) Analysis and explanations to the selection of the valuation conclusion

The asset-based approach is to appraise the enterprise value through appraising value of each single asset taking into consideration the relevant liabilities from the perspective of asset replacement. The income approach is to appraise the enterprise value through capitalisation or discount of the expected revenue of the valuation target from the perspective of making judgment on the profitability of assets. It is to appraise the enterprise value based on the total revenue of the enterprise in the future through the reverse thinking of "Capital-searching with the Profit" to achieve "Profit-taking with the Capital".

Based on specific conditions of this valuation, the valuation target is engaged in the production and sales of containers and is greatly exposed to the impacts of the global economy and the industry market with certain market periodicity. As it is difficult to accurately estimate and measure the changes and fluctuations of the industry market in the following years, the result using the asset-based approach is more practical and reasonable as compared with the result using the income approach.

Based on the above factors, the valuation result using the asset-based approach was adopted as the final valuation conclusion. The valuation conclusion is that the value of all shareholders' equity interests in Dong Fang International Container (Qidong) Co., Ltd. involved in the proposed acquisition of 100% of the equity interests in four companies held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares by COSCO SHIPPING Development Co., Ltd. was RMB1,570,740,500 (in word: ONE BILLION FIVE HUNDRED SEVENTY MILLION SEVEN HUNDRED FORTY THOUSAND FIVE HUNDRED ONLY, rounding to the nearest hundred).

The validity of the valuation conclusion revealed in the valuation report shall be one year from the Valuation Benchmark Date, being 31 December 2020, to 30 December 2021.

XI. EXPLANATIONS TO SPECIAL MATTERS

(I) Significant use of expert work and relevant reports

The unqualified audit report issued by Ernst & Young Hua Ming LLP for the years 2019 and 2020 were used in this valuation and the audited book values were adopted as the book values for valuation.

(II) Incomplete or defective ownership information;

(1) As of the Valuation Benchmark Date, the owners registered in the driving permit of vehicles under the valuation scope are inconsistent with the name of the enterprise, details of which are as follows:

License plate no.	Name and model of vehicle	Manufacturer	Unit	Commencement date	Net book value *(RMB)*	Owners registered in the driving permit
Hu NK6813	Volkswagen sedan SVW71810HJ	SAIC Volkswagen	Vehicle	2013.05	16,608.75	Shanghai Baoshan Pacific Container Co., Ltd. (上海寶山太平貨櫃有限公司)
Hu ACT985	Buick MPV SGM6531UAAB	SAIC General Motors	Vehicle	2014.05	28,386.27	Shanghai Pacific International Container Co., Ltd.
Hu B98J80	Toyota Camry GTM7251GE	GAC Toyota	Vehicle	2014.07	25,298.00	Shanghai Baoshan Pacific Container Co., Ltd. (上海寶山太平貨櫃有限公司)

According to the enterprise and due to the traffic restriction on vehicles with other cities' license plates in urban areas of Shanghai, the company registered the three vehicles under the name of other companies to facilitate customers' commute and work convenience, but the ownership of such vehicles solely belongs to Dong Fang International Container (Qidong) Co., Ltd. The valuation has not considered the fees on the change of the driving permit and the impacts of contingent ownership disputes.

(2) As of the Valuation Benchmark Date, Dong Fang International Container (Qidong) Co., Ltd. had properties and building of 9,715.31 sq.m. on its book, but it has not applied for the housing ownership certificate and has not obtained permits on listing, approval and construction works planning permits, construction works commencement permits, construction works completion and acceptance filing documents and other approvals. For buildings without ownership certificates, appraisers determine the legal property ownership and the floor area based on relevant materials provided by the valuation target without considering subsequent fees on the application for permits and the impacts of possible fines on incomplete approval procedures. A breakdown of buildings without ownership certificates is set out below:

No.	Ownership certificate no.	Names of buildings	Structure	Date of completion	Floor area (m^2)	Book value (RMB) Original value	Net value
10	Nil	West gate booth	Brick concrete	2016-01-31	48.00	140,679.83	113,922.56
11	Nil	North gate booth	Brick concrete	2016-01-31	82.45	246,694.91	199,773.60
15	Nil	Gate booth	Brick concrete	2014-10-27	51.00	192,756.67	146,626.52
17	Nil	South gate booth-Phase II	Brick concrete	2018-11-29	78.50	389,220.76	363,946.17
18	Nil	North gate booth-Phase II	Brick concrete	2018-11-29	76.00	374,340.10	350,031.84
19	Nil	Thermal test room	Steel structure	2016-01-22	181.00	1,123,896.53	910,131.74
23	Nil	Rigid test room	Steel structure	2016-01-31	306.00	947,803.77	767,531.69
24	Nil	Carpentry yard	Steel structure	2016-01-31	215.00	613,713.74	496,985.49
26	Nil	Forklift repairing room	Steel structure	2014-05-28	345.00	492,254.31	368,597.73
28	Nil	35KV power distribution room	Reinforced concrete	2015-11-30	587.76	988,262.00	793,023.57
30	Nil	Line-B equipment repairing room	Steel structure	2017-08-31	161.50	65,765.77	57,858.00
31	Nil	Line-A equipment repairing room	Steel structure	2017-08-31	105.30	65,765.76	57,857.99
32	Nil	Toilet	Brick concrete	2014-10-20	15.40	80,000.00	60,372.10
33	Nil	Toilet 1	Brick concrete	2015-07-30	29.80	165,854.67	130,648.86
34	Nil	Toilet 2	Brick concrete	2015-07-30	29.80	165,854.67	130,648.86
35	Nil	Toilet 3	Brick concrete	2015-07-30	29.80	90,988.00	71,674.06
36	Nil	Toilet 4	Brick concrete	2015-07-30	29.80	206,499.50	162,666.15
41	Nil	Gate booth in living areas	Reinforced concrete	2015-02-25	46.20	176,422.08	137,151.31
42	Nil	Container room in living areas	Steel structure	2015-03-12	6,016.00	15,316,806.45	11,841,294.15
46	Nil	Warehouse for reefer container accessories	Steel structure	2015-07-21	513.00	859,704.14	682,220.80
48	Nil	Ironware warehouse	Steel structure	2015-01-14	288.00	253,500.00	195,041.54
49	Nil	Warehouse for dry container plates	Steel structure	2015-07-21	480.00	1,267,559.95	1,000,492.14

(3) As of the Valuation Benchmark Date, the names of owners registered in the patent certificates for certain intangible assets under the valuation scope are inconsistent with the name of the valuation target, but the ownership of patents belongs to Dong Fang International Container (Qidong) Co., Ltd. It has completed the procedures on the change of names with the China National Intellectual Property Administration. The valuation has not considered the fees on the change of the owners registered in the patent certificates and the impacts of contingent ownership disputes. Details are set out below:

No.	Name and content	Type of patent	Registered owner	Actual owner	Patent no. or application no.	Patent application date	Date of obtaining patent
1	Manufacturing methods for containers	Invention	Singamas Container Holdings (Shanghai) Limited	Dong Fang International Container (Qidong) Co., Ltd.	200710031865.4	2007/11/28	2013/6/5
2	Open-top containers with top locking devices	Invention	Singamas Container Holdings (Shanghai) Limited	Dong Fang International Container (Qidong) Co., Ltd.	200810068149.8	2008/6/27	2013/6/26
3	A kind of plywood for the bottom of containers	Invention	Singamas Container Technical R&D (Shanghai) Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	200910104903.3	2009/1/4	2012/7/4
4	A kind of welding and positioning process for lining plates of containers	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025167.9	2017/8/16	2018/5/1
5	A kind of adsorptive dry box for containers	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721029662.7	2017/8/16	2018/5/1
6	A kind of dry box for containers	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721027654.9	2017/8/16	2018/5/1
7	A kind of ventilation system for containers	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721029751.1	2017/8/16	2018/5/1

No.	Name and content	Type of patent	Registered owner	Actual owner	Patent no. or application no.	Patent application date	Date of obtaining patent
8	A kind of multi-purpose container	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721027776.8	2017/8/16	2018/5/1
9	A kind of anti-collision devices for container corners	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025787.2	2017/8/16	2018/5/4
10	A kind of tank container	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025414.5	2017/8/16	2018/5/8
11	A kind of thermal insulation container	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025125.5	2017/8/16	2018/5/8
12	A kind of container	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025395.6	2017/8/16	2018/5/8
13	A kind of ventilation and heat dissipation devices for containers	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025205.0	2017/8/16	2018/5/8
14	A kind of fire prevention devices for containers	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721027778.7	2017/8/16	2018/5/15
15	A kind of thermal insulation container	Utility model	Qidong Singamas Energy Equipment Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201721025977.4	2017/8/16	2018/5/18
16	A kind of polyurethane bubbles generation system	Utility model	Shanghai Universal Logistics Technology Co., Ltd.	Dong Fang International Container (Qidong) Co., Ltd.	201921683631.2	2019/9/29	2020/7/3

(III) Restrictions on valuation procedures;

Nil.

(IV) Incomplete valuation materials;

Nil.

(V) Pending legal and economic matters on the Valuation Benchmark Date;

Nil.

(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target;

Nil.

(VII) Significant subsequent matters;

Nil.

(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion.

(1) As of the Valuation Benchmark Date, the land demolition funds advanced and the land prepayment actually paid in excess of the agreed price by Dong Fang International Container (Qidong) Co., Ltd. totaled RMB87,101,600.00, which was accounted for as other receivables and other non-current assets of RMB41,936,000.00 and RMB45,165,600.00, respectively. The debtors of the above amounts are the Qidong Municipal Bureau of Finance of Jiangsu Province and the Administration Committee of the Qidong Marine Shipbuilding Industrial Park. Based on the information provided by the enterprise, relevant governments have undertaken that all amounts except for the land prepayment actually carried forward will be repaid in the form of tax refunds. There was no evidence showing the above amounts cannot be recovered on the Valuation Benchmark Date. The appraised value was determined based on the book value of the above receivables in the valuation.

(2) Based on the explanations provided by the enterprise and as of the Valuation Benchmark Date, the items No. 7 customs bonded yard and No. 20 wharf project in the breakdown of the buildings valuation of the enterprise and the item No. 2 wharf project in the breakdown of the buildings valuation of Dong Fang International Container (Qidong) Co., Ltd. belong to the same building. As the project of Dong Fang International Container (Qidong) Co., Ltd. was first approved for construction, and as the shoreline is under the berth of a public wharf under planning, the self-constructed wharf was stripped off from Dong Fang International Container (Qidong) Co., Ltd.. Dong Fang International Port (Qidong) Co., Ltd. was established to promote the project. As the construction funds preliminarily provided by Dong Fang International Container (Qidong) Co., Ltd. have not been transferred to Dong Fang International Port (Qidong) Co., Ltd., the book value of the wharf was

accounted for by the two companies. Upon the confirmation by Dong Fang International Container (Qidong) Co., Ltd. and Dong Fang International Port (Qidong) Co., Ltd., the buildings applied shown as the items No. 7 customs bonded yard and No. 20 wharf project in the breakdown of the buildings valuation of Dong Fang International Container (Qidong) Co., Ltd. belong to Dong Fang International Port (Qidong) Co., Ltd.

Based on the explanations on the ownership of the buildings jointly confirmed by Dong Fang International Container (Qidong) Co., Ltd. and Dong Fang International Port (Qidong) Co., Ltd., the appraised value of the items No. 7 customs bonded yard and No. 20 wharf project in the breakdown of the buildings valuation of Dong Fang International Container (Qidong) Co., Ltd. was accounted in the books of Dong Fang International Port (Qidong) Co., Ltd. in the valuation.

XII. RESTRICTIONS ON THE USE OF THE VALUATION REPORT

(I) This Valuation Report shall be used for the valuation purpose and use set out herein. For the excerpt, reference and disclosure of all or part of the contents of the Valuation Report, relevant contents shall be reviewed by the valuation agency unless it is otherwise provided by laws and regulations and agreed by relevant parties;

(II) The valuation agency and its asset appraisers take no responsibility if the clients or other users of the Asset Valuation Report fail to use this Asset Valuation Report in accordance with the provisions of laws and administrative regulations and the scope of use set out in this Asset Valuation Report;

(III) Except for the clients, the other users of the Asset Valuation Report as agreed in the asset valuation engagement contract and the users of the Asset Valuation Report as stipulated in the laws and administrative regulations, no other institution or individual shall be the user of this report;

(IV) Users of the Asset Valuation Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

XIII. DATE OF THE VALUATION REPORT

The date of the valuation report is 27 April 2021.

Asset appraiser: Meng Qinghong

Asset appraiser: Jiang Baicheng

27 April 2021

Annexes

I. The Corresponding Economic Activity Document on the Valuation Purpose

II. The Audit Reports of the Appraised Entity

III. Business Licenses of the Clients and the Appraised Entity

IV. Major Ownership Proof Materials of the Valuation Target Involved

V. Letters of Undertaking of the Clients and Other Relevant Parties

VI. Letters of Undertaking of the Signatory Asset Appraisers

VII. The Announcement on the Registration and Filing and the Qualification Certificates of the Valuation Agency

VIII. Photocopy of the Business License of the Valuation Agency

IX. Qualification Certificates of the Asset Appraisers Responsible for the Valuation Business

X. The Asset Valuation Engagement Contract

The Asset Valuation Report was prepared in Chinese and the English translation is for reference only. In the event of any discrepancy between the English translation of the Asset Valuation Report and the Chinese version, the Chinese version shall prevail.

This Report is prepared in accordance with PRC Asset Valuation Standards

Asset Valuation Report

on Value of All Shareholders' Equity Interests in
Dong Fang International Container (Qingdao) Co., Ltd.
Involved in the Proposed Acquisition of 100% of the Equity Interests in Four Companies
Held by COSCO SHIPPING Investment Holdings Co., Ltd.
through the Issuance of Shares by COSCO SHIPPING Development Co., Ltd.

Zhong Tong Ping Bao Zi [2021] No. 12086

1 of 1

Disclaimer, Summary, Text and Annexes

China Tong Cheng Assets Appraisal Co., Ltd.
27 April 2021

CONTENTS

中通诚资产评估有限公司
China Tong Cheng Assets Appraisal Co.,Ltd.

Address: 6/F, Sinotrans Building Tower A, Building 8, No. 5 Anding Road, Chaoyang District, Beijing, China
Telephone: (86-010)64411177
Website: http://www.tccpv.com

Disclaimer

I. This Asset Valuation Report is prepared in accordance with the Basic Asset Valuation Standards issued by the Ministry of Finance and the Practice Guidelines for Asset Valuation and the Professional Code of Ethics for the Valuation of Assets issued by the China Appraisal Society.

II. The clients or other users of the Asset Valuation Report shall use the Asset Valuation Report in accordance with the laws and administrative rules and regulations and within the scope of use set out in this Asset Valuation Report. We and the asset appraisers take no responsibility for any non-compliance with the above-mentioned requirements for the use of the Asset Valuation Report by the clients or other users of the Asset Valuation Report.

This Asset Valuation Report shall only be used by the client, other users of the Asset Valuation Report as agreed in the Asset Valuation Engagement Contract and users of the Asset Valuation Report as required by laws and administrative regulations. Save for the above, no other institution or individual shall be the user of this report.

We and the asset appraisers advise that users of the Asset Valuation Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

III. We and the asset appraisers have abided by the principles of independence, objectivity and impartiality, complied with the laws, administrative regulations and asset valuation standards, and assumed responsibilities for the Asset Valuation Report issued in accordance with laws.

IV. The list of assets and liabilities and other relevant materials of the valuation target involved should be declared by the clients and the appraised entity and certified by signature, seal or other means permitted by laws. The clients and other relevant parties shall be responsible for the truthfulness, completeness and legality of the materials provided by them in accordance with laws.

V. We and the asset appraisers have no existing or expected relationship of interests with the valuation target set out in the Asset Valuation Report or with the relevant parties, and have no prejudice against the relevant parties.

VI. The asset appraisers have conducted on-site inspection on the valuation target and the assets involved in the Asset Valuation Report, and given necessary consideration to the legal ownership status of the valuation target and the assets involved, conducted verification on the relevant information regarding the legal ownership of the relevant assets, and made proper disclosure in respect of the issues identified and required the clients and other relevant parties to consummate the titles to meet the requirements on issuing the Asset Valuation Report.

VII. The analyses, judgments, and conclusions in the Asset Valuation Report issued are subject to the assumptions and restrictions in the Asset Valuation Report. The users of the Asset Valuation Report shall take into full account the assumptions, restrictions and special notes specified in the Asset Valuation Report and their impact on the valuation conclusion.

VIII. China Tong Cheng Assets Appraisal Co., Ltd. possesses the Securities and Futures Related Businesses Valuation Qualification Certificate (證券期貨相關業務評估資格證書) issued by the Ministry of Finance of the People's Republic of China and the China Securities Regulatory Commission.

Summary

I. CORRESPONDING ECONOMIC ACTIVITY UNDER THE VALUATION

The corresponding economic activity under the valuation is the proposed acquisition of 100% of the equity interests in four companies, including Dong Fang International Container (Qingdao) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares by COSCO SHIPPING Development Co., Ltd., which requires appraisal of the value of all shareholders' equity interests in Dong Fang International Container (Qingdao) Co., Ltd. involved in the economic activity.

The economic activity has been approved by China COSCO SHIPPING Corporation Limited and the Resolution at the 46th Meeting of the First Session of the Board of Directors of China COSCO SHIPPING Corporation Limited was issued (20 January 2021).

II. PURPOSE OF VALUATION

COSCO SHIPPING Development Co., Ltd. proposes to acquire 100% of the equity interests in four companies, including Dong Fang International Container (Qingdao) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares. An appraisal shall be conducted on the value of all shareholders' equity interests in Dong Fang International Container (Qingdao) Co., Ltd. involved in the economic activity to determine its market value on the Valuation Benchmark Date, being 31 December 2020, and provide value reference for the clients.

III. VALUATION TARGET AND SCOPE

The valuation target is the value of all shareholders' equity interests in Dong Fang International Container (Qingdao) Co., Ltd.

The valuation scope covers all assets and relevant liabilities of Dong Fang International Container (Qingdao) Co., Ltd.

IV. TYPE OF VALUE

Market value.

V. VALUATION BENCHMARK DATE

31 December 2020.

VI. VALUATION METHODOLOGY

The asset-based approach and the income approach were adopted in this valuation. The result derived by using the asset-based approach was adopted as the final valuation conclusion.

VII. VALUATION CONCLUSION AND ITS VALIDITY

Based on the specific circumstances of the valuation, the result derived by using the asset-based approach was adopted as the valuation conclusion.

On the Valuation Benchmark Date, being 31 December 2020, the book value of the assets, liabilities and net assets of Dong Fang International Container (Qingdao) Co., Ltd. on an unconsolidated basis amounted to RMB2,644,227,300, RMB1,527,550,600 and RMB1,116,676,700, respectively. The total assets, liabilities and net assets were RMB2,853,888,400, RMB1,520,952,000 and RMB1,332,936,400, respectively, after the valuation. The appraised value of total assets represented an appreciation of RMB209,661,100 over the book value with an appreciation rate of 7.93%. The appraised value of net assets represented an appreciation of RMB216,259,700 over the book value with an appreciation rate of 19.37%. Please refer to the table below for details:

Table of Summary of Asset Valuation Results
Valuation Benchmark Date: 31 December 2020

Valuation target: Dong Fang International Container (Qingdao) Co., Ltd. Unit: RMB0’000

	Item	Book Value A	Appraised Value B	Appreciation/ Depreciation C=B-A	Change D=C/A×100%
1	Current assets	180,802.69	180,539.99	-262.70	-0.15%
2	Non-current assets	83,620.04	104,848.85	21,228.81	25.39%
3	Including: Long-term equity investments	15,400.00	19,427.30	4,027.30	26.15%
4	Investment properties	1,507.67	1,719.76	212.09	14.07%
5	Fixed assets	55,426.24	67,415.99	11,989.75	21.63%
6	Construction-in-progress	653.42	656.97	3.55	0.54%
7	Intangible assets	10,529.44	15,525.56	4,996.12	47.45%
8	Right-of-use assets	103.27	103.27	0.00	0.00%
9	**Total assets**	264,422.73	285,388.84	20,966.11	7.93%
10	Current liabilities	151,875.25	151,875.25	0.00	0.00%
11	Non-current liabilities	879.81	219.95	-659.86	-75.00%
12	**Total liabilities**	152,755.06	152,095.20	-659.86	-0.43%
13	**Net assets (Owner’s equity)**	111,667.67	133,293.64	21,625.97	19.37%

In summary, the valuation result of all shareholders' equity interests in Dong Fang International Container (Qingdao) Co., Ltd. derived by using the asset-based approach was RMB1,332,936,400 (in word: ONE BILLION THREE HUNDRED AND THIRTY-TWO MILLION NINE HUNDRED AND THIRTY-SIX THOUSAND FOUR HUNDRED ONLY), representing an appreciation of RMB216,259,700 over the book value of all shareholders' equity interests on the unconsolidated basis of RMB1,116,676,700, with an appreciation rate of 19.73%; representing an appreciation of RMB180,851,600 over the book value of all shareholders' equity interests on the consolidated basis of RMB1,152,084,800, with an appreciation rate of 15.70%.

The validity of the valuation conclusion revealed in the valuation report shall be one year from the Valuation Benchmark Date, being 31 December 2020, to 30 December 2021.

VIII. SPECIAL MATTERS WITH IMPACTS ON THE VALUATION CONCLUSION

(I) Significant use of expert work and relevant reports

The unqualified audit report issued by Ernst & Young Hua Ming LLP for the years 2019 and 2020 were used in this valuation and the audited book values were adopted as the book values for valuation.

(II) Incomplete or defective ownership information

As of the date of on-site investigation, a total of 27 buildings were included in this valuation scope, except for 15 buildings, including main workshop, paint warehouse, steel warehouse, water paint workshop, office building, living building, etc., for which the housing ownership certificates have been obtained; housing ownership certificates have not yet been obtained for the other 12 buildings with floor area of 9,119.99 sq.m. as the relevant process for applying for the certificates has not yet started. This valuation is on the basis of the ownership statement provided by the valuation target, ascertaining that the owner of the title is Dong Fang International Container (Qingdao) Co., Ltd. The table below sets forth a breakdown of the buildings for which the housing ownership certificates have not yet been obtained:

Serial no.	No. of certificate	Building name	Structure	Date of completion	Floor area (m^2)	Book value *(RMB)* At cost	Net value
2	N/A	Garage and washing room	Brick-concrete structure	2004.04.26	560.00	170,000.00	50,284.47
3	N/A	Boiler room	Steel structure	2004.04.26	165.00	148,361.00	43,884.19
4	N/A	Reception room and workshop control room	Brick-concrete structure	2004.02.28	203.58	518,829.00	172,147.26
5	N/A	Second-stage main guardroom	Composite structures	2018.09.30	482.30	1,091,323.82	1,012,406.08
6	N/A	Second-stage logistics guardroom	Composite structures	2018.09.30	79.98	259,367.91	240,612.07

Serial no.	No. of certificate	Building name	Structure	Date of completion	Floor area (m^2)	Book value (RMB) At cost	Net value
7	N/A	Temporary canteen	Steel structure	2018.09.30	936.10	1,630,647.49	1,512,729.08
10	N/A	ISO laboratory	Steel structure	2004.04.26	267.03	160,000.00	45,378.46
11	N/A	Workshop control room	Steel structure	2004.04.26	250.00	350,371.00	99,370.85
12	N/A	Paint warehouse	Steel structure	2007.04.14	1,300.00	464,855.59	182,374.71
13	N/A	Line-B eastward extend plant	Steel structure	2010.12.27	720.00	244,000.00	139,849.10
15	N/A	Steel warehouse	Steel structure	2017.12.29	306.00	182,363.11	160,926.03
26	N/A	Steel shed	Steel structure	2009.09.25	3,850.00	408,222.30	217,663.18

(III) Restrictions on valuation procedures

Nil.

(IV) Incomplete valuation materials

Nil.

(V) Pending legal and economic matters on the Valuation Benchmark Date

Nil.

(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target

As of the Valuation Benchmark Date, the valuation target entered into a plant lease agreement with Qingdao Hongcheng Steel Products Co., Ltd. * (青島宏程型鋼製品有限公司) in August 2016, leasing a steel-structure plant and 10 units of equipment. The total plant area is 13,437 sq.m.; the area of the steel-structure plant is 6,296.46 sq.m.; and the lease term is for a total of five years from 20 August 2016 to 19 August 2021.

Since right-of-use assets and non-current liabilities due within one year were incurred arising out of the above leases, the right-of-use assets and non-current liabilities due within one year have been considered in this valuation.

(VII) Significant subsequent matters

(1) As of the Valuation Benchmark Date, the name of owner of the buildings for which the housing ownership certificates have been obtained within the valuation scope is Qingdao Pacific Container Co., Ltd. (青島太平貨櫃有限公司) (the former name of Dong Fang International Container (Qingdao) Co., Ltd.); in 2019, Hong Kong Singamas Group and China COSCO Shipping Group reached an equity transfer agreement, and Hong Kong Singamas Group wholly transferred three container manufacturing companies including Dong Fang International Container (Qingdao) Co., Ltd. to COSCO SHIPPING Investment Holdings Co., Ltd., a subsidiary of China COSCO Shipping Group. In July 2019, the Company changed its name to Dong Fang International Container (Qingdao) Co., Ltd. (寰宇東方國際集裝箱(青島)有限公司), and the names of relevant building ownership certificate owners have not been changed. Before the issuance date of this report, the name of the owner of the above-mentioned building ownership certificate has been changed.

(2) As of the Valuation Benchmark Date, the name of owner of property ownership certificates in the six parcels of land (with an aggregate area of 407,968.30 sq.m.) within the valuation scope is Qingdao Pacific Container Co., Ltd. (the former name of Dong Fang International Container (Qingdao) Co., Ltd.). In 2019, Hong Kong Singamas Group and China COSCO Shipping Group reached an equity transfer agreement, and Hong Kong Singamas Group wholly transferred three container manufacturing companies including Dong Fang International Container (Qingdao) Co., Ltd. to COSCO SHIPPING Investment Holdings Co., Ltd., a subsidiary of China COSCO Shipping Group. In July 2019, the Company changed its name to Dong Fang International Container (Qingdao) Co., Ltd. (寰宇東方國際集裝箱(青島)有限公司), and the names of relevant building ownership certificate owners have not been changed. Before the issuance date of this report, the name of the owner of the building ownership certificates of land-use-right of the six parcels of land has been changed.

(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion

Nil.

This report together with the conclusion is only intended to be used for the valuation purpose as described herein and for no other purposes.

The above contents are extracted from the text of the Valuation Report. Please read the text of the Valuation Report to understand details of the valuation and correctly comprehend the valuation conclusion.

Value of All Shareholders' Equity Interests in Dong Fang International Container (Qingdao) Co., Ltd. Involved in the Proposed Acquisition of 100% of the Equity Interests in Four Companies Held by COSCO SHIPPING Investment Holdings Co., Ltd. through the Issuance of Shares by COSCO SHIPPING Development Co., Ltd.

Zhong Tong Ping Bao Zi [2021] No. 12086

To: COSCO SHIPPING Development Co., Ltd. and COSCO SHIPPING Investment Holdings Co., Ltd.

Upon your engagement, we, China Tong Cheng Assets Appraisal Co., Ltd., have appraised the market value of all shareholders' equity interests in Dong Fang International Container (Qingdao) Co., Ltd. involved in the proposed acquisition of 100% of the equity interests in four companies, including Dong Fang International Container (Qingdao) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares by COSCO SHIPPING Development Co., Ltd. as at 31 December 2020, by way of adopting the asset-based approach and the income approach and carrying out necessary valuation procedures in accordance with relevant laws, regulations and asset valuation standards and the principles of independence, objectivity and impartiality. We hereby report the details of the asset valuation as follows.

I. OVERVIEW OF THE CLIENTS, THE APPRAISED ENTITY AND OTHER USERS OF THE ASSET VALUATION REPORT AS AGREED IN THE ASSET VALUATION ENGAGEMENT CONTRACT

(I) Overview of the Clients

The clients of the valuation are COSCO SHIPPING Development Co., Ltd. and COSCO SHIPPING Investment Holdings Co., Ltd.

(1) Client I: COSCO SHIPPING Development Co., Ltd.

Name: COSCO SHIPPING Development Co., Ltd.

Unified social credit code: 91310000759579978L

Nature of company: Joint stock limited company (Sino-foreign joint venture, listed)

Domicile: Room A-538, International Trade Center, China (Shanghai) Pilot Free Trade Zone

Legal representative: Wang Daxiong

Date of establishment: 3 March 2004

Term of operation: 3 March 2004 to no fixed term

Registered capital: RMB11,608,125,000

Scope of business: Ordinary vessel services along domestic coastal areas and the middle and lower reaches of the Yangtze River and feeder liner services for foreign trade lanes in domestic coastal areas, international vessel services (including container liner services), container construction, repair, chartering, vessel chartering, self-owned containers, sales and purchase of vessels for self-use, marine management for domestic coastal ordinary vessels (excluding bulk cargo vessels), engineering management and vessel repair, maintenance, sales, chartering, operation, assets management and other vessel management services. [Projects that need to be approved according to laws can only be operated after being approved by relevant departments].

COSCO SHIPPING Development Co., Ltd. was formerly known as "China Shipping Container Lines Company Limited". The predecessor of China Shipping Container Lines Company Limited is COSCO SHIPPING Lines Co., Ltd., a limited liability company jointly invested and established by China Shipping (Group) Company Limited, China Shipping Development Co., Ltd. and Guangzhou Maritime Transport (Group) Co., Ltd. on 28 August 1997. In March 2004, with China Shipping (Group) Company Limited as the initiator, China Shipping Container Lines Company Limited converted the net assets of the former COSCO SHIPPING Lines Co., Ltd. as at 31 October 2003 into shares and solely sponsored the establishment of an A-share listed company. It completed the initial offering of listed-foreign H shares to overseas investors and was listed for trading on the Hong Kong Stock Exchange in the same year.

COSCO SHIPPING Development Co., Ltd. is a subsidiary of China COSCO SHIPPING Corporation Limited specialized in supply-chain financial services. The company aims to bring into play the advantages in shipping logistics industry and serve upstream and downstream industrial chains with shipping finance as the foundation; to develop industrial cluster with shipping and leasing, container manufacturing, investment and services for the related industries as the core; and to develop into a "one-stop" shipping financial service platform by combining industry with finance, integrating various financial functions, and synergy of various businesses, featuring market mechanism, differentiated advantages and international vision.

COSCO SHIPPING Development Co., Ltd. is among the top global players in the industry with the shipping capacity of its container fleet and the scale of its container leasing business. As of 30 June 2020, the company's container fleet had 86 container vessels, with a total capacity of 581,600 TEU; 4 bulk cargo vessels of 64,000 DWT each; over 90 LNG vessels, heavy crane vessels and oil tankers; and an inventory of containers of approximately 3.65 million TEU. In terms of other industry leasing businesses, the company focuses on the development of financial leasing businesses in the areas of medical services, education, new energy, construction and industrial equipment. In terms of container manufacturing business, Shanghai Universal Logistics Equipment Co., Ltd., a subsidiary of the company, attained an annual manufacturing capacity of 550,000 TEU. The company also focuses on the development of investment and supply-chain financial service business, takes good advantage of its experience in the shipping industry as well as the existing resources of the financial service industry to promote the integration of industry and finance, optimize its business models and achieve the synergetic development of its shipping finance business.

(2) Client II: COSCO SHIPPING Investment Holdings Co., Ltd.

Name: COSCO SHIPPING Investment Holdings Co., Ltd.

Registration No.: 21585899-000-03-18-8

Domicile: 51/F, Cosco Tower, 183 Queen's Road Central, Hong Kong

Type of enterprise: Limited company

COSCO SHIPPING Investment Holdings Co., Ltd. was established in 1998 with registered capital of HK$500 million. Its predecessor is China Shipping (Hong Kong) Holdings Co., Ltd., a direct wholly-owned subsidiary of the former China Shipping (Group) Company Limited ("China Shipping Group"). It was the "one platform" and "three centers" of the former China Shipping Group in Hong Kong, South Korea, Japan, Australia and other countries and regions, namely the unified overseas investment and financing platform and "the profit center, the regional business management center and the service center".

In 2016, China Ocean Shipping and China Shipping were reorganized as China COSCO SHIPPING Corporation. The new group proposed the establishment of the "6+1" industrial clusters and established the financial segment as one of the pillar industries of the group to develop the financial platform of China COSCO SHIPPING. To achieve such result, COSCO SHIPPING Financial Holdings Co., Ltd. and COSCO SHIPPING Development Co., Ltd. (the former China Shipping Container Lines Co., Ltd.) developed the financial platform of the new group through major asset reorganizations.

On 1 June 2020, COSCO SHIPPING Financial Holdings Co., Ltd. officially changed its name to "COSCO SHIPPING Investment Holdings Co., Ltd.". As the overseas investment holding platform for the shipping and logistics industry of China COSCO SHIPPING Corporation, COSCO SHIPPING Investment Holdings Co., Ltd. will be devoted to the exploration of overseas financial investment businesses in the following years. It will also provide investment management services for China COSCO SHIPPING Corporation and its subsidiaries and integrate resources on the industrial chains to promote the synergetic development of all businesses.

(II) Overview of the Appraised Entity

The appraised entity under the valuation is Dong Fang International Container (Qingdao) Co., Ltd.

(1) Registration information

Name: Dong Fang International Container (Qingdao) Co., Ltd.

Unified social credit code: 91370211743979264K

Type of enterprise: Limited liability company (solely funded by Taiwan, Hong Kong or Macao corporate body)

Domicile: No. 373 Maoshan Road, Qingdao Economic and Technological Development Zone

Legal representative: Wang Liang

Date of establishment: 14 January 2003

Term of operation: 14 January 2003 to 14 January 2053

Registered capital: US$126,605,700

Scope of business: Production and manufacture of standard containers, special containers, thermal insulation container, container components and parts and wholesale and retail and import and export of the above products; container repair, storage, loading and unloading, handling. (Business activities for projects that need to be approved according to law shall be subject to the approval of relevant departments).

(2) Historical development, shareholders and contributions

Dong Fang International Container (Qingdao) Co., Ltd. (previously known as Qingdao Pacific Container Co., Ltd.) was established on 13 January 2003 with a registered capital of US$12.00 million contributed jointly by Singamas Container Enterprise Co., Ltd. and Hiking Group Co., Ltd., of which US$5.40 million and US$6.60 million were invested by Hiking Group Co., Ltd. and Singamas Container Enterprise Co., Ltd., respectively. After that, Hiking Group Co., Ltd. transferred its equity interests in Dong Fang International Container (Qingdao) Co., Ltd. to Singamas Container Enterprise Co., Ltd. twice, and after the undistributed profits were converted into share capital twice, the registered capital of Dong Fang International Container (Qingdao) Co., Ltd. reached US$26,605,700, and the shareholding percentage of Singamas Container Enterprise Co., Ltd. was 100%.

On 28 May 2015, upon the decision of shareholders of Dong Fang International Container (Qingdao) Co., Ltd., it increased additional registered capital by US$100 million for additional construction of refrigerated containers in Dong Fang International Container (Qingdao) Co., Ltd.

In 2019, Hong Kong Singamas Group and China COSCO SHIPPING reached an equity transfer agreement, and Hong Kong Singamas Group wholly transferred three container manufacturing companies including the appraised entity to COSCO SHIPPING Investment Holdings Co., Ltd. under China COSCO Shipping Group. In July 2019, the company changed its name to Dong Fang International Container (Qingdao) Co., Ltd, which was managed by Shanghai Universal Logistics Equipment Co., Ltd. under COSCO SHIPPING Development. The closing has taken place in August.

As at the Valuation Benchmark Date, the shareholders of Dong Fang International Container (Qingdao) Co., Ltd. and their contributions are set out in the table below:

Unit: US$0'000

Name of shareholder	Subscribed contribution	Paid-in contribution	Contribution proportion
COSCO SHIPPING Investment Holdings Co., Ltd.	12,660.57	12,660.57	100%
Total	12,660.57	12,660.57	100%

(3) Corporate structure, organizational structure and employees

As at the Valuation Benchmark Date, Dong Fang International Container (Qingdao) Co., Ltd. comprises one chairman and general manager, one party's branch secretary general and deputy general manager and three deputy general managers. There are the procurement management department, the comprehensive management department, the financial management department, the market service department, the R&D center, the quality management department, the production department, the equipment management department, the safety design supervision department, the material management department and other departments, among which the quality management department consists of the dry container quality management department and the reefer container quality management department, and the production department consists of dry container production department, the special container production department and the reefer container production department. At present, the number of employees of the company is 2,282, of which manufacturing personnel account for more than 90%.

(4) Principal businesses

The principal products of Dong Fang International Container (Qingdao) Co., Ltd. include various type of containers, covering standard dry containers, 53-foot North American inland containers, reefer containers and special containers. There are three production lines, of which production line A produces standard dry containers and 53-foot North American inland containers; production line B produces special containers; production line C produces reefer containers. Production line C was put into operation in April 2018.

Design production capacity: an annual design capacity of 160,000 TEU for dry containers production line and an annual design capacity of 60,000 TEU for reefer containers production line (two shifts).

(5) Customers and suppliers

(a) Sales and customers

Most of the sales orders, product pricing and sales revenue of Dong Fang International Container (Qingdao) Co., Ltd. are under the unified coordination of the superior company and details are as follows:

Sales orders: The headquarters in Hong Kong and Shanghai negotiate with customers and the orders obtained through the headquarters account for a majority of the overall sales. The business teams of all factories are mainly responsible for undertaking orders allocated by the headquarters and coordinating with the production department, the procurement department, the R&D center and other departments in the arrangement of production. The business team of Qingdao container factory also undertakes certain orders for special containers and the Qingdao container factory directly negotiates with customers on such orders.

Sales pricing: The basic prices of containers are determined by the marketing department of the headquarters based on the price of inventories provided by factories and the labor costs and manufacturing fees. The sales staff of the headquarters adjust the basic prices based on the market conditions and the negotiation results with customers to finally determine the prices.

Execution of contracts: There are two ways under which contracts are executed. Firstly, the factory and COSCO SHIPPING Investment Holdings Co., Ltd. sign sales contracts and COSCO SHIPPING Investment Holdings Co., Ltd. signs sales contracts with customers. Secondly, customers directly sign contracts with all factories.

Collection of sales amounts: For sales contracts entered into between COSCO SHIPPING Investment Holdings Co., Ltd. and customers, the sales amounts are collected by COSCO SHIPPING Investment Holdings Co., Ltd. and distributed to all factories based on the capital planning and the capital demands of all factories. For contracts entered into between factories and customers, customers directly make payment to factories.

Allocation of orders: After obtaining orders from customers, the headquarters will designate factories to conduct production based on customers' requirements and the production arrangement of all factories.

After-sale services: The business departments of all factories are mainly responsible for following up.

(b) Suppliers

Major materials (steel materials, stainless steel, stainless iron, wooden plates and paints) required in production are negotiated between the procurement department of Shanghai Universal Logistics Equipment Co., Ltd. and suppliers based on the demands of factories to determine the procurement price and quantity. All factories enter into procurement contracts with suppliers based on the orders of the procurement department of Shanghai Universal Logistics Equipment Co., Ltd. and make payment. The factories are responsible for price negotiation, execution of contracts and payment for other materials except for those under centralized procurement.

(6) Historical operation

Major production equipment of Dong Fang International Container (Qingdao) Co., Ltd. includes production equipment for dry containers: pre-processing and molding lines for side plates, pre-processing line for top plates, pre-processing line for thick plates, pre-processing line for profiles, cutting and folding lines for bottom cross beams, rolling line for bottom and side beams, punch, shearing machine for thick and thin plates, bending machine/gantry pressing machine and 2 production lines (including subassembly welding machine, general assembly welding machine, secondary sanding line, tertiary painting line and drying room, refining line, etc.); reefer containers production equipment: integrated line for top, bottom and side beams, foaming production line, press machine (punch), stainless high-speed coil feed line, integrated line for sanding, painting and drying of steel gates, shearing machine for carbon steel, shearing machine for stainless thin plates, bending machine, gantry pressing machine, coil feed line for aluminum plates and 1 production line (including sanding line for front and back frames, welding line for front and back frames, painting line for subassembly makeup, sanding line for bottom frame, general assembly welding machine, secondary sanding line, tertiary painting line and drying room, refining line, etc.).

The production and operation of Dong Fang International Container (Qingdao) Co., Ltd. in the historical years are set out in the table below:

Unit: RMB0'000

Item	2018	2019	2020
Revenue from principal businesses	157,985.53	199,633.18	251,316.28
Dry containers (TEU)	104,475.00	70,719.3	91,600.04
Revenue from dry containers	140,595.29	101,713.11	133,904.63
Reef container (TEU)	6,331.00	38,343.00	49,037.00
Revenue from reef containers	17,390.23	97,920.04	117,411.66
Revenue from other businesses	879.85	5,306.15	3,442.65
Total revenue	158,865.38	204,939.33	254,758.93

Major financial data and accounting statements of Dong Fang International Container (Qingdao) Co., Ltd. on an unconsolidated basis in recent years have been audited by professional auditors and are set out in the table below:

Unit: RMB0'000

Item	31 December 2018	31 December 2019	31 December 2020
Total assets	170,262.34	202,137.88	264,422.73
Including: fixed assets	39,819.36	58,888.52	55,426.24
Total liabilities	33,168.91	70,768.88	152,755.05
Net assets	137,093.44	131,369.00	111,667.67
Item	**2018**	**2019**	**2020**
Revenue	158,865.38	204,939.32	254,758.93
Total profit	-589.89	-5,764.93	14,338.96
Net profit	-589.89	-5,764.93	13,519.85

Note: The data for 2018, 2019 and 2020 was from the audit report issued by Ernst & Young Hua Ming Certified Public Accountants (LLP).

(III) Relationship between the Clients and the Appraised Entity

COSCO SHIPPING Development Co., Ltd., Client I, proposes to acquire 100% of the equity interests in four companies, including Dong Fang International Container (Qingdao) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd., Client II, through the issuance of shares. COSCO SHIPPING Investment Holdings Co., Ltd., Client II, is a shareholder of Dong Fang International Container (Qingdao) Co., Ltd., the appraised entity, with a shareholding proportion of 100%.

(IV) Overview of Other Users of the Valuation Report

Except for relevant parties in the economic activity, competent administrative review authorities and other users of the report as provided by national laws and regulations, no other users of the report were provided in the Asset Valuation Engagement Contract.

II. PURPOSE OF VALUATION

As COSCO SHIPPING Development Co., Ltd. proposes to acquire 100% of the equity interests in four companies, including Dong Fang International Container (Qingdao) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares, it has to appraise all shareholders' equity interests in Dong Fang International Container (Qingdao) Co., Ltd. involved in the economic activity to determine its market value on the Valuation Benchmark Date, being 31 December 2020, and provide value reference for the clients.

The said economic activity has been approved by China COSCO SHIPPING Corporation Limited and the Resolution at the 46th Meeting of the First Session of the Board of Directors of China COSCO SHIPPING Corporation Limited was issued (20 January 2021).

III. VALUATION TARGET AND SCOPE

(I) Valuation Target and Scope

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target is the value of all shareholders' equity interests in Dong Fang International Container (Qingdao) Co., Ltd.

The valuation scope covers all assets and liabilities of Dong Fang International Container (Qingdao) Co., Ltd. on the Valuation Benchmark Date corresponding to the valuation target. The corresponding accounting statements of the assets and liabilities declared by the enterprise have been audited by Ernst & Young Hua Ming Certified Public Accountants (LLP) and the audit report numbered An Yong Hua Ming (2021) Shen Zi No. 61227808_B02 was issued on 27 April 2021 with standardized unqualified opinions. Details of assets and liabilities of the enterprise are set out in the table below:

Unit: RMB

No.		Item	Book value
1	**I.**	**Total current assets**	1,808,026,891.88
2		Monetary funds	65,029,436.74
3		Trade receivable	860,187,613.99
4		Prepayment	287,884,482.62
5		Other receivables	1,160,602.03
6		Inventories	453,847,776.33
7		Other current assets	139,916,980.17
8	**II.**	**Total non-current assets**	836,200,364.18
9		Long-term equity investment	154,000,000.00
10		Investment properties	15,076,658.50
11		Fixed assets	554,262,437.04
12		Construction in progress	6,534,192.38
13		Intangible assets	105,294,375.79
14		Right-of-use assets	1,032,700.47
15	**III.**	**Total assets**	2,644,227,256.06
16	**IV.**	**Total current liabilities**	1,518,752,463.52
17		Short-term borrowings	1,000,000,000.00
18		Notes payable	10,224,913.17
19		Trade payable	310,424,773.08
20		Contract liabilities	7,992,109.04
21		Employee compensation payable	126,787,122.41
22		Taxes payable	1,944,937.16
23		Other payables	60,259,754.87
24		Non-current liabilities due within one year	1,118,853.79
25	**V.**	**Total non-current liabilities**	8,798,061.08
26		Other non-current liabilities	8,798,061.08
27	**VI.**	**Total liabilities**	1,527,550,524.60
28	**VII.**	**Net assets**	1,116,676,731.46

(II) Layout and Characteristics of Physical Assets

As at the Valuation Benchmark Date, physical assets of the enterprise include: inventories, investment properties, fixed assets and construction in progress. Inventories mainly are raw materials and finished products. Fixed assets mainly include buildings and equipment. Construction in progress mainly includes civil engineering and equipment installment projects. The specific layout is as follows:

(1) Inventories

(a) It has a total of 4,693 items of raw materials, mainly including three major materials, steel materials, paints and floors, as well as other accessories and indirect materials and other raw materials for product production, and they are placed in the warehouse, rental warehouse and external processing factory warehouse of the enterprise.

(b) It has a total of 10 finished products, mainly including various finished but unsold containers.

(2) Investment properties

There is one investment property under the scope of this valuation with a gross floor area of 8,435.63 sq.m, the details of which are as follows:

The workshop is a steel structure production building with a gross floor area of 8,435.63 sq.m., which was completed and put into use in September 2018. The cornice height of the building is approximately 12 meters, and the building adopts reinforced concrete independent column foundation. The main body is made by steel column, steel beam and crane steel beam, color steel sandwich panel wall, cement mortar floor, part of self-leveling floor, steel-structure supported color steel sandwich panel roof. Factory gate is steel rolling shutter door with plastic steel window, installation engineering includes electrical, water supply and drainage, ventilation, fire protection, etc. As of the Valuation Benchmark Date, the building was leased out and in good condition with regular repairing and maintenance.

As of the date of on-site investigation, the appraised investment properties have gone through the property right certificate, real estate certificate Lu (2021) Qing Dao Shi Huang Dao Qu Bu Dong Chan Quan No. 0290847, the holder of the right is Dong Fang International Container (Qingdao) Co., Ltd. As of the Valuation Benchmark Date, no other rights setting has been found in the appraised investment properties pursuant to the information obtained.

(3) Buildings under fixed assets

The scope of the valuation covers buildings (structures) owned by Dong Fang International Container (Qingdao) Co., Ltd., including a total of 27 buildings with a total floor area of 141,387.38 sq.m. Major buildings include workshops, plants and supporting production buildings, which were completed and put into use in 2004 to 2019. It has a total of 73 structures, most of which are yards, bounding walls, floors and awnings and were completed and put into use in 2004 to 2019. Details of major buildings (structures) are as follows:

(a) 3# Workshop: The building is a steel structure production building with a gross floor area of 35,267.44 sq.m, which was completed and put into use in September 2018. The cornice height of the building is approximately 12 meters, and the building adopts reinforced concrete independent column foundation. The main body is made by steel column, steel beam and crane steel beam, color steel sandwich panel wall, cement mortar floor, part of self-leveling floor, steel-structure supported color steel sandwich panel roof. Factory gate is steel rolling shutter door with plastic steel window, installation engineering includes electrical, water supply and drainage, ventilation, fire protection, etc. As of the Valuation Benchmark Date, the building was in good condition with regular repairing and maintenance.

(b) ISO laboratory: The building is a steel structure production building with a gross floor area of 267.03 sq.m, which was completed and put into use in April 2004. The cornice height of the building is approximately 5 meters, and the building adopts reinforced concrete independent column foundation. The main body is made by steel column, steel beam, color steel sandwich panel wall, cement mortar floor, steel-structure supported color steel sandwich panel roof. Factory gate is plastic steel door with plastic steel window, installation engineering includes electrical, water supply and drainage, ventilation, fire protection, etc. As of the Valuation Benchmark Date, the building was in good condition with regular repairing and maintenance.

(c) Main guard of Phase II: The building is a mixed structure industrial auxiliary building with a gross floor area of 482.30 sq.m, which was completed and put into use in September 2018. The cornice height of the building is approximately 4 meters. The building adopts reinforced concrete independent column foundation. The main body is made by structural column, ring beam, brick wall, external wall plastering, mortar painting, internal wall scraping, and the ground is brick floor, cast-in-place roof, aluminum alloy door with plastic steel window. Installation engineering includes electrical, communication, etc. As of the Valuation Benchmark Date, the building was in good condition with regular repairing and maintenance.

(d) The yard: The building has a length of 414 meters and a width of 136 meters with a floor area of 56,304.00 sq.m. The yard was competed in March 2004 with reinforced concrete roof. It is under good conditions with regular repairing and maintenance.

(e) Walls in reefer container plants: The building refers to bounding walls with a length of 1,382 meters and a height of approximately 3 meters. It was completed in June 2016. It is under good conditions with regular repairing and maintenance.

As of the date of on-site investigation, a total of 27 buildings were included in this valuation scope, except for 15 buildings including main workshop, paint warehouse, steel warehouse, water-based paint workshop, office and residential building, etc., the other 12 buildings with an area of 9,119.99 sq.m. have not obtained land use rights certificates as they have not gone through the certification procedures. This valuation is on the basis of the property right statement provided by the appraised entity and the owner of the appraised entity is confirmed as Dong Fang International Container (Qingdao) Co., Ltd. The breakdown of the unlicensed buildings is as follows:

No. of corresponding breakdown table	Ownership certificate no.	Names of buildings	Structure	Date of completion	Floor area (m^2)	Book value (RMB) Original value	Original value
2	Nil	Garage and toilet	Brick concrete	26 April 2004	560.00	170,000.00	50,284.47
3	Nil	Boiler room	Steel structure	26 April 2004	165.00	148,361.00	43,884.19
4	Nil	Reception room and workshop control room	Brick concrete	28 February 2004	203.58	518,829.00	172,147.26
5	Nil	Main guard of Phase II	Mixture	30 September 2018	482.30	1,091,323.82	1,012,406.08
6	Nil	Logistics guard of Phase II	Mixture	30 September 2018	79.98	259,367.91	240,612.07
7	Nil	Temporary canteen	Steel structure	30 September 2018	936.10	1,630,647.49	1,512,729.08
10	Nil	ISO laboratory	Steel structure	26 April 2004	267.03	160,000.00	45,378.46
11	Nil	Workshop control room	Steel structure	26 April 2004	250.00	350,371.00	99,370.85
12	Nil	Paint warehouse	Steel structure	14 April 2007	1,300.00	464,855.59	182,374.71
13	Nil	Line B east expansion plant	Steel structure	27 December 2010	720.00	244,000.00	139,849.10
15	Nil	Material warehouse	Steel structure	29 December 2017	306.00	182,363.11	160,926.03
26	Nil	Steel shed	Steel structure	25 September 2009	3,850.00	408,222.30	217,663.18

As at the Valuation Benchmark Date, the buildings (structures) to be appraised and the land occupied were not under mortgage or guarantee. Besides, the buildings under fixed assets under the scope of valuation were not involved in lawsuits or other matters.

(4) Equipment under fixed assets

Equipment under fixed assets under the scope of valuation is as follows:

(a) Machinery equipment

Most of machinery equipment to be appraised are production equipment and ancillary equipment and facilities for containers. Major equipment includes the production line for containers, steel plate shearers, bending machines, welding machines and other steel processing equipment as well as ancillary craning and power transformer and distribution equipment. Equipment were under ordinary maintenance and normal use as at the Valuation Benchmark Date.

(b) Vehicles

Most of vehicles to be appraised are office vehicles, mainly including Buick GL8, Passat, Jinbei and other models. As at the Valuation Benchmark Date, the vehicles were under normal maintenance and use.

(c) Electronic equipment

Most of electric equipment to be appraised are computers, printers, air-conditioners and network equipment. As at the Valuation Benchmark Date, the equipment was under normal maintenance and use.

(5) Construction in progress – civil engineering

A total of one item of civil engineering under construction-in-progress were under the scope of valuation and mainly include reefer container office complex building with a book value of RMB169,056.61 as at the Valuation Benchmark Date, which represents an upfront expenses of this project.

(6) Construction-in-progress-equipment installation project

Construction-progress-equipment installation project mainly refers to the renovation of equipment facilities and some equipment in the refrigerated container factory under construction. As of the Valuation Benchmark Date, the book value is RMB6,365,135.77.

(III) Intangible Assets Accounted for or Not Accounted for as Declared by the Enterprise assets

(1) Intangible assets accounted for as declared by the enterprise

(a) A total of 7 items of land use rights under intangible assets were within the scope of valuation with a total site area of 483,472.30 sq.m. Its original book value was RMB117,650,013.70 and the book value on the Valuation Benchmark Date was RMB104,908,996.65. Details are set out below:

Summary of land registration of intangible assets

Unit: RMB

Real estate tile certificate no.	Date of acquisition	Nature of land	Use of land	Area (m²)	Original book value	Book value
Lu (2021) Qingdao Huangdao Immovable Property Right No. 029084	31 January 2003	Transfer	Industrial land	186,040.00	12,419,280.00	8,155,327.20
Lu (2021) Qingdao Huangdao Immovable Property Right No. 0290851		Transfer	Industrial land			
Lu (2021) Qingdao Huangdao Immovable Property Right No. 0290854		Transfer	Industrial land			
Lu (2021) Qingdao Huangdao Immovable Property Right No. 0290855		Transfer	Industrial land			
Lu (2021) Qingdao Huangdao Immovable Property Right No. 0290850	15 January 2013	Transfer	Industrial land	22,378.30	7,475,722.90	6,285,522.18
Lu (2021) Qingdao Huangdao Immovable Property Right No. 0290847, Lu (2021) Qingdao Huangdao Immovable Property Right No. 0290852, Lu (2021) Qingdao Huangdao Immovable Property Right No. 0290848	25 September 2015	Transfer	Industrial land	199,550.00	59,251,603.73	53,007,540.79
Lu (2021) Qingdao Huangdao Immovable Property Right No. 0067456	11 November 2019	Transfer	Industrial land	75,504.00	38,503,407.07	37,460,606.48
	Total			483,472.30	117,650,013.70	104,908,996.65

(b) The book value of other intangible assets – other intangible assets totaling 11 items within valuation scope was RMB385,379.14 and most of them are enterprise design and office software. Details are set out in the table below:

Unit: RMB

No.	Name and content	Date of acquisition	legal/ expected useful life	Original book value	Book value
1	Office software and CAD drawing software	1 March 2013	10	35,008.55	7,585.11
2	GREO software	1 June 2013	10	111,111.12	26,851.66
3	Autodesk design software	1 March 2014	10	16,666.67	5,277.69
4	Autodesk design software	1 April 2014	10	38,888.89	12,639.05
5	Office software	1 June 2014	10	134,615.38	45,993.80
6	Office software	1 May 2015	10	59,829.06	25,925.79
7	Office software	1 March 2019	10	33,620.69	27,456.95
8	Office software	1 June 2019	10	44,867.26	37,763.35
9	Yongyou software	28 December 2019	3	306,603.75	195,885.74
		Total		781,211.37	385,379.14

(2) Intangible assets not accounted for as declared by the enterprise

As of the Valuation Benchmark Date, the intangible assets not accounted for by the appraised entity are as follows:

Name of invention	Patent no.	Date of application	Date of announcement of authorization	Type	Owner of patent rights
A kind of new hatch covering for container	ZL 2019 2 1547100.0	17 September 2019	8 September 2020	Utility model	Dong Fang International Container (Qingdao) Co., Ltd.
A kind of new transportation carrier	ZL 2019 2 1624758.7	27 September 2019	8 September 2020	Utility model	Dong Fang International Container (Qingdao) Co., Ltd.

(IV) Type and Quantity of Off-balance Assets Declared by the Appraised Entity

As of the Valuation Benchmark Date, the off-balance-sheet assets of the appraised entity are as following:

Name of invention	Patent no.	Date of application	Date of announcement of authorization	Type	Owner of patent rights
A kind of new hatch covering for container	ZL 2019 2 1547100.0	17 September 2019	8 September 2020	Utility model	Dong Fang International Container (Qingdao) Co., Ltd.
A kind of new transportation carrier	ZL 2019 2 1624758.7	27 September 2019	8 September 2020	Utility model	Dong Fang International Container (Qingdao) Co., Ltd.

(V) Type, Quantity and Book Value (or Appraised Value) of Assets Involved in Making Reference to the Conclusions of Reports Issued by Other Institutions

Nil.

IV. TYPE AND DEFINITION OF VALUE

The types of valuation value include the market value and other types of value except for the market value. Other types of value except for the market value generally include (but not limited to) the investment value, the value in use, the liquidation value and the residual value. The purpose of this valuation is to provide a value reference for normal transactions, and there are no special restrictions and requirements on market conditions and the use of valuation target, etc. Therefore, market value is selected as the type of value of this valuation according to industry practice.

Market value refers to the estimated value of the valuation target in an arm's length transaction made in the ordinary course of business on the Valuation Benchmark Date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

V. VALUATION BENCHMARK DATE

The Valuation Benchmark Date for this valuation is 31 December 2020.

Major factors considered by the clients in determining the Valuation Benchmark Date include the time requirement on the implementation of the economic activity. The end of the accounting period was adopted to facilitate the defining of the scope of valuation and the accurate and efficient stocktaking of assets.

VI. BASIS OF VALUATION

(I) Basis of Economic Activity

The Resolution at the 46th Meeting of the First Session of the Board of Directors of China COSCO SHIPPING Corporation Limited (20 January 2021) issued by China COSCO SHIPPING Corporation Limited.

(II) Legal Basis Provided by Laws and Regulations

(1) The Asset Appraisal Law of the People's Republic of China;

(2) The Law of the People's Republic of China on the State-owned Assets in Enterprises;

(3) The Measures for the Administration of State-owned Assets Appraisal (Order No. 91 of the State Council in 1991);

(4) The Detailed Rules for the Implementation of the Administrative Measures of State-owned Assets Valuation (Guo Zi Ban Fa [1992] No. 36 issued by former National Administration for State-owned Assets);

(5) The Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council);

(6) The Opinions on Reforming the Administration of State-owned Assets Appraisal and Strengthening Supervision and Administration of Assets Appraisal (Guo Ban Fa [2001] No. 102);

(7) The Interim Measures for the Administration of Valuation of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

(8) The Regulations on Certain Issues Concerning State-owned Assets Appraisal (Order No. 14 of the Ministry of Finance);

(9) The Measures for the Supervision and Administration of the Trading of State-owned Assets of Enterprises (Order No. 32 of the SASAC of the State Council and the Ministry of Finance);

(10) The Notice on the Guidelines on the Publication and Distribution of the Filing of State-owned Assets Appraisal Projects for Enterprises (Guo Zi Fa Chan Quan [2013] No. 64).

(11) The Financial Supervision and Administration Measures on the Assets Evaluation Industry (Order No. 97 of the Ministry of Finance);

(12) The Notice on Strengthening the Administration of State-owned Assets Appraisal of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);

(13) The Notice on Relevant Matters Concerning the Examination of Appraisal Reports on State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);

(14) The Enterprise Income Tax Law of the People's Republic of China;

(15) The Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China (Issued under Order No. 512 of the State Council and recently amended under Order No. 714 of the State Council);

(16) The Interim Regulations for the Value-added Tax of the People's Republic of China (Issued under Order No. 134 of the State Council and recently amended under Order No. 691 of the State Council);

(17) The Implementation Rules to the Interim Regulations for the Value-added Tax of the People's Republic of China (Issued under Order No. 50 of the Ministry of Finance and the State Taxation Administration and recently amended under Order No. 65 of the Ministry of Finance and the State Taxation Administration);

(18) The Notice on the Comprehensive Rollout of the Business Tax to Value Added Tax Transformation Pilot Program (Cai Shui [2016] No. 36);

(19) The Circular Relating to Furthering Relevant Policies on Reform of Value-added Tax (Circular [2019] No. 39 jointly issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs).

(III) Basis of Valuation Standards

(1) Basic Asset Valuation Standards (Cai Zi [2017] No. 43);

(2) Professional Code of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);

(3) Practice Guidelines for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

(4) Practice Guidelines for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

(5) Practice Guidelines for Asset Valuation – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);

(6) Practice Guidelines for Asset Valuation – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

(7) Practice Guidelines for Asset Valuation – Engagement of Experts and Relevant Reports (Zhong Ping Xie [2017] No. 35);

(8) Practice Guidelines for Asset Valuation – Enterprise Value (Zhong Ping Xie [2018] No. 38);

(9) Practice Guidelines for Asset Valuation – Asset Valuation Methodology (Zhong Ping Xie [2019] No. 35);

(10) Practice Guidelines for Asset Valuation – Intangible Assets (Zhong Ping Xie [2017] No. 37);

(11) Practice Guidelines for Asset Valuation – Real Estate (Zhong Ping Xie [2017] No. 38);

(12) Practice Guidelines for Asset Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

(13) Guiding Opinions on Professional Asset Valuation (Zhong Ping Xie [2017] No. 49);

(14) Quality Control Guidance on the Business of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46);

(15) Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

(16) Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);

(17) Guiding Opinions on Legal Ownership of the Asset Valuation Target (Zhong Ping Xie [2017] No. 48).

(IV) Ownership Basis

(1) Business licenses;

(2) Land use right certificates;

(3) Building ownership certificates;

(4) Patents certificates;

(5) Driving permits for vehicles.

(V) Pricing Basis and references

(1) The information on financial accounting and operation provided by the enterprise;

(2) Statistical information, technical standards and policy documents issued by relevant authorities of the state;

(3) Relevant enquiry and parameters information collected by the valuation agency;

(4) Profit forecast information provided by the enterprise.

VII. VALUATION METHODOLOGY

(I) Selection of Valuation Methodology

In accordance with the Practice Guidelines for Asset Valuation – Enterprise Value, when performing any appraisal of enterprise value, the suitability of the three basic asset valuation methods, namely the income approach, the market approach and the cost approach (the asset-based approach) shall be analyzed based on the purpose of valuation, the valuation target, the type of value, information gathering, etc. in its selection of valuation methods.

(1) Market approach

As there is limited access to transaction information of property ownership trading market in China and similar enterprises have significant differences in the product structure and principal businesses, it is extremely difficult to select market reference of the same type, therefore the market approach was not adopted in the valuation.

(2) Income approach

The income approach means a general term of various evaluation methods to determine the value of the valuation target by capitalizing or discounting its expected income. The specific methods commonly used for the income approach in enterprise valuation include the discounted cash flow method and the dividend discount method. The valuation target is a container manufacturer with independent profitability and the adoption of the income approach can reflect the reasonable market value of enterprises in such type of industry, therefore the income approach was adopted in the valuation.

(3) Asset-based approach

As all assets and liabilities of the enterprise may be appraised and recognized on an individual basis with clear structure of assets and liabilities, therefore the asset-based approach was adopted in the valuation.

In conclusion, the asset-based approach and the income approach were adopted in the valuation and the asset-based approach was adopted to determine the valuation conclusion after analysis.

(II) Asset-based Approach

The asset-based approach used in the valuation of the enterprise value is a valuation method for determining the value of the appraised enterprise by appraising the value of all its assets and liabilities on the basis of its balance sheet and those which can be identified off the balance sheet at the Valuation Benchmark Date. In the case of employing the asset-based approach in valuation of the enterprise value, the value of each asset is calculated by choosing a specific applicable valuation method in accordance with its specific circumstances.

The detailed valuation methods involved in this valuation are set out as follows.

(1) Current assets

(a) Monetary funds

For RMB monetary funds, the appraised value of monetary funds in current assets is determined as the verified book value based on the breakdowns of all items provided by the enterprise. For foreign monetary funds, the appraised value is determined as the verified book value of foreign currencies multiplying the central parity of foreign currencies on the Valuation Benchmark Date.

(b) Account receivable, prepayment and other receivables

Based on the breakdown of items for valuation provided by the valuation target, which is the valuation basis, verification was conducted on accounting information and selected large amounts with analysis on the amount, time and reasons of arrears and recovery situation of each receivable, to determine the appraised value of each receivable.

(c) Other current assets

The appraisers have investigated the valuation target to understand the payable VAT rate and payment system and other taxation policies, including but not limited to reviewing the tax payment certificate of the valuation target for the latest period from the Valuation Benchmark Date and evaluating the accounting voucher of the tax payable on the Valuation Benchmark Date. The appraised value of other current assets shall be determined based on the verified book value.

(d) *Inventories*

(i) Raw materials

Based on the breakdown of items for valuation provided by the valuation target, which is the valuation basis, the appraisers conducted spot sample checks on certain inventories and adopted the replacement procedures to determine the actual amount of raw materials on the Valuation Benchmark Date. It is learnt that the raw materials and turnover materials in stock of the Company have a quick turnover and the materials were purchased recently with no changes in prices generally, and the verified book value was used to determine the appraised value.

(ii) Finished products

The appraisers adopted the following methods in the valuation after determining the truthfulness and completeness of finished products through checking relevant accounts and conducting spot sample checks. For all containers for sale, the appraised value of all finished products was determined as the sales price of all finished products less taxes and surcharges, sales expenses, income taxes and appropriate net profits, that is: appraised value = sales revenue – sales taxes and surcharges – sales expenses – income taxes – appropriate net profits. As the sales of containers is an export business, no sales taxes and surcharges are incurred, the sales expenses are calculated based on the average proportion of sales expenses in revenue in the previous three years. Upon investigation, it is learnt that there are order contracts for the products for sale, hence the rate of deduction of net profits is 0%. For self-owned containers, the appraised value is determined at the book value.

(2) Long-term equity investment

(a) *Valuation process*

(i) The valuation personnel verified the registration form of long-term equity investment valuation with the long-term equity investment subsidiary ledger, general ledger and relevant accounting records.

(ii) Review legal documents such as investment contracts and agreements.

(iii) Check relevant account books and vouchers, and get access to certain information such as capital verification report of the investee.

(iv) Analyze and judge the nature of investment and the proportion of equity, check the calculation method of investment income, the treatment principle of investment income in previous years and relevant accounting methods, and judge the correctness and rationality of the calculation of the amount of investment and recovery.

(v) According to the accounting statements and other relevant data of the investee on the Valuation Benchmark Date, the investment was evaluated by corresponding methods.

(b) Valuation method

As for controlling long-term equity investment in this valuation, the assets and liabilities of each investee were checked on the spot. First, the overall appraisal is made to determine the net assets appraisal value of each investee on the Valuation Benchmark Date, and then the appraisal value is calculated and determined according to the proportion of equity investment.

(3) Investment properties – Buildings

(a) Selection of valuation methodology

In accordance with the Practice Guidelines for Asset Valuation – Property, common valuation methods include the market comparison approach, the income approach and the replacement cost approach. An appropriate valuation approach shall be selected in accordance with standards and regulations based on the conditions of the local property market, the specific characteristics of the valuation target and the purpose of the valuation.

Part of the investment properties to be appraised were leased and rental information was available, so it was qualified to be valuated with income approach;

As the investment properties to be appraised are self-built industrial buildings, information on the transactions or trading prices of similar buildings in the same or similar areas cannot be collected. Therefore, the market comparison approach to appraise the value of the investment properties to be appraised to be appraised cannot be adopted.

As the investment properties to be appraised are self-built industrial buildings, appraisers may adopt the replacement cost approach to appraise the required budget and financial accounts materials on the project and the price information on labor, materials and the shift use of machinery on the Valuation Benchmark Date. The conditions for adopting the replacement cost approach in the valuation can be met.

Based on the above analysis, the replacement cost approach was adopted in the valuation on the investment properties to be appraised to be appraised.

(b) Replacement cost approach

For the valuation on principally self-built buildings, the full replacement price of a building is calculated in accordance with the amount of construction work and the current fixed standard reference price, construction fees, and loan interest rate based on the construction project data and completion settlement data, while the residual ratio is determined comprehensively in accordance with the useful life and the site survey of the building, and the net appraised value of the building is thereby calculated.

Appraised value of buildings = Full replacement price × Residual ratio

According to the Circular Cai Shui [2016] No. 36, the Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (No. 39 in 2019) issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs and relevant local documents on the adjustment of pricing basis in the industry, the corresponding value-added tax shall be deducted from the full replacement price for immovable properties meeting the conditions for deduction of value-added tax.

(i) Full replacement price

Full replacement price = Construction and installation costs (excluding tax) + Preliminary construction and other costs (excluding tax) + Capital costs

A. Determination of construction and installation costs

For the building projects with complete materials on completion and final accounts, the appraisers use the current local or industrial standard reference price to calculate the direct standard reference price based on the quantity of work of all segments and items as determined in the original completion materials. The standard construction and installation costs on the Valuation Benchmark Date are estimated based on the corresponding current standard reference price on construction and installation costs and the difference adjustment documents of the place where the project is located.

B. Determination of preliminary and other costs

Preliminary and other costs are based on the investment amount of the valuation target in project construction in accordance with the charging standards in the industry as stipulated by national or local governments. The name, charging base, charging standards and charging basis of preliminary and other costs are set out in the table below:

Table of Preliminary and Other Costs Charged

No.	Item	Charging base	Rate (tax exclusive)	Rate	Charging basis
1	Construction unit administrative fees	Construction cost	0.86%	0.86%	Cai Jian [2016] No. 504
2	Survey and design fees	Construction cost	3.00%	2.83%	Ji Wei Jian She Bu Ji Jia (2002) No. 10
3	Project supervision fees	Construction cost	1.60%	1.51%	Fa Gai Jia Ge (2007) No. 670
4	Project bidding or tendering agency fees	Construction cost	0.09%	0.08%	Ji Jia Ge (2002) No. 1980
5	Environmental assessment fees	Construction cost	0.03%	0.03%	Ji Wei Huan Bao Zong Ju Ji Jia Ge (2002) No. 125
6	Feasibility research fees	Construction cost	0.20%	0.19%	Ji Wei Ji Jia Ge (1999) No. 1283
	Total		5.78%	5.50%	

Note: It is verified that the documents on the above items 3 to 6 have been abolished. The preliminary costs involved have transformed government-guided prices to market-regulated prices. As there is no explicit calculation basis under the background of the market-regulated price, preliminary costs are calculated with reference to the above documents in the valuation.

C. Determination of capital costs

According to the normal construction period, the loan interest rate is determined with reference to the loan market quoted interest rate announced by the National Interbank Funding Center on 20 December 2020. Based on the assumption of the average investment of funds during the construction period, the calculation formula of capital costs is as follows:

Capital costs = (Construction and installation costs + Preliminary and other costs) × Loan interest rate × Reasonable construction period ÷ 2

D. Determination of integrated residual ratio

The useful life method and the observation method are mainly used to determine the integrated residual ratio for the buildings in the valuation.

1. **Theoretical residual ratio**

Theoretical residual ratio is the residual rate determined based on the ratio of estimated remaining useful life of buildings to its aggregate useful life. The calculation formula is as follows:

Theoretical residual ratio = Remaining useful life ÷ Economic life × 100%

2. **Residual ratio under the observation method**

The observation method is applied to assess each major part of the buildings from a technical perspective, and to analyze factors such as design, manufacturing, usage, wear and tear, maintenance, improvement and physical life of the asset on a consolidated basis. Impacts of wear and tear and natural deterioration on the functionality and efficiency of the asset will be assessed by comparing the valuation target with itself in new condition. As such, the residual ratio of the buildings would be determined and the substantial depreciation would be estimated.

3. **Integrated residual ratio**

Integrated residual ratio = Theoretical residual ratio × 40% + Residual ratio under the observation method × 60%

4. **In the following circumstances, reasonable approaches were used to determine residual ratio:**

- If the residual ratio calculated under the on-site observation method and the theoretical residual ratio differ significantly, upon analysis of the various factors by the appraisers, the relatively reasonable ratio would prevail based on their previous experience.

- For the project which cannot be observed due to certain constraints, the theoretical residual ratio would be normally applied in determining the residual ratio.

(4) Fixed assets – Buildings

(a) Selection of valuation methodology

In accordance with the Practice Guidelines for Asset Valuation – Property, common valuation methods include the market comparison approach, the income approach and the replacement cost approach. An appropriate valuation approach shall be selected in accordance with standards and regulations based on the conditions of the local property market, the specific characteristics of the valuation target and the purpose of the valuation.

As the buildings (structures) to be appraised are self-built industrial factories and ancillary occupancies, lease cases on similar buildings in surrounding areas cannot be obtained. It is not applicable to adopt the income approach in the valuation.

As the buildings (structures) to be appraised are self-built industrial buildings, information on the transactions or trading prices of similar buildings in the same or similar areas cannot be collected. Therefore, the market comparison approach to appraise the value of the buildings (structures) to be appraised cannot be adopted.

As the buildings (structures) are self-built industrial buildings, appraisers may adopt the replacement cost approach to appraise the required budget and financial accounts materials on the project and the price information on labors, materials and the shift use of machinery on the Valuation Benchmark Date. The conditions for adopting the replacement cost approach in the valuation can be met.

Based on the above analysis, the replacement cost approach was adopted in the valuation on the buildings (structures) to be appraised.

(b) Replacement cost approach

For the valuation on principally self-built buildings, the full replacement price of a building is calculated in accordance with the amount of construction work and the current fixed standard reference price, construction fees, and loan interest rate based on the construction project data and completion settlement data, while the residual ratio is determined comprehensively in accordance with the useful life and the site survey of the building, and the net appraised value of the building is thereby calculated.

Appraised value of buildings = Full replacement price × Residual ratio

According to the Circular Cai Shui [2016] No. 36, the Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (No. 39 in 2019) issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs and relevant local documents on the adjustment of pricing basis in the industry, the corresponding value-added tax shall be deducted from the full replacement price for immovable properties meeting the conditions for deduction of value-added tax.

(i) Full replacement price

Full replacement price = Construction and installation costs (excluding tax) + Preliminary construction and other costs (excluding tax) + Capital costs

A. Determination of construction and installation costs

1. **Budget (final accounts) adjustment method**

For the building projects with complete materials on completion and final accounts, the appraisers use the current local or industrial standard reference price to calculate the direct standard reference price based on the quantity of work of all segments and items as determined in the original completion materials. The standard construction and installation costs on the Valuation Benchmark Date are estimated based on the corresponding current standard reference price on construction and installation costs and the difference adjustment documents of the place where the project is located.

2. **For buildings of low value with simple structure, the single construction cost method is used to determine the comprehensive construction cost.**

B. Determination of preliminary and other costs

Preliminary and other costs are based on the investment amount of the valuation target in project construction in accordance with the charging standards in the industry as stipulated by national or local governments. The name, charging base, charging standards and charging basis of preliminary and other costs are set out in the table below:

Table of Preliminary and Other Costs Charged

No.	Cost	Rate (tax inclusive)	Rate (tax exclusive)	Charging basis
1	Construction unit administrative fees	0.86%	0.86%	Construction and installation cost
2	Survey and design fees	3.00%	2.83%	Construction and installation cost
3	Project construction supervision fees	1.60%	1.51%	Construction and installation cost
4	Biding or tendering agency fees	0.09%	0.08%	Construction and installation cost
5	Environmental impact assessment fees	0.03%	0.03%	Construction and installation cost
6	Feasibility research fees	0.20%	0.19%	Construction and installation cost
7	Sub-total	5.78%	5.50%	Construction and installation cost

C. Determination of capital costs

According to the normal construction period, the loan interest rate is determined with reference to the loan market quoted interest rate announced by the National Interbank Funding Center on 20 December 2020. Based on the assumption of the average investment of funds during the construction period, the calculation formula of capital costs is as follow:

Capital costs = (Construction and installation costs + Preliminary and other costs) × Loan interest rate × Reasonable construction period ÷ 2

D. Determination of integrated residual ratio

The useful life method and the observation method are mainly used to determine the integrated residual ratio for the buildings in the valuation.

1. **Theoretical residual ratio**

Theoretical residual ratio is the residual rate determined based on the ratio of estimated remaining useful life of buildings to its aggregate useful life. The calculation formula is as follows:

Theoretical residual ratio = Remaining useful life ÷ Economic life × 100%

2. **Residual ratio under the observation method**

The observation method is applied to assess each major part of the buildings from a technical perspective, and to analyze factors such as design, manufacturing, usage, wear and tear, maintenance, improvement and physical life of the asset on a consolidated basis. Impacts of wear and tear and natural deterioration on the functionality and efficiency of the asset will be assessed by comparing the valuation target with itself in new condition. As such, the residual ratio of the buildings would be determined and the substantial depreciation would be estimated.

3. **Integrated residual ratio**

Integrated residual ratio = Theoretical residual ratio × 40% + Residual ratio under the observation method × 60%

4. **Residual ratio would be determined by adopting a reasonable method where:**

- If the residual ratio calculated under the on-site observation method and the theoretical residual ratio differ significantly, upon analysis of the various factors by the appraisers, the relatively reasonable ratio would prevail based on their previous experience.

- For the project which cannot be observed due to certain constraints, the theoretical residual ratio would be normally applied in determining the residual ratio.

(5) Fixed assets – Machinery and equipment

According to the purpose of this valuation and the characteristics of the appraised assets, and assuming the asset is continued to be used according to its current usage, the replacement cost approach would be adopted in this valuation on the basis of on-site investigation.

Basic formula: Appraised value = Full replacement price × Residual ratio

As at the Valuation Benchmark Date, the company was a VAT general taxpayer and the tax-free price was adopted to calculate the purchase costs of equipment in determining the full replacement price.

(a) Determination of full replacement price

(i) Machinery and equipment

A. Determination of full replacement price

For equipment of which current market prices are available, the full replacement price would be determined with reference to the selected prevailing market price after analyzing and taking into account the transportation and miscellaneous fees as well as installation and commissioning fees; for those equipment of which current market prices are not available, the full replacement price would be determined using the market price (to be adjusted correspondingly as the equipment purchase cost) of products with similar function, plus the transportation and miscellaneous fees, installation and commissioning fees as well as other reasonable expenses. The calculation formula is as follows:

Full replacement price = Equipment purchase cost + Transportation and miscellaneous fees + Installation and commissioning fees + Other costs

As at the Valuation Benchmark Date, the company was a VAT general taxpayer and the tax-free price was adopted to calculate the purchase cost of equipment in determining the full replacement price.

B. Determination of major price determination parameters

1. **Equipment purchase cost**

Determination of equipment purchase cost would be mainly based on quotations from the equipment manufacturer and the latest transaction price of the same type of machinery and equipment purchased by the company.

2. **The rate of transportation and miscellaneous fees of equipment**

Transportation and miscellaneous fees of equipment, consisting mainly of the transportation cost, loading and unloading expenses and insurance premium, would be determined generally based on the standard rate as stipulated by the "Manual of Data and Parameters Commonly Used in Asset Appraisal" (資產評估常用數據與參數手冊) in the valuation.

3. **Installation and commissioning fees of equipment**

It would be determined based on the standard rate as stipulated by the "Manual of Data and Parameters Commonly Used in Asset Appraisal" (資產評估常用數據與參數手冊).

4. **Preliminary and other costs**

Preliminary and other costs are based on the investment amount of the valuation target in project construction in accordance with the charging standards in the industry as stipulated by national or local governments. Preliminary and other costs determined in the valuation of equipment are as flows:

Table of Preliminary and Other Costs

No.	Cost	Rate (tax inclusive)	Rate (tax exclusive)	Charging basis
1	Construction unit administrative fees	0.86%	0.86%	Construction and installation costs
2	Survey and design fees	3.00%	2.83%	Construction and installation costs
3	Project construction supervision fees	1.60%	1.51%	Construction and installation costs
4	Bidding agency fees	0.09%	0.08%	Construction and installation costs
5	Environmental impact assessment fees	0.03%	0.03%	Construction and installation costs
6	Feasibility research fees	0.20%	0.19%	Construction and installation costs
7	Sub-total	5.78%	5.50%	Construction and installation costs

5. **Capital costs**

According to the normal construction period, the loan interest rate is determined with reference to the loan market quoted interest rate announced by the National Interbank Funding Center on 20 December 2020. Based on the assumption of the average investment of funds during the construction period, the calculation formula of capital costs is as follows:

Capital costs = Purchase cost or construction costs of equipment × Applicable interest rate × Reasonable construction period ÷ 2

(ii) Vehicles

The full replacement price is determined by adding vehicle purchase tax, license fee and other reasonable costs at the prevailing market price.

(iii) Electronic equipment

For the electronic equipment of which prevailing market price is available, the full replacement price is directly determined based on its analyzed and selected prevailing market price; for the electronic equipment of which prevailing market price is unavailable, the full replacement price is determined by selecting the market price of the substitutes with similar function and making corresponding adjustments.

(b) Determination of the residual ratio

(i) For machinery and equipment, the observation method and the useful life method are mainly used to determine the residual ratio. The calculation formula is as follows:

Residual ratio = Residual ratio under the observation method × 60% + Residual ratio under the useful life method × 40%

A. Observation method. The observation method is applied to assess each major part of the appraised equipment from a technical perspective, and to analyze factors such as design, manufacturing, usage, wear and tear, maintenance, repair, overhaul repair, improvement and physical life of the asset on a consolidated basis. Impacts of wear and tear and natural deterioration on the functionality and efficiency of the asset will be assessed by comparing the valuation target with itself in in new condition. As such, the residual ratio of the appraised equipment would be determined.

B. Residual ratio method. The calculation formula for it is as follows:

Residual ratio under the useful life method = (Economic useful life – Used life)/Economic useful life × 100%

Economic useful life refers to the term of asset from the date of commencing service to the date of discontinuation when it becomes uneconomical.

(ii) Vehicle, observation method and theoretical residual ratio method are used comprehensively to determine the value. The calculation formula for it is as follows:

Residual ratio = Residual ratio under the observation method × 60% + Residual ratio under the useful life method × 40%

A. Observation method. The observation method is applied to assess each major part of the vehicle from a technical perspective, and analyze factors such as design, manufacturing, usage, wear and tear, maintenance and repair and physical life of the asset on a consolidated basis. Impacts of wear and tear and natural deterioration on the functionality and efficiency of the asset will be assessed by comparing the valuation target with itself in new condition. As such, the residual ratio of the appraised vehicle would be determined.

B. Theoretical residual ratio. With reference to the *Regulations on Compulsory Scrapping Standards of Motor Vehicles* (Order No. 12 of 2012 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection), the theoretical residual ratio is determined as the lower of the residual ratio under the useful life method and the residual ratio under the mileage method. The calculation formula for the residual ratio under the useful life method is as follows:

Residual ratio under the useful life method = (Economic useful life – Used life)/Economic useful life × 100%

The calculation formula for the residual ratio under the mileage method is as follows:

Residual ratio under the mileage method = (Specified mileage – Mileage traveled)/Specified mileage ×100%

(iii) Electronic equipment

For electronic equipment, the useful life method is mainly used to determine the residual ratio. The calculation formula is as follows:

Residual ratio under the useful life method = (Economic useful life – Used life)/Economic useful life × 100%

If the residual ratio calculated under the observation method and the residual ratio calculated under the useful life method (or the theoretical residual ratio) differ significantly, the relatively reasonable one of the two may be selected based on experience and judgment after analyzing related reasons.

(6) Construction-in-progress

Appraisers have inspected the project contracts and evidence of payment of the enterprise and confirmed that the payment met the contractual requirements. They learnt about the progress of projects through relevant employees of the enterprise and calculated the corresponding reasonable capital costs to determine the final appraised value based on the payment progress for the equipment under construction after verifying the above conditions. For self-developed equipment where the progress cannot be determined, the book value is recognized as the appraised value.

(7) Intangible assets – Land use rights

(a) Selection of valuation methods

The common land valuation approaches include market comparison approach, income reduction approach, hypothetical development approach, cost approximation approach, benchmark land price coefficient correction approach, etc. The selection of valuation approaches should be based on the *Rules for Urban Land Valuation* and the development of local real estate markets, combined with the specific characteristics of the valuation target and the valuation purpose, etc., to select appropriate valuation approaches.

According to the land premium level of similar land parcels in Qingdao, survey and interviews conducted on relevant personnel of the local land administration departments, the technical regulations of land price evaluation and the specific circumstances of the valuation target, the benchmark land premium coefficient correction approach and market comparison approach were mainly used in this evaluation based on the following points:

(i) As the parcel of land to be evaluated has been acquired for a long time and has been developed for a certain period of time, the cost approximation approach cannot be used for evaluation

(ii) Because it is impossible to collect enough market leasing cases of land with the same purpose in the surrounding area of this parcel of land, the income approach cannot be used for evaluation.

(iii) According to the Notice on Adjustment and Update of Urban Land Grade and Benchmark Land Premium in Huangdao District (Qing Xi Xin Guan Fa [2016] No. 26) (《關於黃島區城鎮土地級別與基準地價調整更新的通知》(青西新管發[2016]26號) issued by the Qingdao West Coast New District Management Committee, the valuation benchmark date was 1 January 2016, and the appraised land was within the coverage of benchmark land premium, so it was suitable to adopt the revised method of benchmark land premium coefficient for this valuation.

(iv) As the market activity of land transaction was higher at the place of this parcel of appraised land, the market transaction cases in areas surrounding this parcel of land to be appraised can be collected, the market approach may be adopted in the valuation.

(b) Introduction of the valuation method

(i) Benchmark land price coefficient correction method

Basic ideology: the benchmark land price coefficient correction method refers to that when calculating the price of a piece of land to be appraised, the correction coefficients are determined based on the local benchmark land price level, with reference to the land price standard of the same land grade or homogeneous area with the land to be appraised and the explanation table of various correction factors, according to the regional conditions, individual conditions, land use life, market quotation, plot ratio and micro location conditions to correct the benchmark land price so as to calculate the land price of the valuation target.

Its basic formula is as follows:

$p=p'\times k1\times k2\times k3\times(1+k4)\pm D$

Whereas: p – price of the land to be appraised

p' – benchmark land price of the area where the land is located

k1 – date correction coefficient

k2 – plot ratio correction coefficient

k3 – use life correction coefficient

k4 – regional and other factors correction coefficient

D – development level corrected value.

(ii) Market comparison method

Under the market comparison method, the valuation target will be compared with the similar land with recent comparable transaction at the time point of valuation to make correction on the known price of such similar land and estimate the objective and reasonable price or value of the valuation target accordingly.

The calculation formula of the market comparison method is as follows:

Land price = Actual land price in comparable transaction × Transaction correction coefficient × Transaction date correction coefficient × Land area factor correction coefficient × Individual factor correction coefficient × Equity factor correction coefficient

(8) Intangible assets – Other intangible assets

The appraisers recognize the composition of the original book value and the truthfulness and reasonableness of the incurred amortization amount through enquiring the related accounting records based on the original accounting value. The appraised value of software on sale on the market will be determined based on the market price, exclusive of taxation. For specifically customized version of software whose market price is not available on the market, the replacement cost is adopted in the valuation to determine the appraised value of such software taking into account the corresponding depreciation rate. For software whose market price is available, the appraised value is determined with reference to the market price of software of the same version on the Valuation Benchmark Date. For utility model patents, the appraised value is determined as nil in this valuation as the above patents are not applied in the products as at the Valuation Benchmark Date, and the enterprise expects that they will not be applied in the coming years, taking into account that the above patents cannot bring definite benefits to the enterprise in the coming years,

The basic formula: Appraised value = Replacement cost × (1 - Depreciation rate) *(a) Determination of the replacement cost*

The replacement cost of purchased intangible assets is estimated based on the price of similar software sold on the market, exclusive of taxation, through market inquiry.

Replacement cost = Market selling price/(1+13%)

(b) Depreciation rate

Appraisers determine the depreciation rate of intangible assets through comparing the estimation and judgment on the remaining economic life of intangible assets. The calculation formula is as follows:

Depreciation rate = Used life/(Used life + Remaining useful life) × 100%

(9) Right-of-use assets

Appraisers check relevant lease contract, verify lease term and interest rate, and examine the provision for and payment of interests of the company according to the evaluation procedures. The appraised value is finally determined based on the verified book value.

(10) Liabilities

The actual amount of liabilities attributable to the valuation target as at the Valuation Benchmark Date will be accounted for as the appraised value.

(III) Income Approach

The income approach collectively refers to the valuation methods used in determining the value of the valuation target by capitalizing or discounting the expected income. Methods frequently used under the income approach include the dividend discount method and the discounted cash flow method.

This valuation adopted the discounting model of free cash flow of firm under the discounted cash flow method. Specifically, using the Weighted Average Cost of Capital (WACC) as the discount rate, the total equity interest of shareholder is arrived at by adding the expected Free Cash Flow of Firm (FCFF) for each of the coming years to the operational asset values plus the value of the surplus assets and non-operational assets to the value of entire assets of the enterprise less the value of interest-bearing debt. The basic formula is as follows:

Total equity interest of shareholders = Operational asset value + Non-operational assets value - Non-operational liabilities value + Surplus assets value - Value of interest-bearing debt

The specific calculation formula is as follows:

$$P = P' + A' - D' - D$$

$$P' = \sum_{i=0.5}^{n} \frac{R_i}{(1+r)^i} + \frac{R_n}{r} \text{ x } \frac{1}{(1+r)^n}$$

Wherein,

P – the total appraised value of equity interest of shareholders in the valuation target

P' – the discounted value of entire revenue of firm D –the non-operational liabilities

A' – the non-operational assets

D' – the interest-bearing debt

R_i – the expected income generated in income period No. i in the future (FCFF)

i: the income period, i = 0.5, 1.5, 2.5……n

r: the discount rate.

VIII. PROCESS AND IMPLEMENTATION OF VALUATION PROCEDURES

(I) Acceptance of Engagement

Understand the general conditions of the appraised assets and specify the valuation purpose, the valuation target and scope, the valuation benchmark date and other basic matters in valuation after discussions and communications with the clients, accept the engagement after the comprehensive analysis on the professional capability and independence and assessment of business risks and enter into the asset valuation engagement contract. Determine the type of the appraised value, formulate the valuation plan and establish the working group on valuation based on specific circumstances.

(II) On-site inspection and collection of materials

Guide the appraised entity to conduct asset stocktaking and prepare valuation materials and carry out on-site inspection on the valuation target on such basis to collect required information for assets valuation, understand the asset, business and financial conditions of the valuation target, macro and regional economic factors affecting the operation of the enterprise and the current conditions and prospects of the industry and pay attention to the legal ownership of the valuation target. Verify and validate the materials used in the asset valuation in accordance with laws.

(III) Assessment and estimation

Analyze, summarize and sort the materials on valuation based on the specific circumstances of the appraised business and form the basis for the assessment and estimation and the preparation of the valuation report. Select the valuation methodology based on the valuation purpose, the valuation target, the type of value, the collection of materials and relevant conditions as well as the Practice Guidelines for Asset Valuation. Select the corresponding formula and parameters in analysis, calculation and judgment based on the valuation methodology adopted and analyze and judge valuation assumptions and restrictions which may affect the valuation and the valuation conclusion and arrive at the estimation results. Analyze and compare the estimation results arrived at from different methodologies and form the valuation conclusion.

(IV) Issuance of report

The responsible persons of the project prepare the preliminary asset valuation report based on the valuation conclusion after assessment and estimation. The firm carries out internal review on the preliminary asset valuation report in accordance with laws, administrative regulations, the standards for asset appraisal and the internal quality control system and issue the formal asset valuation report after conducting necessary communications on relevant contents of the valuation report with the clients and other relevant parties.

IX. VALUATION ASSUMPTIONS

The main asset valuation assumptions adopted in this valuation report include:

(I) Basic Assumptions

(1) Transaction assumption. The transaction assumption is that all assets to be appraised are in the process of transaction, and the appraisers will make estimation in a simulated market according to the transaction conditions (among others) of assets to be appraised.

(2) Open market assumption. The open market assumption is that assets may be traded freely in a highly competitive market and the price of which is determined based on the judgment of both independent trading parties over the value of assets under certain supply and demand conditions. An open market refers to a market which is highly competitive with various buyers and sellers. In the open market, both parties of a transaction are equal, which means they are given the opportunity and time to acquire sufficient market information. Buyers and sellers are supposed to be acting voluntarily and rationally rather than being coerced or confined during the transaction.

(3) Assumption on continuing operation. Assumption on continuing operation refers to the assumption that the operating activities of an operating entity will continue and will not be suspended or terminated in the foreseeable future.

(II) Specific Assumptions

(1) There will be no significant changes in the relevant prevailing laws, regulations and policies as well as macro-economic situation of the country and place where the valuation target resides, significant changes in the political, economic or social environment in the regions in which the parties to the transaction are located, or material adverse effects arising from other unforeseeable factors and force majeure.

(2) It is assumed that the enterprise will have balanced cash inflows and cash outflows throughout the year based on its actual operation conditions.

(3) It is assumed that the current and future operators and managers of the valuation target exercise due diligence, and the management of such entity are competent in discharging their duties to ensure that the valuation target is able to operate on a going concern basis, the development, production, and operation plans of which can be fulfilled as scheduled.

(4) It is assumed that the valuation target is in full compliance with all relevant national laws and regulations, without committing any significant violation that prejudices corporate development and realization of revenue.

(5) It is assumed that the accounting policies to be adopted by such enterprise in the future are basically consistent with those adopted during the preparation of this report in material aspects.

(6) It is assumed that, based on its current management approaches and standards, the enterprise's scope and model of business will remain consistent with the current orientation.

(7) It is assumed that there will be no material changes in the requirements currently implemented or determined to be implemented regarding the relevant interest rates, exchange rates, taxation bases and tax rates, and government levies according to national regulations.

(8) It is assumed that no other force majeure and unforeseeable factors will have a material adverse effect on the enterprise.

According to the requirements of the asset valuation, these assumptions are deemed to be valid on the Valuation Benchmark Date. We will not accept any responsibility for any different valuation conclusions resulting from any changes in these assumptions when the economic environment changes significantly in the future.

X. VALUATION CONCLUSION

(I) Valuation result using the asset-based approach

On the Valuation Benchmark Date, being 31 December 2020, the book value of the assets, liabilities and net assets of Dong Fang International Container (Qingdao) Co., Ltd. on an unconsolidated basis amounted to RMB2,644,227,300, RMB1,527,550,600 and RMB1,116,676,700, respectively. The total assets, liabilities and net assets were RMB2,853,888,400, RMB1,520,952,000 and RMB1,332,936,400, respectively, after the valuation. The appraised value of total assets represented an appreciation of RMB209,661,100 over the book value with an appreciation rate of 7.93%. The appraised value of net assets represented an appreciation of RMB216,259,700 over the book value with an appreciation rate of 19.37%. Please refer to the table below for details:

Table of Summary of Asset Valuation Results
Valuation Benchmark Date: 31 December 2020

Valuation target: Dong Fang International Container (Qingdao) Co., Ltd. Unit: RMB0'000

	Item	Book Value A	Appraised Value B	Appreciation/ Depreciation C=B-A	Change D=C/A×100%
1	Current assets	180,802.69	180,539.99	-262.70	-0.15%
2	Non-current assets	83,620.04	104,848.85	21,228.81	25.39%
3	Including: Long-term equity investments	15,400.00	19,427.30	4,027.30	26.15%
4	Investment properties	1,507.67	1,719.76	212.09	14.07%
5	Fixed assets	55,426.24	67,415.99	11,989.75	21.63%
6	Construction-in-progress	653.42	656.97	3.55	0.54%
7	Intangible assets	10,529.44	15,525.56	4,996.12	47.45%
8	Right-of-use assets	103.27	103.27	0.00	0.00%
9	Total assets	264,422.73	285,388.84	20,966.11	7.93%
10	Current liabilities	151,875.25	151,875.25	0.00	0.00%
11	Non-current liabilities	879.81	219.95	-659.86	-75.00%
12	Total liabilities	152,755.06	152,095.20	-659.86	-0.43%
13	Net assets (Owner's equity)	111,667.67	133,293.64	21,625.97	19.37%

In summary, the valuation result of all shareholders' equity interests in Dong Fang International Container (Qingdao) Co., Ltd. derived by using the asset-based approach was RMB1,332,936,400 (in word: ONE BILLION THREE HUNDRED AND THIRTY-TWO MILLION NINE HUNDRED AND THIRTY-SIX THOUSAND FOUR HUNDRED ONLY), representing an appreciation of RMB216,259,700 over the book value of all shareholders' equity interests on the unconsolidated basis of RMB1,116,676,700, with an appreciation rate of 19.73%; representing an appreciation of RMB180,851,600 over the book value of all shareholders' equity interests on the consolidated basis of RMB1,152,084,800, with an appreciation rate of 15.70%.

(II) Valuation result using the income approach

On the Valuation Benchmark Date, being 31 December 2020, the appraised value of all shareholders' equity interests in Dong Fang International Container (Qingdao) Co., Ltd. was RMB1,281,336,600, representing an appreciation of RMB164,659,900 over the book value of all shareholders' equity interests on the unconsolidated basis of RMB1,116,676,700 with an appreciation rate of 14.75%; representing an appreciation of RMB129,251,800 over the book value of all shareholders' equity interests on the consolidated basis of RMB1,152,084,800 with an appreciation rate of 11.22%.

(III) Differences between the two valuation results and their reasons

Differences between the two valuation results on all shareholders' equity interests (on the unconsolidated basis) of Dong Fang International Container (Qingdao) Co., Ltd. are set out in the table below:

Unit: RMB0'000

Valuation Approach	Book Value	Appraised Value	Appreciation	Appreciation Rate
Asset-based approach	111,667.67	133,293.64	21,625.97	19.37%
Income approach		128,133.66	16,465.99	14.75%
Differences between the approaches		5,159.98		

Differences between the two valuation results on all shareholders' equity interests (on the consolidated basis) of Dong Fang International Container (Qingdao) Co., Ltd. are set out in the table below:

Unit: RMB0'000

Valuation Approach	Book Value	Appraised Value	Appreciation	Appreciation Rate
Asset-based approach	115,208.48	133,293.64	18,085.16	15.70%
Income approach		128,133.66	12,925.18	11.22%
Differences between the approaches		5,159.98		

(IV) Valuation conclusion

The asset-based approach is to appraise the enterprise value through appraising value of each single asset taking into consideration the relevant liabilities from the perspective of asset replacement. The income approach is to appraise the enterprise value through capitalisation or discount of the expected revenue of the valuation target from the perspective of making judgment on the profitability of assets. It is to appraise the enterprise value based on the total revenue of the enterprise in the future through the reverse thinking of "Capital-searching with the Profit" to achieve "Profit-taking with the Capital".

Based on specific conditions of this valuation, the valuation target is engaged in the production and sales of containers and is greatly exposed to the impacts of the global economy and the industry market with certain market periodicity. As it is difficult to accurately estimate and measure the changes and fluctuations of the industry market in the following years, the result using the asset-based approach is more practical and reasonable as compared with the result using the income approach.

Based on the above factors, the valuation result using the asset-based approach was adopted as the final valuation conclusion. The valuation conclusion is that the value of all shareholders' equity interests in Dong Fang International Container (Qingdao) Co., Ltd. involved in the proposed purchase of the equity interests in four companies (including Dong Fang International Container (Qingdao) Co., Ltd.) held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares by COSCO SHIPPING Development Co., Ltd. was RMB1,332,936,400 (in word: ONE BILLION THREE HUNDRED AND THIRTY-TWO MILLION NINE HUNDRED AND THIRTY-SIX THOUSAND FOUR HUNDRED ONLY).

The validity of the valuation conclusion revealed in the valuation report shall be one year from the Valuation Benchmark Date, being 31 December 2020, to 30 December 2021.

XI. EXPLANATIONS TO SPECIAL MATTERS

(I) Significant use of expert work and relevant reports

The unqualified audit report issued by Ernst & Young Hua Ming LLP for the years 2019 and 2020 were used in this valuation and the audited book values were adopted as the book values for valuation.

(II) Incomplete or defective ownership information;

As of the date of on-site investigation, a total of 27 buildings were included in this valuation scope, except for 15 buildings, including main workshop, paint warehouse, steel warehouse, water paint workshop, office building, living building, etc., for which the housing ownership certificates have been obtained, housing ownership certificates have not yet been obtained for the other 12 building with floor area of 9,119.99 sq.m. as the relevant process for applying for the certificates has not yet started. This valuation is on the basis of the ownership statement provided by the valuation target, ascertaining that the owner of title is Dong Fang International Container (Qingdao) Co., Ltd. The table below sets forth a breakdown of the buildings for which the housing ownership certificates have not yet been obtained:

Serial no.	No. of certificate	Building name	Structure	Time of completion	Floor area (m^2)	Book Value (RMB) At cost	Net value
2	N/A	Garage and washing room	Brick-concrete structure	2004.04.26	560.00	170,000.00	50,284.47
3	N/A	Boiler room	Steel structure	2004.04.26	165.00	148,361.00	43,884.19
4	N/A	Reception room and workshop control room	Brick-concrete structure	2004.02.28	203.58	518,829.00	172,147.26
5	N/A	Second-stage main guardroom	Composite structures	2018.09.30	482.30	1,091,323.82	1,012,406.08
6	N/A	Second-stage logistics guardroom	Composite structures	2018.09.30	79.98	259,367.91	240,612.07
7	N/A	Temporary canteen	Steel structure	2018.09.30	936.10	1,630,647.49	1,512,729.08
10	N/A	ISO laboratory	Steel structure	2004.04.26	267.03	160,000.00	45,378.46
11	N/A	Workshop control room	Steel structure	2004.04.26	250.00	350,371.00	99,370.85
12	N/A	Paint warehouse	Steel structure	2007.04.14	1,300.00	464,855.59	182,374.71
13	N/A	Line-B eastward extend plant	Steel structure	2010.12.27	720.00	244,000.00	139,849.10
15	N/A	Steel warehouse	Steel structure	2017.12.29	306.00	182,363.11	160,926.03
26	N/A	Steel shed	Steel structure	2009.09.25	3,850.00	408,222.30	217,663.18

(III) Restrictions on valuation procedures

Nil.

(IV) Incomplete valuation materials

Nil.

(V) Pending legal and economic matters on the Valuation Benchmark Date

Nil.

(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target

As of the Valuation Benchmark Date, the valuation target entered into a plant lease agreement with Qingdao Hongcheng Steel Products Co., Ltd. * (青島宏程型鋼製品有限公司) in August 2016, leasing a steel-structure plant and 10 units of equipment. The total plant area is 13,437 sq.m.; the area of the steel-structure plant is 6,296.46 sq.m.; and the lease term is for a total of five years from 20 August 2016 to 19 August 2021.

Since right-of-use assets and non-current liabilities due within one year were incurred arising out of the above leases, the right-of-use assets and non-current liabilities due within one year have been considered in this valuation.

(VII) Significant subsequent matters

(1) As of the Valuation Benchmark Date, the name of owner of the buildings for which the housing ownership certificates have been obtained within the valuation scope is Qingdao Pacific Container Co., Ltd. * (青島太平貨櫃有限公司) (the former name of Dong Fang International Container (Qingdao) Co., Ltd.; in 2019, Hong Kong Singamas Group and China COSCO Shipping Group reached an equity transfer agreement, and Hong Kong Singamas Group wholly transferred three container manufacturing companies including Dong Fang International Container (Qingdao) Co., Ltd. to COSCO SHIPPING Investment Holdings Co., Ltd., a subsidiary of China COSCO Shipping Group. In July 2019, the company changed its name to Dong Fang International Container (Qingdao) Co., Ltd. (寰宇東方國際集裝箱(青島)有限公司), and the names of relevant building ownership certificate owners have not been changed. Before the issuance date of this report, the name of the owner of the above-mentioned building ownership certificate has been changed.

(2) As of the Valuation Benchmark Date, the name of owner of property ownership certificates in the six parcels of land (with an aggregate area of 407,968.30 sq.m.) within the valuation scope is Qingdao Pacific Container Co., Ltd. (the former name of Dong Fang International Container (Qingdao) Co., Ltd.). In 2019, Hong Kong Singamas Group and China COSCO Shipping Group reached an equity transfer agreement, and Hong Kong Singamas Group wholly transferred three container manufacturing companies including Dong Fang International Container (Qingdao) Co., Ltd. to COSCO SHIPPING Investment Holdings Co., Ltd., a subsidiary of China COSCO Shipping Group. In July 2019, the Company changed its name to Dong Fang International Container (Qingdao) Co., Ltd. (寰宇東方國際集裝箱(青島)

有限公司), and the names of relevant building ownership certificate owners have not been changed. Before the issuance date of this report, the name of the owner of the building ownership certificate of the land-use-rights of six parcels of lands has been changed.

(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion.

Nil.

XII. RESTRICTIONS ON THE USE OF THE VALUATION REPORT

(I) This Valuation Report shall be used for the valuation purpose and use set out herein. For the excerpt, reference and disclosure of all or part of the contents of the Valuation Report, relevant contents shall be reviewed by the valuation agency unless it is otherwise provided by laws and regulations and agreed by relevant parties;

(II) The valuation agency and its asset appraisers take no responsibility if the client or other users of the Asset Valuation Report fail to use this Asset Valuation Report in accordance with the provisions of laws and administrative regulations and the scope of use set out in this Asset Valuation Report;

(III) Except for the client, the other users of the Asset Valuation Report as agreed in the asset valuation engagement contract and the users of the Asset Valuation Report as stipulated in the laws and administrative regulations, no other institution or individual shall be the user of this report;

(IV) Users of the Asset Valuation Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

XIII. DATE OF THE VALUATION REPORT

The date of the valuation report is 27 April 2021.

Asset appraiser: Meng Qinghong

Asset appraiser: Fang Wei

27 April 2021

Annexes

I. The Corresponding Economic Activity Document on the Valuation Purpose

II. The Audit Reports of the Appraised Entity

III. Business Licenses of the Clients and the Appraised Entity

IV. Major Ownership Proof Materials of the Valuation Target Involved

V. Letters of Undertaking of the Clients and Other Relevant Parties

VI. Letters of Undertaking of the Signatory Asset Appraisers

VII. The Announcement on the Registration and Filing and the Qualification Certificates of the Valuation Agency

VIII. Photocopy of the Business License of the Valuation Agency

IX. Sch VI para 4(i) Qualification Certificates of the Asset Appraisers Responsible for the Valuation Business

X. The Asset Valuation Engagement Contract

The Asset Valuation Report was prepared in Chinese and the English translation is for reference only. In the event of any discrepancy between the English translation of the Asset Valuation Report and the Chinese version, the Chinese version shall prevail.

This Report is prepared in accordance with PRC Asset Valuation Standards

Asset Valuation Report

on Value of All Shareholders' Equity Interests in
Dong Fang International Container (Ningbo) Co., Ltd.
Involved in the Proposed Acquisition of 100% of the Equity Interests in Four Companies
Held by COSCO SHIPPING Investment Holdings Co., Ltd.
through the Issuance of Shares by COSCO SHIPPING Development Co., Ltd.

Zhong Tong Ping Bao Zi [2021] No. 12087

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Disclaimer, Summary, Text and Annexes

China Tong Cheng Assets Appraisal Co., Ltd.
27 April 2021

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中通诚资产评估有限公司
China Tong Cheng Assets Appraisal Co.,Ltd.

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Disclaimer

I. This Asset Valuation Report is prepared in accordance with the Basic Asset Valuation Standards issued by the Ministry of Finance and the Practice Guidelines for Asset Valuation and the Professional Code of Ethics for the Valuation of Assets issued by the China Appraisal Society.

II. The clients or other users of the Asset Valuation Report shall use the Asset Valuation Report in accordance with the laws and administrative rules and regulations and within the scope of use set out in this Asset Valuation Report. We and the asset appraisers take no responsibility for any non-compliance with the above-mentioned requirements for the use of the Asset Valuation Report by the clients or other users of the Asset Valuation Report.

This Asset Valuation Report shall only be used by the clients, other users of the Asset Valuation Report as agreed in the Asset Valuation Engagement Contract and users of the Asset Valuation Report as required by laws and administrative regulations. Save for the above, no other institution or individual shall be the user of this report.

We and the asset appraisers advise that users of the Asset Valuation Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

III. We and the asset appraisers have abided by the principles of independence, objectivity and impartiality, complied with the laws, administrative regulations and asset valuation standards, and have assumed responsibilities for the Asset Valuation Report issued in accordance with laws.

IV. The list of assets and liabilities and other relevant materials of the valuation target involved should be declared by the clients and the appraised entity and certified by signature, seal or other means permitted by laws. The clients and other relevant parties shall be responsible for the truthfulness, completeness and legality of the materials provided by them in accordance with laws.

V. We and the asset appraisers have no existing or expected relationship of interests with the valuation target set out in the Asset Valuation Report or with the relevant parties, and have no prejudice against the relevant parties.

VI. The asset appraisers have conducted on-site inspection on the valuation target and the assets involved in the Asset Valuation Report, and given necessary consideration to the legal ownership status of the valuation target and the assets involved, conducted verification on the relevant information regarding the legal ownership of the relevant assets, and made proper disclosure in respect of the issues identified and required the clients and other relevant parties to consummate the titles to meet the requirements on issuing the Asset Valuation Report.

VII. The analyses, judgments, and conclusions in the Asset Valuation Report issued are subject to the assumptions and restrictions in the Asset Valuation Report. The users of the Asset Valuation Report shall take into full account the assumptions, restrictions and special notes specified in the Asset Valuation Report and their impact on the valuation conclusion.

VIII. China Tong Cheng Assets Appraisal Co., Ltd. possesses the Securities and Futures Related Businesses Valuation Qualification Certificate (證券期貨相關業務評估資格證書) issued by the Ministry of Finance of the People's Republic of China and the China Securities Regulatory Commission.

Summary

I. CORRESPONDING ECONOMIC ACTIVITY UNDER THE VALUATION

The corresponding economic activity under the valuation is the proposed acquisition of 100% of the equity interests in four companies, including Dong Fang International Container (Ningbo) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares by COSCO SHIPPING Development Co., Ltd., which requires appraisal of the value of all shareholders' equity interests in Dong Fang International Container (Ningbo) Co., Ltd. involved in the economic activity.

The economic activity has been approved by China COSCO SHIPPING Corporation Limited and the Resolution at the 46th Meeting of the First Session of the Board of Directors of China COSCO SHIPPING Corporation Limited was issued (20 January 2021).

II. PURPOSE OF VALUATION

COSCO SHIPPING Development Co., Ltd. proposes to acquire 100% of the equity interests in four companies, including Dong Fang International Container (Ningbo) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares. An appraisal shall be conducted on the value of all shareholders' equity interests in Dong Fang International Container (Ningbo) Co., Ltd. involved in the economic activity to determine its market value on the Valuation Benchmark Date, being 31 December 2020, and provide value reference for the clients.

III. VALUATION TARGET AND SCOPE

The valuation target is the value of all shareholders' equity interests in Dong Fang International Container (Ningbo) Co., Ltd.

The valuation scope covers all assets and relevant liabilities of Dong Fang International Container (Ningbo) Co., Ltd.

IV. TYPE OF VALUE

Market value.

V. VALUATION BENCHMARK DATE

31 December 2020.

VI. VALUATION METHODOLOGY

The asset-based approach and the income approach were adopted in this valuation. The result derived by using the asset-based approach was adopted as the final valuation conclusion.

VII. VALUATION CONCLUSION AND ITS VALIDITY

Based on the specific circumstances of the valuation, the result derived by using the asset-based approach was adopted as the valuation conclusion.

On the Valuation Benchmark Date, being 31 December 2020, the book value of the assets, liabilities and net assets of Dong Fang International Container (Ningbo) Co., Ltd. was RMB1,351,784,800, RMB869,554,800 and RMB482,230,000, respectively. The total assets, liabilities and net assets were RMB1,474,696,600, RMB868,324,200 and RMB606,372,400, respectively, after the valuation. The appraised value of total assets represented an appreciation of RMB122,911,800 over the book value with an appreciation rate of 9.09%. The appraised value of net assets represented an appreciation of RMB124,142,400 over the book value with an appreciation rate of 25.74%. Please refer to the table below for details:

Table of Summary of Asset Valuation Results
Valuation Benchmark Date: 31 December 2020
Valuation target: Dong Fang International Container (Ningbo) Co., Ltd. Unit: RMB0'000

Item		Book Value	Appraised Value	Appreciation/ Depreciation	Change D = C/A
		A	B	C = B – A	× 100%
1	Current assets	113,549.85	113,701.61	151.76	0.13%
2	Non-current assets	21,628.63	33,768.05	12,139.42	56.13%
3	Including: Fixed assets	16,278.56	18,313.06	2,034.50	12.50%
4	Construction-in-progress	1,854.66	1,701.79	-152.87	-8.24%
5	Intangible assets	3,495.40	13,753.20	10,257.80	293.47%
6	**Total assets**	**135,178.48**	**147,469.66**	**12,291.18**	**9.09%**
7	Current liabilities	86,791.40	86,791.40	0.00	0.00%
8	Non-current liabilities	164.08	41.02	-123.06	-75.00%
9	**Total liabilities**	**86,955.48**	**86,832.42**	**-123.06**	**-0.14%**
10	**Net assets (Owner's equity)**	**48,223.00**	**60,637.24**	**12,414.24**	**25.74%**

In summary, the valuation result of all shareholders' equity interests in Dong Fang International Container (Ningbo) Co., Ltd. derived by using the asset-based approach was RMB606,372,400 (in word: SIX HUNDRED AND SIX MILLION THREE HUNDRED SEVENTY-TWO THOUSAND FOUR HUNDRED ONLY).

The validity of the valuation conclusion revealed in the valuation report shall be one year from the Valuation Benchmark Date, being 31 December 2020, to 30 December 2021.

VIII. SPECIAL MATTERS WITH IMPACTS ON THE VALUATION CONCLUSION

(I) Significant use of expert work and relevant reports

The unqualified audit report issued by Ernst & Young Hua Ming LLP for the years 2019 and 2020 were used in this valuation and the audited book values were adopted as the book values for valuation.

(II) Incomplete or defective ownership information;

As of the Valuation Benchmark Date, a total of 12 buildings were under the valuation scope, apart from three buildings, namely the main plant, workshop office, warehouse for steels, which have obtained housing ownership certificates; the remaining nine buildings have not obtained housing ownership certificates, among which the office building and complex building have obtained construction works planning permits, construction works commencement permits and the remaining seven buildings have not obtained listing permits, approval permits, construction works planning permits, construction works commencement permits, construction works completion and acceptance filing documents and other approvals, hence not all ownership certificates have been obtained as of the Valuation Benchmark Date. This valuation is based on the property right statement provided by the valuation target, which confirmed that Dong Fang International Container (Ningbo) Co., Ltd. is the property owner and no subsequent fees on the application for permits and the impacts of possible fines on incomplete approval procedures have been considered.

(III) Restrictions on valuation procedures

Nil.

(IV) Incomplete valuation materials

Nil.

(V) Pending legal and economic matters on the Valuation Benchmark Date

Nil.

(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target

Nil.

(VII) Significant subsequent matters

Nil.

(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion.

As of the Valuation Benchmark Date, the restricted balance of the bank deposit of the valuation target for Electronic Toll Collection business amounted to RMB120,000.00 (Bank account#: Gulou sub-branch in Ningbo of Industrial and Commercial Bank of China Limited 3901110019200154032).

This report together with the conclusion is only intended to be used for the valuation purpose as described herein and for no other purposes.

The above contents are extracted from the text of the Valuation Report. Please read the text of the Valuation Report to understand details of the valuation and correctly comprehend the valuation conclusion.

Value of All Shareholders' Equity Interests in Dong Fang International Container (Ningbo) Co., Ltd. Involved in the Proposed Acquisition of 100% of the Equity Interests in Four Companies Held by COSCO SHIPPING Investment Holdings Co., Ltd. through the Issuance of Shares by COSCO SHIPPING Development Co., Ltd.

Zhong Tong Ping Bao Zi [2021] No. 12087

To: COSCO SHIPPING Development Co., Ltd. and COSCO SHIPPING Investment Holdings Co., Ltd.

Upon your engagement, we, China Tong Cheng Assets Appraisal Co., Ltd., have appraised the market value of all shareholders' equity interests in Dong Fang International Container (Ningbo) Co., Ltd. involved in the proposed acquisition of 100% of the equity interests in four companies, including Dong Fang International Container (Ningbo) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares by COSCO SHIPPING Development Co., Ltd. as at 31 December 2020, by way of adopting the asset-based approach and the income approach and carrying out necessary valuation procedures in accordance with relevant laws, regulations and asset valuation standards and the principles of independence, objectivity and impartiality. We hereby report the details of the asset valuation as follows.

I. OVERVIEW OF THE CLIENTS, THE APPRAISED ENTITY AND OTHER USERS OF THE ASSET VALUATION REPORT AS AGREED IN THE ASSET VALUATION ENGAGEMENT CONTRACT

(I) Overview of the Clients

The clients of the valuation are COSCO SHIPPING Development Co., Ltd. and COSCO SHIPPING Investment Holdings Co., Ltd.

(1) Client I: COSCO SHIPPING Development Co., Ltd.

Name: COSCO SHIPPING Development Co., Ltd.

Unified social credit code: 91310000759579978L

Nature of company: Joint stock limited company (Sino-foreign joint venture, listed)

Domicile: Room A-538, International Trade Center, China (Shanghai) Pilot Free Trade Zone

Legal representative: Wang Daxiong

Date of establishment: 3 March 2004

Term of operation: 3 March 2004 to no fixed term

Registered capital: RMB11,608,125,000

Scope of business: Ordinary vessel services along domestic coastal areas and the middle and lower reaches of the Yangtze River and feeder liner services for foreign trade lanes in domestic coastal areas, international vessel services (including container liner services), container construction, repair, chartering, vessel chartering, self-owned containers, sales and purchase of vessels for self-use, marine management for domestic coastal ordinary vessels (excluding bulk cargo vessels), engineering management and vessel repair, maintenance, sales, chartering, operation, assets management and other vessel management services. [Projects that need to be approved according to laws can only be operated after being approved by relevant departments].

COSCO SHIPPING Development Co., Ltd. was formerly known as "China Shipping Container Lines Company Limited". The predecessor of China Shipping Container Lines Company Limited is COSCO SHIPPING Lines Co., Ltd., a limited liability company jointly invested and established by China Shipping (Group) Company Limited, China Shipping Development Co., Ltd. and Guangzhou Maritime Transport (Group) Co., Ltd. on 28 August 1997. In March 2004, with China Shipping (Group) Company Limited as the initiator, China Shipping Container Lines Company Limited converted the net assets of the former COSCO SHIPPING Lines Co., Ltd. as at 31 October 2003 into shares and solely sponsored the establishment of an A-share listed company. It completed the initial offering of listed-foreign H shares to overseas investors and was listed for trading on the Hong Kong Stock Exchange in the same year.

COSCO SHIPPING Development Co., Ltd. is a subsidiary of China COSCO SHIPPING Corporation Limited specialized in supply-chain financial services. The company aims to bring into play the advantages in shipping logistics industry and serve upstream and downstream industrial chains with shipping finance as the foundation; to develop industrial cluster with shipping and leasing, container manufacturing, investment and services for the related industries as the core; and to develop into a "one-stop" shipping financial service platform by combining industry with finance, integrating various financial functions, and synergy of various businesses, featuring market mechanism, differentiated advantages and international vision.

COSCO SHIPPING Development Co., Ltd. is among the top global players in the industry with the shipping capacity of its container fleet and the scale of its container leasing business. As of 30 June 2020, the company's container fleet had 86 container vessels, with a total capacity of 581,600 TEU; 4 bulk cargo vessels of 64,000 DWT each; over 90 LNG vessels, heavy crane vessels and oil tankers; and an inventory of containers of approximately 3.65 million TEU. In terms of other industry leasing businesses, the company focuses on the development of financial leasing businesses in the areas of medical services, education, new energy, construction and industrial equipment. In terms of container manufacturing business, Shanghai Universal Logistics Equipment Co., Ltd., a subsidiary of the company, attained an annual manufacturing capacity of 550,000 TEU. The company also focuses on the development of investment and supply-chain financial service business, takes good advantage of its experience in the shipping industry as well as the existing resources of the financial service industry to promote the integration of industry and finance, optimize its business models and achieve the synergetic development of its shipping finance business.

(2) Client II: COSCO SHIPPING Investment Holdings Co., Ltd.

Name: COSCO SHIPPING Investment Holdings Co., Ltd.

Registration No.: 21585899-000-03-18-8

Domicile: 51/F, Cosco Tower, 183 Queen's Road Central, Hong Kong

Type of enterprise: Limited company

COSCO SHIPPING Investment Holdings Co., Ltd. was established in 1998 with a registered capital of HK$500 million. Its predecessor is China Shipping (Hong Kong) Holdings Co., Ltd., a direct wholly-owned subsidiary of the former China Shipping (Group) Company Limited ("China Shipping Group"). It was the "one platform" and "three centers" of the former China Shipping Group in Hong Kong, South Korea, Japan, Australia and other countries and regions, namely the unified overseas investment and financing platform and "the profit center, the regional business management center and the service center".

In 2016, China Ocean Shipping and China Shipping were reorganized as China COSCO SHIPPING Corporation. The new group proposed the establishment of the "6+1" industrial clusters and established the financial segment as one of the pillar industries of the group to develop the financial platform of China COSCO SHIPPING. To achieve such result, COSCO SHIPPING Financial Holdings Co., Ltd. and COSCO SHIPPING Development Co., Ltd. (the former China Shipping Container Lines Co., Ltd.) developed the financial platform of the new group through major asset reorganizations.

On 1 June 2020, COSCO SHIPPING Financial Holdings Co., Ltd. officially changed its name to "COSCO SHIPPING Investment Holdings Co., Ltd.". As the overseas investment holding platform for the shipping and logistics industry of China COSCO SHIPPING Corporation, COSCO SHIPPING Investment Holdings Co., Ltd. will be devoted to the exploration of overseas financial investment businesses in the following years. It will also provide investment management services for China COSCO SHIPPING Corporation and its subsidiaries and integrate resources on the industrial chains to promote the synergetic development of all businesses.

(II) Overview of the Appraised Entity

The appraised entity under the valuation is Dong Fang International Container (Ningbo) Co., Ltd.

(1) Registration information

Name: Dong Fang International Container (Ningbo) Co., Ltd.

Unified social credit code: 913302127756477151

Type of enterprise: Limited liability company (solely funded by Taiwan, Hong Kong or Macao corporate body)

Domicile: No.101 Qihang North Road, Zhanqi Town, Yinzhou District, Ningbo City, Zhejiang Province

Legal representative: Wang Jianmin

Date of establishment: 26 July 2005

Term of operation: 26 July 2005 to 25 July 2055

Registered capital: US$20.00 million

Scope of business: Manufacturing of steel containers and special containers, container spare parts and steel structural components; container repair and refurbishment; container warehousing; self-operated and commissioned import and export business for various commodities and technologies except for distribution business for imported commodities (not involve business involving state-operated and managed trading of products; for business involving products subject to quota and license management, an application shall be made in accordance with the relevant national regulations).

(2) Historical development, shareholders and contributions

Dong Fang International Container (Ningbo) Co., Ltd. (formerly known as Ningbo Taiping Container Co., Ltd.) was established with the approval of the Ningbo Foreign Trade and Economic Cooperation Bureau by issuing the document of Yong Foreign Trade Asset Management Letter [2005] No. 244 on 19 July 2005, obtained the Certificate for Approval of Enterprise Invested by Corporations of Hong Kong, Macau and Taiwan (《中華人民共和國港澳台僑投資企業批准證書》) with approval number of Shang Wai Zi Yong Zi Zi (2005) No. 0288 issued by the People's Government of Ningbo on 19 July 2005 and was contributed by Singamas Container Holdings Limited.

The registered capital of Do Fang International Container (Ningbo) Co., Ltd. was US$20.00 million, all of which was invested by Singamas Container Holdings Limited. According to the capital verification reports numbered Zheng Kuai Yan [2005] No. 1141, Zheng Kuai Yan [2005] No. 6121, Zheng Kuai Yan [2006] No. 2012 and Zheng Kuai Yan [2006] No. 2019 issued by Ningbo Zhengyuan Certified Public Accountants Co. Ltd. on 1 September 2005, 10 October 2005, 11 January 2006 and 24 January 2006, respectively, Singamas Container Holdings Limited has paid the registered capital of US$20.00 million in four installments.

In April 2006, Singamas Container Holdings Limited transferred 20% equity interests (i.e. US$4 million) held by it in Dong Fang International Container (Ningbo) Co., Ltd. to China Shipping Investment Co., Ltd. for a consideration of RMB33,039,900; in May 2008, China Shipping Investment Co., Ltd. transferred its 20% equity interests (i.e. US$4 million) in Dong Fang International Container (Ningbo) Co., Ltd. to Shanghai Universal Logistics Equipment Co., Ltd. for a consideration of RMB26,628,420.42; on 14 May 2009, Shanghai Universal Logistics Equipment Co., Ltd. transferred 20% equity interests (i.e. US$4 million) held by it in Dong Fang International Container (Ningbo) Co., Ltd. to Singamas Container Holdings Limited through Shanghai United Assets and Equity Exchange for a consideration of RMB29,918,200.

In May 2019, Singamas Container Holdings Limited entered into an equity transfer agreement with COSCO SHIPPING Investment Holdings Co., Ltd. (formerly known as COSCO SHIPPING Financial Holdings Co., Limited), transferring 100% equity interests in Dong Fang International Container (Ningbo) Co., Ltd., and entrusting Shanghai Universal Logistics Equipment Co., Ltd., a wholly-owned subsidiary of COSCO SHIPPING Development Co., Ltd., to manage such transfer. The equity transfer was completed in August 2019, and as the registration for industrial and commercial change was completed at the same time, the company was renamed as Dong Fang International Container (Ningbo) Co., Ltd.

As at the Valuation Benchmark Date, the shareholders of Dong Fang International Container (Ningbo) Co., Ltd. and their contributions are set out in the table below:

Unit: US$0'000

Name of shareholder	Subscribed contribution	Paid-in contribution	Contribution proportion
COSCO SHIPPING Investment Holdings Co., Ltd.	2,000	2,000	100%
Total	2,000	2,000	100%

(3) Corporate structure, organizational structure and employees

As at the Valuation Benchmark Date, Dong Fang International Container (Ningbo) Co., Ltd. had one general manager, one general Party branch secretary and two deputy general managers. It established the financial management department, the procurement management department, the marketing service department, the material management department, the comprehensive management department/the corporate culture department, the safety and environmental protection prevention and design supervision department, the quality management department, the equipment department and the production department.

The company currently has a total of 1,192 employees, of which employees directly engaged in production account for approximately 90% and management and other personnel account for approximately 10%; the proportion of contract employees is approximately 41%, and the remaining approximately 59% is the proportion of outsourced employees.

(4) Principal businesses

The principal products of Dong Fang International Container (Ningbo) Co., Ltd. are dry containers, which are mainly 20-foot and 40-foot containers and 40-foot high-cube containers.

Designed production capacity: the company has one production line of dry containers, whose annual designed capacity is expected to reach 250,000 TEU with the capacity upgraded.

(5) Customers and suppliers

(a) Sales and customers

Most of the sales orders, product pricing and sales revenue of Dong Fang International Container (Ningbo) Co., Ltd. are under the unified management of Shanghai Universal Logistics Equipment Co., Ltd. and details are as follows:

Sales orders: Negotiations with customers are mainly conducted by Shanghai Universal Logistics Equipment Co., Ltd. and the orders obtained through the headquarters accounted for 95% of the overall sales in 2020. The business teams of various factories are mainly responsible for undertaking orders allocated by the headquarters and coordinating with the production department, the procurement management department, the material management department and other departments in the arrangement of production.

Sales pricing: The basic prices of containers are determined by the marketing department of Shanghai Universal Logistics Equipment Co., Ltd. based on material prices, labor costs and manufacturing expenses. The sales staff of Shanghai Universal Logistics Equipment Co., Ltd. adjust the basic prices based on the market conditions and the negotiation results with customers to finally determine the prices.

Execution of contracts: There are two ways under which contracts are executed. Firstly, customers and COSCO SHIPPING Investment Holdings Co., Ltd. sign sales contracts and COSCO SHIPPING Investment Holdings Co., Ltd. signs sales contracts with each factory. Secondly, customers directly sign contracts with each factory.

Collection of sales amounts: over 95% of sales amounts are collected by COSCO SHIPPING Investment Holdings Co., Ltd. and distributed to each factory based on the capital planning and the capital demands of all factories.

Allocation of orders: After obtaining orders from customers, the marketing department will designate a specific factory for production based on customers' preference.

After-sale services: The marketing service department of each factory is mainly responsible for following up.

(b) Suppliers

The group's procurement center provides a list of suppliers of main materials (steel, wooden flooring and paint, etc.) for Dong Fang International Container (Ningbo) Co., Ltd., negotiates with suppliers for procurement price and quantity based on the purchase volume in a centralized manner, and updates the market quotation of each main material to the factories at any time. Each factory enters into procurement contracts with suppliers at its sole discretion and makes payments. The factories are responsible for price negotiation, execution of contracts and payment for non-main materials.

(6) Historical operations

Dong Fang International Container (Ningbo) Co., Ltd. mainly has one production line of dry containers, which only manufacture standard dry containers with a height of 20 feet and 40 feet and 40-foot high-cube containers, and its designed annual capacity will reach 250,000 TEU with the capacity upgraded.

Major production equipment includes production equipment for dry containers: pre-processing and molding lines for side plates, pre-processing line for top plates, pre-processing line for thick plates, pre-processing line for profiles, cutting and folding lines for bottom cross beams, rolling line for bottom and side beams, punch, shearing machine for thick and thin plates, bending machine/gantry pressing machine and production lines (including subassembly welding machine, general assembly welding machine, secondary sanding line, tertiary painting line and drying room, refining line, etc.).

The table below sets forth the historical annual production and operation:

Unit: RMB0'000

No.	Item	2018	2019	2020
1	Dry containers (TEU)	170,728.00	102,505.00	110,625.00
2	Revenue from dry containers	212,476.38	114,874.84	131,406.91
3	Revenue from other businesses	1,031.36	3,939.87	804.83
	Total revenue	213,507.74	118,814.71	132,211.73

Major financial data and accounting statements of Dong Fang International Container (Ningbo) Co., Ltd. in recent years have been audited by professional auditors and are set out in the table below:

Unit: RMB0'000

Item	31 December 2018	31 December 2019	31 December 2020
Total assets	104,952.94	102,761.92	135,178.48
Including: fixed assets	15,705.51	16,556.26	16,278.56
Total liabilities	53,962.88	57,583.19	86,955.48
Net assets	50,990.06	45,178.73	48,223.00
Item	**2018**	**2019**	**2020**
Revenue	213,507.74	118,814.71	132,211.73
Total profit	13,746.92	-5,590.55	3,523.68
Net profit	10,255.98	-5,811.33	3,044.27

Note:

The data for 2018, 2019 and 2020 were from the audit report issued by Ernst & Young Hua Ming Certified Public Accountants (LLP).

(III) Relationship Between the Clients and the Appraised Entity

COSCO SHIPPING Development Co., Ltd., Client I, proposes to acquire 100% of the equity interests in four companies, including Dong Fang International Container (Ningbo) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd., Client II, through the issuance of shares. COSCO SHIPPING Investment Holdings Co., Ltd., Client II, is a shareholder of Dong Fang International Container (Ningbo) Co., Ltd., the appraised entity, with a shareholding proportion of 100%.

(IV) Overview of Other Users of the Valuation Report

Except for relevant parties in the economic activity, competent administrative review authorities and other users of the report as provided by national laws and regulations, no other users of the report were provided in the Asset Valuation Engagement Contract.

II. PURPOSE OF VALUATION

As COSCO SHIPPING Development Co., Ltd. proposes to acquire 100% of the equity interests in four companies, including Dong Fang International Container (Ningbo) Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares, the value of all shareholders' equity interests in Dong Fang International Container (Ningbo) Co., Ltd. involved in the economic activity has to be appraised to determine its market value on the Valuation Benchmark Date, being 31 December 2020, and provide value reference for the clients.

The said economic activity has been approved by China COSCO SHIPPING Corporation Limited and the Resolution at the 46th Meeting of the First Session of the Board of Directors of China COSCO SHIPPING Corporation Limited was issued (20 January 2021).

III. VALUATION TARGET AND SCOPE

(I) Valuation Target and Scope

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target is the value of all shareholders' equity interests in Dong Fang International Container (Ningbo) Co., Ltd.

The valuation scope covers all assets and liabilities of Dong Fang International Container (Ningbo) Co., Ltd. on the Valuation Benchmark Date corresponding to the valuation target. The corresponding accounting statements of the assets and liabilities declared by the enterprise have been audited by Ernst & Young Hua Ming Certified Public Accountants (LLP) and the audit report numbered An Yong Hua Ming (2021) Shen Zi No. 61227808_B03 was issued on 27 April 2021 with unqualified audit opinions. Details of the appraised unit's assets and liabilities are set out in the table below:

Unit: RMB

No.		Item	Book value
1	**I.**	**Total current assets**	**1,135,498,538.41**
2		Monetary funds	42,248,912.84
3		Trade receivable	352,509,363.28
4		Prepayment	166,220,617.80
5		Other receivables	210,357,619.98
6		Inventories	130,598,933.96
7		Other current assets	233,563,090.55
8	**II.**	**Total non-current assets**	**216,286,262.26**
9		Fixed assets	162,785,601.27
10		Construction in progress	18,546,623.18
11		Intangible assets	34,954,037.81
12	**III.**	**Total assets**	**1,351,784,800.67**
13	**IV.**	**Total current liabilities**	**867,914,033.52**
14		Short-term borrowings	600,000,000.00
15		Notes payable	20,032,889.77
16		Trade payable	142,847,314.52
17		Contract liabilities	46,237.50
18		Employee compensation payable	75,871,574.03
19		Taxes payable	7,700,186.24
20		Other payables	21,415,831.46
21	**V.**	**Total non-current liabilities**	**1,640,800.00**
22		Other non-current liabilities	1,640,800.00
23	**VI.**	**Total liabilities**	**869,554,833.52**
24	**VII.**	**Net assets**	**482,229,967.15**

(II) Layout and Characteristics of Physical Assets

As at the Valuation Benchmark Date, physical assets under the scope of valuation include: inventories, fixed assets and construction in progress. Inventories mainly are raw materials and finished products. Fixed assets mainly include buildings and equipment. Construction in progress mainly includes civil engineering and equipment installment projects. The specific layout is as follows:

(1) Inventories

(a) It has a total of 522 items of raw materials, mainly including steel materials, paints, three main materials and other auxiliary materials for wooden flooring as well as the relevant spare parts, stored in steel warehouse, paint warehouse, flooring warehouse, auxiliary materials warehouse, hardware warehouse and other warehouses of the enterprise.

(b) It has a total of 2 finished products, mainly including 40HC containers and self-owned containers that have been completed but not received by customers.

(2) Buildings under fixed assets

The scope of the valuation covers buildings (structures) owned by Dong Fang International Container (Ningbo) Co., Ltd., including a total of 12 buildings with an aggregate floor area of 50,499.35 sq.m. Major buildings include plants, office buildings and warehouses, which were completed and put into use in 2004 to 2019, and a total of 17 structures, most of which are yards, fences and grounds and were completed and put into use in 2006 to 2015. Details of major buildings (structures) are as follows:

(a) Main plant: With a steel structure, the building was completed and put into use in July 2006, and has obtained the ownership certificate Zhe (2020) Ningbo Yinzhou Immovable Property Right No. 0189171. The building has reinforced concrete independent foundation columns with a total gross floor area of 27,750.79 sq.m. Besides the load-bearing reinforced concrete columns, it also has blockboard walls, cement mortar flooring, steelwork roof, roller shutter doors and aluminum alloy windows. The installment projects include electric appliances, water supply and drainage and fire prevention facilities. As at the Valuation Benchmark Date, the building to be appraised was in good condition with regular maintenance.

(b) The comprehensive building: With a reinforced concrete structure, the building was completed and put into use in July 2006. The building has reinforced concrete independent foundation columns with a gross floor area of 2,628.00 sq.m. With the external walls covered with tiles, the building also has facing brick grounds, steelwork roof, burglar-proof doors and plastic steel windows.

The installment projects include electric appliances, water supply and drainage and fire protection facilities. As at the Valuation Benchmark Date, the building to be appraised was in good condition with regular maintenance.

(c) Steel coil warehouse: With a steel structure, the building was completed and put into use in September 2013, and has obtained the ownership certificate Zhe (2020) Ningbo Yinzhou Immovable Property Right No. 0189171. The building has reinforced concrete independent foundation columns with a gross floor area of 3,644.97 sq.m. Besides the load-bearing reinforced concrete columns, it also has blockboard walls, cement mortar flooring, steelwork roof, iron doors and aluminum alloy windows. It is also equipped with security doors and aluminium alloy windows. The installment projects include electric appliances, water supply and drainage and fire prevention facilities. It is in good condition with regular maintenance.

(d) The yard: The structure was completed and put into use in July 2007, with a length of 650 meters, a width of 180 meters and a gross floor area of 117,000.00 sq.m. The yard was completed in July 2006 with a structural steel surface. It is in good condition with regular repairing and maintenance.

(e) PVC coated chain link fence: The structure was completed and put into use in July 2006, referring to a brick-concrete fence with a length of 1,200.00 meters and a height of approximately 2.5 meters. It was completed in July 2006. It is in good condition with regular maintenance.

As at the Valuation Benchmark Date, a total of 12 buildings were included in this valuation scope. Except for three buildings for which housing ownership certificates have been obtained, housing ownership certificates have not been obtained for the remaining nine buildings, of which a construction works planning permit and construction works commencement license have been obtained for the office building and comprehensive building, and such approval documents as permits on listing, approval and construction works planning permits, construction works commencement permits, construction works completion and acceptance filing documents have not been obtained for the remaining seven buildings. This valuation is on the basis of the ownership statement provided by the valuation target, ascertaining that the owner of title is Dong Fang International Container (Ningbo) Co., Ltd.

As at the Valuation Benchmark Date, the buildings (structures) to be appraised and the land occupied were not under mortgage or guarantee. Besides, the buildings under fixed assets under the scope of valuation were not involved in lawsuits or other matters.

(3) Equipment under fixed assets

(a) Machinery equipment

Machinery equipment to be appraised is mainly production equipment and ancillary equipment and facilities for containers. Major equipment includes the production line for containers, steel plate shearers, bending machines, welding machines and other steel processing equipment as well as ancillary craning and power transformer and distribution equipment. Other equipment was under ordinary maintenance and normal use as at the Valuation Benchmark Date. As at the Valuation Benchmark Date, some of the equipment were obsolete and not regularly maintained, but all of them can be used.

(b) Vehicles

Vehicles to be appraised are 17 vehicles used for office and plant purposes, mainly including 12 vehicles used for office purposes such as Buick GL8, Passat, Odyssey and other models, and 5 vehicles used for plant purposes such as flatbed trucks, tractors, etc. As at the Valuation Benchmark Date, the vehicles were under normal maintenance and use.

(c) Electronic equipment

Electric equipment to be appraised are computers, printers, air-conditioners and network equipment. As at the Valuation Benchmark Date, the equipment was under normal maintenance and use.

(4) Civil engineering and equipment installment engineering

Equipment installment engineering refers to the upgrading and transformation of production lines under construction and the additions to other auxiliary equipment.

(III) Intangible Assets Accounted for or Not Accounted for as Declared by the Enterprise

(1) Intangible assets accounted for as declared by the enterprise

(a) A total of one item of land use rights under intangible assets was under the scope of valuation with a total site area of 221,485.00 sq.m. under the land use right certificate. Its original book value was RMB49,836,825.00 and the book value on the Valuation Benchmark Date was RMB34,636,591.29. Details are set out below:

Table of Summary on Registration of Intangible Assets-Land

Unit: RMB

Immovable property ownership certificate no.	Date of obtaining asset	Nature of land	Use of land	Area (m^2)	Original book value	Book value
Zhe (2020) Yinzhou Ningbo Immovable Property Right No. 0189171	2005/10/08	Transfer	Industrial land	221,439.40	49,836,825.00	34,636,591.29
Total				221,439.40	49,836,825.00	34,636,591.29

(b) The book value of other intangible assets under intangible assets was RMB317,446.52 and most of them are Oracle software, Aotu software, Yonyou office software and Yonyou U8 software. Details are set out in the table below:

Unit: RMB0'000

No.	Name and content	Date of obtaining asset	Statutory/ expected useful life	Original book value	Book value
1	Oracle software	2010-07-01	10 years	500,000.00	0.00
2	Aotu software	2014-04-01	10 years	55,555.56	18,055.63
3	Yonyou office software	2019-12-30	10 years	306,603.75	273,388.36
4	Yonyou U8 software	2020-08-27	10 years	27,133.08	26,002.53

(2) Intangible assets not accounted for as declared by the enterprise

Nil.

(IV) Type and Quantity of Off-balance-sheet Assets Declared by the Enterprise

Nil.

(V) Type, Quantity and Book Value (or Appraised Value) of Assets Involved in Making Reference to the Conclusions of Reports Issued by Other Institutions

Nil.

IV. TYPE AND DEFINITION OF VALUE

The types of the valuation value include the market value and other types of value except for the market value. Other types of value except for the market value generally include (but not limited to) the investment value, the value in use, the liquidation value and the residual value. The purpose of this valuation is to provide a value reference for normal transactions, and there are no special restrictions and requirements on market conditions and the use of valuation target, etc. Therefore, market value is selected as the type of value of this valuation according to industry practices.

Market value refers to the estimated value of the valuation target in an arm's length transaction made in the ordinary course of business on the Valuation Benchmark Date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

V. VALUATION BENCHMARK DATE

The Valuation Benchmark Date for this valuation is 31 December 2020.

Major factors considered by the clients in determining the Valuation Benchmark Date include the time requirement on the implementation of the economic activity. The end of the accounting period was adopted to facilitate the defining of the scope of valuation and the accurate and efficient stocktaking of assets.

VI. BASIS OF VALUATION

(I) Basis of Economic Activity

The Resolution at the 46th Meeting of the First Session of the Board of Directors of China COSCO SHIPPING Corporation Limited (on 20 January 2021) issued by China COSCO SHIPPING Corporation Limited.

(II) Legal Basis Provided by Laws and Regulations

(1) The Asset Appraisal Law of the People's Republic of China;

(2) The Law of the People's Republic of China on the State-owned Assets in Enterprises;

(3) The Measures for the Administration of State-owned Assets Appraisal (Order No. 91 of the State Council in 1991);

(4) The Detailed Rules for the Implementation of the Administrative Measures of State-owned Assets Valuation (Guo Zi Ban Fa [1992] No. 36 issued by former National Administration for State-owned Assets);

(5) The Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council);

(6) The Opinions on Reforming the Administration of State-owned Assets Appraisal and Strengthening Supervision and Administration of Assets Appraisal (Guo Ban Fa [2001] No. 102);

(7) The Interim Measures for the Administration of Valuation of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

(8) The Regulations on Certain Issues Concerning State-owned Assets Appraisal (Order No. 14 of the Ministry of Finance);

(9) The Measures for the Supervision and Administration of the Trading of State-owned Assets of Enterprises (Order No. 32 of the SASAC of the State Council and the Ministry of Finance);

(10) The Notice on the Guidelines on the Publication and Distribution of the Filing of State-owned Assets Appraisal Projects for Enterprises (Guo Zi Fa Chan Quan [2013] No. 64).

(11) The Financial Supervision and Administration Measures on the Assets Evaluation Industry (Order No. 97 of the Ministry of Finance);

(12) The Notice on Strengthening the Administration of State-owned Assets Appraisal of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);

(13) The Notice on Relevant Matters Concerning the Examination of Appraisal Reports on State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);

(14) The Corporate Income Tax Law of the People's Republic of China;

(15) The Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China (Issued under Order No. 512 of the State Council and recently amended under Order No. 714 of the State Council);

(16) The Interim Regulations for the Value-added Tax of the People's Republic of China (Issued under Order No. 134 of the State Council and recently amended under Order No. 691 of the State Council);

(17) The Implementation Rules to the Interim Regulations for the Value-added Tax of the People's Republic of China (Issued under Order No. 50 of the Ministry of Finance and the State Taxation Administration and recently amended under Order No. 65 of the Ministry of Finance and the State Taxation Administration);

(18) The Notice on the Comprehensive Rollout of the Business Tax to Value Added Tax Transformation Pilot Program (Cai Shui [2016] No. 36);

(19) The Circular Relating to Furthering Relevant Policies on Reform of Value-added Tax (Circular [2019] No. 39 jointly issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs).

(III) Basis of Valuation Standards

(1) Basic Asset Valuation Standards (Cai Zi [2017] No. 43);

(2) Professional Code of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);

(3) Practice Guidelines for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

(4) Practice Guidelines for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

(5) Practice Guidelines for Asset Valuation – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);

(6) Practice Guidelines for Asset Valuation – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

(7) Practice Guidelines for Asset Valuation – Engagement of Experts and Relevant Reports (Zhong Ping Xie [2017] No. 35);

(8) Practice Guidelines for Asset Valuation – Enterprise Value (Zhong Ping Xie [2018] No. 38);

(9) Practice Guidelines for Asset Valuation – Asset Valuation Methodology (Zhong Ping Xie [2019] No. 35);

(10) Practice Guidelines for Asset Valuation – Intangible Assets (Zhong Ping Xie [2017] No. 37);

(11) Practice Guidelines for Asset Valuation – Real Estate (Zhong Ping Xie [2017] No. 38);

(12) Practice Guidelines for Asset Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

(13) Guiding Opinions on Professional Asset Valuation (Zhong Ping Xie [2017] No. 49);

(14) Quality Control Guidance on the Business of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46);

(15) Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

(16) Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);

(17) Guiding Opinions on Legal Ownership of the Asset Valuation Target (Zhong Ping Xie [2017] No. 48).

(IV) Ownership Basis

(1) Business licenses;

(2) Land use right certificates;

(3) Building ownership certificates;

(4) Patents certificates;

(5) Driving permits for vehicles.

(V) Pricing Basis and References

(1) The information on financial accounting and operation provided by the enterprise;

(2) Statistical information, technical standards and policy documents issued by relevant authorities of the state;

(3) Relevant enquiry and parameters information collected by the valuation agency;

(4) Profit forecast information provided by the enterprise.

VII. VALUATION METHODOLOGY

(I) Selection of Valuation Methodology

In accordance with the Practice Guidelines for Asset Valuation – Enterprise Value, when performing any appraisal of enterprise value, the suitability of the three basic asset valuation methods, namely the income approach, the market approach and the cost approach (the asset-based approach) shall be analyzed based on the purpose of valuation, the valuation target, the type of value, information gathering, etc. in its selection of valuation methods.

(1) Market approach

As there is limited access to transaction information of property ownership trading market in China and similar enterprises have significant differences in the product structure and principal businesses, it is extremely difficult to select market reference of the same type, therefore the market approach was not adopted in the valuation.

(2) Income approach

The income approach means a general term of various evaluation methods to determine the value of the valuation target by capitalizing or discounting its expected income. The specific methods commonly used for the income approach in enterprise valuation include the discounted cash flow method and the dividend discount method. The valuation target is a container manufacturer with independent profitability and the adoption of the income approach can reflect the reasonable market value of enterprises in such type of industry, therefore the income approach was adopted in the valuation.

(3) Asset-based approach

As all assets and liabilities of the enterprise may be appraised and recognized on an individual basis with clear structure of assets and liabilities, therefore the asset-based approach was adopted in the valuation.

In conclusion, the asset-based approach and the income approach were adopted in the valuation and the asset-based approach was adopted to determine the valuation conclusion after analysis.

(II) Asset-based Approach

The asset-based approach used in the valuation of the enterprise value is a valuation method for determining the value of the appraised enterprise by appraising the value of all its assets and liabilities on the basis of its balance sheet and those which can be identified off the balance sheet at the Valuation Benchmark Date. In the case of employing the asset-based approach in valuation of the enterprise value, the value of each asset is calculated by choosing a specific applicable valuation method in accordance with its specific circumstances.

The detailed valuation methods involved in this valuation are set out as follows.

(1) Current assets

(a) Monetary funds

For RMB monetary funds, the appraised value of monetary funds in current assets is determined as the verified book value based on the breakdown of all items provided by the enterprise. For foreign monetary funds, the appraised value is determined as the verified book value of foreign currencies multiplying the central parity of foreign currencies on the Valuation Benchmark Date.

(b) Trade receivable, prepayment and other receivables

Based on the breakdown of items for valuation provided by the valuation target, which is the valuation basis, verification was conducted on accounting information and selected large amounts, with analysis on the amount, time and reasons of arrears and recovery situation of each receivable, to determine the appraised value of each receivable.

(c) Other current assets

The appraisers have investigated the valuation target to understand the payable VAT rate and payment system and other taxation policies, including but not limited to reviewing the tax payment certificate of the valuation target for the latest period from the Valuation Benchmark Date and evaluating the accounting voucher of the tax payable on the Valuation Benchmark Date. The appraised value of other current assets shall be determined as the verified book value.

(d) Inventories

(i) Raw materials

Based on the breakdown of items for valuation provided by the valuation target, which is the valuation basis, the appraisers conducted spot sample checks on certain inventories and adopted the replacement procedures to determine the actual amount of raw materials on the Valuation Benchmark Date. It is learnt that the raw materials of the Company have a quick turnover and the materials were purchased recently with no changes in prices generally, and the verified book value was used to determine the appraised value.

(ii) Finished products

The appraisers adopted the following methods in the valuation after determining the truthfulness and completeness of finished products through checking relevant accounts and conducting spot sample checks. For all containers for sale, the appraised value of all finished products was determined as the sales price of all finished products less taxes and surcharges, sales expenses, income taxes and appropriate net profits, that is: appraised value = sales revenue – sales taxes and surcharges – sales expenses – income taxes – appropriate net profits. As the sales of containers is an export business, no sales taxes and surcharges are incurred, the sales expenses are calculated based on the average proportion of sales expenses in revenue in the previous three years. Upon investigation, it is learnt that there are order contracts for the products for sale, hence the rate of deduction of net profits is 0%. For self-owned containers, the appraised value was determined at the book value.

(2) Fixed assets – Buildings

(a) Selection of valuation methodology

In accordance with the Practice Guidelines for Asset Valuation – Property, common valuation methods include the market comparison approach, the income approach and the replacement cost approach. An appropriate valuation approach shall be selected in accordance with standards and regulations based on the conditions of the local property market, the specific characteristics of the valuation target and the purpose of the valuation.

As the buildings (structures) are self-built industrial factories and ancillary occupancies, lease cases on similar buildings in surrounding areas cannot be obtained. It is not applicable to adopt the income approach in the valuation.

As the buildings (structures) are self-built industrial buildings, information on the transactions or trading prices of similar buildings in the same or similar areas cannot be collected. Therefore, the market comparison approach to appraise the value of the buildings (structures) to be appraised cannot be adopted.

As the buildings (structures) are self-built industrial buildings, appraisers may adopt the replacement cost approach to appraise the required budget and financial accounts materials on the project and the price information on labor, materials and the shift use of machinery on the Valuation Benchmark Date. The conditions for adopting the replacement cost approach in the valuation can be met.

Based on the above analysis, the replacement cost approach was adopted in the valuation on the buildings (structures) to be appraised.

(b) Replacement cost approach

For the valuation on principally self-built buildings, the full replacement price of a building is calculated in accordance with the amount of construction work and the current fixed standard reference price, construction fees, and loan interest rate based on the construction project data and completion settlement data, while the residual ratio is determined comprehensively in accordance with the useful life and the site survey of the building, and the net appraised value of the building is thereby calculated.

Appraised value of buildings = Full replacement price × Residual ratio

According to the Circular Cai Shui [2016] No. 36, the Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (No. 39 in 2019) issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs and relevant local documents on the adjustment of pricing basis in the industry, the corresponding value-added tax shall be deducted from the full replacement price for immovable properties meeting the conditions for deduction of value-added tax.

(i) Full replacement price

Full replacement price = Construction and installation costs (excluding tax) + Preliminary construction and other costs (excluding tax) + Capital costs

A. <u>Determination of construction and installation costs</u>

1. **Budget (final accounts) adjustment method**

For the building projects with complete materials on completion and final accounts, the appraisers use the current local or industrial standard reference price to calculate the direct standard reference price based on the quantity of work of all segments and items as determined in the original completion materials. The standard construction and installation costs on the Valuation Benchmark Date are estimated based on the corresponding current standard reference price on construction and installation costs and the difference adjustment documents of the place where the project is located.

2. For the building of low value and simple structure, construction cost per square meter is used to determine its comprehensive construction and installation cost.

B. Determination of preliminary and other costs

Preliminary and other costs are based on the investment amount of the valuation target in project construction in accordance with the charging standards of the industry or as stipulated by national or local governments. The name, charging base, charging standards and charging basis of preliminary and other costs are set out in the table below:

Table of Disaggregated Preliminary and Other Costs Charged

No.	Fee	Rate (tax inclusive)	Rate (tax exclusive)	Charging basis
1	Construction unit administrative fees	0.89%	0.89%	Construction and installation costs
2	Survey and design fees	2.67%	2.52%	Construction and installation costs
3	Project construction supervision fees	1.80%	1.70%	Construction and installation costs
4	Bidding agency fees	0.12%	0.11%	Construction and installation costs
5	Environmental impact assessment fees	0.040%	0.038%	Construction and installation costs
6	Feasibility research fees	0.54%	0.51%	Construction and installation costs
7	Sub-total	6.06%	5.77%	Construction and installation costs

C. Determination of capital costs

According to the normal construction period, the loan interest rate is determined with reference to the loan market quoted interest rate announced by the National Interbank Funding Center on 20 December 2020. Based on the assumption of the average investment of funds during the construction period, the calculation formula of capital costs is as follow:

Capital costs = (Construction and installation costs + Preliminary and other costs) × Loan interest rate × Reasonable construction period ÷ 2

D. Determination of integrated residual ratio

The useful life method and the observation method are mainly used to determine the integrated residual ratio for the buildings in the valuation.

1. **Theoretical residual ratio**

Theoretical residual ratio is the residual rate determined based on the ratio of estimated remaining useful life of buildings to its aggregate useful life. The calculation formula is as follows:

Theoretical residual ratio = Remaining useful life ÷ Economic life × 100%

2. **Residual ratio under the observation method**

The observation method is applied to assess each major part of the buildings from a technical perspective, and to analyze factors such as design, manufacturing, usage, wear and tear, maintenance, improvement and physical life of the asset on a consolidated basis. Impacts of wear and tear and natural deterioration on the functionality and efficiency of the asset will be assessed by comparing the valuation target with itself in new condition. As such, the residual ratio of the buildings would be determined and the substantial depreciation would be estimated.

3. **Integrated residual ratio**

Integrated residual ratio = Theoretical residual ratio × 40% + Residual ratio under the observation method × 60%

4. **Residual ratio would be determined by adopting a reasonable method where:**

- If the residual ratio calculated under the on-site observation method and the theoretical residual ratio differ significantly, upon analysis of the various factors by the appraisers, the relatively reasonable ratio would prevail based on their previous experience.

- For the project which cannot be observed due to certain constraints, the theoretical residual ratio would be normally applied in determining the residual ratio.

(3) Fixed assets – Machinery and equipment

According to the purpose of this valuation and the characteristics of the appraised assets, and assuming the asset is continued to be used according to its current usage, the replacement cost approach would be adopted in this valuation on the basis of on-site investigation.

Basic formula: Appraised value = Full replacement price × Residual ratio

As at the Valuation Benchmark Date, the company was a VAT general taxpayer and the tax-exclusive price was adopted to calculate the purchase costs of equipment in determining the full replacement price.

(a) Determination of full replacement price

(i) Machinery and equipment

A. <u>Determination of full replacement price</u>

For equipment of which current market prices are available, the full replacement price would be determined with reference to the selected prevailing market price after analyzing and taking into account the transportation and miscellaneous fees as well as installation and commissioning fees; for those equipment of which current market prices are not available, the full replacement price would be determined using the market price (to be adjusted correspondingly as the equipment purchase cost) of products with similar function, plus the transportation and miscellaneous fees, installation and commissioning fees as well as other reasonable expenses. The calculation formula is as follows:

Full replacement price = Equipment purchase cost +
Transportation and miscellaneous fees +
Installation and commissioning fees + Other costs

As at the Valuation Benchmark Date, the company was a VAT general taxpayer and the tax-exclusive price was adopted to calculate the purchase cost of equipment in determining the full replacement price.

B. <u>Determination of major price determination parameters</u>

1. **Equipment purchase cost**

Determination of equipment purchase cost would be mainly based on quotations from the equipment manufacturer and the latest transaction price of the same type of machinery and equipment purchased by the company.

2. **The rate of transportation and miscellaneous fees of equipment**

Transportation and miscellaneous fees of equipment, consisting mainly of the transportation cost, loading and unloading expenses and insurance premium, would be determined generally based on the standard rate as stipulated by the "Manual of Data and Parameters Commonly Used in Asset Appraisal" (資產評估常用數據與參數手冊) in the valuation.

3. **Installation and commissioning fees of equipment**

It would be determined based on the standard rate as stipulated by the "Manual of Data and Parameters Commonly Used in Asset Appraisal" (資產評估常用數據與參數手冊).

4. **Preliminary and other costs**

Preliminary and other costs are based on the investment amount of the valuation target in project construction in accordance with the charging standards in the industry as stipulated by national or local governments. Preliminary and other costs determined in the valuation of equipment are as follows:

Table of Preliminary and Other Costs

No.	Item	Charging base	Rate (tax inclusive)	Rate (tax exclusive)	Basis
1	Construction unit administrative fees	Construction cost	0.86%	0.86%	Cai Jian [2016] No. 504
2	Survey and design fees	Construction cost	3.00%	2.83%	Ji Wei Jian She Bu Ji Jia (2002) No. 10
3	Project supervision fees	Construction cost	1.60%	1.51%	Fa Gai Jia Ge (2007) No. 670
4	Project bidding or tendering agency fees	Construction cost	0.09%	0.08%	Ji Jia Ge (2002) No. 1980
5	Environmental assessment fees	Construction cost	0.03%	0.03%	Ji Wei Huan Bao Zong Ju Ji Jia Ge (2002) No. 125
6	Feasibility research fees	Construction cost	0.20%	0.19%	Ji Wei Ji Jia Ge (1999) No. 1283
	Total		5.78%	5.50%	

Note: It is verified that the documents on the above items 3 to 6 have been abolished. The preliminary costs involved have transformed government-guided prices to market-regulated prices. As there is no explicit calculation basis under the background of the market-regulated price, preliminary costs are calculated with reference to the above documents in the valuation.

5. **Capital costs**

According to the normal construction period, the loan interest rate is determined with reference to the loan market quoted interest rate announced by the National Interbank Funding Center on 20 December 2020. Based on the assumption of the average investment of funds during the construction period, the specific calculation formula of capital costs is as follows:

Capital costs = Purchase cost or construction costs of equipment × Applicable interest rate × Reasonable construction period ÷ 2

(ii) Vehicles

The full replacement price is determined by adding vehicle purchase tax, license fee and other reasonable costs at the prevailing market price.

(iii) Electronic equipment

For the electronic equipment of which prevailing market price is available, the full replacement price is directly determined based on its analyzed and selected prevailing market price; for the electronic equipment of which prevailing market price is unavailable, the full replacement price is determined by selecting the market price of the substitutes with similar function and making corresponding adjustments.

(b) Determination of the residual ratio

(i) For machinery and equipment, the observation method and the useful life method are mainly used to determine the residual ratio. The calculation formula is as follows:

Residual ratio = Residual ratio under the observation method × 60% + Residual ratio under the useful life method × 40%

A. Observation method. The observation method is applied to assess each major part of the appraised equipment from a technical perspective, and to analyze factors such as design, manufacturing, usage, wear and tear, maintenance, repair, extensive repair, improvement and physical life of the asset on a consolidated basis. Impacts of wear and tear and natural deterioration on the functionality and efficiency of the asset will be assessed by comparing the valuation target with itself in new condition. As such, the residual ratio of the appraised equipment would be determined.

B. Useful life method. The calculation formula is as follows:

Residual ratio under the useful life method = (Economic useful life – Used life)/Economic useful life × 100%

Economic useful life refers to the term of asset from the date of commencing service to the date of discontinuation when it becomes uneconomical.

(ii) For vehicles, the observation method and the theoretical residual ratio are comprehensively used to determine the residual ratio. The calculation formula is as follows:

Residual ratio = Residual ratio under the observation method × 60% + Theoretical residual ratio × 40%

A. Observation method. The observation method is applied to assess each major part of vehicles from a technical perspective, and considers factors such as design, manufacturing, usage, wear and tear, maintenance, repair and physical life of the asset on a consolidated basis. Impacts of wear and tear and natural deterioration on the functionality and efficiency of the asset will be assessed by comparing the valuation target with itself in new condition. As such, the residual ratio of the appraised vehicles would be determined.

B. Theoretical residual ratio. With reference to the *Regulations on Compulsory Scrapping Standards of Motor Vehicles* (Order No. 12 of 2012 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection), the theoretical residual ratio is determined as the lower of the residual ratio under the useful life method and the residual ratio under the mileage method. The calculation formula for the residual ratio under the useful life method is as follows:

Residual ratio under the useful life method = (Economic useful life – Used life)/Economic useful life × 100%

The calculation formula for the residual ratio under the mileage method is as follows:

Residual ratio under the mileage method = (Specified mileage – Mileage traveled)/Specified mileage ×100%

(iii) Electronic equipment

For electronic equipment, the useful life method is mainly used to determine the residual ratio. The calculation formula is as follows:

$$\text{Residual ratio under the useful life method} = (\text{Economic useful life} - \text{Used life})/\text{Economic useful life} \times 100\%$$

If the residual ratio calculated under the observation method and the residual ratio calculated under the useful life method (or the theoretical residual ratio) differ significantly, the relatively reasonable one of the two may be selected based on experience and judgment after analyzing related reasons.

(4) Construction-in-progress

Appraisers have inspected the project contracts and evidence of payment of the enterprise and confirmed that the payment met the contractual requirements. They learnt about the progress of projects through relevant employees of the enterprise and calculated the corresponding reasonable capital costs to determine the final appraised value based on the payment progress for the equipment under construction after verifying the above conditions. For self-developed equipment where the progress cannot be determined, the book value is recognized as the appraised value.

(5) Intangible assets – Land use rights

(a) Selection of valuation methods

The common land valuation approaches include market comparison approach, income reduction approach, hypothetical development approach, cost approximation approach, benchmark land price coefficient correction approach, etc. The selection of valuation approaches should be based on the *Rules for Urban Land Valuation* and the development of local real estate market, combined with the specific characteristics of the valuation target and the valuation purpose, etc., to select appropriate valuation approaches.

According to the land price level of the same kind of land in Ningbo City and the investigation and interview on the relevant personnel of the local land administration department, in accordance with the technical specifications on land price appraisal and the specific conditions of the valuation target, the market comparison approach and the cost approximation method were adopted in this valuation mainly due to the following reasons:

(i) As relevant land acquisition compensations can be collected for the land parcel to be appraised, the cost approximation method can be adopted in the valuation.

(ii) As sufficient market lease cases in areas surrounding the land parcel with the same use cannot be collected, the income approach was not adopted in the valuation.

(iii) As the complete benchmark land price correction system cannot be obtained in the area where the land parcel is located, it is not appropriate to adopt the benchmark land price coefficient correction approach in the valuation.

(iv) As there are market transaction cases in areas surrounding the land parcel to be appraised, the market comparison approach may be adopted in the valuation.

(b) Implication of valuation methods

(i) Valuation method of the market comparison method:

The market comparison method represents that when determining the price of the land parcel to be appraised and following the principle of replacement, it compares the transaction cases of similar land use rights in recent period with the land parcel to be appraised and determines the price of the land parcel of the valuation target on the Valuation Benchmark Date based on the known price of the latter with reference to the differences in the transaction conditions, date, region and other individual factors with the land parcel. The calculation formula is:

Comparable price = Comparable land parcel price × Correction of transaction conditions × Correction of transaction dates × Correction of regional factors × Correction of individual factors × Correction of equity factors

Price of land parcel to be appraised = Comparable price × Land parcel area

(ii) Valuation method of the cost approximation method:

Cost approximation method refers to the valuation method to determine land price by using the sum of various expenses incurred in the development of land as major reference, with a certain amount of interest, profit, tax payable and land value-added gain. The basic principle for cost approach is to obtain the land price by using all the investments of land, including the two parts of land acquisition cost and infrastructure development cost as "basic costs", and the reasonable profit and interest accrued on from the "basic costs" as the basic part of the land price through application of the principle of obtaining equivalent profit by equivalent capital and then as well as the rewards from land ownership (the nature of which is derived from the land value increment) according to the needs for realization of land ownership in economics in the country.

Basic formula:

$$\text{Land price} = (\text{Land acquisition costs} + \text{Land development costs} + \text{Taxes} + \text{Investment interest} + \text{Land development profits} + \text{Land value-added gains}) \times \text{Regional and individual factor correction coefficient} + \text{tenure correction coefficient}$$

(6) Intangible assets – Other intangible assets

The appraisers recognize the composition of the original book value and the truthfulness and reasonableness of the incurred amortization amount through enquiring the related accounting records based on the original accounting value. The appraised value of software on sale on the market will be determined based on the market price, exclusive of taxation. For specifically customized version of software whose market price is not available on the market, the replacement cost was adopted in the valuation to determine the appraised value of such software taking into account the corresponding depreciation rate. For software whose market price is available, the appraised value was determined with reference to the market price of software of the same version on the Valuation Benchmark Date.

The basic formula: Appraised value = Replacement cost × (1 – Depreciation rate)

(a) Determination of the replacement cost

The replacement cost of purchased intangible assets is estimated based on the price of similar software sold on the market, exclusive of taxation, through market inquiry.

$$\text{Replacement cost} = \text{Market selling price}/(1 + 13\%)$$

(b) Depreciation rate

Appraisers determine the depreciation rate of intangible assets through comparing the estimation and judgment on the remaining economic life of intangible assets. The calculation formula is as follows:

$$\text{Depreciation rate} = \text{Used life}/(\text{Used life} + \text{Remaining useful life}) \times 100\%$$

(7) Liabilities

The actual amount of liabilities attributable to the valuation target as at the Valuation Benchmark Date will be accounted for as the appraised value.

(III) Income Approach

The income approach in the appraisal of enterprise value refers to the valuation method used in determining the value of the valuation target by capitalizing or discounting the expected income. Methods frequently used under the income approach include the dividend discount method and the discounted cash flow method.

This valuation adopted the discounting model of free cash flow of firm under the discounted cash flow method. Specifically, using the Weighted Average Cost of Capital (WACC) as the discount rate, the total equity interest of shareholder is arrived at by adding the expected Free Cash Flow of Firm (FCFF) for each of the coming years to the operational asset values plus the value of the surplus assets and non-operational assets to the value of entire assets of the enterprise less the value of interest-bearing debt. The basic formula is as follows:

Total equity interest of shareholders = Operational asset value + Non-operational assets value – Non-operational liabilities value + Surplus assets value – Value of interest-bearing debt

The specific calculation formula is as follows:

$$P = P' + A' - D' - D$$

$$P' = \sum_{i=0.5}^{n} \frac{R_i}{(1+r)^i} + \frac{R_n}{r} \times \frac{1}{(1+r)^n}$$

Wherein,

P – the total appraised value of equity interest of shareholders in the valuation target

P' – the discounted value of entire revenue of firm

D – the non-operational liabilities

A' – the non-operational assets

D' – the interest-bearing debt

R_i – the expected income generated in income period No. i in the future (FCFF)

i: the income period, i = 0.5, 1.5, 2.5……n

r: the discount rate.

Ⅷ. PROCESS AND IMPLEMENTATION OF VALUATION PROCEDURES

(I) Acceptance of Engagement

Understand the general conditions of the appraised assets and specify the valuation purpose, the valuation target and scope, the valuation benchmark date and other basic matters in valuation after discussions and communications with the clients, accept the engagement after the comprehensive analysis on the professional capability and independence and assessment of business risks and enter into the assets valuation engagement contract. Determine the type of the appraised value, formulate the valuation plan and establish the working group on valuation based on specific circumstances.

(II) On-site inspection and collection of materials

Guide the appraised entity to conduct asset stocktaking and prepare valuation materials and carry out on-site inspection on the valuation target on such basis to collect required information for the asset valuation, understand the asset, business and financial conditions of the valuation target, macro and regional economic factors affecting the operation of the enterprise and the current conditions and prospects of the industry and pay attention to the legal ownership of the valuation target. Verify and validate the materials used in the asset valuation in accordance with laws.

(III) Assessment and estimation

Analyze, summarize and sort the materials on valuation based on the specific circumstances of the asset valuation business and form the basis for the assessment and estimation and the preparation of the valuation report. Select the valuation methodology based on the valuation purpose, the valuation target, the type of value, the collection of materials and relevant conditions as well as the Practice Guidelines for Asset Valuation. Select the corresponding formula and parameters in analysis, calculation and judgment based on the valuation methodology adopted and analyze and judge valuation assumptions and restrictions which may affect the valuation and the valuation conclusion and arrive at the estimation results. Analyze and compare the estimation results arrived at from different methodologies and form the valuation conclusion.

(IV) Issuance of report

The responsible persons of the project prepare the preliminary asset valuation report based on the valuation conclusion after assessment and estimation. The firm carries out internal review on the preliminary asset valuation report in accordance with laws, administrative regulations, the standards for asset appraisal and the internal quality control system and issues the formal asset valuation report after conducting necessary communications on relevant contents of the valuation report with the clients and other relevant parties.

IX. VALUATION ASSUMPTIONS

The main asset valuation assumptions adopted in this valuation report include:

(I) Basic Assumptions

(1) Transaction assumption. The transaction assumption is that all assets to be appraised are in the process of transaction, and the appraisers will make estimation in a simulated market according to the transaction conditions (among others) of assets to be appraised.

(2) Open market assumption. The open market assumption is that assets may be traded freely in a highly competitive market and the price of which is determined based on the judgment of both independent trading parties over the value of assets under certain supply and demand conditions. An open market refers to a market which is highly competitive with various buyers and sellers. In the open market, both parties of a transaction are equal, which means they are given the opportunity and time to acquire sufficient market information. Buyers and sellers are supposed to be acting voluntarily and rationally rather than being coerced or confined during the transaction.

(3) Assumption on continuing operation. Assumption on continuing operation refers to the assumption that the operating activities of an operating entity will continue and will not be suspended or terminated in the foreseeable future.

(II) Specific Assumptions

(1) There will be no significant changes in the relevant prevailing laws, regulations and policies as well as macro-economic situation of the country and place where the valuation target resides, significant changes in the political, economic or social environment in the regions in which the parties to the transaction are located, or material adverse effects arising from other unforeseeable factors and force majeure.

(2) It is assumed that the enterprise will have balanced cash inflows and cash outflows throughout the year based on its actual operation conditions.

(3) It is assumed that the current and future operators and managers of the valuation target exercise due diligence, and the management of such entity are competent in discharging their duties to ensure that the valuation target is able to operate on a going concern basis, the development, production, and operation plans of which can be fulfilled as scheduled.

(4) It is assumed that the valuation target is in full compliance with all relevant national laws and regulations, without committing any significant violation that prejudices corporate development and realization of revenue.

(5) It is assumed that the accounting policies to be adopted by such enterprise in the future are basically consistent with those adopted during the preparation of this report in material aspects.

(6) It is assumed that, based on its current management approaches and standards, the enterprise's scope and model of business will remain consistent with the current orientation.

(7) It is assumed that there will be no material changes in the requirements currently implemented or determined to be implemented regarding the relevant interest rates, exchange rates, taxation bases and tax rates, and government levies according to national regulations.

(8) It is assumed that no other force majeure and unforeseeable factors will have a material adverse effect on the enterprise.

According to the requirements of the asset valuation, these assumptions are deemed to be valid on the Valuation Benchmark Date. We will not accept any responsibility for any different valuation conclusions resulting from any changes in these assumptions when the economic environment changes significantly in the future.

X. VALUATION CONCLUSION

(I) Valuation result using the asset-based approach

On the Valuation Benchmark Date, being 31 December 2020, the book value of the assets, liabilities and net assets of Dong Fang International Container (Ningbo) Co., Ltd. was RMB1,351,784,800, RMB869,554,800 and RMB482,230,000, respectively. The total assets, liabilities and net assets were RMB1,474,696,600, RMB868,324,200 and RMB606,372,400, respectively, after the valuation. The appraised value of total assets represented an appreciation of RMB122,911,800 over the book value with an appreciation rate of 9.09%. The appraised value of net assets represented an appreciation of RMB124,142,400 over the book value with an appreciation rate of 25.74%. Please refer to the table below for details:

Table of Summary of Asset Valuation Results
Valuation Benchmark Date: 31 December 2020
Valuation target: Dong Fang International Container (Ningbo) Co., Ltd. Unit: RMB0'000

Item		Book Value	Appraised Value	Appreciation/ Depreciation	Change
		A	B	C = B – A	D = C/A × 100%
1	Current assets	113,549.85	113,701.61	151.76	0.13%
2	Non-current assets	21,628.63	33,768.05	12,139.42	56.13%
3	Including: Fixed assets	16,278.56	18,313.06	2,034.50	12.50%
4	Construction-in-progress	1,854.66	1,701.79	-152.87	-8.24%
5	Intangible assets	3,495.40	13,753.20	10,257.80	293.47%
6	**Total assets**	**135,178.48**	**147,469.66**	**12,291.18**	**9.09%**
7	Current liabilities	86,791.40	86,791.40	0.00	0.00%
8	Non-current liabilities	164.08	41.02	-123.06	-75.00%
9	**Total liabilities**	**86,955.48**	**86,832.42**	**-123.06**	**-0.14%**
10	**Net assets (Owner's equity)**	**48,223.00**	**60,637.24**	**12,414.24**	**25.74%**

In summary, the valuation result of all shareholders' equity interests in Dong Fang International Container (Ningbo) Co., Ltd. derived by using the asset-based approach was RMB606,372,400 (in word: SIX HUNDRED AND SIX MILLION THREE HUNDRED SEVENTY-TWO THOUSAND FOUR HUNDRED ONLY).

(II) Valuation result using the income approach

On the Valuation Benchmark Date, being 31 December 2020, the appraised value of all shareholders' equity interests in Dong Fang International Container (Ningbo) Co., Ltd. was RMB563,288,600, representing an appreciation of RMB81,058,600 over the book value of all shareholders' equity interests of RMB482,230,000 with an appreciation rate of 16.81%.

(III) Differences between the two valuation results on all shareholders' equity interests are set out in the table below:

Unit: RMB0'000

Valuation Approach	Book Value	Appraised Value	Appreciation	Appreciation Rate
Asset-based approach	48,223.00	60,637.24	12,414.24	25.74%
Income approach		56,328.86	8,105.86	16.81%
Differences between the approaches		4,308.38		

(IV) Analysis and explanations to the selection of the valuation conclusion

The asset-based approach is to appraise the enterprise value through appraising value of each single asset taking into consideration the relevant liabilities from the perspective of asset replacement. The income approach is to appraise the enterprise value through capitalisation or discount of the expected revenue of the valuation target from the perspective of making judgment on the profitability of assets. It is to appraise the enterprise value based on the total revenue of the enterprise in the future through the reverse thinking of "Capital-searching with the Profit" to achieve "Profit-taking with the Capital".

Based on specific conditions of this valuation, the valuation target is engaged in the production and sales of containers and is greatly exposed to the impacts of the global economy and the industry market with certain market periodicity. As it is difficult to accurately estimate and measure the changes and fluctuations of the industry market in the following years, the result using the asset-based approach is more practical and reasonable as compared with the result using the income approach.

Based on the above factors, the valuation result using the asset-based approach was adopted as the final valuation conclusion. The valuation conclusion is that the value of all shareholders' equity interests in Dong Fang International Container (Ningbo) Co., Ltd. involved in the proposed acquisition of the equity interests in four companies (including Dong Fang International Container (Ningbo) Co., Ltd.) held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares by COSCO SHIPPING Development Co., Ltd. was RMB606,372,400 (in word: SIX HUNDRED AND SIX MILLION THREE HUNDRED SEVENTY-TWO THOUSAND FOUR HUNDRED ONLY).

The validity of the valuation conclusion revealed in the valuation report shall be one year from the Valuation Benchmark Date, being 31 December 2020, to 30 December 2021.

XI. EXPLANATIONS TO SPECIAL MATTERS

(I) Significant use of expert work and relevant reports

The unqualified audit reports issued by Ernst & Young Hua Ming LLP for the years 2019 and 2020 were used in this valuation and the audited book values were adopted as the book values for valuation.

(II) Incomplete or defective ownership information;

As of the Valuation Benchmark Date, a total of 12 buildings were under the valuation scope, apart from three buildings, namely the main plant, workshop office, warehouse for steels, which have obtained housing ownership certificates; the remaining nine buildings have not obtained housing ownership certificates, among which the office building and complex building have obtained construction works planning permits, construction works commencement permits and the remaining seven buildings have not obtained listing permits, approval permits, construction works planning permits, construction works commencement permits, construction works completion and acceptance filing documents and other approvals, hence not all ownership certificates have been obtained as of the Valuation Benchmark Date. This valuation is based on the property right statement provided by the valuation target, which confirmed that Dong Fang International Container (Ningbo) Co., Ltd. is the property owner and no subsequent fees on the application for permits and the impacts of possible fines on incomplete approval procedures have been considered.

(III) Restrictions on valuation procedures

Nil.

(IV) Incomplete valuation materials

Nil.

(V) Pending legal and economic matters on the Valuation Benchmark Date

Nil.

(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target

Nil.

(VII) Significant subsequent matters

Nil.

(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion.

As of the Valuation Benchmark Date, the restricted balance of the bank deposit of the valuation target for Electronic Toll Collection business amounted to RMB120,000.00 (Bank account#: Gulou sub-branch in Ningbo of Industrial and Commercial Bank of China Limited 3901110019200154032).

XII. RESTRICTIONS ON THE USE OF THE VALUATION REPORT

(I) This Valuation Report shall be used for the valuation purpose and use set out herein. For the excerpt, reference and disclosure of all or part of the contents of the Valuation Report, relevant contents shall be reviewed by the valuation agency unless it is otherwise provided by laws and regulations and agreed by relevant parties;

(II) The valuation agency and its asset appraisers take no responsibility if the clients or other users of the Asset Valuation Report fail to use this Asset Valuation Report in accordance with the provisions of laws and administrative regulations and the scope of use set out in this Asset Valuation Report;

(III) Except for the clients, the other users of the Asset Valuation Report as agreed in the asset valuation engagement contract and the users of the Asset Valuation Report as stipulated in the laws and administrative regulations, no other institution or individual shall be the user of this report;

(IV) Users of the Asset Valuation Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

XIII. DATE OF THE VALUATION REPORT

The date of the valuation report is 27 April 2021.

Asset appraiser: Meng Qinghong

Asset appraiser: Fang Wei

27 April 2021

Annexes

I. The Corresponding Economic Activity Document on the Valuation Purpose

II. The Audit Reports of the Appraised Entity

III. Business Licenses of the Clients and the Appraised Entity

IV. Major Ownership Proof Materials of the Valuation Target Involved

V. Letters of Undertaking of the Clients and Other Relevant Parties

VI. Letters of Undertaking of the Signatory Asset Appraisers

VII. The Announcement on the Registration and Filing and the Qualification Certificates of the Valuation Agency

VIII. Photocopy of the Business License of the Valuation Agency

IX. Qualification Certificates of the Asset Appraisers Responsible for the Valuation Business

X. The Asset Valuation Engagement Contract

The Asset Valuation Report was prepared in Chinese and the English translation is for reference only. In the event of any discrepancy between the English translation of the Asset Valuation Report and the Chinese version, the Chinese version shall prevail.

This Report is prepared in accordance with PRC Asset Valuation Standards

Asset Valuation Report
on Value of All Shareholders' Equity Interests in
Shanghai Universal Logistics Technology Co., Ltd.
Involved in the Proposed Acquisition of 100% of the Equity Interests in Four Companies
Held by COSCO SHIPPING Investment Holdings Co., Ltd.
through the Issuance of Shares by COSCO SHIPPING Development Co., Ltd.

Zhong Tong Ping Bao Zi [2021] No. 12088

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Disclaimer, Summary, Text and Annexes

China Tong Cheng Assets Appraisal Co., Ltd.
27 April 2021

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中通诚资产评估有限公司
China Tong Cheng Assets Appraisal Co.,Ltd.

Address: 6/F, Sinotrans Building Tower A, Building 8, No. 5 Anding Road, Chaoyang District, Beijing, China
Telephone: (86-010)64411177
Website: http://www.tccpv.com

Disclaimer

I. This Asset Valuation Report is prepared in accordance with the Basic Asset Valuation Standards issued by the Ministry of Finance and the Practice Guidelines for Asset Valuation and the Professional Code of Ethics for the Valuation of Assets issued by the China Appraisal Society.

II. The clients or other users of the Asset Valuation Report shall use the Asset Valuation Report in accordance with the laws and administrative rules and regulations and within the scope of use set out in this Asset Valuation Report. We and the asset appraisers take no responsibility for any non-compliance with the above-mentioned requirements for the use of the Asset Valuation Report by the clients or other users of the Asset Valuation Report.

This Asset Valuation Report shall only be used by the clients, other users of the Asset Valuation Report as agreed in the Asset Valuation Engagement Contract and users of the Asset Valuation Report as required by laws and administrative regulations. Save for the above, no other institution or individual shall be the user of this report.

We and the asset appraisers advise that users of the Asset Valuation Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

III. We and the asset appraisers have abided by the principles of independence, objectivity and impartiality, complied with the laws, administrative regulations and asset valuation standards, and have assumed responsibilities for the Asset Valuation Report issued in accordance with laws.

IV. The list of assets and liabilities and other relevant materials of the valuation target involved should be declared by the clients and the appraised entity and certified by signature, seal or other means permitted by laws. The clients and other relevant parties shall be responsible for the truthfulness, completeness and legality of the materials provided by them in accordance with laws.

V. We and the asset appraisers have no existing or expected relationship of interests with the valuation target set out in the Asset Valuation Report or with the relevant parties, and have no prejudice against the relevant parties.

VI. The asset appraisers have conducted on-site inspection on the valuation target and the assets involved in the Asset Valuation Report, and given necessary consideration to the legal ownership status of the valuation target and the assets involved, conducted verification on the relevant information regarding the legal ownership of the relevant assets, and made proper disclosure in respect of the issues identified and required the clients and other relevant parties to consummate the titles to meet the requirements on issuing the Asset Valuation Report.

VII. The analyses, judgments, and conclusions in the Asset Valuation Report issued are subject to the assumptions and restrictions in the Asset Valuation Report. The users of the Asset Valuation Report shall take into full account the assumptions, restrictions and special notes specified in the Asset Valuation Report and their impact on the valuation conclusion.

VIII. China Tong Cheng Assets Appraisal Co., Ltd. possesses the Securities and Futures Related Businesses Valuation Qualification Certificate (證券期貨相關業務評估資格證書) issued by the Ministry of Finance of the People's Republic of China and the China Securities Regulatory Commission.

Summary

I. CORRESPONDING ECONOMIC ACTIVITY UNDER THE VALUATION

The corresponding economic activity under the valuation is the proposed acquisition of 100% of the equity interests in four companies, including Shanghai Universal Logistics Technology Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares by COSCO SHIPPING Development Co., Ltd. which requires appraisal of the value of all shareholders' equity interests in Shanghai Universal Logistics Technology Co., Ltd. involved in the economic activity.

The economic activity has been approved by China COSCO SHIPPING Corporation Limited and the Resolution at the 46th Meeting of the First Session of the Board of Directors of China COSCO SHIPPING Corporation Limited was issued (20 January 2021).

II. PURPOSE OF VALUATION

COSCO SHIPPING Development Co., Ltd. proposes to acquire 100% of the equity interests in four companies, including Shanghai Universal Logistics Technology Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares. An appraisal shall be conducted on the value of all shareholders' equity interests in Shanghai Universal Logistics Technology Co., Ltd. involved in the economic activity to determine its market value on the Valuation Benchmark Date, being 31 December 2020, and provide value reference for the clients.

III. VALUATION TARGET AND SCOPE

The valuation target is the value of all shareholders' equity interests in Shanghai Universal Logistics Technology Co., Ltd.

The valuation scope covers all assets and relevant liabilities of Shanghai Universal Logistics Technology Co., Ltd.

IV. TYPE OF VALUE

Market value.

V. VALUATION BENCHMARK DATE

31 December 2020.

VI. VALUATION METHODOLOGY

The asset-based approach and the income approach were adopted in this valuation. The result derived by using the asset-based approach was adopted as the final valuation conclusion.

VII. VALUATION CONCLUSION AND ITS VALIDITY

Based on the specific circumstances of the valuation, the result derived by using the asset-based approach was adopted as the valuation conclusion.

On the Valuation Benchmark Date, being 31 December 2020, the book value of the assets, liabilities and net assets of Shanghai Universal Logistics Technology Co., Ltd. was RMB558,058,400, RMB522,868,700 and RMB35,189,700, respectively. The total assets, liabilities and net assets were RMB574,696,500, RMB522,868,700 and RMB51,827,800, respectively, after the valuation. The appraised value of total assets represented an appreciation of RMB16,638,100 over the book value with an appreciation rate of 2.98%. The appraised value of net assets represented an appreciation of RMB16,638,100 over the book value with an appreciation rate of 47.28%. Please refer to the table below for details:

Table of Summary of Asset Valuation Results
Valuation Benchmark Date: 31 December 2020

Valuation target: Shanghai Universal Logistics Technology Co., Ltd. Unit: RMB0’000

	Item	Book Value A	Appraised Value B	Appreciation/ Depreciation C=B-A	Change D=C/A×100%
1	Current assets	55,526.55	55,526.55	0.00	0.00%
2	Non-current assets	279.29	1,943.10	1,663.81	595.73%
3	Including: Fixed assets	69.51	135.34	65.83	94.71%
4	Intangible assets	52.57	1,650.55	1,597.98	3039.72%
5	Long-term prepaid expenses	157.21	157.21	0.00	0.00%
6	**Total assets**	55,805.84	57,469.65	1,663.81	2.98%
7	Current liabilities	52,216.01	52,216.01	0.00	0.00%
8	Non-current liabilities	70.86	70.86	0.00	0.00%
9	Total liabilities	52,286.87	52,286.87	0.00	0.00%
10	Net assets (Owner’s equity)	3,518.97	5,182.78	1,663.81	47.28%

In summary, the valuation result of all shareholders' equity interests in Shanghai Universal Logistics Technology Co., Ltd. derived by using the asset-based approach was RMB51,827,800 (in word: FIFTY ONE MILLION EIGHT HUNDRED AND TWENTY SEVEN THOUSAND EIGHT HUNDRED ONLY, rounding to the nearest hundred)

The validity of the valuation conclusion revealed in the valuation report shall be one year from the Valuation Benchmark Date, being 31 December 2020, to 30 December 2021.

VIII. SPECIAL MATTERS WITH IMPACTS ON THE VALUATION CONCLUSION

(I) Significant use of expert work and relevant reports

The unqualified audit report issued by Ernst & Young Hua Ming LLP for the years 2019 and 2020 were used in this valuation and the audited book values were adopted as the book values for valuation.

(II) Incomplete or defective ownership information;

As of the Valuation Benchmark Date, the name of the owner registered in the patent certificates for intangible assets under the valuation scope was "Singamas Container Holdings (Shanghai) Limited", which was the former name of the company and was not changed to its existing name, "Shanghai Universal Logistics Technology Co., Ltd.", but the ownership of patents belongs to Shanghai Universal Logistics Technology Co., Ltd. It has completed the procedures on the change of names with the China National Intellectual Property Administration. The valuation does not consider the fees on the change of the owners registered in the patent certificates and the impacts of contingent ownership disputes.

(III) Restrictions on valuation procedures;

Nil.

(IV) Incomplete valuation materials;

Nil.

(V) Pending legal and economic matters on the Valuation Benchmark Date;

Nil.

(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target;

Nil.

(VII) Significant subsequent matters;

Nil.

(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion.

Nil.

This report together with the conclusion is only intended to be used for the valuation purpose as described herein and for no other purposes.

The above contents are extracted from the text of the Valuation Report. Please read the text of the Valuation Report to understand details of the valuation and correctly comprehend the valuation conclusion.

Value of All Shareholders' Equity Interests in Shanghai Universal Logistics Technology Co., Ltd. Involved in the Proposed Acquisition of 100% of the Equity Interests in Four Companies Held by COSCO SHIPPING Investment Holdings Co., Ltd. through the Issuance of Shares by COSCO SHIPPING Development Co., Ltd.

Zhong Tong Ping Bao Zi [2021] No. 12088

To: COSCO SHIPPING Development Co., Ltd. and COSCO SHIPPING Investment Holdings Co., Ltd.

Upon your engagement, we, China Tong Cheng Assets Appraisal Co., Ltd., have appraised the market value of all shareholders' equity interests in Shanghai Universal Logistics Technology Co., Ltd. involved in the proposed acquisition of 100% of the equity interests in four companies, including Shanghai Universal Logistics Technology Co., Ltd. held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares by COSCO SHIPPING Development Co., Ltd. as at 31 December 2020, by way of adopting the asset-based approach and the income approach and carrying out necessary valuation procedures in accordance with relevant laws, regulations and asset valuation standards and the principles of independence, objectivity and impartiality. We hereby report the details of the asset valuation as follows.

I. OVERVIEW OF THE CLIENTS, THE APPRAISED ENTITY AND OTHER USERS OF THE ASSET VALUATION REPORT AS AGREED IN THE ASSET VALUATION ENGAGEMENT CONTRACT

(I) Overview of the Clients

The clients of the valuation are COSCO SHIPPING Development Co., Ltd. and COSCO SHIPPING Investment Holdings Co., Ltd.

(1) Client I: COSCO SHIPPING Development Co., Ltd.

Name: COSCO SHIPPING Development Co., Ltd.

Unified social credit code: 91310000759579978L

Nature of company: Joint stock limited company (Sino-foreign joint venture, listed)

Domicile: Room A-538, International Trade Center, China (Shanghai) Pilot Free Trade Zone

Legal representative: Wang Daxiong

Date of establishment: 3 March 2004

Term of operation: 3 March 2004 to no fixed term

Registered capital: RMB11,608,125,000

Scope of business: Ordinary vessel services along domestic coastal areas and the middle and lower reaches of the Yangtze River and feeder liner services for foreign trade lanes in domestic coastal areas, international vessel services (including container liner services), container construction, repair, chartering, vessel chartering, self-owned containers, sales and purchase of vessels for self-use, marine management for domestic coastal ordinary vessels (excluding bulk cargo vessels), engineering management and vessel repair, maintenance, sales, chartering, operation, assets management and other vessel management services. [Projects that need to be approved according to laws can only be operated after being approved by relevant departments].

COSCO SHIPPING Development Co., Ltd. was formerly known as "China Shipping Container Lines Company Limited". The predecessor of China Shipping Container Lines Company Limited is COSCO SHIPPING Lines Co., Ltd., a limited liability company jointly invested and established by China Shipping (Group) Company Limited, China Shipping Development Co., Ltd. and Guangzhou Maritime Transport (Group) Co., Ltd. on 28 August 1997. In March 2004, with China Shipping (Group) Company Limited as the initiator, China Shipping Container Lines Company Limited converted the net assets of the former COSCO SHIPPING Lines Co., Ltd. as at 31 October 2003 into shares and solely sponsored the establishment of an A-share listed company. It completed the initial offering of listed-foreign H shares to overseas investors and was listed for trading on the Hong Kong Stock Exchange in the same year.

COSCO SHIPPING Development Co., Ltd. is a subsidiary of China COSCO SHIPPING Corporation Limited specialized in supply-chain financial services. The company aims to bring into play the advantages in shipping logistics industry and serve upstream and downstream industrial chains with shipping finance as the foundation; to develop industrial cluster with shipping and leasing, container manufacturing, investment and services for the related industries as the core; and to develop into a "one-stop" shipping financial service platform by combining industry with finance, integrating various financial functions, and synergy of various businesses, featuring market mechanism, differentiated advantages and international vision.

COSCO SHIPPING Development Co., Ltd. is among the top global players in the industry with the shipping capacity of its container fleet and the scale of its container leasing business. As of 30 June 2020, the company's container fleet had 86 container vessels, with a total capacity of 581,600 TEU; 4 bulk cargo vessels of 64,000 DWT each; over 90 LNG vessels, heavy crane vessels and oil tankers; and an inventory of containers of approximately 3.65 million TEU. In terms of other industry leasing businesses, the company focuses on the development of financial leasing businesses in the areas of medical services, education, new energy, construction and industrial equipment. In terms of container manufacturing business, Shanghai Universal Logistics Equipment Co., Ltd., a subsidiary of the company, attained an annual manufacturing capacity of 550,000 TEU. The company also focuses on the development of investment and supply-chain financial service business, takes good advantage of its experience in the shipping industry as well as the existing resources of the financial service industry to promote the integration of industry and finance, optimize its business modes and achieve the synergetic development of its shipping finance business.

(2) Client II: COSCO SHIPPING Investment Holdings Co., Ltd.

Name: COSCO SHIPPING Investment Holdings Co., Ltd.

Registration No.: 21585899-000-03-18-8

Domicile: 51/F, Cosco Tower, 183 Queen's Road Central, Hong Kong

Type of enterprise: Limited company

COSCO SHIPPING Investment Holdings Co., Ltd. was established in 1998 with a registered capital of HK$500 million. Its predecessor is China Shipping (Hong Kong) Holdings Co., Ltd., a direct wholly-owned subsidiary of the former China Shipping (Group) Company Limited ("China Shipping Group"). It was the "one platform" and "three centers" of the former China Shipping Group in Hong Kong, South Korea, Japan, Australia and other countries and regions, namely the unified overseas investment and financing platform and "the profit center, the regional business management center and the service center".

In 2016, China Ocean Shipping and China Shipping were reorganized as China COSCO SHIPPING Corporation. The new group proposed the establishment of the "6+1" industrial clusters and established the financial segment as one of the pillar industries of the group to develop the financial platform of China COSCO SHIPPING. To achieve such result, COSCO SHIPPING Financial Holdings Co., Ltd. and COSCO SHIPPING Development Co., Ltd. (the former China Shipping Container Lines Co., Ltd.) developed the financial platform of the new group through major asset reorganization.

On 1 June 2020, COSCO SHIPPING Financial Holdings Co., Ltd. officially changed its name to "COSCO SHIPPING Investment Holdings Co., Ltd.". As the overseas investment holding platform for the shipping and logistics industry of China COSCO SHIPPING Corporation, COSCO SHIPPING Investment Holdings Co., Ltd. will be devoted to the exploration of overseas financial investment businesses in the following years. It will also provide investment management services for China COSCO SHIPPING Corporation and its subsidiaries and integrate resources on the industrial chains to promote the synergetic development of all businesses.

(II) Overview of the Appraised Entity

The appraised entity under the valuation is Shanghai Universal Logistics Technology Co., Ltd.

(1) Registration information

Name: Shanghai Universal Logistics Technology Co., Ltd.

Unified social credit code: 9131000067933214X7

Type of enterprise: Limited liability company (solely funded by Taiwan, Hong Kong or Macao corporate body)

Domicile: Rooms 1804, 1805, 1806, 1807, No. 1050, Dongdaming Road, Hongkou District, Shanghai

Legal representative: Xu Jingsheng

Date of establishment: 24 September 2008

Term of operation: 24 September 2008 to 23 September 2058

Registered capital: US$5.00 million

Scope of business: Technology research and development, technical services, technical consulting and technology transfer in the field of logistics science and technology; as entrusted by the parent company and its authorized domestic and foreign enterprises, the following services shall be provided: investment and operation decision-making, capital operation and financial management, undertaking the shared services within the group of the company and outsourcing of services of overseas companies, training and management of employees, and supply chain management; and wholesale and import and export of various containers (including special containers), trailers, semi-trailers and their supporting parts and related materials in the production process; research and development of the above new products, new technologies and new processes, and provision of relevant technical consulting, technical services and technology transfer. (Commodities involving the administration of quota license and special provisions shall be handled in accordance with the relevant provisions of the state). [Projects that need to be approved according to laws can only be operated after being approved by relevant departments].

(2) Historical development, shareholders and contributions

Shanghai Universal Logistics Technology Co., Ltd., previously known as "Singamas Container Holdings (Shanghai) Limited", was established with the approval of the document of Hu Wai Zi Wei Xie [2008] No. 2702 issued by Shanghai Foreign Investment Commission and the Certificate for Approval of Enterprise Invested by Corporations of Hong Kong, Macau and Taiwan (《中華人民共和國港澳台僑投資企業批准證書》) of Shang Wai Zi Hu Du Zi [2008] No. 2639 issued by Shanghai Municipal People's Government of on 3 September 2008. It is a foreign-owned enterprise set up by Singamas Container Enterprise Co., Ltd.

The registered capital of Singamas Container Holdings (Shanghai) Limited was US$2.00 million upon its establishment, all of which was invested by Singamas Container Enterprise Co., Ltd. In July 2016, Singamas Container Holdings (Shanghai) Limited changed its registered capital to US$5.00 million. In May 2019, Singamas Container Enterprise Co., Ltd. transferred 100% of equity interests held by it in Singamas Container Holdings (Shanghai) Limited to COSCO SHIPPING Investment Holdings Co., Ltd. In July 2019, Singamas Container Holdings (Shanghai) Limited changed its name to Shanghai Universal Logistics Technology Co., Ltd.

As at the Valuation Benchmark Date, the shareholders of Shanghai Universal Logistics Technology Co., Ltd. and their contributions are set out in the table below:

Unit: US$0'000

Name of shareholder	Subscribed contribution	Paid-in contribution	Contribution proportion
COSCO SHIPPING Investment Holdings Co., Ltd.	500.00	500.00	100%
Total	500.00	500.00	100%

(3) Corporate structure, organizational structure and employees

As at the Valuation Benchmark Date, Shanghai Universal Logistics Technology Co., Ltd. has over 51 employees and 12 departments, mainly including the marketing department, the procurement management department, the safety and environmental protection department/the production and operation management department, the quality management department, the equipment management department, the product R&D and innovation promotion center, the financial management department, the enterprise management and risk control department, the discipline inspection department/the supervision and audit department, the comprehensive management department/the corporate culture department, the party mass work department and the information management department.

(4) Principal businesses and historical operations

Shanghai Universal Logistics Technology Co., Ltd. is an administrative entity of its affiliated companies, Dong Fang International Container (Qingdao) Co., Ltd., Dong Fang International Container (Ningbo) Co., Ltd. and Dong Fang International Container (Qidong) Co., Ltd., mainly engaged in provision of shared services such as procurement, sales, IT, R&D patent application for target container factories, and has a large reserve of R&D personnel and patented technologies.

Major financial data and accounting statements of Shanghai Universal Logistics Technology Co., Ltd. in recent years have been audited by professional auditors and are set out in the table below:

Unit: RMB0'000

Item	31 December 2018	31 December 2019	31 December 2020
Total assets	13,649.55	8,434.43	55,805.84
Including: fixed assets	74.74	72.87	69.51
Total liabilities	10,813.21	5,574.01	52,286.87
Net assets	2,836.34	2,860.42	3,518.97
Item	**2018**	**2019**	**2020**
Revenue	4,696.85	3,132.01	9,183.54
Total profit	1,789.68	24.08	813.36
Net profit	1,789.68	24.08	658.55

Note: The data for 2018 was from the audit report issued by BDO China Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)). The data for 2019 and 2020 was from the audit report issued by Ernst & Young Hua Ming Certified Public Accountants (LLP).

(III) Relationship between the Clients and the Appraised Entity

COSCO SHIPPING Development Co., Ltd., Client I, proposes to acquire 100% of the equity interests in four companies, including Shanghai Universal Logistics Technology Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd., Client II, through the issuance of shares. COSCO SHIPPING Investment Holdings Co., Ltd., Client II, is a shareholder of Shanghai Universal Logistics Technology Co., Ltd., the appraised entity, with a shareholding proportion of 100%.

(IV) Overview of Other Users of the Valuation Report

Except for relevant parties in the economic activity, competent administrative review authorities and other users of the report as provided by national laws and regulations, no other users of the report were provided in the Asset Valuation Engagement Contract.

II. PURPOSE OF VALUATION

As COSCO SHIPPING Development Co., Ltd. proposes to acquire 100% of the equity interests in four companies, including Shanghai Universal Logistics Technology Co., Ltd., held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares, the value of all shareholders' equity interests in Shanghai Universal Logistics Technology Co., Ltd. involved in the economic activity has to be appraised to determine its market value on the Valuation Benchmark Date, being 31 December 2020, and provide value reference for the client, Shanghai Universal Logistics Technology Co., Ltd.

The said economic activity has been approved by China COSCO SHIPPING Corporation Limited and the Resolution at the 46th Meeting of the First Session of the Board of Directors of China COSCO SHIPPING Corporation Limited was issued (20 January 2021).

III. VALUATION TARGET AND SCOPE

(I) Valuation Target and Scope

The appraised valuation target and scope are consistent with the valuation target and scope involved in the economic activity.

The valuation target is the value of all shareholders' equity interests in Shanghai Universal Logistics Technology Co., Ltd.

The valuation scope covers all assets and liabilities of Shanghai Universal Logistics Technology Co., Ltd. on the Valuation Benchmark Date corresponding to the valuation target. The corresponding accounting statements of the assets and liabilities declared by the enterprise have been audited by Ernst & Young Hua Ming Certified Public Accountants (LLP) and the audit report numbered An Yong Hua Ming (2021) Shen Zi No. 61227808_B04 was issued on 27 April 2021 with unqualified audit opinions. Details of specific assets and liabilities are set out in the table below.

Unit: RMB

No.		Item	Book value
1	I.	Total current assets	555,265,531.59
2		Monetary funds	295,901,732.22
3		Trade receivable	55,611,986.69
4		Prepayment	5,200.00
5		Other receivables	203,746,612.68

No.		Item	Book value
6	II.	Total non-current assets	2,792,914.24
7		Fixed assets	695,071.35
8		Intangible assets	525,718.78
9		Long-term prepaid expenses	1,572,124.11
10	III.	Total assets	558,058,445.83
11	IV.	Total current liabilities	522,160,145.53
12		Employee compensation payable	22,387,237.22
13		Taxes payable	8,588,883.16
14		Other payables	210,138,344.20
15		Other current liabilities	281,045,680.95
16	V.	Total non-current liabilities	708,628.63
17		Long-term payables	467,725.95
18		Other non-current liabilities	240,902.68
19	VI.	Total liabilities	522,868,774.16
20	VII.	Net assets	35,189,671.67

(II) Layout and Characteristics of Physical Assets

As at the Valuation Benchmark Date, corporate physical assets mainly include equipment under fixed assets. The specific layout is as follows:

(1) Vehicles

A total of 3 vehicles were to be appraised and most of them are office vehicles, mainly including Toyota Crown, ROEWE and other models. As at the Valuation Benchmark Date, the vehicles were under normal maintenance and use.

(2) Electronic equipment

A total of 234 electric equipment were to be appraised and most of them are computers, printers, office furniture, etc. As at the Valuation Benchmark Date, the equipment was under normal maintenance and use.

(III) Intangible Assets Accounted for or Not Accounted for as Declared by the Enterprise

(1) Intangible assets accounted for as declared by the enterprise

A total of 4 items of software under intangible assets accounted for were under the scope of valuation, mainly including Autodesk design software and ANSYS software. Its book value was RMB525,718.78. Details are set out below:

No.	Name and content	Date of obtaining the asset	Expected useful life	Original book value *(RMB)*	Book value *(RMB)*
1	AUTODESK design software	2014.05	10	166,666.67	55,550.60
2	ORACLE bar code development for fixed assets	2016.05	10	150,943.40	80,498.88
3	ANSYS software	2016.12	10	632,076.93	373,986.79
4	Server backup software	2018.01	10	22,409.41	15,682.51
	Total			972,096.41	525,718.78

(2) Intangible assets not accounted for as declared by the enterprise

As at the Valuation Benchmark Date, a total of 190 patented technologies were not accounted for as declared by Shanghai Universal Logistics Technology Co., Ltd., including 35 invention patents, 1 industrial design patent and 154 utility model patents. All patented technologies under the scope of valuation have been granted the authorization from the China National Intellectual Property Administration.

As at the Valuation Benchmark Date, save for 4 patents as co-owned patents, other patents are owned by Shanghai Universal Logistics Technology Co., Ltd. Details of the co-owned patents are set out below:

Table of Other Intangible Assets – Co-owned Patent Rights

No.	Name and content	Type of patent	Registered owner/ right holder	Patent no. or application no.	Patent application date	Date of obtaining patent	Note
1	A coating system and coating method for the surface of container steel sheet	Invention	Shanghai Universal Logistics Technology Co., Ltd.; Shanghai Yixiao Coating Equipment Co., Ltd.	201110110057.3	2011/4/29	2014/5/21	Other patents without relationship with products
2	A kind of plywood for the bottom of containers	Invention	Shanghai Universal Logistics Technology Co., Ltd.; Nanjing Forestry University; Jiashan Shengshi Wood Industry Co., Ltd. (嘉善聖師木業有限公司)	200910053421.X	2009/6/19	2012/6/27	Not applied
3	A kind of composite floor for containers	Utility model	Shanghai Universal Logistics Technology Co., Ltd.; Nanning Diwang Village Wood Industry Co., Ltd. (南寧帝旺村木業有限公司)	201420818122.7	2014/12/18	2015/6/17	Not applied
4	A kind of container with high speed wire transport	Utility model	Shanghai Universal Logistics Technology Co., Ltd.; Dong Fang International Container (Jinzhou) Co., Ltd.	202021334314.2	2020/7/9	2020/12/29	Not applied

As at the Valuation Benchmark Date, 7 patented technologies have been applied in the production of containers and future revenue of domestic enterprises under the scope of valuation by Shanghai Universal Logistics Technology Co., Ltd. Details are set out below:

Other Intangible Assets – Table of Patent Rights

No.	Name and content	Type of patent	Registered owner/right holder	Patent no. or application no.	Patent application date	Date of obtaining patent
1	A kind of top side beam of container and container	Utility model	Shanghai Universal Logistics Technology Co., Ltd.	201821995709.X	2018.11.30	2019.10.18
2	Integrated wall panel assembly platform for front frame of refrigerated container	Utility model	Shanghai Universal Logistics Technology Co., Ltd.	201921920783.X	2019.11.8	2020.6.30
3	The production system of the integrated container secondary foaming	Utility model	Shanghai Universal Logistics Technology Co., Ltd.	201922212051.1	2019.12.11	2020.10.20
4	A kind of a door frame of a refrigerated container and a refrigerated container comprising the door frame	Utility model	Shanghai Universal Logistics Technology Co., Ltd.	201922210408.2	2019.12.11	2020.10.9
5	A kind of a container door frame, a container door body and a container	Utility model	Shanghai Universal Logistics Technology Co., Ltd.	201620199086.X	2016.3.15	2016.12.7
6	A door frame structure and container	Utility model	Shanghai Universal Logistics Technology Co., Ltd.	201621188179.9	2016.11.4	2017.9.1
7	A kind of container door end lining plate structure and container	Utility model	Shanghai Universal Logistics Technology Co., Ltd.	201621275483.7	2016.11.25	2017.7.11

(IV) Type and Quantity of Off-balance-sheet Assets Declared by the Enterprise

Except for the above 190 patented technologies, the appraised entity has not declared any other off-balance-sheet assets.

(V) Type, Quantity and Book Value (or Appraised Value) of Assets Involved in Making Reference to the Conclusions of Reports Issued by Other Institutions

Nil.

IV. TYPE AND DEFINITION OF VALUE

The types of valuation value include the market value and other types of value except for the market value. Other types of value except for the market value generally include (but not limited to) the investment value, the value in use, the liquidation value and the residual value. The purpose of this valuation is to provide a value reference for normal transactions, and there are no special restrictions and requirements on market conditions and the use of valuation target, etc. Therefore, market value is selected as the type of value of this valuation according to industry practices.

Market value refers to the estimated value of the valuation target in an arm's length transaction made in the ordinary course of business on the Valuation Benchmark Date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

V. VALUATION BENCHMARK DATE

The Valuation Benchmark Date for this valuation is 31 December 2020.

Major factors considered by the clients in determining the Valuation Benchmark Date include the time requirement on the implementation of the economic activity. The end of the accounting period was adopted to facilitate the defining of the scope of valuation and the accurate and efficient stocktaking of assets.

VI. BASIS OF VALUATION

(I) Basis of Economic Activity

The Resolution at the 46th Meeting of the First Session of the Board of Directors of China COSCO SHIPPING Corporation Limited (on 20 January 2021) issued by China COSCO SHIPPING Corporation Limited.

(II) Legal Basis Provided by Laws and Regulations

(1) The Asset Appraisal Law of the People's Republic of China;

(2) The Law of the People's Republic of China on the State-owned Assets in Enterprises;

(3) The Measures for the Administration of State-owned Assets Appraisal (Order No. 91 of the State Council in 1991);

(4) The Detailed Rules for the Implementation of the Administrative Measures of State-owned Assets Valuation (Guo Zi Ban Fa [1992] No. 36 issued by former National Administration for State-owned Assets);

(5) The Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council);

(6) The Opinions on Reforming the Administration of State-owned Assets Appraisal and Strengthening Supervision and Administration of Assets Appraisal (Guo Ban Fa [2001] No. 102);

(7) The Interim Measures for the Administration of Valuation of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

(8) The Regulations on Certain Issues Concerning State-owned Assets Appraisal (Order No. 14 of the Ministry of Finance);

(9) The Measures for the Supervision and Administration of the Trading of State-owned Assets of Enterprises (Order No. 32 of the SASAC of the State Council and the Ministry of Finance);

(10) The Notice on the Guidelines on the Publication and Distribution of the Filing of State-owned Assets Appraisal Projects for Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);

(11) The Financial Supervision and Administration Measures on the Assets Evaluation Industry (Order No. 97 of the Ministry of Finance);

(12) The Notice on Strengthening the Administration of State-owned Assets Appraisal of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);

(13) The Notice on Relevant Matters Concerning the Examination of Appraisal Reports on State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);

(14) The Corporate Income Tax Law of the People's Republic of China;

(15) The Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China (Issued under Order No. 512 of the State Council and recently amended under Order No. 714 of the State Council);

(16) The Interim Regulations for the Value-added Tax of the People's Republic of China (Issued under Order No. 134 of the State Council and recently amended under Order No. 691 of the State Council);

(17) The Implementation Rules to the Interim Regulations for the Value-added Tax of the People's Republic of China (Issued under Order No. 50 of the Ministry of Finance and the State Taxation Administration and recently amended under Order No. 65 of the Ministry of Finance and the State Taxation Administration);

(18) The Notice on the Comprehensive Rollout of the Business Tax to Value Added Tax Transformation Pilot Program (Cai Shui [2016] No. 36);

(19) The Circular Relating to Furthering Relevant Policies on Reform of Value-added Tax (Circular [2019] No. 39 jointly issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs).

(III) Basis of Valuation Standards

(1) Basic Asset Valuation Standards (Cai Zi [2017] No. 43);

(2) Professional Code of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);

(3) Practice Guidelines for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

(4) Practice Guidelines for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

(5) Practice Guidelines for Asset Valuation – Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);

(6) Practice Guidelines for Asset Valuation – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

(7) Practice Guidelines for Asset Valuation – Engagement of Experts and Relevant Reports (Zhong Ping Xie [2017] No. 35);

(8) Practice Guidelines for Asset Valuation – Enterprise Value (Zhong Ping Xie [2018] No. 38);

(9) Practice Guidelines for Asset Valuation – Asset Valuation Methodology (Zhong Ping Xie [2019] No. 35);

(10) Practice Guidelines for Asset Valuation – Intangible Assets (Zhong Ping Xie [2017] No. 37);

(11) Practice Guidelines for Asset Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

(12) Guiding Opinions on Professional Asset Valuation (Zhong Ping Xie [2017] No. 49);

(13) Quality Control Guidance on the Business of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46);

(14) Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

(15) Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);

(16) Guiding Opinions on Legal Ownership of the Asset Valuation Target (Zhong Ping Xie [2017] No. 48).

(IV) Ownership Basis

(1) Business licenses;

(2) Patents certificates;

(3) Driving permits for vehicles.

(V) Pricing Basis and References

(1) The information on financial accounting and operation provided by the enterprise;

(2) Statistical information, technical standards and policy documents issued by relevant authorities of the state;

(3) Profit forecast information provided by the enterprise;

(4) Relevant enquiry and parameters information collected by the valuation agency.

VII. VALUATION METHODOLOGY

(I) Selection of Valuation Methodology

In accordance with the Practice Guidelines for Asset Valuation – Enterprise Value, when performing any appraisal of enterprise value, the suitability of the three basic asset valuation methods, namely the income approach, the market approach and the cost approach (the asset-based approach) shall be analyzed based on the purpose of valuation, the valuation target, the type of value, information gathering, etc. in its selection of valuation methods.

(1) Market approach

As there is limited access to transaction information of property ownership trading market in China and similar enterprises have significant differences in the product structure and principal businesses, it is extremely difficult to select market reference of the same type, therefore the market approach was not adopted in the valuation.

(2) Income approach

The income approach assesses the value of an asset by its expected profitability, which is the essential basis for determining the prevailing fair market value of the asset. As such, the income approach conforms to the basic definition of an asset. The methodology adopted in the income approach is to determine the market value by capitalizing or discounting the expected revenue of the valuation target in the future. The valuation target is a management company which mainly performs management functions on each of DFIC Qidong, DFIC Ningbo and DFIC Qingdao and charges technical service fees and management fees from them, with independent profitability, and therefore the income approach was adopted in the valuation.

(3) Asset-based approach

As all assets and liabilities of the enterprise may be appraised and recognized on an individual basis with clear structure of assets and liabilities, therefore the asset-based approach was adopted in the valuation.

In conclusion, the asset-based approach and the income approach were adopted in the valuation and the asset-based approach was adopted to determine the valuation conclusion after analysis.

(II) Asset-based Approach

The asset-based approach used in the valuation of the enterprise value is a valuation method for determining the value of the appraised enterprise by appraising the value of all its assets and liabilities on the basis of its balance sheet and those which can be identified off the balance sheet at the Valuation Benchmark Date. In the case of employing the asset-based approach in valuation of the enterprise value, the value of each asset is calculated by choosing a specific applicable valuation method in accordance with its specific circumstances.

The detailed valuation methods involved in this valuation are set out as follows.

(1) Current assets

(a) Monetary funds

For RMB monetary funds, the appraised value of monetary funds in current assets is determined as the verified book value based on the breakdown of all items provided by the enterprise.

(b) Trade receivable, prepayment and other receivables

Based on the breakdown of items for valuation provided by the valuation target, which is the valuation basis, verification was conducted on accounting information and selected large amounts, with analysis on the amount, time and reasons of arrears and recovery situation of each receivable, to determine the appraised value of each receivable.

(2) Fixed assets – Machinery and equipment

According to the purpose of this valuation and the characteristics of the appraised assets, and assuming the asset is continued to be used according to its current usage, the replacement cost approach would be adopted in this valuation on the basis of on-site investigation.

Basic formula: Appraised value = Full replacement price × Residual ratio

As at the Valuation Benchmark Date, the company was a VAT general taxpayer and the tax-exclusive price was adopted to calculate the purchase costs of equipment in determining the full replacement price.

(a) Determination of full replacement price

(i) Vehicles

The full replacement price is determined by adding vehicle purchase tax, license fee and other reasonable costs at the prevailing market price.

(ii) Electronic equipment

For the electronic equipment of which prevailing market price is available, the full replacement price is directly determined based on its analyzed and selected prevailing market price; for the electronic equipment of which prevailing market price is unavailable, the full replacement price is determined by selecting the market price of the substitutes with similar function and making corresponding adjustments.

(b) Determination of the residual ratio

(i) For vehicles, the observation method and the theoretical residual ratio are comprehensively used to determine the residual ratio. The calculation formula is as follows:

Residual ratio = Residual ratio under the observation method × 60% + Theoretical residual ratio × 40%

A. Observation method. The observation method is applied to assess each major part of vehicles from a technical perspective, and consider factors such as design, manufacturing, usage, wear and tear, maintenance, repair and physical life of the asset on a consolidated basis. Impacts of wear and tear and natural deterioration on the functionality and efficiency of the asset will be assessed by comparing the valuation target with itself in new condition. As such, the residual ratio of the appraised vehicles would be determined.

B. Theoretical residual ratio. With reference to the Regulations on Compulsory Scrapping Standards of Motor Vehicles (Order No. 12 of 2012 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection), the theoretical residual ratio is determined as the lower of the residual ratio under the useful life method and the residual ratio under the mileage method.

The calculation formula for the residual ratio under the useful life method is as follows:

Residual ratio under the useful life method = (Economic useful life – Used life)/Economic useful life × 100%

The calculation formula for the residual ratio under the mileage method is as follows:

Residual ratio under the mileage method = (Specified mileage – Mileage traveled)/Specified mileage ×100%

(ii) Electronic equipment

For electronic equipment, the useful life method is mainly used to determine the residual ratio. The calculation formula is as follows:

Residual ratio under the useful life method = (Economic useful life – Used life)/Economic useful life × 100%

If the residual ratio calculated under the observation method and the residual ratio calculated under the useful life method (or the theoretical residual ratio) differ significantly, the relatively reasonable one of the two may be selected based on experience and judgment after analyzing the reasons.

(3) Intangible assets – Other intangible assets

For patents, the ideology of the income approach is to estimate the direct income of patent products during the economic life manufactured and calculate the appraised value by using the appropriate discount ratio. The basic formula is as follows:

$$P = \sum_{i=0.5}^{n} \frac{kR_t}{(1+i)^t}$$

Wherein,

P: the value of technology commissioned to be appraised

R_t: the annual income from the technology in the t year

t: the sequence number of the year for valuation k: the profit sharing ratio of the technology for the income

i: the discount rate

n: the economic income period of the technology

Proprietary technologies used by the company but not within the scope of valuation and not related to future revenue will be appraised as nil. For proprietary technologies applied in the equipment, since the equipment has been appraised, such proprietary technologies will not be appraised separately.

The appraised value of software on sale on the market will be determined based on the market price, exclusive of taxation. For specifically customized version of software whose market price is not available on the market, the replacement cost is adopted in the valuation to determine the appraised value of such software taking into account the corresponding depreciation rate. For software whose market price is available, the appraised value is determined with reference to the market price of software of the same version on the Valuation Benchmark Date.

The basic formula: Appraised value = Replacement cost × (1 – Depreciation rate)

(a) Determination of the replacement cost

The replacement cost of purchased intangible assets is estimated based on the price of similar software sold on the market, exclusive of taxation, through market inquiry.

Replacement cost = Market selling price/(1 + 13%)

(b) Depreciation rate

Appraisers determine the depreciation rate of intangible assets through comparing the estimation and judgment on the remaining economic life of intangible assets. The calculation formula is as follows:

Depreciation rate = Used life/(Used life + Remaining useful life) × 100%

(4) Long-term prepaid expenses

According to the evaluation procedures, the recording of long-term prepaid expenses, and the calculation accuracy of amounts to be amortized and amortized amounts are verified to confirm the remaining amortization period of long-term prepaid expenses falling within the company's benefit period.

(5) Liabilities

The actual amount of liabilities attributable to the valuation target as at the Valuation Benchmark Date will be accounted for as the appraised value.

(III) Income Approach

The income approach in the appraisal of enterprise value refers to the valuation method used in determining the value of the valuation target by capitalizing or discounting the expected income. Methods frequently used under the income approach include the dividend discount method and the discounted cash flow method.

This valuation adopted the discounting model of free cash flow of firm under the discounted cash flow method. Specifically, using the Weighted Average Cost of Capital (WACC) as the discount rate, the total equity interest of shareholder is arrived at by adding the expected Free Cash Flow of Firm (FCFF) for each of the coming years to the operational asset values plus the value of the surplus assets and non-operational assets to the value of entire assets of the enterprise less the value of interest-bearing debt. The basic formula is as follows:

Total equity interest of shareholders = Operational asset value + Non-operational assets value – Non-operational liabilities value + Surplus assets value – Value of interest-bearing debt

The specific calculation formula is as follows:

$$P = P' + A' - D' - D$$

$$P' = \sum_{i=0.5}^{n} \frac{R_t}{(1+r)^i} + \frac{R_n}{r} x \frac{1}{(1+r)^n}$$

Wherein,

P – the total appraised value of equity interest of shareholders in the valuation target

P' – the discounted value of entire revenue of firm

D – the non-operational liabilities

A' – the non-operational assets

D'– the interest-bearing debt

R_i – the expected income generated in income period No. i in the future (FCFF)

i: the income period, i=0.5, 1.5, 2.5…n

r: the discount rate.

VIII. PROCESS AND IMPLEMENTATION OF VALUATION PROCEDURES

(I) Acceptance of Engagement

Understand the general conditions of the appraised assets and specify the valuation purpose, the valuation target and scope, the valuation benchmark date and other basic matters in valuation after discussions and communications with the clients, accept the engagement after the comprehensive analysis on the professional capability and independence and assessment of business risks and enter into the assets valuation engagement contract. Determine the type of the appraised value, formulate the valuation plan and establish the working group on valuation based on specific circumstances.

(II) On-site inspection and collection of materials

Guide the appraised entity to conduct asset stocktaking and prepare valuation materials and carry out on-site inspection on the valuation target on such basis to collect required information for the asset valuation, understand the asset, business and financial conditions of the valuation target, macro and regional economic factors affecting the operation of the enterprise and the current conditions and prospects of the industry and pay attention to the legal ownership of the valuation target. Verify and validate the materials used in the asset valuation in accordance with laws.

(III) Assessment and estimation

Analyze, summarize and sort the materials on valuation based on the specific circumstances of the appraised business and form the basis for the assessment and estimation and the preparation of the valuation report. Select the valuation methodology based on the valuation purpose, the valuation target, the type of value, the collection of materials and relevant conditions as well as the Practice Guidelines for Asset Valuation. Select the corresponding formula and parameters in analysis, calculation and judgment based on the valuation methodology adopted and analyze and judge valuation assumptions and restrictions which may affect the valuation and the valuation conclusion and arrive at the estimation results. Analyze and compare the estimation results arrived at from different methodologies and form the valuation conclusion.

(IV) Issuance of report

The responsible persons of the project prepare the preliminary asset valuation report based on the valuation conclusion after valuation and estimation. The firm carries out internal review on the preliminary asset valuation report in accordance with laws, administrative regulations, the standards for asset appraisal and the internal quality control system and issues the formal asset valuation report after conducting necessary communications on relevant contents of the valuation report with the clients and other relevant parties.

IX. VALUATION ASSUMPTIONS

The main asset valuation assumptions adopted in this valuation report include:

(I) Basic Assumptions

(1) Transaction assumption. The transaction assumption is that all assets to be appraised are in the process of transaction, and the appraisers will make estimation in a simulated market according to the transaction conditions (among others) of assets to be appraised.

(2) Open market assumption. The open market assumption is that assets may be traded freely in a highly competitive market and the price of which is determined based on the judgment of both independent trading parties over the value of assets under certain supply and demand conditions. An open market refers to a market which is highly competitive with various buyers and sellers. In the open market, both parties of a transaction are equal, which means they are given the opportunity and time to acquire sufficient market information. Buyers and sellers are supposed to be acting voluntarily and rationally rather than being coerced or confined during the transaction.

(3) Assumption on continuing operation. Assumption on continuing operation refers to the assumption that the operating activities of an operating entity will continue and will not be suspended or terminated in the foreseeable future.

(II) Specific Assumptions

(1) There will be no significant changes in the relevant prevailing laws, regulations and policies as well as macro-economic situation of the country and place where the valuation target resides, significant changes in the political, economic or social environment in the regions in which the parties to the transaction are located, or material adverse effects arising from other unforeseeable factors and force majeure.

(2) It is assumed that the enterprise will have balanced cash inflows and cash outflows throughout the year based on its actual operation conditions.

(3) It is assumed that the current and future operators and managers of the valuation target exercise due diligence, and the management of such entity are competent in discharging their duties to ensure that the valuation target is able to operate on a going concern basis, the development, production, and operation plans of which can be fulfilled as scheduled.

(4) It is assumed that the valuation target is in full compliance with all relevant national laws and regulations, without committing any significant violation that prejudices corporate development and realization of revenue.

(5) It is assumed that the accounting policies to be adopted by such enterprise in the future are basically consistent with those adopted during the preparation of this report in material aspects.

(6) It is assumed that, based on its current management approaches and standards, the enterprise's scope and model of business will remain consistent with the current orientation.

(7) It is assumed that there will be no material changes in the requirements currently implemented or determined to be implemented regarding the relevant interest rates, exchange rates, taxation bases and tax rates, and government levies according to national regulations.

(8) It is assumed that no other force majeure and unforeseeable factors will have a material adverse effect on the enterprise.

According to the requirements of the asset valuation, these assumptions are deemed to be valid on the Valuation Benchmark Date. We will not accept any responsibility for any different valuation conclusions resulting from any changes in these assumptions when the economic environment changes significantly in the future.

X. VALUATION CONCLUSION

(I) Valuation result using the asset-based approach

On the Valuation Benchmark Date, being 31 December 2020, the book value of the assets, liabilities and net assets of Shanghai Universal Logistics Technology Co., Ltd. was RMB558,058,400, RMB522,868,700 and RMB35,189,700, respectively. The total assets, liabilities and net assets were RMB574,696,500, RMB522,868,700 and RMB51,827,800, respectively, after the valuation. The appraised value of total assets represented an appreciation of RMB16,638,100 over the book value with an appreciation rate of 2.98%. The appraised value of net assets represented an appreciation of RMB16,638,100 over the book value with an appreciation rate of 47.28%. Please refer to the table below for details:

Table of Summary of Asset Valuation Results
Valuation Benchmark Date: 31 December 2020

Valuation target: Shanghai Universal Logistics Technology Co., Ltd. Unit: RMB0'000

	Item	Book Value A	Appraised Value B	Appreciation/ Depreciation C=B-A	Change D=C/A×100%
1	Current assets	55,526.55	55,526.55	0.00	0.00%
2	Non-current assets	279.29	1,943.10	1,663.81	595.73%
3	Including: Fixed assets	69.51	135.34	65.83	94.71%
4	Intangible assets	52.57	1,650.55	1,597.98	3039.72%
5	Long-term prepaid expenses	157.21	157.21	0.00	0.00%
6	Total assets	55,805.84	57,469.65	1,663.81	2.98%
7	Current liabilities	52,216.01	52,216.01	0.00	0.00%
8	Non-current liabilities	70.86	70.86	0.00	0.00%
9	Total liabilities	52,286.87	52,286.87	0.00	0.00%
10	Net assets (Owner's equity)	3,518.97	5,182.78	1,663.81	47.28%

(II) Valuation results using the income approach

On the Valuation Benchmark Date, being 31 December 2020, the appraised value of all shareholders' equity interests in Shanghai Universal Logistics Technology Co., Ltd. was RMB48,086,500, representing an appreciation of RMB12,896,800 over the book value of all shareholders' equity interests of RMB35,189,700 with an appreciation rate of 36.65%.

(III) Differences between the two valuation results on all shareholders' equity interests are set out in the table below:

Unit: RMB0'000

Valuation Approach	Book Value	Appraised Value	Appreciation	Appreciation Rate
Asset-based approach	3,518.97	5,182.78	1,663.81	47.28%
Income approach		4,808.65	1,289.68	36.65%
Differences between the approaches		374.13		

(IV) Analysis and explanations to the selection of the valuation conclusion

The asset-based approach is to appraise the enterprise value through appraising value of each single asset taking into consideration the relevant liabilities from the perspective of asset replacement. The income approach is to appraise the enterprise value through capitalisation or discount of the expected revenue of the valuation target from the perspective of making judgment on the profitability of assets. It is to appraise the enterprise value based on the total revenue of the enterprise in the future through the reverse thinking of "Capital-searching with the Profit" to achieve "Profit-taking with the Capital".

Based on specific conditions of this valuation, the valuation target is the management company of DFIC Qidong, DFIC Ningbo and DFIC Qingdao and its revenue derives from those three container manufacturers, while those three container manufacturers are greatly exposed to the impacts of the global economy and the industry market with certain market periodicity. As it is difficult to accurately estimate and measure the changes and fluctuations of the industry market in the following years, the result using the asset-based approach is more practical and reasonable as compared with the result using the income approach.

Based on the above factors, the valuation result using the asset-based approach was adopted as the final valuation conclusion. The valuation conclusion is that the value of all shareholders' equity interests in Shanghai Universal Logistics Technology Co., Ltd. involved in the proposed acquisition of the equity interests in four companies (including Shanghai Universal Logistics Technology Co., Ltd.) held by COSCO SHIPPING Investment Holdings Co., Ltd. through the issuance of shares by COSCO SHIPPING Development Co., Ltd. was RMB51,827,800 (in word: FIFTY ONE MILLION EIGHT HUNDRED AND TWENTY SEVEN THOUSAND EIGHT HUNDRED ONLY, rounding to the nearest hundred).

The validity of the valuation conclusion revealed in the valuation report shall be one year from the Valuation Benchmark Date, being 31 December 2020, to 30 December 2021.

XI. EXPLANATIONS TO SPECIAL MATTERS

(I) Significant use of expert work and relevant reports

The unqualified audit reports issued by Ernst & Young Hua Ming LLP for the years 2019 and 2020 were used in this valuation and the audited book values were adopted as the book values for valuation.

(II) Incomplete or defective ownership information;

As of the Valuation Benchmark Date, the name of the owner registered in the patent certificates for intangible assets under the valuation scope was "Singamas Container Holdings (Shanghai) Limited", which was the former name of the company and was not changed to its existing name, "Shanghai Universal Logistics Technology Co., Ltd.", but the ownership of patents belongs to Shanghai Universal Logistics Technology Co., Ltd. It has completed the procedures on the change of names with the China National Intellectual Property Administration. The valuation does not consider the fees on the change of the owners registered in the patent certificates and the impacts of contingent ownership disputes.

(III) Restrictions on valuation procedures;

Nil.

(IV) Incomplete valuation materials;

Nil.

(V) Pending legal and economic matters on the Valuation Benchmark Date;

Nil.

(VI) The nature and amount of guarantees, leases and its contingent liabilities (contingent assets) and the relationship with the valuation target;

Nil.

(VII) Significant subsequent matters;

Nil.

(VIII) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the valuation conclusion.

Nil.

XII. RESTRICTIONS ON THE USE OF THE VALUATION REPORT

(I) This Valuation Report shall be used for the valuation purpose and use set out herein. For the excerpt, reference and disclosure of all or part of the contents of the Valuation Report, relevant contents shall be reviewed by the valuation agency unless it is otherwise provided by laws and regulations and agreed by relevant parties;

(II) The valuation agency and its asset appraisers take no responsibility if the clients or other users of the Asset Valuation Report fail to use this Asset Valuation Report in accordance with the provisions of laws and administrative regulations and the scope of use set out in this Asset Valuation Report;

(III) Except for the clients, the other users of the Asset Valuation Report as agreed in the asset valuation engagement contract and the users of the Asset Valuation Report as stipulated in the laws and administrative regulations, no other institution or individual shall be the user of this report;

(IV) Users of the Asset Valuation Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.

XIII. DATE OF THE VALUATION REPORT

The date of the valuation report is 27 April 2021.

Asset appraiser: Meng Qinghong

Asset appraiser: Jiang Baicheng

27 April 2021

Annexes

I. The Corresponding Economic Activity Document on the Valuation Purpose

II. The Audit Reports of the Appraised Entity

III. Business Licenses of the Clients and the Appraised Entity

IV. Major Ownership Proof Materials of the Valuation Target Involved

V. Letters of Undertaking of the Clients and Other Relevant Parties

VI. Letters of Undertaking of the Signatory Asset Appraisers

VII. The Announcement on the Registration and Filing and the Qualification Certificates of the Valuation Agency

VIII. Copy of the Business License of the Valuation Agency

IX. Qualification Certificates of the Asset Appraisers Responsible for the Valuation Business

X. The Asset Valuation Engagement Contract

The letter below is the reproduction of a letter dated 29 April 2021 previously issued by China Tong Cheng Assets Appraisal Co., Ltd., the Valuer, to the Board for the purpose of inclusion in the Update Announcement.

29 April 2021

The Board of Directors
COSCO SHIPPING Development Co., Ltd.
Room A-538
International Trade Center
China (Shanghai) Pilot Free Trade Zone
Shanghai, the PRC

Dear Sirs,

We refer to the asset valuation reports of the Target Assets dated 27 April 2021 (the "**Asset Valuation Reports**") issued by us in respect of 100% of the equity interests (the "**Target Assets**") in each of Dong Fang International Container (Ningbo) Co., Ltd. (寰宇東方國際集裝箱(寧波)有限公司), Dong Fang International Container (Qidong) Co., Ltd. (寰宇東方國際集裝箱(啟東)有限公司), Dong Fang International Container (Qingdao) Co., Ltd. (寰宇東方國際集裝箱(青島)有限公司) and Shanghai Universal Logistics Technology Co., Ltd. (上海寰宇物流科技有限公司) (collectively, the "**Target Companies**").

We have reviewed the financial information of the Target Companies as of 31 March 2021 provided by the Target Companies, and confirm that there was no material change in the assumptions and bases of the valuation adopted in the Asset Valuation Reports during the period from 31 December 2020 (being the valuation benchmark date) to 31 March 2021. Accordingly, there was no material change in the appraised value of the Target Assets as at 31 March 2021 as compared to that set out in the Asset Valuation Reports.

China Tong Cheng Assets Appraisal Co., Ltd.

The letter below is the reproduction of a letter dated 29 April 2021 previously issued by Messis Capital Limited, the Independent Financial Advisor, to the Board for the purpose of inclusion in the Update Announcement.

29 April 2021

The Board of Directors
COSCO SHIPPING Development Co., Ltd
5299 Binjiang Dadao
Pudong New District
Shanghai
The PRC

Dear Sirs,

We refer to the announcement of the COSCO SHIPPING Development Co., Ltd. (the "**Company**", together its subsidiaries, the "**Group**") dated 29 April 2021 in relation to, among others, the proposed acquisition of 100% of the equity interests in the Target Companies (the "**Announcement**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter have the same meanings as those defined in the Announcement.

We also refer to the Asset Valuation Reports dated 27 April 2021 prepared by China Tong Cheng Assets Appraisal Co., Ltd (the "**Valuer**") in relation to valuation of 100% equity interests in each of the Target Companies, the full text of which are set out in the Announcement. We understood from the Asset Valuation Reports that the valuation in respect of 100% equity interests in DFIC Qidong, DFIC Qingdao, DFIC Ningbo and Universal Technology based on the income approach as well as the business valuation of certain patents of DFIC Qidong and Universal Technology as at 31 December 2020 was prepared based on the discounted cash flow forecast (the "**Forecast**"). We note that Forecast constitutes a profit forecast pursuant to Rule 10 of the Takeovers Code and Rule 14.61 of the Listing Rules and is required to be reported on.

Furthermore, this letter is issued (i) in compliance with the requirement under Rule 11.1(b) of the Takeovers Code in relation to our report on the qualifications and experience of the Valuer in preparing the Asset Valuation Reports and (ii) for the purpose of confirming our acknowledgement of and compliance with both the Circular to Financial Advisers in relation to their Advisory Work on Valuations in Corporate Transactions as issued by the SFC on 15 May 2017 (the "**Circular to Financial Advisers**") and the applicable requirements under the Corporate Finance Adviser Code of Conduct (the "**CFA Code**").

We, as an independent financial adviser to the Company, also confirm our acknowledgement of and compliance with both the Circular to Financial Advisers and the applicable requirements of the CFA Code. We have reviewed the Asset Valuation Reports and discussed with the Directors and the Valuer on the bases and assumptions upon which the Forecast has been prepared. We have also considered the letter on the Forecast addressed to the Board from Ernst & Young, the full text of which is set out in Appendix IV to the Announcement, which states that, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material aspects in accordance with the bases and assumptions adopted by the Directors.

Based on the above, we are satisfied that the Forecast, for which the Directors are solely responsible, has been prepared by the Directors with due care and consideration.

With regard to the qualifications and experience of the Valuer, based on the review work conducted by us, which includes reviewing the supporting documents on the qualifications, experience and expertise of the Valuer and discussing the same with the Valuer, we are satisfied that the Valuer is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Asset Valuation Reports competently.

Yours faithfully,
For and on behalf of
Messis Capital Limited

Thomas Lai
Chief Executive Officer

Vincent Cheung
Managing Director

The letter below is the reproduction of a letter dated 29 April 2021 previously issued by the Ernst & Young, Certified Public Accountants, Hong Kong, to be Board for the purpose of inclusion in the Update Announcement.

29 April 2021

The Board of Directors
COSCO SHIPPING Development Co., Ltd.

Dear Sirs,

COSCO SHIPPING Development Co., Ltd. ("the Company")

Discounted cash flow forecast in connection with the asset valuation reports in respect of 100% equity interests in Dong Fang International Container (Qidong) Co., Ltd. ("DFIC Qidong"), Dong Fang International Container (Qingdao) Co., Ltd. ("DFIC Qingdao"), Dong Fang International Container (Ningbo) Co., Ltd. ("DFIC Ningbo") and Shanghai Universal Logistics Technology Co., Ltd. ("Universal Technology") and certain patents of DFIC Qidong and Universal Technology

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "**Forecast**") on which the valuations dated 27 April 2021, prepared by China Tong Cheng Assets Appraisal Co., Ltd. in respect of 100% equity interests in DFIC Qidong, DFIC Qingdao, DFIC Ningbo and Universal Technology (together, "**Target Companies**") as well as certain patents of DFIC Qidong and Universal Technology as at 31 December 2020 is based. The valuation is set out in the announcement of COSCO SHIPPING Development Co., Ltd. (the "**Company**") dated 29 April 2021 (the "**Announcement**") in connection with the Target Companies in relation to, among other things, the proposed acquisition of the Target Companies by the Company. The valuation based on the Forecast is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and Rule 10 of the Hong Kong Code of Takeovers and Mergers (the "**Takeovers Code**").

Directors' Responsibilities

The directors of the Company (the "**Directors**") are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out on pages 13 to 14 of and in Appendices I-A, I-B, I-C and I-D to the Announcement.

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 Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, 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 Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target Companies. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and Rule 10 of the Takeovers Code and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

The circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

2. MARKET PRICES

The table below shows the closing market prices of the A Shares as quoted on the Shanghai Stock Exchange and the H Shares as quoted on the Hong Kong Stock Exchange (i) on the Latest Practicable Date; (ii) on the last trading day immediately preceding the date of the Agreement of Intent Announcement, the Announcement and the Update Announcement; and (iii) on the last trading day of each month during the Relevant Period:

	Closing price per A Share *(RMB)*	**Closing price per H Share** *(HK$)*
31 July 2020	2.05	0.77
31 August 2020	2.12	0.79
30 September 2020	2.08	0.78
30 October 2020	2.09	0.86
30 November 2020	2.97	1.12
31 December 2020	2.97	1.26
12 January 2021 (being the last trading day of the Shares immediately preceding the Agreement of Intent Announcement)	3.13	1.45
13 January 2021 (being the last trading day of the A Shares immediately preceding the Announcement)	3.44	1.54
26 January 2021 (being the last trading day of the H Shares immediately preceding the Announcement)	(Suspended)	1.61
29 January 2021	2.79	1.23
26 February 2021	2.59	1.24
31 March 2021	2.77	1.27

	Closing price per A Share *(RMB)*	Closing price per H Share *(HK$)*
28 April 2021 (being the last trading day of the Shares immediately preceding the Update Announcement)	2.91	1.41
30 April 2021	2.85	1.37
21 May 2021 (being the Latest Practicable Date)	3.07	1.52

During the Relevant Period, the highest closing price of the Shares was RMB3.44 per A Share and HK$1.72 per H Share quoted on the Shanghai Stock Exchange and the Hong Kong Stock Exchange respectively on 13 January 2021 and 14 January 2021, and the lowest closing price of the Shares was RMB2.02 per A Share and HK$0.76 per H Share quoted on the Shanghai Stock Exchange and the Hong Kong Stock Exchange respectively on 28 July 2020. The issue price of the Consideration Shares of RMB2.51 per Consideration Share represents (i) a discount of approximately 19.81% to the closing price per A Share of RMB3.13 per A Share as quoted on the Shanghai Stock Exchange; and (ii) a premium of approximately 107.44% over the closing price of H Share of HK$1.45 per H Share (equivalent to approximately RMB1.21 per H Share) as quoted on the Hong Kong Stock Exchange, on 12 January 2021, being the last business day immediately preceding the Agreement of Intent Announcement.

3. SHARE CAPITAL

Set out below are the registered and issued share capital of the Company:

(i) as at the Latest Practicable Date;

	Number of Shares
A Shares	7,932,125,000
H Shares	3,676,000,000
Total	11,608,125,000

(ii) immediately after completion of the Proposed Acquisition assuming that:

(a) (1) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will not be paid prior to the issue of the Consideration Shares and there will not be any adjustments to the issue price of the Consideration Shares of RMB2.51 per Consideration Share; and (2) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement):

	Number of Shares
A Shares	9,379,416,536
H Shares	3,676,000,000
Total	13,027,199,539

(b) (1) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will be paid prior to the issue of the Consideration Shares and there will not be any further adjustments to the issue price of the Consideration Shares of RMB2.46 per Consideration Share; and (2) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement):

	Number of Shares
A Shares	9,380,042,519
H Shares	3,676,000,000
Total	13,056,042,519

(iii) immediately after completion of the Proposed Acquisition and the Proposed Non-public Issuance of A Shares assuming that:

(a) (1) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will not be paid prior to the issue of the Consideration Shares and there will not be any adjustments to the issue price of the Consideration Shares of RMB2.51 per Consideration Share; (2) the issue price of the Proposed Non-public Issuance of A Shares is the same as the issue price of the Consideration Shares; (3) the total amount of ancillary funds to be raised under the Proposed Non-public Issuance of A Shares will be RMB1,464,000,000, of which, RMB600,000,000 will be subscribed by China Shipping and the remaining RMB864,000,000 will be subscribed by other independent third parties; and (4) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement) and under the Proposed Non-public Issuance of A Shares);

	Number of Shares
A Shares	9,934,466,471
H Shares	3,676,000,000
Total	13,610,466,471

(b) (1) the final dividend of RMB0.056 per Share (inclusive of applicable tax) of the Company will be paid prior to the issue of the Consideration Shares and there will not be any further adjustments to the issue price of the Consideration Shares of RMB2.46 per Consideration Share; (b) the issue price of the Proposed Non-public Issuance of A Shares is the same as the issue price of the Consideration Shares; (c) the total amount of ancillary funds to be raised under the Proposed Non-public Issuance of A Shares will be RMB1,464,000,000, of which, RMB600,000,000 will be subscribed by China Shipping and the remaining RMB864,000,000 will be subscribed by other independent third parties; and (d) there will be no change in the total issued share capital of the Company and no exercise of the Share Options since the Latest Practicable Date save for the issue of the A Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement) and under the Proposed Non-public Issuance of A Shares):

	Number of Shares
A Shares	9,975,644,470
H Shares	3,676,000,000
Total	13,651,164,470

Save for the 79,627,003 A Shares held by the Company as treasury shares for implementation of the A Share Option Incentive Scheme which do not carry any rights as to dividends, voting (and as a result, the percentage of shareholding of the Shareholders in the Company will be different from the percentage of voting rights in the Company held by the Shareholders) and return of capital pursuant to relevant PRC laws and regulations, all the Shares in issue are fully-paid and rank pari passu in all respects including all rights as to dividends, voting and return of capital.

The A Shares to be issued under the Proposed Acquisition and the Proposed Non-public Issuance of A Shares when issued and fully paid, shall rank pari passu in all aspects amongst themselves with the A Shares in issue at the time of the issuance of such A Shares including, in particular, as to dividends, voting and return of capital.

Since 31 December 2020 (being the end of the last financial year of the Company) and up to the Latest Practicable Date, no new Shares have been issued by the Company.

As at the Latest Practicable Date, there are 79,627,003 outstanding Share Options granted under the A Share Option Incentive Scheme, upon exercise of which, 79,627,003 A Shares will be transferred by the Company (out of 79,627,003 A Shares held by the Company as treasury shares) to the holders of the Share Options. Save as aforementioned, the Company has no other outstanding warrants, options or securities convertible into the Shares as at the Latest Practicable Date.

4. DISCLOSURE OF INTERESTS

Interests and short positions of Directors, Supervisors and chief executives in the Shares

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executive(s) of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 or short positions which any such Directors, Supervisors or chief executive(s) is taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which were otherwise 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 adopted by the Company or which were required to be disclosed under the Takeovers Code.

Name	Position	Class of Shares	Capacity	Number of Shares interested *(Note 1)*	Approximate percentage of the total number of the relevant class of Shares of the Company *(%)*	Approximate percentage of the issued share capital of the Company *(%)*
Wang Daxiong	Director	A Shares	Beneficial owner	1,500,000 (L) *(Note 2)*	0.02	0.01
		H Shares	Other	834,677 (L) *(Notes 3 and 4)*	0.02	0.01
Liu Chong	Director	A Shares	Beneficial owner	1,490,100 (L) *(Note 2)*	0.02	0.01
		H Shares	Other	1,112,903 (L) *(Notes 3 and 5)*	0.03	0.01
Xu Hui	Director	A Shares	Beneficial owner	1,490,100 (L) *(Note 2)*	0.02	0.01
		H Shares	Other	945,968 (L) *(Notes 3 and 6)*	0.03	0.01

Notes:

1. "L" means long position in the shares.

2. Such interests relate to Share Options granted to the Directors on 30 March 2020 pursuant to the A Share Option Incentive Scheme.

3. As disclosed in the announcement of the Company dated 24 November 2016, certain executive Directors, Supervisor, senior management and employees of the Company have voluntarily invested, with their own fund, in an asset management plan (the "**Asset Management Plan**"), pursuant to which the executive Directors, Supervisor, senior management and employees of the Company had subscribed to the units of the Asset Management Plan and entrusted the manager of the Asset Management Plan to manage the Asset Management Plan, which would invest in the H Shares. The manager of the Asset Management Plan shall be responsible for, among other things, the investment and re-investment of the assets under the Asset Management Plan and shall be entitled to exercise the voting rights and other relevant rights in respect of the H Shares held under the Asset Management Plan. The Company did not participate in the Asset Management Plan, and the Asset Management Plan does not constitute a share option scheme or any type of employee benefit scheme of the Company. As at the Latest Practicable Date, the Asset Management Plan has been fully funded and has acquired 6,900,000 H Shares on the market at an average price of HK$1.749 per H Share.

4. Mr. Wang Daxiong was one of the participants of the Asset Management Plan through which he held approximately 12.10% of the total number of units of the Asset Management Plan as at the Latest Practicable Date. Accordingly, the 834,677 H Shares represent the interests derived from the units subscribed by Mr. Wang Daxiong in the Asset Management Plan as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Wang Daxiong did not hold any Shares.

5. Mr. Liu Chong was one of the participants of the Asset Management Plan through which he held approximately 16.13% of the total number of units of the Asset Management Plan as at the Latest Practicable Date. Accordingly, the 1,112,903 H Shares represent the interests derived from the units subscribed by Mr. Liu Chong in the Asset Management Plan as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Liu Chong did not hold any Shares.

6. Mr. Xu Hui was one of the participants of the Asset Management Plan through which he held approximately 13.71% of the total number of units of the Asset Management Plan as at the Latest Practicable Date. Accordingly, the 945,968 H Shares represent the interests derived from the units subscribed by Mr. Xu Hui in the Asset Management Plan as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Xu Hui did not hold any Shares.

Positions held by Directors and Supervisors in substantial Shareholder(s)

As at the Latest Practicable Date:

(a) Mr. Huang Jian, a non-executive Director, was also a department general manager of COSCO SHIPPING; and

(b) Mr. Ye Hongjun, a Supervisor, was also the chief legal adviser of COSCO SHIPPING.

Save as disclosed above, none of the Directors or Supervisors was, as at the Latest Practicable Date, a director or employee of a company which had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Interests of substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors, Supervisors or chief executive(s) of the Company, the interests or short positions of the Shareholders who are entitled to exercise or control 5% or more of the voting power at any general meeting or other persons (other than a Director, Supervisor or chief executive(s) of the Company) in the Shares or underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO or which have been notified to the Company and the Hong Kong Stock Exchange were as follows:

Name of Shareholder	Class of Shares	Capacity	Number of Shares interested *(Note 1)*	Approximate percentage of the total number of the relevant class of Shares of the Company *(%)*	Approximate percentage of the issued share capital of the Company *(%)*
China Shipping	A Shares	Beneficial owner	4,410,624,386 (L) *(Note 2)*	55.60	38.00
	H Shares	Interest of controlled corporation	100,944,000 (L) *(Note 3)*	2.75	0.87
COSCO SHIPPING	A Shares	Beneficial owner	47,570,789 (L)	0.60	0.41
		Interest of controlled corporation	4,410,624,386 (L) *(Note 2)*	55.60	38.00
	H Shares	Interest of controlled corporation	100,944,000 (L) *(Note 3)*	2.75	0.87

Notes:

1. "L" means long position in the shares.

2. Such 4,410,624,386 A Shares represent the same block of Shares.

3. Such 100,944,000 H Shares represent the same block of Shares and is held by Ocean Fortune, an indirectly wholly-owned subsidiary of China Shipping.

Save as disclosed above, as at the Latest Practicable Date, no other person (other than Directors, Supervisors or chief executive(s) of the Company) had any interests or short positions in any Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or any interests or short positions recorded in the register kept by the Company pursuant to Section 336 of the SFO or any interests or short positions which have been notified to the Company and the Hong Kong Stock Exchange.

5. ARRANGEMENTS IN CONNECTION WITH THE PROPOSED ACQUISITION AND THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES

As at the Latest Practicable Date:

(i) no agreement, arrangement or understanding (including any compensation arrangement) exists between COSCO SHIPPING or parties acting concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal;

(ii) there was no benefit to be given to any Directors as compensation for loss of office or otherwise in connection with the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal;

(iii) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal or otherwise connected with the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal;

(iv) there was no material contract entered into by COSCO SHIPPING in which any Director has a material personal interest; and

(v) there was no agreement, arrangement or understanding pursuant to which the A Shares to be issued to COSCO SHIPPING and parties acting in concert with it under the Proposed Acquisition and the CS Subscription would be transferred, charged or pledged to any other persons.

6. SHAREHOLDINGS OF AND DEALINGS IN THE SECURITIES OF THE COMPANY AND COSCO SHIPPING

As at the Latest Practicable Date:

(i) the Company did not hold, control or have direction over any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in COSCO SHIPPING and it has not dealt for value in any such securities of COSCO SHIPPING during the Relevant Period;

(ii) none of the Directors, Supervisors or chief executives of the Company held, controlled or had direction over any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in COSCO SHIPPING and none of them have dealt for value in any such securities of COSCO SHIPPING during the Relevant Period;

(iii) none of the subsidiaries of the Company, the pension fund of the Company or of its subsidiaries, any persons presumed to be acting in concert with the Company by virtue of class (5) of the definition of "acting in concert" under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of "associate" under the Takeovers Code (but excluding exempt principal traders and exempt fund managers), held, controlled or had direction over any Shares, options, warrants, derivatives or convertible securities of the Company and none of them have dealt for value in any such securities of the Company during the Relevant Period;

(iv) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of "acting in concert", or any person who is an associate of the Company by virtue of classes (2), (3) or (4) of the definition of "associate" under the Takeovers Code and no such person has dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;

(v) no fund managed on a discretionary basis by any fund manager connected with the Company owned or controlled any Shares, warrants, options, derivatives or convertible securities of the Company or had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;

(vi) save as disclosed in the section headed "4. Disclosure of Interests – Interests and short positions of Directors, Supervisors and chief executives" in this appendix, none of the Directors, Supervisors or chief executives of the Company and their respective associates owned or controlled any Shares, warrants, options, derivatives or convertible securities of the Company. The Asset Management Plan, which was voluntarily invested by Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui (each of whom is an executive Director) and certain other existing and former supervisor, senior management and employees of the Company and held 6,900,000 H Shares as at the Latest Practicable Date, will be required to abstain from voting on the resolutions with respect to the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal (being all the resolutions to be proposed at the EGM and the Class Meetings) and the Share Options held by Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui do not carry any voting rights. Accordingly, none of the Directors will vote on any of the resolutions to be proposed at the EGM and the Class Meetings;

(vii) none of the Directors, Supervisors or chief executives of the Company and their respective associates has dealt for value in any such securities of the Company during the Relevant Period; and

(viii) neither the Company nor any of the Directors has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

As at the Latest Practicable Date, other than 39.61% voting rights in the Company controlled by COSCO SHIPPING and parties acting in concert with it, an aggregate of 4,480,200 Share Options held by Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui, the executive Directors, the Proposed Acquisition and the CS Subscription:

(i) COSCO SHIPPING and parties acting in concert with it did not hold, control or have direction over any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold, control or have direction over any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company and save for the transfer of 47,570,789 A Shares, representing approximately 0.41% of the total issued share capital of the Company, from China Shipping (a wholly-owned subsidiary of COSCO SHIPPING) to COSCO SHIPPING on 9 November 2020, none of them have dealt for value in any such securities of the Company during the Relevant Period;

(ii) COSCO SHIPPING and parties acting in concert with it did not borrow or lend any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(iii) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and COSCO SHIPPING and parties acting in concert with it during the Relevant Period;

(iv) neither COSCO SHIPPING nor parties acting in concert with it has received any irrevocable commitment to vote in favour of or against the Proposed Acquisition, the Proposed Non-public Issuance of A Shares, the CS Subscription, the Specific Mandates, the Whitewash Waiver and/or the Special Deal; and

(v) none of the directors of COSCO SHIPPING and parties acting in concert with it owned or controlled any Shares, warrants, options, derivatives or convertible securities, of the Company, and none of them have dealt for value in any such securities of the Company during the Relevant Period.

7. SERVICE CONTRACTS

Save as disclosed below, as at the Latest Practicable Date, (i) none of the Directors or the Supervisors had entered into or proposed to enter into any service contract with any member of the Group which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation); and (ii) none of the Directors or the Supervisors had entered into a service contract with the Company or any of its subsidiaries or associated companies (as defined under the Takeovers Code), which (a) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Agreement of Intent Announcement; (b) are continuous contracts with a notice period of 12 months or more; or (c) are fixed term contracts with more than 12 months to run irrespective of the notice period:

(i) the service contract with Mr. Ip Sing Chi, a non-executive Director, for a term of service commencing on 29 October 2020 (being the date on which Mr. Ip Sing Chi was appointed as a non-executive Director) until the conclusion of the annual general meeting of the Company for the year 2022. Pursuant to the service contract, no remuneration (both fixed and variable) is payable to Mr. Ip Sing Chi as a Director by the Company.

8. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

9. MATERIAL INTERESTS

As at the Latest Practicable Date:

(a) none of the Directors or the Supervisors had any direct or indirect interest in any assets which had been, since 31 December 2020 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and

(b) none of the Directors or the Supervisors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

10. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, nor any of their respective close associates had any interest in other business which competes or may compete, either directly or indirectly, with the business of the Group as if each of them were treated as a controlling shareholder under Rule 8.10 of the Hong Kong Listing Rules.

11. EXPERTS' QUALIFICATIONS AND CONSENT

The following are the qualifications of the experts who have given their opinions or advice which are contained in this circular:

Name	Qualification
China Tong Cheng	PRC qualified valuer
Messis Capital	A corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Grandall Law Firm (Shanghai)	PRC legal advisers to the Company

As at the Latest Practicable Date, each of the abovementioned experts had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinion and/or the reference to its name and opinions in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the abovementioned experts did not have any shareholding in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, each of the abovementioned experts did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2020 (being the date to which the latest published audited statements of the Group were made up).

12. MATERIAL CONTRACTS

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the date of the Agreement of Intent Announcement and up to the Latest Practicable Date:

(a) the Acquisition Agreement;

(b) the Supplemental Agreement;

(c) the Compensation Agreement;

(d) the CS Subscription Agreement;

(e) the capital increase agreement and its supplemental agreement dated 13 April 2021 entered into between COSCO SHIPPING Leasing Co., Ltd. (a wholly-owned subsidiary of the Company), the Company, China State-owned Enterprises Mixed Ownership Reform Fund Co., Ltd. (as a proposed shareholder of COSCO SHIPPING Leasing Co., Ltd. pursuant to the equity transfer agreement as set out in paragraph (f) below) and China Insurance Investment Co., Ltd. (as the investor in the capital increase transaction) in respect of the capital increase in the amount of RMB3,000,000,000 in COSCO SHIPPING Leasing Co., Ltd. by China Insurance Investment Co., Ltd. (please refer to the announcements of the Company dated 10 December 2020 and 13 April 2021 and the circular of the Company dated 11 December 2020 for further details);

(f) the equity transfer agreement dated 10 December 2020 entered into between Chengtong Mixed Reform Equity Investment Fund Management Co., Ltd. (on behalf of China State-owned Enterprises Mixed Ownership Reform Fund Co., Ltd. (as purchaser)) and the Company (as vendor) in relation to the disposal of 35.22% equity interest in COSCO SHIPPING Leasing Co., Ltd. held by the Company to China State-owned Enterprises Mixed Ownership Reform Fund Co., Ltd. at the consideration of RMB1,800,000,000 (please refer to the announcement of the Company dated 10 December 2020 and the circular of the Company dated 11 December 2020 for further details);

(g) the share transfer agreement dated 12 October 2020 entered into between COSCO Container Industries Limited (a wholly owned subsidiary of the Company and as vendor), Long Honour Investments Limited (a wholly owned subsidiary of the Company and as vendor), Shenzhen Capital (Hong Kong) Container Investments Co., Ltd. (as purchaser), Shenzhen Capital Operation Group Co. Ltd. (as purchaser) and the Company in relation to the disposal of approximately 17.94% of the total issued share capital of China International Marine Containers (Group) Co., Ltd. by COSCO Container Industries Limited and Long Honour Investments Limited to

Shenzhen Capital (Hong Kong) Container Investments Co., Ltd. and Shenzhen Capital Operation Group Co. Ltd. at the aggregate consideration of RMB6,340,454,365.11, subject to applicable adjustments (please refer to the announcement of the Company dated 12 October 2020 and the circular of the Company dated 13 October 2020 for further details);

(h) the capital increase agreement dated 24 April 2020 entered into among the Company, COSCO SHIPPING, COSCO SHIPPING Energy Transportation Co., Ltd., COSCO Shipping Tanker (Dalian) Co., Ltd., COSCO SHIPPING Lines Co., Ltd., COSCO International Freight Co., Ltd., COSCO SHIPPING Specialized Carriers Co., Ltd., Guangzhou Ocean Shipping Co., Ltd., COSCO (Tianjin) Co., Ltd., China Ocean Shipping Agency Co., Ltd., COSCO (Qingdao) Co., Ltd., COSCO Shipbuilding Industry Company Limited, COSCO Shipyard Group Co., Ltd., China Marine Bunker (Petro China) Co., Ltd., COSCO (Xiamen) Co., Ltd. and China Ocean Shipping Tally Co., Ltd., pursuant to which the parties (as existing shareholders of COSCO SHIPPING Finance Company Limited (a non-wholly owned subsidiary of COSCO SHIPPING)) have agreed to increase the registered capital of COSCO SHIPPING Finance Company Limited by RMB3,200,000,000 in proportion to their respective shareholding, of which, RMB748,288,000 were contributed by the Company (please refer to the announcement of the Company dated 24 April 2020 for further details); and

(i) the equity transfer agreement dated 25 March 2019 entered into between the Company (as vendor) and COSCO SHIPPING Logistics Co., Ltd. (as purchaser), pursuant to which the Company has agreed to dispose of, and COSCO SHIPPING Logistics Co. Ltd. has agreed to acquire, 25% of the equity interest in E-Shipping Global Supply Chain Management (Shenzhen) Co., Ltd. at the consideration of RMB13,234,350 (please refer to the announcement of the Company dated 25 March 2019 for further details).

Save as disclosed above, there is no material contract (not being entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the date of the Agreement of Intent Announcement and up to the Latest Practicable Date.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 50/F, COSCO Tower, 183 Queen's Road Central, Hong Kong and on the website of the Company at http://development.coscoshipping.com and the website of the SFC at www.sfc.hk from the date of this circular up to and including the date of the EGM and the Class Meetings:

(a) the Articles of Association;

(b) the articles of association of COSCO SHIPPING;

(c) the Acquisition Agreement;

(d) the Supplemental Agreement;

(e) the Compensation Agreement;

(f) the CS Subscription Agreement;

(g) the annual reports of the Company for the three financial years ended 31 December 2018, 31 December 2019 and 31 December 2020;

(h) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(i) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(j) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;

(k) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(l) the accountant's report on the Target Companies, the text of which is set out in Appendices II-A, II-B, II-C and II-D to this circular;

(m) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(n) the Asset Valuation Reports, the full text of which are set out in Appendices V-A, V-B, V-C and V-D to this circular;

(o) the letter from China Tong Cheng in relation to the Asset Valuation Reports, the text of which is set out in Appendix VI to this circular;

(p) the letter from the Independent Financial Adviser in relation to the Profit Forecasts, the text of which is set out in Appendix VII to this circular;

(q) the letter from Ernst & Young in relation to the Profit Forecasts, the text of which is set out in Appendix VIII to this circular;

(r) the service contract referred to in the paragraph headed "Service Contracts" in this appendix;

(s) the written consent referred to in the paragraph headed "Experts' Qualifications and Consent" in this appendix;

(t) a copy of the circular of the Company dated 30 October 2020;

(u) a copy of the circular of the Company dated 20 November 2020;

(v) a copy of the circular of the Company dated 2 December 2020;

(w) a copy of the circular of the Company dated 11 December 2020; and

(x) a copy of this circular.

14. MISCELLANEOUS

(a) The joint company secretaries of the Company are Mr. Cai Lei ("**Mr. Cai**") and Ms. Ng Sau Mei ("**Ms. Ng**"). Mr. Cai is qualified as a national judicial professional and an insurance assessor, and holds the title of intermediate economist. Ms. Ng is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

(b) The legal address of the Company in the PRC is Room A-538, International Trade Center, China (Shanghai) Pilot Free Trade Zone, Shanghai, the PRC.

(c) The principal place of business of the Company in the PRC is 5299 Binjiang Dadao, Pudong New Area, Shanghai, the PRC.

(d) The principal place of business of the Company in Hong Kong is 50/F, COSCO Tower, 183 Queen's Road Central, Hong Kong.

(e) The Hong Kong H Share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(f) The legal address of COSCO SHIPPING is 628, Minsheng Road, China (Shanghai) Pilot Free Trade Zone, Shanghai, the PRC.

(g) COSCO SHIPPING is a PRC state-owned enterprise directly supervised and administered by the SASAC. The board of directors of COSCO SHIPPING comprises Xu Lirong, Fu Gangfeng, Wang Haimin, Wang Changshun, Ho, David Hing-Yuen, Chung Shui Ming, Xu Donggen, Luo Jianchuan and Yang Zhijian. The ultimate controlling shareholder of COSCO SHIPPING is the SASAC.

(h) The legal address of China Shipping is Room A-1022, 188 Yesheng Road, Lingang New Area, China (Shanghai) Pilot Free Trade Zone, Shanghai, the PRC.

(i) China Shipping is a company incorporated under the laws of the PRC, and a direct wholly-owned subsidiary of COSCO SHIPPING. The sole director of China Shipping is Xu Lirong.

(j) The registered office of COSCO SHIPPING Investment is 51/F, COSCO Tower, 183 Queen's Road Central, Hong Kong.

(k) COSCO SHIPPING Investment is a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of China Shipping, which is in turn a direct wholly-owned subsidiary of COSCO SHIPPING. The board of directors of COSCO SHIPPING Investment comprises Wang Daxiong, Feng Boming, Ren Yongqiang, Huang Jian, Liu Chong, Cai Hongping, Xu Donggen and Rui Meng.

(l) The registered office of Ocean Fortune is Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960.

(m) Ocean Fortune is a company incorporated in the Republic of the Marshall Islands with limited liability and a direct wholly-owned subsidiary of COSCO SHIPPING Investment, which is in turn an indirect wholly-owned subsidiary of COSCO SHIPPING. The board of directors of Ocean Fortune comprises Li Xueqiang, Ming Dong and Lin Feng.

(n) Unless otherwise specified, the English text of this circular shall prevail over the Chinese text in case of inconsistency.

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中遠海運發展股份有限公司

COSCO SHIPPING Development Co., Ltd.*

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

(Stock Code: 02866)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of COSCO SHIPPING Development Co., Ltd. (the "**Company**") will be held at 1:30 p.m. on Thursday, 10 June 2021 (or at any adjournment thereof) at Level 3, Ocean Hotel Shanghai, 1171 Dong Da Ming Road, Hong Kou District, Shanghai, the People's Republic of China to consider and, if thought fit, pass the following resolutions.

Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the circular of the Company dated 24 May 2021 (the "**Circular**").

SPECIAL RESOLUTIONS

1. To consider and approve the resolution in relation to the Restructuring, further details of which are set out in the Circular:

   "**THAT**

   (a) each of the following items in respect of the Restructuring be and is hereby approved, confirmed and ratified:

      (i) the overall proposal of the Restructuring;

      (ii) consideration and method of payment of the Proposed Acquisition;

(iii) class and par value of the Consideration Shares to be issued under the Proposed Acquisition;

(iv) Pricing Benchmark Date, pricing basis and issue price under the Proposed Acquisition;

(v) target subscribers and number of Consideration Shares to be issued under the Proposed Acquisition;

(vi) lock-up period arrangement under the Proposed Acquisition;

(vii) profit or loss arrangement during the Transitional Period under the Proposed Acquisition;

(viii) performance compensation arrangement under the Proposed Acquisition;

(ix) place of listing of the Consideration Shares to be issued under the Proposed Acquisition;

(x) arrangement for cumulative undistributed profits of the Company prior to the Proposed Acquisition;

(xi) class and par value of A Shares to be issued under the Proposed Non-public Issuance of A Shares;

(xii) target subscribers and number of A Shares to be issued under the Proposed Non-public Issuance of A Shares;

(xiii) Price Determination Date, pricing basis and issue price under the Proposed Non-public Issuance of A Shares;

(xiv) lock-up period arrangement under the Proposed Non-public Issuance of A Shares;

(xv) place of listing of the A Shares to be issued under the Proposed Non-public Issuance of A Shares;

(xvi) use of proceeds from the Proposed Non-public Issuance of A Shares;

(xvii) arrangement for cumulative undistributed profits of the Company prior to the Proposed Non-public Issuance of A Shares;

(xviii) the Restructuring constituting a connected transaction;

(xix) the Restructuring not constituting a material asset restructuring;

(xx) the Restructuring not constituting a restructuring and listing; and

(xxi) validity period of the resolutions; and

(b) the Board be and is hereby granted the Specific Mandates to allot and issue the A Shares to be issued by the Company under the Restructuring."

2. To consider and approve the resolution in relation to the Restructuring being in compliance with the relevant laws and regulations.

3. To consider and approve the resolution in relation to the Report on Acquisition of Assets and Raising Ancillary Funds through Issuance of Shares and Connected Transaction of COSCO SHIPPING Development Co., Ltd. (Draft) (《中遠海運發展股份有限公司發行股份購買資產並募集配套資金暨關聯交易報告書(草案)》) and its summary, further details of which are set out in the relevant overseas regulatory announcements of the Company dated 29 April 2021.

4. To consider and approve the resolutions in relation to the related agreements of the Restructuring:

(a) to consider and approve the resolution in relation to Acquisition Agreement, further details of which are set out in the Circular:

"**THAT**

(i) the Acquisition Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(ii) any one Director be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Acquisition Agreement and the transactions contemplated thereunder."

(b) to consider and approve the resolution in relation to the Supplemental Agreement, further details of which are set out in the Circular:

"**THAT**

(i) the Supplemental Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(ii) any one Director be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Supplemental Agreement and the transactions contemplated thereunder."

(c) to consider and approve the resolution in relation to the Compensation Agreement, further details of which are set out in the Circular:

"**THAT**

(i) the Compensation Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(ii) any one Director be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Compensation Agreement and the transactions contemplated thereunder."

(d) to consider and approve the resolution in relation to the CS Subscription Agreement, further details of which are set out in the Circular:

"**THAT**

(i) the CS Subscription Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(ii) any one Director be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the CS Subscription Agreement and the transactions contemplated thereunder."

5. To consider and approve the resolution in relation to the Restructuring complying with Article 4 of the Provisions on Issues Concerning Regulating the Material Asset Restructuring of Listed Companies (《關於規範上市公司重大資產重組若干問題的規定》).

6. To consider and approve the resolution in relation to the Restructuring complying with Article 11 and Article 43 of the Administrative Measures for the Material Asset Restructuring of Listed Companies (《上市公司重大資產重組管理辦法》).

7. To consider and approve the resolution in relation to the waiver of the obligation of COSCO SHIPPING Investment, China Shipping and its concert parties to make a general offer of the securities of the Company under the relevant PRC laws and regulations.

8. To consider and approve the resolution in relation to the Whitewash Waiver, further details of which are set out in the Circular:

   "**THAT**

   (a) subject to the Executive granting the Whitewash Waiver to COSCO SHIPPING and the satisfaction of any condition(s) attached to the Whitewash Waiver imposed by the Executive, the waiver pursuant to Note 1 on dispensation from Rule 26 of the Takeovers Code in respect of the obligations of COSCO SHIPPING to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by COSCO SHIPPING and parties acting in concert with it which would otherwise arise as a result of the issue of the Consideration Shares under the Proposed Acquisition be and is hereby approved, confirmed and ratified; and

   (b) any one Director be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Whitewash Waiver."

9. To consider and approve the resolution in relation to the dilution on current returns and the remedial measures of the Company, further details of which are set out in the relevant overseas regulatory announcement of the Company dated 29 April 2021.

10. To consider and approve the resolution in relation to the audit reports, the pro forma review report and the Asset Valuation Reports in respect of the Restructuring, further details of which are set out in the relevant overseas regulatory announcement of the Company dated 29 April 2021.

11. To consider and approve the resolution in relation to the independence of valuation agency, reasonableness of the assumptions of the valuation, correlation between the approach and purpose of the valuation and fairness of the basis of the consideration.

12. To consider and approve the resolution in relation to the completeness and compliance of the legal procedures and the validity of the legal documentation in respect of the Restructuring.

13. To consider and approve the resolution in relation to the authorization to the Board and its authorized persons to handle all matters in connection with the Restructuring.

By order of the Board
COSCO SHIPPING Development Co., Ltd.
Cai Lei
Joint Company Secretary

Shanghai, the People's Republic of China
24 May 2021

Notes:

1. For the purpose of holding the EGM, the register of H Shares members of the Company (the "**Register of Members**") will be closed from 7 June 2021 to 10 June 2021 (both days inclusive), during which period no transfer of H Shares of the Company will be registered. Holders of the Company's H Shares (the "**H Shareholders**") whose names appear on the Register of Members at the close of business on 4 June 2021 are entitled to attend and vote at the EGM.

2. In order to attend and vote at the EGM, the H Shareholders shall lodge all transfer documents together with the relevant share certificates to Computershare Hong Kong Investor Services Limited ("**Computershare**"), the Company's H Share registrar, not later than 4:30 p.m. on 4 June 2021.

   The address of Computershare is as follows:
   Shops 1712-1716, 17th Floor
   Hopewell Centre
   183 Queen's Road East
   Wanchai, Hong Kong

3. Each H Shareholder who has the right to attend and vote at the EGM is entitled to appoint in writing one or more proxies, whether a Shareholder or not, to attend and vote on his/her behalf at the EGM.

4. The form of proxy must be signed by the Shareholder or his/her attorney duly authorised in writing or, in the case of a legal person, must either be executed under its common seal or under the hand of a legal representative or other attorney duly authorised to sign the same. If the Form of Proxy is signed by an attorney of the appointer, the power of attorney authorising that attorney to sign, or other document of authorisation, must be notarially certified.

5. To be valid, for H Shareholders, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or other authority, must be delivered to Computershare at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.

6. If a proxy attends the EGM on behalf of a Shareholder, he/she should produce his/her identity card and the form of proxy signed by the Shareholder or his/her legal representative or his/her duly authorised attorney, and specify the date of its issuance. If a legal person Shareholder appoints its corporate representative to attend the EGM, such representative should produce his/her identity card and the notarised copy of the resolution passed by the board of directors or other authorities, or other notarised copy of the licence issued by such legal person Shareholder. The form of proxy duly signed and submitted by HKSCC Nominees Limited are deemed to be valid, and it is not necessary for the proxy(ies) appointed by HKSCC Nominees Limited to produce the signed form of proxy when the proxy(ies) attend(s) the EGM. Completion and return of the form of proxy will not preclude a Shareholder from attending in person and voting at the EGM or any adjournment thereof should he/she so wish.

7. Pursuant to the Hong Kong Listing Rules, any vote of Shareholders at a general meeting must be taken by way of poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, the resolutions set out in the notice of the EGM will be voted on by poll. Results of the poll voting will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk after the EGM.

8. Where there are joint registered holders of any share of the Company, only the person whose name stands first on the Register of Members in respect of such share may vote at the EGM, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto.

9. The EGM is estimated to last for half a day. Shareholders who attend the EGM in person or by proxy shall bear their own transportation and accommodation expenses.

The Board as at the date of this notice comprises Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui, being executive Directors, Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi, being non-executive Directors, and Mr. Cai Hongping, Ms. Hai Chi Yuet, Mr. Graeme Jack, Mr. Lu Jianzhong and Ms. Zhang Weihua, being independent non-executive Directors.

* *The Company is a registered non-Hong Kong company as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and it is registered under its Chinese name and under the English name "COSCO SHIPPING Development Co., Ltd.".*

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This notice is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of COSCO SHIPPING Development Co., Ltd.

中遠海運發展股份有限公司
COSCO SHIPPING Development Co., Ltd.*

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

(Stock Code: 02866)

NOTICE OF H SHARES CLASS MEETING

NOTICE IS HEREBY GIVEN that a class meeting of H Shareholders (the "**H Shares Class Meeting**") of COSCO SHIPPING Development Co., Ltd. (the "**Company**") will be held at 1:30 p.m. on Thursday, 10 June 2021 (or at any adjournment thereof) at Level 3, Ocean Hotel Shanghai, 1171 Dong Da Ming Road, Hong Kou District, Shanghai, the People's Republic of China to consider and, if thought fit, pass the following resolutions.

Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the circular of the Company dated 24 May 2021 (the "**Circular**").

SPECIAL RESOLUTIONS

1. To consider and approve the resolution in relation to the Restructuring, further details of which are set out in the Circular:

   "**THAT**

   (a) each of the following items in respect of the Restructuring be and is hereby approved, confirmed and ratified:

      (i) the overall proposal of the Restructuring;

      (ii) consideration and method of payment of the Proposed Acquisition;

(iii) class and par value of the Consideration Shares to be issued under the Proposed Acquisition;

(iv) Pricing Benchmark Date, pricing basis and issue price under the Proposed Acquisition;

(v) target subscribers and number of Consideration Shares to be issued under the Proposed Acquisition;

(vi) lock-up period arrangement under the Proposed Acquisition;

(vii) profit or loss arrangement during the Transitional Period under the Proposed Acquisition;

(viii) performance compensation arrangement under the Proposed Acquisition;

(ix) place of listing of the Consideration Shares to be issued under the Proposed Acquisition;

(x) arrangement for cumulative undistributed profits of the Company prior to the Proposed Acquisition;

(xi) class and par value of A Shares to be issued under the Proposed Non-public Issuance of A Shares;

(xii) target subscribers and number of A Shares to be issued under the Proposed Non-public Issuance of A Shares;

(xiii) Price Determination Date, pricing basis and issue price under the Proposed Non-public Issuance of A Shares;

(xiv) lock-up period arrangement under the Proposed Non-public Issuance of A Shares;

(xv) place of listing of the A Shares to be issued under the Proposed Non-public Issuance of A Shares;

(xvi) use of proceeds from the Proposed Non-public Issuance of A Shares;

(xvii) arrangement for cumulative undistributed profits of the Company prior to the Proposed Non-public Issuance of A Shares;

(xviii) the Restructuring constituting a connected transaction;

(xix) the Restructuring not constituting a material asset restructuring;

(xx) the Restructuring not constituting a restructuring and listing; and

(xxi) validity period of the resolutions; and

(b) the Board be and is hereby granted the Specific Mandates to allot and issue the A Shares to be issued by the Company under the Restructuring."

2. To consider and approve the resolutions in relation to the related agreements of the Restructuring:

(a) to consider and approve the resolution in relation to Acquisition Agreement, further details of which are set out in the Circular:

"**THAT**

(i) the Acquisition Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(ii) any one Director be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Acquisition Agreement and the transactions contemplated thereunder."

(b) to consider and approve the resolution in relation to the Supplemental Agreement, further details of which are set out in the Circular:

"**THAT**

(i) the Supplemental Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(ii) any one Director be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Supplemental Agreement and the transactions contemplated thereunder."

(c) to consider and approve the resolution in relation to the Compensation Agreement, further details of which are set out in the Circular:

"**THAT**

(i) the Compensation Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(ii) any one Director be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Compensation Agreement and the transactions contemplated thereunder."

(d) to consider and approve the resolution in relation to the CS Subscription Agreement, further details of which are set out in the Circular:

"**THAT**

(i) the CS Subscription Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(ii) any one Director be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the CS Subscription Agreement and the transactions contemplated thereunder."

3. To consider and approve the resolution in relation to the Special Deal, further details of which are set out in the Circular:

"**THAT**

(a) subject to the consent of the Executive pursuant to Rule 25 of the Takeovers Code and the satisfaction of any condition(s) attached thereon imposed by the Executive, all transactions contemplated under the Proposed Non-public Issuance of A Shares which constitute a special deal under Rule 25 of the Takeovers Code be and are hereby approved, confirmed and ratified; and

(b) any one Director be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Special Deal."

4. To consider and approve the resolution in relation the authorization to the Board and its authorized persons to handle all matters in connection with the Restructuring.

By order of the Board
COSCO SHIPPING Development Co., Ltd.
Cai Lei
Joint Company Secretary

Shanghai, the People's Republic of China
24 May 2021

Notes:

1. For the purpose of holding the H Shares Class Meeting, the register of H Shares members of the Company (the "**Register of Members**") will be closed from 7 June 2021 to 10 June 2021 (both days inclusive), during which period no transfer of H Shares of the Company will be registered. Holders of the Company's H Shares (the "**H Shareholders**") whose names appear on the Register of Members at the close of business on 4 June 2021 are entitled to attend and vote at the H Shares Class Meeting.

2. In order to attend and vote at the H Shares Class Meeting, the H Shareholders shall lodge all transfer documents together with the relevant share certificates to Computershare Hong Kong Investor Services Limited ("**Computershare**"), the Company's H Share registrar, not later than 4:30 p.m. on 4 June 2021.

   The address of Computershare is as follows:
   Shops 1712-1716, 17th Floor
   Hopewell Centre
   183 Queen's Road East
   Wanchai, Hong Kong

3. Each H Shareholder who has the right to attend and vote at the H Shares Class Meeting is entitled to appoint in writing one or more proxies, whether a Shareholder or not, to attend and vote on his/her behalf at the H Shares Class Meeting.

4. The form of proxy must be signed by the Shareholder or his/her attorney duly authorised in writing or, in the case of a legal person, must either be executed under its common seal or under the hand of a legal representative or other attorney duly authorised to sign the same. If the form of proxy is signed by an attorney of the appointer, the power of attorney authorising that attorney to sign, or other document of authorisation, must be notarially certified.

5. To be valid, for H Shareholders, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or other authority, must be delivered to Computershare at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the H Shares Class Meeting or any adjournment thereof in order for such documents to be valid.

6. If a proxy attends the H Shares Class Meeting on behalf of a Shareholder, he/she should produce his/her identity card and the form of proxy signed by the Shareholder or his/her legal representative or his/her duly authorised attorney, and specify the date of its issuance. If a legal person Shareholder appoints its corporate representative to attend the H Shares Class Meeting, such representative should produce his/her identity card and the notarised copy of the resolution passed by the board of directors or other authorities, or other notarised copy of the licence issued by such legal person Shareholder. The form of proxy duly signed and submitted by

HKSCC Nominees Limited are deemed to be valid, and it is not necessary for the proxy(ies) appointed by HKSCC Nominees Limited to produce the signed form of proxy when the proxy(ies) attend(s) the H Shares Class Meeting. Completion and return of the form of proxy will not preclude a Shareholder from attending in person and voting at the H Shares Class Meeting or any adjournment thereof should he/she so wish.

7. Pursuant to the Hong Kong Listing Rules, any vote of Shareholders at a general meeting must be taken by way of poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, the resolutions set out in the notice of the H Shares Class Meeting will be voted on by poll. Results of the poll voting will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk after the H Shares Class Meeting.

8. Where there are joint registered holders of any share of the Company, only the person whose name stands first on the Register of Members in respect of such share may vote at the H Shares Class Meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto.

9. The H Shares Class Meeting is estimated to last for half a day. Shareholders who attend the H Shares Class Meeting in person or by proxy shall bear their own transportation and accommodation expenses.

The Board as at the date of this notice comprises Mr. Wang Daxiong, Mr. Liu Chong and Mr. Xu Hui, being executive Directors, Mr. Huang Jian, Mr. Liang Yanfeng and Mr. Ip Sing Chi, being non-executive Directors, and Mr. Cai Hongping, Ms. Hai Chi Yuet, Mr. Graeme Jack, Mr. Lu Jianzhong and Ms. Zhang Weihua, being independent non-executive Directors.

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