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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, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Sinotrans Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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中國外運股份有限公司 SINOTRANS LIMITED

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

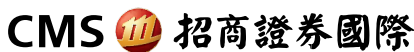
(Stock Code: 0598)

MAJOR AND CONNECTED TRANSACTION

Transaction Adviser and Chief Coordinator



Financial Advisers



Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders



A letter from the Board is set out on pages 4 to 15 of this circular. A letter from the Independent Board Committee is set out on pages 16 to 17 of this circular. A letter from The Independent Financial Advisor containing its advice to the Independent Board Committee and the Independent Shareholders is set out on 18 to 39 of this circular.

A notice convening the EGM to be held at 1st Meeting Room, 11th Floor, Building 10/Sinotrans Tower B, No.5 Anding Road, Chaoyang District, Beijing 100029, the People's Republic of China on 16 October 2017 at 9:30 a.m. and a form of proxy for use at the EGM are available on the website of Sinotrans Limited and the website of The Stock Exchange of Hong Kong Limited.

A notice convening the H Shares Class Meeting to be held at 1st Meeting Room, 11th Floor, Building 10/Sinotrans Tower B, No.5 Anding Road, Chaoyang District, Beijing 100029, the People's Republic of China on 16 October 2017 at 10:00 a.m. and a form of proxy for use at the H Shares Class Meeting are available on the website of Sinotrans Limited and the website of The Stock Exchange of Hong Kong Limited.

Shareholder who intend to attend the EGM or the H Shares Class Meeting shall complete and return the reply slip in accordance with the instruction printed thereon before 26 September 2017. If you do not intend to attend the EGM or the H Shares Class Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to Hong Kong registered office of the Company at Units F&G, 20/F., MG Tower, 133 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong or Computershare Hong Kong Investor Services Limited, the Company's Share Registrar in Hong Kong, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event no later than twenty-four (24) hours before the time appointed for holding the EGM or the H Shares Class Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or the H Shares Class Meeting or any adjournment of it, if you so wish.

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DEFINITIONS

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

“Acquisition”	acquisition of the Target Shares as contemplated under the Acquisition Agreement
“Acquisition Agreement”	an acquisition agreement dated 22 August 2017 entered into between the Company and China Merchants in relation to the acquisition of the Target Shares
“associates”	the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors of the Company
“Business Day”	any day (other than a Saturday, Sunday and a public holiday) on which commercial banks in Hong Kong and the PRC (as the case may be) are open for business in general
“China Merchants”	招商局集團有限公司 (China Merchants Group Limited*), a state wholly-owned enterprise established under the laws of the PRC under direct control of the SASAC
“China Merchants Group”	China Merchants and its subsidiaries
“Company”	中國外運股份有限公司 (Sinotrans Limited), a joint stock limited company incorporated in the People’s Republic of China with limited liability, whose H shares are listed on the Stock Exchange
“Completion”	the completion of the registration of the transfer of the Target Shares pursuant to the terms and conditions of the Acquisition Agreement
“Consideration Shares”	an aggregate of up to 1,442,683,444 new Domestic Shares to be allotted and issued by the Company in settlement of the consideration under the Acquisition Agreement
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	domestic invested share(s) of RMB1.00 each in the share capital of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among other things, the transactions contemplated under the Acquisition Agreement and the issuance of the Consideration Shares

DEFINITIONS

“Enlarged Group”	the Group as enlarged pursuant to the Acquisition Agreement immediately after Completion
“Issue Price”	HK\$4.43 per Domestic Share, subject to adjustment as described in the section head “Consideration Shares” in the Letter from the Board
“Group”	the Company, its subsidiaries and its jointly controlled entities
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of the PRC
“H Share(s)”	overseas listed foreign invested share(s) of RMB1.00 each in the share capital of the Company
“H Shares Class Meeting”	the general meeting of holders of H Shares to be convened for the purpose of considering, and if thought fit, approving, among other things, the transactions contemplated under the Acquisition Agreement and the issue of the Consideration Shares
“Independent Board Committee”	the independent board committee constituted by Guo Minjie, Lu Zhengfei, Han Xiaojing and Liu Junhai all being independent non-executive Directors
“Independent Financial Adviser”	Octal Capital Limited, a licensed corporation which is licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Shareholders”	Shareholders other than China Merchants and its associates
“Last Trading Day”	21 August 2017, being the last full trading day on which the H Shares were traded on the Stock Exchange prior to the date of the Acquisition Agreement
“Latest Practicable Date”	4 September 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan)

DEFINITIONS

“PRC GAAP”	the Enterprise Accounting System (企業會計制度) and Enterprise Accounting Principles (企業會計準則) promulgated by the Ministry of Finance of the PRC, as amended from time to time
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	H Share(s) and Domestic Share(s)
“Shareholder(s)”	holder(s) of the Shares
“SINOTRANS & CSC”	Sinotrans & CSC Holdings Co., Ltd., the controlling shareholder of the Company which holds approximately 55.76% of the issued Share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	招商局物流集團有限公司 (China Merchants Logistics Holdings Company Limited*), a company incorporated in the PRC and a wholly-owned subsidiary of China Merchants as at the date of this circular
“Target Group”	Target Company and its subsidiaries from time to time
“Target Shares”	the entire issued share capital of the Target Company held by China Merchants

* For the purpose of identification only

LETTER FROM THE BOARD



中國外運股份有限公司 SINOTRANS LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 0598)

Chairman:

Zhao Huxiang

Executive Directors:

Song Dexing

Li Guanpeng

Wang Lin

Yu Jianmin

Wu Xueming

Non-executive Directors:

Jerry Hsu

Independent non-executive Directors:

Guo Minjie

Lu Zhengfei

Han Xiaojing

Liu Junhai

Registered Office:

Sinotrans Plaza A

A43, Xizhimen Beidajie

Haidian District

Beijing, 100082

People's Republic of China

Headquarters:

Building 10/ Sinotrans Tower B,

No.5 Anding Road

Chaoyang District

Beijing, 100029

People's Republic of China

Principal Place of Business

in Hong Kong:

Units F & G, 20/F., MG Tower,

133 Hoi Bun Road,

Kwun Tong, Kowloon,

Hong Kong

6 September 2017

To the Shareholders

Dear Sir and Madam,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

On 22 August 2017, the Company entered into the Acquisition Agreement with China Merchants under which the Company conditionally agreed to acquire the Target Shares from China Merchants at an aggregate consideration of RMB5,450,000,000 (equivalent to approximately HK\$6,391,087,658), which is to be satisfied by the issuance and allotment of up to 1,442,683,444 Consideration Shares at the initial Issue Price of HK\$4.43 per Domestic Share.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) details of the transactions contemplated under the Acquisition Agreement; (ii) the financial information of the Target Group; (iii) the financial information of the Group; (iv) the unaudited pro forma financial information of the Enlarged Group; and (v) other information as required under the Listing Rules.

ACQUISITION AGREEMENT

Date

22 August 2017

Parties to the Acquisition Agreement

1. The Company as purchaser.
2. China Merchants as vendor.

Assets to be Acquired

The Target Shares are the 100% equity interests held by China Merchants in the Target Company.

Consideration

The aggregate consideration for the Target Shares is RMB5,450,000,000 (equivalent to approximately HK\$6,391,087,658).

The consideration is to be satisfied by the issuance and allotment of not exceeding 1,442,683,444 Consideration Shares by the Company at the initial Issue Price of HK\$4.43 (equivalent to approximately RMB3.78) per Domestic Share (subject to adjustment). In addition, pursuant to the Acquisition Agreement, the initial Issue Price will be adjusted upwards if the highest of the volume-weighted average price per H Share for the 10, 20 and 60 consecutive trading days before (and excluding) the date of the EGM exceeds the initial Issue Price of HK\$4.43, provided that such upward adjustment will not exceed 10% of the initial Issue Price. If the Issue Price is adjusted upwards, the total number of Consideration Shares will be reduced. In view of the fact that the initial Issue Price (as disclosed under the paragraph headed "Consideration Shares") approximates the market price of the Shares and the Acquisition Agreement provides for upward adjustments to reflect increases in market price per Share (albeit subject to a 10% cap) such that the dilutive effect of the issue of the Consideration Shares is thereby minimised, the Directors consider the Issue Price to be in the interest of the Company and the Independent Shareholders as a whole.

The Board, having taken into account (i) the fact that the initial consideration represents approximately 85.9% of the Group's cash and cash equivalent of RMB6,347 million as at 30 June 2017; (ii) the working capital requirements of the Group to maintain and continue to develop its sizeable operations and its current debt repayment obligations and available cash and cash equivalents within the PRC; (iii) raising funds by the issue of debt securities would substantially increase the gearing ratio of the Group and require repayment while the issue of equity securities (for both holders of Domestic Shares and H Shares) could result in dilution of value and will entail lengthier regulatory approvals and related costs and

LETTER FROM THE BOARD

expenses and execution uncertainty; and (iv) the issue of the Consideration Shares, being Domestic Shares, is not dilutive of the voting rights attached to H Shares as a class and the Issue Price is, as mentioned above, favourable to shareholders of the Company, considered that settlement of the consideration by the issue of the Consideration Shares would minimise the impact of the acquisition of the Target Company on the liquidity position of the Group and is in the interests of the Company and the Independent Shareholders as a whole.

The parties have agreed, subject to Completion taking place, in principle, profits/losses of members of the Target Group that had consistently reported profits during the three years ended 31 December 2016 for the transition period from 1 January 2017 to Completion will belong to the purchaser, and the profit/losses of the other members of the Target Group during such transition period will be borne by the vendor.

The consideration for the Target Shares was arrived at after arm's length negotiations. The Board has not commissioned a valuation of the Target Shares by an independent professional valuer, given that the executive Directors of the Company (each having over 30 years of experience in the logistics industry) and the senior management of the Group have accumulated a deep understanding and experience of the logistics industry (in which the Group has been operating since before the Company's listing in Hong Kong and in which the Target Group also operates) that enables the Board to make an informed assessment of the intrinsic value and potential of logistics operations after taking into account valuations of comparable logistics companies listed in Hong Kong and China (as mentioned below).

In agreeing the consideration, the Board has taken into account the following factors:—

- (1) the Target Group has shown improvement in its financial performance (in particular, the growth in cash inflow, revenue and net profits as discussed in greater detail in Appendix IV of this circular) over the three years ended 31 December 2016 and for the six months ended 30 June 2017 in the challenging operating environment that the Company has noted in its various annual reports;
- (2) as at the Last Trading Day, the average level of trading premium of the comparable logistics companies listed in Hong Kong and China is 1.9 times, while the consideration represents 1.7 times consolidated net asset value of the Target Group attributable to the owner of the Target Company as of 31 December 2016;
- (3) the consideration represents 8.8 times of net profit attributable to owner of the Target Company as of 31 December 2016, and the Board notes that it is below the lower range of the trading price of the companies listed in Hong Kong and China compared with the net profit attributable to owners of those companies for the year ended 31 December 2016 of 10.2 times as at the Last Trading Day;
- (4) the industry outlook of global freight-forwarding and contract logistics industry and business prospect of the Target Group;

LETTER FROM THE BOARD

- (5) the benefits that the integration of the Target Group can bring to the Group's core logistics operations, in terms of expansion of the Group's logistic network and resources coverage in China and overseas and opportunities to tap into new markets or expand existing client base as explained in "Reasons for and Benefits of the Acquisition and Possible Future Resource Consolidation" as the Group continues to pursue its positioning as "integrator of logistics services" and its stated strategy of "production service, network operation, platform management, internationalization and capitalisation" in logistics services and expanding "One Belt One Road" related services; and
- (6) the consideration being settled by the issue of Consideration Shares at approximately the current trading price of the H Shares as explained above and the Acquisition will not involve any material cash outlay by the Group.

Conditions Precedent

Completion of the transfer of all the Target Shares are conditional upon:

- (1) the Acquisition Agreement having been approved by the Independent Shareholders at the Company's general meetings in accordance with the Listing Rules; and
- (2) the transactions contemplated under the Acquisition Agreement having been approved by SASAC.

If the conditions precedent have not been achieved and fulfilled in full by 31 December 2017, the Company or China Merchants may terminate the Acquisition Agreement.

Completion

Subject to the fulfillment of the conditions precedent under the Acquisition Agreement, Completion will take place within 20 Business Days after the fulfillment of all the conditions precedent under the Acquisition Agreement, or such other date as may be agreed between the parties to the Acquisition Agreement. The Consideration Shares are to be registered in the name of China Merchants within 30 Business Days after Completion, or such other date that as may be agreed between the parties to the Acquisition Agreement.

LETTER FROM THE BOARD

Termination

The Acquisition Agreement may be terminated under the following circumstances:-

- (i) by the parties agreeing in writing to the termination of the Acquisition Agreement;
- (ii) by either party, if the conditions precedent are not fulfilled as described under “Conditions Precedents” above;
- (iii) by China Merchants, if the Consideration Shares are not issued and registered in the name of China Merchants by the time stipulated in the Acquisition Agreement and this is not remedied within 30 days of China Merchants giving notice requiring the Company to do so;
- (iv) by either party, following the occurrence of force majeure events or other developments beyond the control of the parties to the Acquisition Agreement which presents a material obstacle to the implementation of the transfer under the Acquisition Agreement;
- (v) by either party, if any non-appealable governmental order, determination or other actions is made or taken to permanently restrict or prohibit transfer of the equity interests contemplated under the Acquisition Agreement; or
- (vi) by the non-defaulting party if there is a material breach by any party which is not remedied within 30 days of receipt of notice from the non-defaulting party requiring the remedy of such default.

Consideration Shares

As at the Latest Practicable Date, the Company had in issue 2,461,596,200 Domestic Shares and 2,144,887,000 H Shares. Up to 1,442,683,444 Consideration Shares, all being new Domestic Shares, will be issued by the Company pursuant to the Acquisition Agreement. Assuming there is no change in the issued share capital of the Company from the Latest Practicable Date and up to the date of the issuance of the Consideration Shares, the maximum number of Consideration Shares represents:

- (a) approximately 58.61% and 31.32% of the total Domestic Shares in issue and the total Shares in issue, respectively, as at the Latest Practicable Date; and
- (b) approximately 36.95% and 23.85% of the total Domestic Shares in issue and the total Shares in issue, as enlarged by the allotment and issuance of the Consideration Shares.

The issuance of the Consideration Shares is subject to Shareholders’ approval by special resolution at the EGM and the H Shares Class Meeting conducted in accordance with the Articles of Association of the Company and the Listing Rules. The Consideration Shares, when allotted and issued, will rank *pari passu* in all respects among themselves, and with the Domestic Shares then in issue on the day of the issuance of the Consideration Shares, and be entitled to all dividends and other rights attached to the Domestic Shares from the date of allotment.

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The initial Issue Price of the Consideration Shares at HK\$4.43 (equivalent to approximately RMB3.78) per Domestic Share was determined on 22 August 2017 based on arm's length negotiations between the Company and China Merchants with reference to the highest of (i) the volume-weighted average price per H Share for the 10, 20 and 60 consecutive trading days before 22 August 2017, being the date on which the Board approved the Acquisition Agreement and (ii) the net asset value per Share attributable to the owners of the Company based on the net asset value of the Company as at 31 December 2016. The initial Issue Price represents:

- (a) a premium of approximately 1.14% to the closing price of the H Shares of HK\$4.38 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 0.45% to the average of the closing price of the H Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of approximately HK\$4.41 per H Share;
- (c) a premium of approximately 5.23% to the average of the closing price of the H Shares as quoted on the Stock Exchange for the 20 consecutive trading days up to and including the Last Trading Day of approximately HK\$4.21 per H Share;
- (d) a premium of approximately 10.75% to the average of the closing price of the H Shares as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Day of approximately HK\$4.00 per H Share;
- (e) a premium of approximately 8.31% to the net asset value per Share based on the audited net asset value of the Company as at 31 December 2016.

Lock-up

China Merchants has undertaken under the Acquisition Agreement not to transfer the Consideration Shares within 36 months after the registration of the Consideration Shares in the name of China Merchants.

LETTER FROM THE BOARD

EFFECT OF THE ACQUISITION AGREEMENT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The issue of the Consideration Shares will not result in a change of control of the Company. Assuming there is no change in the issued share capital and shareholding structure of the Company from the Latest Practicable Date and up to the date of the issuance of the Consideration Shares, the shareholding structure of the Company (a) as at the Latest Practicable Date; and (b) immediately after issuance of the Consideration Shares at the initial Issue Price of HK\$4.43 (equivalent to approximately RMB3.78) will be as follows:

	As at the Latest Practicable Date			Immediately after the issuance of the maximum number of Consideration Shares		
	No. of Domestic Shares (% of total Domestic Shares)	No. of H Shares (approximate % of total H Shares)	Approximate % of total issued Shares	No. of Domestic Shares (approximate % of total Domestic Shares)	No. of H Shares (approximate % of total H Shares)	Approximate % of total issued Shares
Substantial Shareholders						
Sinotrans & CSC (<i>Note 1</i>)	2,461,596,200 (100%)	107,183,000 (4.997%)	55.76%	2,461,596,200 (63.05%)	107,183,000 (4.997%)	42.47%
China Merchants (<i>Note 2</i>)	-	-	-	1,442,683,444 (36.95%)	-	23.85%
Public Shareholders						
Public Shareholders	-	2,037,704,000 (95.003%)	44.24%	-	2,037,704,000 (95.003%)	33.68%
Total	2,461,596,200 (100%)	2,144,887,000 (100%)	100.00%	3,904,279,644 (100%)	2,144,887,000 (100%)	100.00%

Notes:-

1. Sinotrans & CSC held the H Shares through its wholly-owned subsidiaries.
2. Excluding interest held through Sinotrans & CSC

INFORMATION ON THE GROUP AND CHINA MERCHANTS GROUP

The Group is a leading integrated logistics services provider in the PRC whose principal businesses include freight forwarding, logistics, storage and terminal services, and other services mainly include trucking, shipping and express services.

LETTER FROM THE BOARD

China Merchants Group is a large PRC state-owned conglomerate. Its principal businesses focus on three main areas, transportation (ports and related services, toll roads, shipping, logistics, offshore engineering and trade), finance (banking, securities, funds, insurance) and property development.

INFORMATION ON THE TARGET COMPANY AND THE TARGET GROUP

The Target Company is a company incorporated in the PRC in 2000 with headquarters located in Shenzhen having, as at the Latest Practicable Date, fully paid registered capital of RMB1,444,000,000. The Target Group is a third-party logistics services provider. Its service offerings include contract logistics, trucking, cold chain logistics, international supply chain logistics, and equipment leasing. The major operating assets of the Target Group include, amongst other things, its logistics warehousing facilities, trucking fleet and other property, plant and equipment. The Target Group also rents or leases some of these assets in the ordinary course of its operations.

The Target Group has established a comprehensive service networks that spread over 150 cities across China through more than 800 logistic operating nodes, alongside a managed warehouse space (including cold storage facilities) of roughly 3.26 million square meters and managed in excess of 37,500 controllable vehicles (including a fleet of refrigerator trucks). The Target Group has also established business operations in Australia, Thailand, Indonesia, Malaysia, Vietnam, Burma, Hong Kong, New Zealand, Philippines and Singapore. In addition, as a milestone in the Target Group's efforts to establish its logistics network in the "One Belt One Road" countries the Target Group had also invested in a logistic park in Belarus to serve as a key logistic node for further expansion into the West Asia and Europe.

Financial information of the Target Group

As at the Latest Practicable Date, the total investment costs of China Merchants attributable to the Target Shares were RMB1,444,000,000. As at 30 June 2017, the net assets value of the Target Group was RMB4,222,675,000 and approximately 13.5%, 0.7% and 11.5% of the consolidated total assets of the Target Group was attributable to its buildings, trucking fleet and machinery, fixtures and furniture and equipment.

Set out below is the summary of the key financial information extracted from the Accountants' Report on the historical financial information of the Target Company for the three years ended 31 December 2016 and for the six months ended 30 June 2017 as set out in Appendix II to this circular:

	For the year ended 31 December 2014 RMB'000 (Audited)	For the year ended 31 December 2015 RMB'000 (Audited)	For the year ended 31 December 2016 RMB'000 (Audited)	For the six months ended 30 June 2017 RMB'000 (Audited)
Revenue	8,038,498	9,463,973	13,123,809	7,142,690
Profit/(loss) before taxation	300,359	220,724	972,414	390,234
Profit/(loss) after taxation	171,208	169,552	708,989	266,155

LETTER FROM THE BOARD

Note:

Three subsidiaries of the Target Company were acquired from China Merchants Group during the year ended 31 December 2015 which were accounted for as business combination under common control. The total acquisition costs of China Merchants Group in respect of those three subsidiaries were approximately HK\$3,767,783,000. Eight subsidiaries of the Target Company were acquired from Sinotrans & CSC during the year ended 31 December 2016. The total investment costs of Sinotrans & CSC in respect of those eight subsidiaries were approximately RMB1,694,561,000. Certain subsidiaries had been disposed of by the Target Group during the two years ended 31 December 2015 and 2016. Further details of these acquisitions and disposal are set out in notes 36, 37 and 46 of the Accountants Report set out in Appendix II to this circular.

FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the consolidated profit or loss and assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Company. The pro forma financial information of the Enlarged Group is set out in Appendix III to this circular.

Assets and liabilities

Based on the pro forma financial information of the Enlarged Group set out in Appendix III to this circular, the pro forma consolidated total assets of the Group as at 30 June 2017 would increase from approximately RMB39,551.5 million to approximately RMB61,545.8 million and the pro forma consolidated total liabilities of the Group as at 30 June 2017 would increase from approximately RMB19,214.3 million to approximately RMB37,015.9 million as a result of the Acquisition.

Earnings

According to the Accountants' Report of the Target Group set out in Appendix II to this circular, the audited revenue and the net profit after taxation of the Target Group for the year ended 31 December 2016 were approximately RMB13,123.8 million and approximately RMB709 million, respectively. The Acquisition is expected to contribute towards broadening the revenue and earnings base for the Enlarged Group in the future.

REASONS FOR AND BENEFITS OF THE ACQUISITION AND POSSIBLE FUTURE RESOURCES CONSOLIDATION

It is expected that the transactions contemplated under the Acquisition Agreement can help reduce actual and potential competition between the Group and its controlling shareholder, given the freight forwarding and contract logistics services offered by the Target Group represent direct competition of the Group's services in terms of service scope and geographical coverage. In addition, we believe the transactions can bring the following benefits to the Group:

- (1) to enable the Company to further solidify its position as the largest logistic company in China by consolidating its already extensive logistic network and resources with that of the Target Group, to form a gigantic logistic network that are the most capable of providing integrated full-cycled logistics services to the Group's clients both onshore and offshore, with the addition, for example, of the LTL (Less-Than-Truckload) trucking logistics and cold chain logistics operations of the Target Group;

LETTER FROM THE BOARD

- (2) to provide the Group with the opportunity to tap into new markets, or expand its existing client base (for example, the Target Group's specialisation in the contract logistics for fast moving consumer goods industry gives it a client base that is mostly distinguished from the Group's client base in that space) and to achieve potential synergies through effective integration of logistics resources and enhanced business collaboration; and
- (3) to allow the Group to take advantage of the efforts of the Target Group in the area of South Asia region and Europe, such as its established logistics park in Belarus to extend the Enlarged Group's reach overseas, riding on the national development strategy of "One Belt One Road" and the "Going-Global" policies.

Having taken into account these factors and also those set out in the section headed "Acquisition Agreement – Consideration", the Directors (including the independent non-executive Directors whose views are set out in the Letter from the Independent Board Committee on pages 16 to 17 of this circular) are of the view that the terms of the Acquisition Agreement are fair and reasonable and are on normal commercial terms, and that the transaction contemplated under the Acquisition Agreement is in the interest of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As SINOTRANS & CSC is a controlling Shareholder holding approximately 55.76% of the issued Shares and Sinotrans & CSC is a wholly-owned subsidiary of China Merchants, China Merchants is a connected person of the Company and the transactions contemplated under the Acquisition Agreement constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

As the results of at least one of the applicable percentage ratios (as defined under the Listing Rules) is more than 25% but less than 100%, the transactions contemplated under the Acquisition Agreement also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. The Acquisition Agreement is subject to Independent Shareholders' approval by way of poll on which China Merchants and its associates (including SINOTRANS & CSC) will abstain from voting.

None of the Directors had any material interest in the transactions contemplated under the Acquisition Agreement, therefore they are not required under the Listing Rules to abstain from voting on the Board resolutions approving the Acquisition Agreement. Nonetheless, as Zhao Huxiang and Song Dexing are concurrently holding positions in China Merchants, they have abstained from voting at the board meeting of the Company in respect of the proposed resolution(s) to approve the Acquisition Agreement in accordance with the relevant PRC laws and regulations.

Octal Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Acquisition Agreement.

EGM

The H Shares share register of the Company will be closed from 16 September 2017 to 16 October 2017 (both days inclusive), during which no transfer of H Shares will be effected.

LETTER FROM THE BOARD

Any holders of H Shares, whose names appear on the Company's Register of Members on 15 September 2017, are entitled to attend and vote at the EGM of the Company after completing the registration procedures for attending the meeting. In order to be entitled to attend and vote at the EGM, persons holding H Shares shall lodge share transfer documents and the relevant share certificates with the H Shares share registrar no later than 4:30 p.m. on 26 September 2017.

The EGM will be convened and held at 9:30 a.m. on 16 October 2017 at the 1st Meeting Room, 11th Floor, Building 10/Sinotrans Tower B, No.5 Anding Road, Chaoyang District, Beijing 100029, the PRC to consider and, if thought fit, approve the transactions contemplated under the Acquisition Agreement (including the issue of the Consideration Shares).

The notice convening the EGM to approve the transactions contemplated under the Acquisition Agreement (including the issue of the Consideration Shares) has been despatched to Shareholders on 24 August 2017. As China Merchants is a party to the Acquisition Agreement, China Merchants, together with its associates (including SINOTRANS & CSC), are required under the Listing Rules to abstain from voting at the EGM and the H Shares Class Meeting on the resolutions to be proposed to approve the transaction contemplated under the Acquisition Agreement. As at the Latest Practicable Date, SINOTRANS & CSC and its associates is interested in 2,461,596,200 Domestic Shares and 107,183,000 H Shares, representing a total of approximately 55.76% of the total issued Shares.

H SHARES CLASS MEETING

The H Shares Class Meeting will be convened at 10:00 a.m. on 16 October 2017 at the 1st Meeting Room, 11th Floor, Building 10/Sinotrans Tower B, No.5 Anding Road, Chaoyang District, Beijing 100029, the PRC. Notice of the H Shares Class Meeting, together with the reply slip and proxy form, have been despatched to Shareholders on 24 August 2017. Holders of the H Shares who intend to attend the H Shares Class Meeting are requested to deliver the reply before 26 September 2017. The proxy form should be completed and, together with the notarially certified power of attorney or other documents of authorization, returned to the relevant addresses listed on the proxy form in accordance with the instructions printed thereon. Completion and return of the proxy form will not preclude you from attending and voting in person at the H Shares Class Meeting should you so wish.

DIRECTORS' RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on page 16 to 17 of this circular which contains its recommendation to the Independent Shareholders in respect of the resolution set out in the notice of EGM and the H Shares Class Meeting to approve the transactions contemplated under the Acquisition Agreement (including the issue of the Consideration Shares), a copy of which is published on the website of the Stock Exchange and despatched to the Shareholders on 24 August 2017.

The advice of the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Acquisition Agreement are on normal commercial terms and fair and reasonable and whether the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole is set out on pages 18 to 39 of this circular.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) consider the transactions contemplated under the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the resolution to be proposed as set out in the notices of the EGM and H Shares Class Meeting.

GENERAL INFORMATION

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

Yours faithfully,
By order of the Board of
Sinotrans Limited
Li Shichu
Joint Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee, which has been prepared for the purpose of incorporation into this circular, setting out its recommendation to the Independent Shareholders in respect of the transactions contemplated under the Acquisition Agreement including the issue of the Consideration Shares.



中國外運股份有限公司 SINOTRANS LIMITED

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

(Stock Code: 0598)

To the Independent Shareholders

6 September 2017

Dear Sir and Madam,

MAJOR AND CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of Sinotrans Limited (the “**Company**”) in respect of the resolution to approve the transactions contemplated under the Acquisition Agreement, including the issue of the Consideration Shares, details of which are set out in the “Letter from the Board” contained in the circular of the Company (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the “Letter from the Board”, the advice of the Independent Financial Advisor in its capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of whether the transactions contemplated under the Acquisition Agreement (including the issue of the Consideration Shares) are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole, as set out in the “Letter from Independent Financial Advisor” as well as other additional information set out in other parts of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Advisor in relation thereto as stated in its letter, we consider the terms of the Acquisition Agreement and transactions contemplated thereunder (including the issue of the Consideration Shares) to be fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM and H Shares Class Meeting in respect of the transactions contemplated under the Acquisition Agreement (including the issue of the Consideration Shares).

Yours faithfully,

The Independent Board Committee

Guo Minjie	Lu Zhengfei	Han Xiaojing	Liu Junhai
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

The following is the full text of the letter from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Acquisition Agreement, prepared for the purpose of incorporation in this circular.



Octal Capital Limited
801-805, 8th Floor, Nan Fung Tower
88 Connaught Road Central
Hong Kong

6 September 2017

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. Details of the Acquisition are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 6 September 2017 (the “**Circular**”), of which this letter forms a part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular.

On 22 August 2017, the Company entered into the Acquisition Agreement with China Merchants under which the Company conditionally agreed to acquire the Target Shares from China Merchants at an aggregate consideration of RMB5,450,000,000 (equivalent to approximately HK\$6,391,087,658) (the “**Consideration**”), which is to be satisfied by the issue and allotment of up to 1,442,683,444 Consideration Shares at the Issue Price of HK\$4.43 per Domestic Share.

As Sinotrans & CSC is a controlling Shareholder holding approximately 55.76% of the issued Share capital of the Company and Sinotrans & CSC is a wholly-owned subsidiary of China Merchants, China Merchants is a connected person of the Company and the transactions contemplated under the Acquisition Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the results of at least one of the applicable percentage ratios (as defined under the Listing Rules) is more than 25% but less than 100%, the transactions contemplated under the Acquisition Agreement also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. The Acquisition Agreement is subject to Independent Shareholders’ approval by way of poll on which China Merchants and its associates (including Sinotrans & CSC) will abstain from voting.

An independent board committee, comprising all the independent non-executive Directors, namely Mr. Guo Minjie, Mr. Lu Zhengfei, Mr. Han Xiaojing and Mr. Liu Junhai, has been established to advise the Independent Shareholders as to whether the terms of the Acquisition Agreement are fair and reasonable and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

the transactions contemplated thereunder are conducted on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole; and to give a recommendation to the Independent Shareholders in respect of the voting on the resolution to be proposed at the EGM and the H Shares Class Meeting.

As at the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or the Target Company or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, there was no previous engagement between us and the Company or the Target Company or any of their respective subsidiaries or associates. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company or the Target Company or any of their respective subsidiaries or associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the management of the Company were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Acquisition Agreement including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the management of the Company respectively in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Target Company and their respective associates, nor have we carried out any independent verification of the information supplied to us.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Acquisition Agreement, we have taken into account of the following principal factors and reasons:

1. Information on the Company

1.1. Background and business of the Company

The Company was incorporated in the PRC with limited liability and the Shares have been listed on the Stock Exchange since 13 February 2003. The Company is principally engaged in the business of freight forwarding, logistics, storage and terminal services, and other services mainly engaged in trucking, shipping and express services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

1.2. Historical financial information of the Company

Set out below is the financial highlight of the Group in accordance with the International Financial Reporting Standards, as extracted from the annual report of the Company for the year ended 31 December 2015 (the “**2015 Annual Report**”), the annual report of the Company for the year ended 31 December 2016 (the “**2016 Annual Report**”) and the interim results announcement of the Company for the six months ended 30 June 2017 (the “**2017 Interim Results**”):

	For the year ended 31 December			For the six months ended	
	2014	2015	2016	30 June	
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	45,659,827	45,528,074	46,784,192	21,677,686	27,615,056
Profit attributable to owners of the Company	1,231,433	1,493,264	1,629,472	967,097	987,608

	As at 31 December			As at
	2014	2015	2016	30 June
	(Audited)	(Audited)	(Audited)	(Unaudited)
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Cash and cash equivalents	5,332,114	6,133,308	7,118,590	6,347,039
Total assets	32,709,339	35,084,861	37,366,945	39,551,542
Total liabilities	16,404,220	16,625,058	17,737,067	19,214,330
Net assets	16,305,119	18,459,803	19,629,878	20,337,212

From the above table, we note that the Group recorded revenue of approximately RMB46,784.2 million for the year ended 31 December 2016 (“**FY2016**”), representing an increase of approximately RMB1,256.1 million or 2.8% as compared to approximately RMB45,528.1 million for the year ended 31 December 2015 (“**FY2015**”). Profit attributable to owners of the Company increased by approximately RMB136.2 million from approximately RMB1,493.3 million in FY2015 to approximately RMB1,629.5 million in FY2016.

During the six months ended 30 June 2017, the Group recorded revenue of approximately RMB27,615.1 million, representing an increase of approximately RMB5,937.4 million or 27.4% as compared to approximately RMB21,677.7 million for the six months ended 30 June 2016. Profit attributable to owners of the Company increased by approximately RMB20.5 million from approximately RMB96.1 million for the six months ended 30 June 2016 to approximately RMB987.6 million for the six months ended 30 June 2017.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

As at 30 June 2017, total assets of the Group mainly comprised (i) property, plant and equipment of approximately RMB8,302.3 million, which primarily consisted of buildings, plant and machinery; (ii) trade and other receivables of approximately RMB10,240.4 million; and (iii) cash and cash equivalents of approximately RMB6,347.0 million.

2. Information on the Target Company

2.1. Background and business of the Target Company

As set out in the Letter from the Board, the Target Company is a company incorporated in the PRC in 2000 with headquarters located in Shenzhen having, as at the Latest Practicable Date, fully paid registered capital of RMB1,444,000,000. The Target Group is a third-party logistics services provider. Its service offerings include contract logistics, trucking, cold chain logistics, international supply chain logistics, and equipment leasing. The major operating assets of the Target Group include, amongst other things, its logistics warehousing facilities, trucking fleet and other property, plant and equipment. The Target Group also rents or leases some of these assets in the ordinary course of its operations.

The Target Group has established a comprehensive service networks that spread over 150 cities across the PRC through more than 800 logistic operating nodes, alongside a managed warehouse space (including cold storage facilities) of roughly 3.26 million square meters and managed in excess of 37,500 controllable vehicles (including a fleet of refrigerator trucks). The Target Group has also established business operations in Australia, New Zealand, the Philippines, Vietnam, Burma, Thailand, Malaysia, Hong Kong, Singapore and Indonesia. In addition, as a milestone in the Target Group's efforts to establish its logistics network in the "One Belt One Road" countries the Target Group had also invested in a logistic park in Belarus to serve as a key logistic node for further expansion into West Asia and Europe.

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2.2. *Historical financial information of the Target Company*

The financial information of the Target Company has been audited by SHINEWING (HK) CPA Limited in accordance with the International Financial Reporting Standards. Set out below is the financial highlight of the Target Company for the year ended 31 December 2014, 31 December 2015 and 31 December 2016 and for the six months ended 30 June 2017 and the corresponding period in 2016 as extracted from the Appendix II to the Circular:

	For the year ended 31 December			For the six months ended	
	2014	2015	2016	30 June	
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	8,038,498	9,463,973	13,123,809	6,127,561	7,142,690
Profit before tax	300,359	220,724	972,414	347,818	390,234
Profit after tax	171,208	169,552	708,989	262,906	266,155
Profit for the year attributable to the owners of the Target Company	228,658	130,566	620,058	235,911	242,159
					As at
					30 June
	2014	2015	2016	2017	
	(Audited)	(Audited)	(Audited)	(Audited)	
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	
Total assets	13,285,781	14,347,990	20,271,999	22,038,160	
Total liabilities	7,471,955	11,625,583	16,677,373	17,815,485	
Net assets	5,813,826	2,722,407	3,594,626	4,222,675	

As shown in the above financial highlight of the Target Company, the Target Group's revenue increased by approximately 17.7% from approximately RMB8,038.5 million in 2014 to approximately RMB9,464.0 million in 2015, primarily due to its acquisitions of two subsidiaries in China that are engaged in logistics services in 2015. The Target Group's revenue increased by approximately 38.7% from approximately RMB9,464.0 million in 2015 to approximately RMB13,123.8 million in 2016, primarily due to the acquisition of certain entities from Sinotrans & CSC in 2016.

The profit for the year of the Target Group remained relatively stable in 2014 and 2015, but increased significantly by approximately 318.2% from approximately RMB169.6 million in 2015 to approximately RMB709.0 million in 2016, primarily due to (i) the increase in revenue of the Target Group; and (ii) the increase in the gain on disposal of prepaid lease payments resulting from the disposal of a parcel of land in Shenzhen and a parking lot in Hong Kong. The profit for the six months ended 30 June 2016 and 2017 of the Target Group remained stable, which are approximately RMB262.9 million and RMB266.2 million respectively.

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As at 30 June 2017, the total assets of the Target Group was approximately RMB22,038.2 million, in which (i) the non-current assets of the Target Group mainly comprised property, plant and equipment of approximately RMB10,088.0 million, principally consisted of buildings, machinery and fixtures and construction in progress; and (ii) the current assets of the Target Group mainly comprised trade and other receivables of approximately RMB3,896.1 million, and cash and cash equivalents of approximately RMB2,166.6 million.

The total liabilities of the Target Group as at 30 June 2017 was approximately RMB17,815.5 million, in which (i) the non-current liabilities mainly represented bank and other borrowings of approximately RMB4,839.9 million; and (ii) the current liabilities mainly represented other payables and accruals of approximately RMB6,981.6 million which primarily consist of amounts due to fellow subsidiaries and the ultimate holding company of approximately RMB5,955.2 million.

3. Reasons for and benefits of entering into of the Acquisition Agreement

As set out in the Letter from the Board, the transactions contemplated under the Acquisition Agreement can help reduce actual and potential competition between the Group and its controlling shareholder, given the freight forwarding and contract logistics services offered by the Target Group represent direct competition of the Group's services in terms of service scope and geographical coverage. The Directors also believe that the Acquisition can (i) enable the Company to further solidify its position as the largest logistic company in China by consolidating its already extensive logistic network and resources with that of the Target Group, to form a gigantic logistic network that are the most capable of providing integrated full-cycled logistics services to the Group's clients both onshore and offshore, with the addition, for example, of the LTL (Less-Than-Truckload) trucking logistics and cold chain logistics operations of the Target Group; (ii) provide the Group the opportunity to tap into new markets, or expand its existing client base and to achieve potential synergies through effective integration of logistics resources and enhanced business collaboration; and (iii) allow the Group to take advantage of the efforts of the Target Group in the area of South Asia region, such as its established logistics park in Belarus to extend the Enlarged Group's reach overseas, riding on the national development strategy of "One Belt One Road" ("OBOR") and the "Going-Global" policies.

With reference to the 2016 Annual Report, the Group intends to promote the integration of logistics resources and will also develop itself into a China-leading and world-rate comprehensive logistics enterprise. Upon Completion, there will be an operational expansion of the Group's existing logistics business and an entry into certain new logistics businesses including LTL trucking logistics and cold chain logistics. Leveraging the operating assets of the Target Group which are mainly the logistics warehousing facilities, trucking fleet and other property, plant and equipment, together with the existing customer base of the Group and the Target Group, the Acquisition is expected to enable the Group to differentiate itself from other logistics companies by offering one-stop logistics services to customers and achieve synergies from the integration of logistics resources including different parts of operations and facilities to enhance the competitiveness of the Group. As for the building and construction of the Target Company, we understand that the major properties of the Target Company are warehouses with a total area of approximately 1.35 million square meters, mainly locating in Shanghai, Chengdu, Changsha, Shenyang and Tianjin. We believe that the warehouse of the Target Group can accommodate the needs arising from sustainable growth and development of the Group's logistics business.

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We have discussed with the Company and have considered that, the business operation of the Target Group, in particular, (i) its comprehensive service networks spreading over 150 cities across China; (ii) its business operations covering Australia, Thailand, Indonesia, Malaysia, Vietnam, Burma, Hong Kong, New Zealand, Philippines and Singapore; and (iii) its logistics network in the OBOR countries and investment in the logistics park in Belarus, and concur with the Directors that the Acquisition will enable the Group to extend its business presence in the logistics industry in China, Southeast Asia and Australia, reduce potential competition between the Group and its controlling shareholder in respect of the logistics services offered within the same geographical regions and strengthen the Group's asset base which will in turn broaden the source of income of the Group. Considering that the Group's existing business operation and service network are mainly located in China, we concur with the Directors that the extensive logistics network and resources of the Target Group can enable the Group to further expand its logistics network and resources coverage in China and overseas and provide opportunities to the Group to tap into new markets while expanding its existing client base, and which in turn enables the Group to solidify its position as the largest logistics company in China.

In addition, we have reviewed the expansion plan of the Enlarged Group after the Completion, which aims to enable the Enlarged Group to enhance its capacity of the logistics services, develop a comprehensive supply chain logistics system and become a leading one-stop logistics services provider in the world. The expansion plan mainly covers (i) collaboration with e-commerce service provider in the development of internet platform of the Enlarged Group; (ii) merger and acquisition opportunities of logistics companies; (iii) integration of LTL trucking logistics platform of the Target Group with the use of the extensive land transportation systems including roads, bridges and tunnels under the China Merchants Group; and (iv) development of contract logistics with the collaboration of the existing ports under the China Merchants Group. Having considered that (i) the cross-platform application may enhance the user experience of customers; (ii) future merger and acquisition opportunities may enhance the competitive edge of the Enlarged Group; and (iii) the use of the extensive transportation network of the China Merchants Group may enhance the operation efficiencies of the Enlarged Group, we are of the view that the abovementioned expansion plan is in line with the Group's business strategy and in the interest of the Company and the Shareholders as a whole.

Moreover, the Group plans to deepen the logistics resources integration with China Merchants and with Sinotrans & CSC to improve the economy of scale according to the 2016 Annual Report. The integration of the business units between the Group and the Target Group is expected to bring cost savings to the Enlarged Group through combination of global expertise and local intelligence, sharing of financial resources and optimization of central support services. Having considered that the Group's operation has overlapping geographical locations with those of the Target Group, we consider that the Enlarged Group can leverage on the Target Group's logistics platform to achieve synergies and improve cost efficiencies by consolidating operations in overlapping regions.

The OBOR initiative, which was first proposed in 2013, aims to enhance connectivity between East and West of the World. The OBOR consists of the Silk Road Economic Belt and the 21st Century Maritime Silk Road. According to the National Bureau of Statistics of the PRC, the total amount of investment in infrastructure projects related to OBOR contributed by its member countries was approximately RMB45.8 billion in 2016. According to the official website of the Ministry of Transport of the PRC, the International Seminar on One Belt One Road Construction and Logistics Development (一帶一路建設與物流發展國際研討會) was held in March 2017. A representative from National Development and Reform Commission of the

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PRC said that the PRC government will increase its spending on the investment of logistics infrastructure in the PRC and OBOR countries in view of the implementation of the OBOR plans and policies. Moreover, according to the analysis report of development prospect on China Logistics Industry (2016-2020) by Industry Research Information Bank (產業研究智庫), the “13th Five-year Plan Outline for National Economic and Social Development” (國民經濟和社會發展十三五規劃綱要) (the “**13th Five-year Plan**”) explicitly proposes to develop a modern logistics industry through (i) accelerating the development of socialized, specialized and informational modern logistics service system; (ii) developing third-party logistics, integrating and utilizing current logistics resources; (iii) strengthening the construction of logistics infrastructure to improve logistics efficiency and reduce logistics cost; (iv) improving customs clearance efficiency by simplifying procedures and extending operating hours; (v) optimizing the regional development of the logistics industry, supporting the development of logistics concentrated zones such as logistics parks etc.; and (vi) promoting modern logistics management to enhance the intellectualization and standardization levels of logistics. Therefore, under the OBOR initiative and the 13th Five-year Plan, we consider that the development of the logistics related infrastructure and improved logistics information system will expand the size of the logistics markets and enhance the efficiency of the logistics system. In view of the existing business presence of the Target Group in the PRC and several OBOR countries, it is expected that the Group can capture the growth opportunity in the expanding market and increase its market share in the regions. In addition, as mentioned above, leveraging on extensive business network in West Asia and Europe and operating assets of the Target Group, in particular its established logistics park in Belarus which is one of the key locations along the Silk Road under the OBOR, the Acquisition can enhance the Group’s exposure to the OBOR countries by taking advantage of the efforts of the Target Group in the OBOR countries.

With reference to a report published by World Trade Organization (the “**WTO**”) on 15 May 2017, the WTO suggested that global trade will continue to expand moderately in the second quarter of 2017. The World Trade Outlook Indicator (the “**WTOI**”), which is designed to provide real time information on the trajectory of world trade relative to recent trends, was recoded as 102.2. It is the highest level of the indicator since May 2011. The main components of the WTOI, including export orders, air freight and container shipping, were well above trend and rising in the latest period, but partly offset by decrease in demand for automotive products, electronics and raw materials. The WTO considered that these results are broadly in line with its most recent trade forecast of 12 April 2017, which would foresee a return to moderate trade growth this year after weak expansion last year. In light of the upward trend of the WTOI, it is expected that the demand for logistics services may increase in the coming years which in turn may allow the Group to improve its financial performance in the future.

Taking into account that the Acquisition can result in (i) the integration of logistics business of the Group through the operational expansion into the logistics business area of the Target Company; and (ii) the integration of the business units between the Group and the Target Group which is expected to increase cost efficiency of the Enlarged Group and reduce potential competition between the Group and its controlling shareholder; and further considering (a) the positive effects to the logistics industry under the context of the 13th Five-year Plan; (b) potential business opportunities from the Going Global and the OBOR policies; and (c) the improving sentiment of the global logistics business, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole (including the Independent Shareholders).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

4. The Acquisition Agreement

4.1. *Principal terms and conditions of the Acquisition Agreement*

Principal terms of the Acquisition Agreement are summarized below. Further details of the principal terms of the Acquisition Agreement are set out in the section headed “Acquisition Agreement” in the Letter from the Board of the Circular.

(A) *Consideration*

As stated in the Letter from the Board, the Consideration was arrived on an arm’s length basis with reference to:

- i. the Target Group has shown improvement in its financial performance (in particular, the growth in cash inflow, revenue and, net profits as discussed in greater detail in Appendix IV of the Circular) over the three years ended 31 December 2016 and for the six months ended 30 June 2017 in the challenging operating environment that the Company has noted in its various annual reports;
- ii. as at the Last Trading Day, the average level of trading premium of the comparable logistics companies listed in Hong Kong and China is 1.9 times, while the consideration represents 1.7 times consolidated net asset value of the Target Group attributable to the owner of the Target Company as of 31 December 2016;
- iii. the consideration represents 8.8 times of profit attributable to owner of the Target Company as of 31 December 2016, and the Board notes that it is below the lower range of the trading price of the companies listed in Hong Kong and China compared with the profit attributable to owners of those companies for the year ended 31 December 2016 of 10.2 times as at the Last Trading Day;
- iv. the industry outlook of global freight-forwarding and contract logistics industry and business prospect of the Target Group;
- v. the benefits that the integration of the Target Group can bring to the Group’s core logistics operations, in terms of expansion of the Group’s logistics network and resources coverage in China and overseas and opportunities to take into new markets or expand existing client base as explained in “Reasons for and Benefits of the Acquisition and Possible Future Resource Consolidation” as the Group continues to pursue its positioning as “integrator of logistics services” and its stated strategy of “production service, network operation, platform management, internationalization and capitalisation” in logistics services and expanding “One Belt, One Road” related services; and
- vi. the consideration being settled by the issue of Consideration Shares at approximately the current trading price of the H Shares as explained above and the Acquisition will not involve any material cash outlay by the Group.

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In respect of the above basis of determination of Consideration, set out below are our independent analysis to assess the fairness and reasonableness of the relevant basis.

Further to our review on the financial information of the Target Group for the three years ended 31 December 2016 and the six months ended 30 June 2017, we noted that the Target Group recorded growth in revenue with a CAGR of approximately 27.8% from approximately RMB8,038.5 million in 2014 to approximately RMB13,123.8 million in 2016. Moreover, the revenue of the Target Group was approximately RMB7,142.7 million for the six months ended 30 June 2017, representing an increase of approximately 16.6% compared with the corresponding period in 2016. In respect of the profit attributable to the owners of the Target Company, the Target Group recorded approximately RMB346.8 million after adjustment of the One-off Items (as defined below), representing a CAGR of 23.1% between 2014 and 2016. The profit attributable to the owners of the Target Company for the six months ended 30 June 2017 was approximately RMB242.2 million, representing an increase of approximately 2.7% compared with the corresponding period in 2016. We are of the view that the improvement of the Target Group's financial performance during the challenging operating environment reflects the future growth potential of the Target Group and its strong position in the logistics industry.

In addition, we noted that the Board has taken into account the trading multiples of the Target Group and the comparable logistics companies, including price-to-earnings ratio ("**P/E Ratio**") and price-to-book-value ratio ("**P/B Ratio**"), each ratio being a commonly used indicator in assessing financial performance of companies with profit-making record and substantial asset base for valuation purposes. We obtained a list of the comparable companies from the Company (the "**Comparable Logistics Companies**") and noted that the Comparable Logistics Companies were selected based on geographic location of operation, business nature and operational scale (the "**Selection Basis**"). The Comparable Logistics Companies are set out in the table on page 32 below and they (i) are the logistics service providers in China and other Asian countries; (ii) are listed in either Hong Kong or China; and (iii) have market capitalisation of not less than RMB5,000 million as at the Last Trading Day. As stated in the Letter from the Board, we note that the Target Company is a third-party logistics services provider which provides services including contract logistics, trucking, cold chain logistics, international supply chain logistics, and equipment leasing. In addition, given that a substantial portion of the revenue of the Target Group was derived from China, accounted for approximately 88.8%, 91.2% and 92.8% of its total revenue, respectively, for the three years ended 31 December 2014, 2015 and 2016, and the Consideration of RMB5,450.0 million, we consider that it is appropriate to identify the Comparable Logistics Companies based on the Selection Basis. Moreover, in view of the P/E Ratio and P/B Ratio being commonly used indicators in assessing financial performance of companies for valuation purposes, we are of the view that the use of the P/E Ratio and P/B Ratio as one of the basis of determining the Consideration by the Board is fair and reasonable. Details of the analysis of P/E Ratio and P/B Ratio of the Target Group and other logistics companies are disclosed below.

As set out in the section headed "Reasons for and benefits of entering into of the Acquisition Agreement" of this letter, we note that the recent improvement in the sentiment of the global freight-forwarding and logistics industry indicated by the rising trend of WTOI, combined with the national strategy of the OBOR and the Going-Global policies, is expected to bring potential business growth to the Target Company.

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Moreover, the Consideration will be settled by the issue of Consideration Shares and the initial Issue Price of HK\$4.43 represent a premium of approximately 1.14% to the closing price of the H Shares of HK\$4.38 per H Share as quoted on the Last Trading Day. We are of the view that (i) the Acquisition will not involve any material cash outflow by the Group which in turn can maintain liquidity of its funds for the Group's operation; and (ii) the premium to current trading price of the H Shares represents lesser dilution impact to the Shareholders as a result of the Acquisition.

In view of the aforesaid, we are of the view that the basis of determining the Consideration is fair and reasonable.

In assessing the fairness and reasonableness of the Consideration, it is general practice to identify the comparable transactions relevant to the transactions and identify the comparable companies relevant to the target companies for analysis purpose. Set out below are (i) our independent analysis of the comparable transactions in relation to logistics business relevant to the Acquisition; and (ii) the Board's analysis of the comparable companies in the logistics industry relevant to the Target Group.

Comparison with comparable transactions of logistics business

In order to assess the fairness and reasonableness of the Consideration, we have reviewed and performed an independent analysis on the P/E Ratio and P/B Ratio on the transactions of the company listed on the Main Board and GEM Board of the Stock Exchange between 1 January 2016 up to the Last Trading Day (the "**Review Period**") which involved acquisition of equity interests in company (the "**Comparable Target Company(ies)**") which is principally engaged in logistics business in the PRC and Hong Kong (the "**Comparable Transactions**"). We consider that (i) the P/E Ratio analysis and the P/B Ratio analysis are commonly used approaches to assess the valuation of a company in terms of its earning and book value respectively; and (ii) the Review Period being a reasonable period of time to provide a general overview of the recent acquisition transactions which are reflective of the latest market conditions and sentiments. The table below illustrates the P/E Ratio and the P/B Ratio of each of the Comparable Target Companies based on their market capitalisations as at the Last Trading Day and the Target Company's implied multiples based on the Consideration.

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Announcement date	Listed issuers	Transactions involved	Percentage of equity interest	P/E Ratio (times) <i>(Note 1)</i>	P/B Ratio (times) <i>(Note 2)</i>
17/5/2017	Qinhuangdao Port Co., Ltd. (3369)	Acquisition of a company which is principally engaged in Containers shipping loading and discharging, transshipping, cargo stacking, transfer and intermodal transportation; equipment maintenance, general cargo warehousing, self-owned buildings, place, equipment and facilities leasing.	90%	NA	1.2
5/5/2017	On Time Logistics Holdings Limited (6123)	Acquisition of a company which is principally engaged in freight forwarding business	100%	8.7	1.8
5/5/2017	On Time Logistics Holdings Limited (6123)	Acquisition of a company which is principally engaged in freight forwarding business	100%	11.4	11.9
21/4/2017	Tianjin Port Development Holdings Limited (3382)	Acquisition of a company which is principally engaged in warehousing and logistics businesses	51%	NA	1.0
24/2/2017	Celebrate International Holdings Limited (8212)	Acquisition of a company which is principally engaged in logistics activities	100%	55.2	37.8
13/3/2016	Kerry Logistics Network Limited (636)	Acquisition of a company which is principally engaged in ocean freight, air freight, trucking, customs broker, logistics and warehousing services, and specialises in transpacific trade lanes	100%	10.2	8.6
22/2/2016	Dafeng Port Heshun Technology Company Limited (8310)	Acquisition of a company which is principally engaged in land freight services	100%	7.7	5.6
			Average	18.6	9.7
			Median	10.2	5.6
			Maximum	55.2	37.8
			Minimum	7.7	1.0
				P/E Ratio and P/B Ratio of the Target Company	8.8 1.7
				Adjusted P/E Ratio and Adjusted P/B Ratio of the Target Company	15.7 1.9

Source: Stock Exchange (www.hkex.com.hk)

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Notes:

1. The P/E Ratios of the above Comparable Target Companies are calculated by dividing their consideration by the net profit after tax of the respective target companies according to the relevant announcements.
2. The P/B Ratios of the above Comparable Target Companies are calculated by dividing their consideration by the net asset value of the respective target companies according to the relevant announcements.
3. The adjusted P/E Ratio of the Target Company (the “**Adjusted P/E Ratio**”) is calculated by dividing the Consideration by the adjusted net profit after tax of the Target Company for the year ended 31 December 2016 (the “**2016 Adjusted Profit**”) which was calculated by deducting after tax impact of the profit arising one-off items, including (i) the gain on disposal of prepaid land use rights of approximately HK\$209.1 million; (ii) the gain on disposal of property, plant and equipment of approximately RMB52.4 million; and (iii) unrealized gain on fair value on held-for-trading investment of RMB102.8 million from the net profit for the year attributable to owners of the Target Company for the year ended 31 December 2016 of approximately RMB620.1 million; and the P/B Ratio of the Company (the “**Adjusted P/B Ratio**”) is calculated by dividing the Consideration by the adjusted net asset value of the Target Company for the year ended 31 December 2016 (the “**2016 Adjusted Net Asset Value**”) which was calculated by adjusting for after tax impact of the One-off Items.
4. The tax rate of the tax impact on the One-off Items is 25%.

Based on the above table, the P/E Ratio of the Comparable Target Companies range from approximately 7.7 times to 55.2 times, with an average of approximately 18.6 times and the P/B Ratio of the Comparable Target Companies range from approximately 1.0 time to 37.8 times, with an average of approximately 9.7 times.

Under the above analysis, we note that (i) the P/E Ratio of the Target Company is approximately 8.8 times which is below the average P/E Ratio of the Comparable Target Companies and the median P/E Ratio of the Comparable Target Companies; and (ii) the P/B Ratio of the Target Company is approximately 1.7 times which is below the average P/B Ratio of the Comparable Target Companies and the median P/B Ratio of the Comparable Target Companies.

As set out in the “Accountants’ Report on the Target Group” in the Circular, we note that there are several non-concurrent items which are (i) the gain on disposal of land use rights of approximately HK\$209.1 million; (ii) the gain on disposal of property, plant and equipment of approximately RMB52.4 million; and (iii) the unrealized gain on fair value on held-for-trading investment of RMB102.8 million (collectively the “**One-off Items**”). We have attempted to conduct the above analysis by adjusting the net income and net asset value with the after tax impact of the One-off Items. However, since only limited financial information of the Comparable Target Companies is available in the published announcement and/or circular of the listed companies, for prudent purpose, we assumed there is no non-concurrent items similar to the One-off Items in the financial information of the Comparable Target Companies for our analysis. Under the above analysis, we note that (i) the Adjusted P/E Ratio of the Target Company is approximately 15.7 times which is within the range of the P/E Ratio of the Comparable Target Companies; and (ii) the Adjusted P/B Ratio of the Target Company is approximately 1.9 times which is below the average P/B Ratio of the Comparable Target Companies and the median P/B Ratio of the Comparable Target Companies.

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Having considered (i) the P/E Ratio of the Target Company being lower than the average P/E Ratio and the median P/E Ratio of the Comparable Target Companies; (ii) the P/B Ratio of the Target Company being lower than the average P/B Ratio and the median P/B Ratio of the Comparable Target Companies; (iii) the Adjusted P/E Ratio of the Target Company being within the range of the P/E Ratio of the Comparable Target Companies; and (iv) the Adjusted P/B Ratio of the Target Company being lower than the average P/B Ratio and the median P/B Ratio of the Comparable Target Companies, we are of the view that the Consideration is fair and reasonable and in the interest of the Company and Independent Shareholders as a whole.

Comparison with comparable companies in logistics industry

As mentioned above, we understand that the Board has taken into account the P/E Ratio and the P/B Ratio of the Comparable Logistics Companies as one of the basis of determining the Consideration. The table below illustrates the P/E Ratio and the P/B Ratio of each of the Comparable Logistics Companies based on their market capitalisations as at the Last Trading Day and the Target Company's P/E Ratio and P/B Ratio based on the Consideration.

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Company name (stock code)	Principal business activities	Stock Market	Market capitalization (HK\$ million) <i>(Note 1)</i>	P/E Ratio <i>(Note 2)</i>	P/B Ratio <i>(Note 3)</i>	Adjusted P/E Ratio	Adjusted P/B Ratio
Kerry Logistics Network Limited (636)	Logistics businesses including the logistics services, sales of goods, warehouse leasing, and general storage	Stock Exchange	19,226.1	10.2	1.3	10.7	1.3
Sinotrans Limited (598)	Freight forwarding, logistics, storage and terminal services, and other services mainly engaged in trucking, shipping and express services	Stock Exchange	20,176.4	10.5	1.1	10.7	1.1
STIC International Holdings Company Limited (1308)	Provision of integrated transportation and logistics solutions, including marine transportation services and integrated freight forwarding	Stock Exchange	18,730.4	19.5	2.7	19.6	2.7
CTS International Logistics Cop Ltd (603128)	Provision cross-border integrated logistics services and supply chain trading services.	Shanghai Stock Exchange	10,284.6	39.2	2.5	39.1	2.5
			Average	19.9	1.9	20.0	1.9
			Median	15.0	1.9	15.2	1.9
			Maximum	39.2	2.7	39.1	2.7
			Minimum	10.2	1.1	10.7	1.1
The Target Company				8.8	1.7	15.7 <i>(Note 4)</i>	1.9 <i>(Note 5)</i>

Source: Stock Exchange (www.hkex.com.hk) and Shanghai Stock Exchange (<http://english.sse.com.cn/>)

Notes:

1. The market capitalizations of the Comparable Logistics Companies are calculated by multiplying the share price and the number of issued shares of the respective companies as at the Last Trading Day.
2. The P/E Ratios of the above companies are calculated by dividing their market capitalization by the profit attributable to owners of the company of the respective companies according to their latest fiscal year financial reports.

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3. The P/B Ratios of the above companies are calculated by dividing their market capitalization by the net assets value attributable to owners of the company of the respective companies according to their latest fiscal year financial reports.
4. The Adjusted P/E Ratio is calculated by dividing the Consideration by the 2016 Adjusted Profit which was calculated by deducting the after tax impact of the One-Off Items.
5. The Adjusted P/B Ratio is calculated by dividing the Consideration by the 2016 Adjusted Net Asset Value which was calculated by deducting the after tax impact of the One-Off Items.
6. The tax rate of the tax impact on the One-off Items is 25%.

Based on the above table, the P/E Ratio of the Comparable Logistics Companies range from approximately 10.2 times to 39.2 times, with an average of approximately 19.9 times and a median of approximately 15.0 times. The P/B Ratio of the Comparable Logistics Companies range from approximately 1.1 times to 2.7 times, with an average of approximately 1.9 times and a median of approximately 1.9 times.

Under the above analysis, we note that (i) the P/E Ratio of the Target Company is approximately 8.8 times which is below the average P/E Ratio of the Comparable Logistics Companies, the median P/E Ratio of the Comparable Logistics Companies and the minimum P/E Ratio of the Comparable Logistics Companies; and (ii) the P/B Ratio of the Target Company is approximately 1.7 times which is below the average P/B Ratio of the Comparable Logistics Companies, the median P/B Ratio of the Comparable Logistics Companies and within the range of P/B Ratio of the Comparable Logistics Companies.

According to the financial information of the Target Company provided by the Company, we note that there are One-off Items as abovementioned. We have attempted to conduct the above analysis by adjusting the net income and net asset value with the One-off Items.

As set out in the previous section in respect of the P/E Ratio and P/B Ratio analysis of Comparable Transactions, there are certain One-off Items in the financial information of the Target Company for the year ended 31 December 2016. In order to eliminate the effect of the One-off Items on our analysis, we have made similar adjustments to the P/E Ratio and P/B Ratio of the Target Company as well as those of the Comparable Logistics Companies by deducting their after tax impact of the gain on disposal and addition of loss on disposal.

Based on the above table, the adjusted P/E Ratio of the Comparable Logistics Companies range from approximately 10.7 times to 39.1 times, with an average of approximately 20.0 times and a median of approximately 15.2 times. The adjusted P/B Ratio of the Comparable Logistics Companies range from approximately 1.1 time to 2.7 times, with an average of approximately 1.9 times and a median of approximately 1.9 times.

Under the above analysis, we note that (i) the Adjusted P/E Ratio of the Target Company is approximately 15.7 times which is below the adjusted average P/E Ratio of the Comparable Logistics Companies and close to the adjusted median P/E Ratio of the Comparable Logistics Companies; and

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(ii) the Adjusted P/B Ratio of the Target Company is approximately 1.9 times which is equal to the adjusted average P/B Ratio of the Comparable Logistics Companies and the adjusted median P/B Ratio of the Comparable Logistics Companies.

Having considered, (i) the P/E Ratio of the Target Company being lower than the average P/E Ratio and the median P/E Ratio of the Comparable Logistics Companies; (ii) the P/B Ratio of the Target Company being lower than the average P/B Ratio and the median P/B Ratio of the Comparable Logistics Companies; (iii) the Adjusted P/E Ratio of the Target Company being lower than the adjusted average P/E Ratio and close to the adjusted median P/E Ratio of the Comparable Logistics Companies; and (iv) the Adjusted P/B Ratio of the Target Company being equal to the adjusted average P/B Ratio and the adjusted median P/B Ratio of the Comparable Logistics Companies, we are of the view that the Consideration is fair and reasonable and in the interest of the Company and Independent Shareholders as a whole.

After taking into account of the P/E Ratio and P/B Ratio analysis as set out above, we are of the view that the basis of the Consideration is fair and reasonable.

(B) Payment terms and issuance of the Consideration Shares

Pursuant to the Acquisition Agreement, an aggregate of up to 1,442,683,444 Consideration Shares, being all new Domestic Shares (subject to adjustment), will be issued by the Company upon completion of the Acquisition. Assuming there is no change in the issued share capital of the Company from the Latest Practicable Date and up to the date of the allotment of the Consideration Shares, the number of Consideration Shares represents:

- (a) approximately 58.61% and 31.32% of the existing total issued Domestic Shares and the existing total issued share capital of the Company, respectively, as at the Latest Practicable Date; and
- (b) approximately 36.95% and 23.85% of the total issued Domestic Shares and the total issued share capital of the Company, as enlarged by the allotment and issuance of the Consideration Shares upon completion of the Acquisition Agreement.

The issuance of the Consideration Shares is subject to Shareholders' approval by special resolution at the EGM and the H Share Class Meeting to be conducted in accordance with the Articles of Association and the Listing Rules. The Consideration Shares, when allotted and issued, will rank pari passu in all respects among themselves, and with the Domestic Shares then in issue on the day of the issuance of the Consideration Shares, and be entitled to all dividends and other rights attached to the Domestic Shares from the date of allotment.

The aggregate consideration for the Target Shares is RMB5,450,000,000 (equivalent to approximately HK\$6,391,087,658), which is to be satisfied by the issuance and allotment of not exceeding 1,442,683,444 Consideration Shares by the Company at the Issue Price of HK\$4.43 (equivalent to approximately RMB3.78) per Domestic Share (subject to adjustment). Pursuant to the Acquisition Agreement, the initial Issue Price will be adjusted upwards if the highest of the volume-

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weighted average price per H Share for the 10, 20 and 60 consecutive trading days before (and excluding) the date of the EGM exceeds the initial Issue Price of HK\$4.43, provided that such upward adjustment will not exceed 10% of the initial Issue Price.

If the Issue Price is adjusted upwards, the total number of Consideration Shares to be issued will be reduced. The upward adjustment of the Issue Price will mitigate the dilution impact to the existing Independent Shareholders. Therefore, we consider that the upward adjustment is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

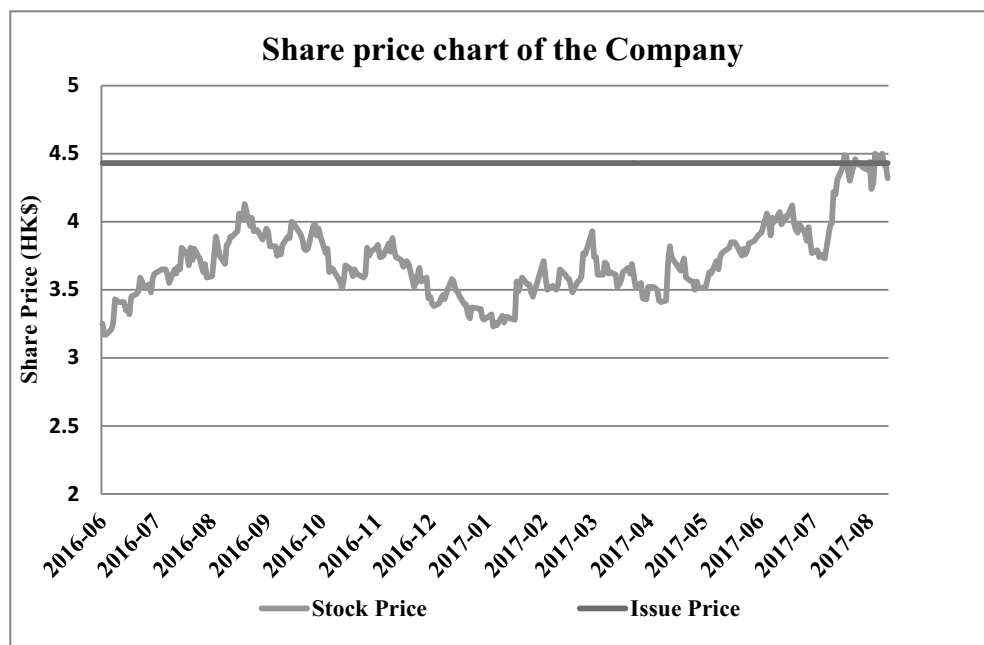
(C) Review of Share prices

To assess the fairness and reasonableness of the Issue Price of the Consideration Share, we set out the following analyses for illustrative purpose. The Issue Price of the Consideration Share at HK\$4.43 (equivalent to approximately RMB3.78) per Domestic Share represents:

- (i) a premium of approximately 1.14% to the closing price of the H Shares of HK\$4.38 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 0.45% to the average of the closing price of the H Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of approximately HK\$4.41 per H Share;
- (iii) a premium of approximately 5.23% to the average of the closing price of the H Shares as quoted on the Stock Exchange for the 20 consecutive trading days up to and including the Last Trading Day of approximately HK\$4.21 per H Share;
- (iv) a premium of approximately 10.75% to the average of the closing price of the H Shares as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Day of approximately HK\$4.00 per H Share; and
- (v) a premium of approximately 8.31% to the net asset value for Share based on the audited net asset value of the Company as at 31 December 2016.

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The following share price chart of the Company illustrates the highest and lowest closing prices and the average closing price of the Shares as quoted on the Stock Exchange during the period commencing from 1 June 2016 up to and including the Latest Practicable Date (the “**Historical Price Period**”):



Source: Stock Exchange (www.hkex.com.hk)

As shown by the chart above, the daily closing prices of the Shares range from HK\$3.17 per Share to HK\$4.50 per Share during the Historical Price Period. The price of the Consideration Share of HK\$4.43 is within the range of the lowest and highest closing prices of the Shares as quoted on the Hong Kong Stock Exchange during the Historical Price Period, and represented a premium of approximately 39.7% over the lowest closing price of HK\$3.17 recorded in 27 June 2016 and a discount of approximately 1.6% to the highest closing price of HK\$4.50 recorded in 30 August 2017. We note that the price of the Consideration Share of HK\$4.43 per Share is higher than most of the closing prices during the Historical Price Period (i.e. 303 trading days out of 311 trading days of the Share).

Given the fact that the Issue Price had been higher than the average closing price of the H Shares of approximately HK\$3.70 per H Share during the Historical Price Period, and thus fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As set out in the Letter from the Board, the Board, having taken into account (i) the fact that the initial consideration represents approximately 85.9% of the Group’s cash and cash equivalent of approximately RMB6,347 million as at 30 June 2017; (ii) the working capital requirements of the Group to maintain and continue to develop its sizeable operations and its current debt repayment obligations and available cash and cash equivalents within the PRC; (iii) raising funds by the issue of debt securities would substantially increase the gearing ratio of the Group and require repayment while the issue of equity securities (for both holders of Domestic Shares and H Shares) could result in

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dilution of value and will entail lengthier regulatory approvals and related costs and expenses and execution uncertainty; and (iv) the issue of the Consideration Shares, being Domestic Shares, is not dilutive of the voting rights attached to H Shares as a class and the Issue Price is, as mentioned above, favourable to shareholders of the Company, considered that settlement of the consideration by the issue of the Consideration Shares would minimise the impact of the acquisition of the Target Company on the liquidity position of the Group and is in the interests of the Company and the Independent Shareholders as a whole.

As advised by the Management, we note that the Company has considered other alternative means of settlement instead of the issue of Consideration Shares, including internal resources and debt financing. Based on the 2017 Interim Results and the Group's working capital forecast covering a period of 12 months starting from the date of publication of the Circular provided by the Company, we noted that (i) the Consideration is accounted for a substantial proportion of the Group's cash and cash equivalents balance as at 30 June 2017; (ii) the cash settlement (if adopted) will exert pressure on the working capital level of the Group; and (iii) additional debt financing will increase interest burden and repayment obligation of the Group. Having considered aforesaid factors together with the reasonableness of the Issue Price as demonstrated above, we concur with the Directors' view that it is in the interests of the Company and the Shareholders as a whole to settle the Acquisition by the issue of Consideration Shares.

5. Dilution effects of the issue of the Consideration Shares

As at the Latest Practicable Date, the issued share capital of the Company is 4,606,483,200 Shares (comprising H Shares of 2,144,887,000 and Domestic Shares of 2,461,596,200), whereas 2,037,704,000 Shares were held by public Shareholders, representing 44.24% of the issued share capital of the Company. Upon completion of the Acquisition and assuming 1,442,683,444 Domestic Shares are to be issued, the corresponding shareholding of public Shareholders will be diluted to approximately 33.68%. Under such scenario, the shareholding dilution effect will be pretty material, while the dilution effect is inevitable on the grounds that the Company take up full control of the Target Group without any material cash outflow of the Group so as to mitigate the pressure of liquidity risk arising from the Acquisition.

Although the dilution of shareholdings itself is not favourable to the Independent Shareholders, the Independent Shareholders should note that the Company will be benefited from the Acquisition having considered (i) the Acquisition can help reduce competition between the Group and the Target Group and creating synergy through integration of complementary operations; (ii) the extension of geographical coverage of the Group's logistics, storage and terminal services business; (iii) the initial Issue Price is set at a premium over the closing price of Shares on the Last Trading Day; and (iv) the premium as represented by the initial Issue Price to the closing price of Shares for the five consecutive trading days up to and including the Last Trading Day. In view of the above, we consider that the dilution effect, which is inevitable for the issue of new Domestic Shares for the Acquisition, is acceptable.

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6. Financial effects of the Acquisition

Upon completion of the Acquisition, the Group will hold the entire issued share capital of the Target Company. Consequently, the Target Company will be accounted for as a subsidiary of the Company and the financial results and assets and liabilities of the Target Company will be consolidated into the consolidated financial statements of the Company.

(a) *Earnings*

Based on the 2016 Annual Report, the Group recorded profit attributable to owners of the Company of approximately RMB1,629.5 million. Upon completion of the Acquisition, the Target Group would become the subsidiaries of the Company and the future earnings from the Target Group would be contributed to the Group. Absence of any immediate material impact on earnings of the Target Group, we consider that the Acquisition would enhance the income stream of the Group.

(b) *Cash flow*

Based on the 2016 Annual Report, the Group had cash and bank balances of approximately RMB7,118.6 million as at 31 December 2016. Pursuant to the Acquisition Agreement, as the consideration would be fully settled by issuance of Consideration Shares, the Acquisition itself would not exert any considerable immediate pressure on the cash flow of the Group upon the completion of Acquisition.

(c) *Net asset value*

Based on the 2017 Interim Results, the consolidated net asset of the Group as at 30 June 2017 was approximately RMB20,337.2 million. Upon completion of the Acquisition, the total assets of the Group would have increased from approximately RMB39,551.5 million to approximately RMB61,545.8 million on a pro forma basis, the total liabilities of the Group would have increased from approximately RMB19,214.3 million to approximately RMB37,015.9 million on a pro forma basis, and therefore the net assets of the Group would have increased from approximately RMB20,337.2 million to approximately RMB24,529.9 million on a pro forma basis.

(d) *Gearing*

Based on the 2017 Interim Results, the gearing ratio of the Group as at 30 June 2017 was approximately 30.5% as derived by dividing the total borrowings of the Group as at 30 June 2017 by the total equity of the Group as at 30 June 2017. Upon completion of the Acquisition, the total equity of the Group would have increased from approximately RMB20,337.2 million to approximately RMB24,529.9 million on a pro forma basis, the total debt of the Group would have increased from approximately RMB6,202.1 million to approximately RMB13,275.5 million on a pro forma basis, and therefore the gearing ratio of the Group will be approximately 54.1% upon completion of the Acquisition on a pro forma basis.

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Having considered the positive financial effects on the potential growth of the Group's earnings, absence of immediate pressure on the Group's cash flow and increase in the Group's net asset value, we consider that the positive impact on the Group's financial position following completion of the Acquisition, to a certain extent, outweigh the increase in the Group's gearing ratio. Therefore, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors, we consider that the Acquisition, which would enable the Company to expand its principal business, is in the ordinary and usual course of business of the Group, and the terms of the Acquisition Agreement (including the Consideration and the issue of the Consideration Shares) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the proposed resolution(s) to approve the Acquisition Agreement and the transactions contemplated thereunder at the EGM and the H Shares Class Meeting.

Yours faithfully,

For and on behalf of

Octal Capital Limited

Alan Fung

Louis Chan

Managing Director

Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 23 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2014, 2015 and 2016 are disclosed in the annual reports of the Company for the years ended 31 December 2014, 2015 and 2016, respectively, which have been published and available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.sinotrans.com):

- The annual report 2014 of the Company for the year ended 31 December 2014 which is published on 15 April 2015 (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0415/LTN20150415505.pdf>), please refer to pages 73 to 188 in particular.
- The annual report 2015 of the Company for the year ended 31 December 2015 which is published on 13 April 2016 (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0413/LTN20160413346.pdf>), please refer to pages 59 to 160 in particular.
- The annual report 2016 of the Company for the year ended 31 December 2016 which is published on 5 April 2017 (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0405/LTN201704051189.pdf>), please refer to pages 89 to 188 in particular.

The said financial statements are hereby incorporated by reference in, and form an integral part of, this circular.

2. INDEBTEDNESS**The Group**

At the close of business on 31 July 2017, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this Circular. The Group had outstanding indebtedness as followings:

Bank borrowings:

- (a) As at the close of business in 31 July 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding bank borrowings of RMB416,415,000, which were guaranteed by the Company and unsecured.
- (b) As at the close of business in 31 July 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding bank borrowing of RMB5,000,000, which was secured by property and land use rights owned by the Group and unguaranteed.
- (c) As at the close of business in 31 July 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding bank borrowings of RMB124,000,000, which was unsecured and unguaranteed.

Borrowings from related parties:

As at the close of business in 31 July 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding borrowings of RMB2,953,321,939 from related parties, which was unsecured and unguaranteed.

Corporate bonds:

As at the close of business in 31 July 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding corporate bonds of RMB3,500,000,000, which were unsecured and unguaranteed.

Finance Lease Obligation:

As at the close of business in 31 July 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group had finance lease obligation of RMB69,360, which were secured by the leased asset and unguaranteed.

Contingent liabilities:

- (a) As at the close of business in 31 July 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group provide corporate guarantees of RMB36,450,921 to a bank and a shareholder of a joint venture in respect of bank loan obligation of joint ventures of the Company.
- (b) As at the close of business in 31 July 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group provide corporate guarantees of RMB64,389,689 to a third party in respect of finance lease obligation of a joint venture of the Company.
- (c) As at the close of business in 31 July 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group has been named in a number of lawsuits arising from the ordinary cause of business. Where the management cannot reasonably estimate the outcome of the lawsuits or believe the probability of loss is remote, no provision has been made. The maximum exposure of such lawsuits of the Group amounted to approximately RMB41,803,811.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any loan capital issued and outstanding or authorised or otherwise created but unissued, bank overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, hire purchase commitments, and other material contingent liabilities at the close of business on 31 July 2017.

The Target Group

As at the close of business 31 July 2017, being the latest practicable date for the purpose of the statement of indebtedness prior to printing of the circular, the indebtedness of the Target Group was as follow:

Bank and other borrowings

- (a) The Target Group had outstanding secured bank and other borrowings of approximately RMB1,826,633,000, which was secured by the Target Group's certain buildings and land use rights with carrying amount of approximately RMB2,553,266,000 and RMB49,834,000 respectively.
- (b) The Target Group had outstanding bank and other borrowings of approximately RMB3,521,207,000 which was guaranteed by certain fellow subsidiaries.
- (c) The Target Group had outstanding unsecured bank and other borrowings of approximately RMB1,959,907,000.

Obligation of finance leases

The Target Group had obligation of finance leases approximately RMB317,000.

Other indebtedness

- (a) The Target Group had outstanding indebtedness of approximately RMB5,551,830,000 due to fellow subsidiaries and ultimate holding company, which was unsecured, interest-free and repayable on demand.
- (b) The Target Group had outstanding indebtedness of approximately RMB684,464,000 due to non-controlling interests, which was unsecured, interest-free and repayable on demand.

Contingent liabilities

- (a) Apart from the note 34 headed "Litigation and Contingent Liabilities" in Appendix II of this circular, the Target Group had no other material contingent liabilities. There is no material change in the contingent liabilities of the Target Group since 30 June 2017.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Target Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

After due and careful consideration, the Directors are of the opinion that, after taking into account the financial resources presently available to the Enlarged Group, including the internally generated funds, presently available banking facilities granted to the Enlarged Group and the rights granted by China Merchants Group (excluding the Enlarged Group) to the Target Group to defer the repayment of amounts due to China Merchants Group (excluding the Enlarged Group), the Enlarged Group has sufficient working capital to satisfy its requirements for at least the next 12 months from the date of publication of this circular.

4. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

Looking into the second half of 2017, while it is expected there will be uncertainties and risks associated with the weak recovery of world economy, aggravated trade protectionism, intensified geopolitical conflicts and the Fed's earlier than anticipated rate hike as well as Fed's plan of reducing the size of balance sheet, it is expected that China will continue to deepen the supply-side structural reform with respect to its economy. Furthermore, foreign trade import and export of China are expected to continue to stabilize and maintain positive growth with foreign trade structure continuing to optimize. In the logistics industry, it is expected that cross-border competition will become more intense, with accelerated development of intelligent logistics and industry restructuring and consolidation becoming a common trend. Meanwhile, customers also put forward higher requirements for logistics enterprises in terms of customaries services.

In light of the foregoing, following the acquisition of the Target Group, the Enlarged Group will work toward transitioning itself into an integrator of comprehensive logistics services and aim to create value for its customers through innovative and cross-boundary integration of various logistics services offered at its integrated logistics platform, with an ultimate goal of becoming a leading integrated logistics platform enterprise in the world. Specifically, the Enlarged Group will focus on building a supply chain logistics ecosystem through effective integration of logistics resources and enhanced business collaboration of the Group and the Target Group, which will enable the Enlarged Group to provide integrated full-cycled logistics services to its clients both onshore and offshore. The Enlarged Group will also continue to utilize advanced internet technologies to drive its development of intelligent logistics. Moreover, through strategic mergers and acquisitions, the Enlarged Group intends to improve its capability as an integrator of logistics services and achieve synergies among its various logistics services offered and continue to enhance its competitive strengths by offering differentiated logistics services to its customers. Leveraging on the synergies achieved through such strategic acquisition and integration, the Enlarged Group will further work on optimizing its sources of revenue and reducing operational costs. The Enlarged Group will make efforts in improving its operational efficiency, planning and execution capability to ensure its above mentioned strategies will be accurately and efficiently implemented. The Enlarged Group will also work on improving its organizational skills, streamlining its organizational structure and increasing interactions of internal and external resources, thereby developing a corporate culture which best motivate its employees to achieve sustainable and long-term growth and development. Furthermore, the Enlarged Group will focus on delivering quality service to its customers through strengthening its risk control and safety management.

The following is the text of a report prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, SHINEWING (HK) CPA Limited.



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

6 September 2017

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF SINOTRANS LIMITED

INTRODUCTION

We report on the historical financial information of China Merchants Logistics Holdings Co., Limited (招商局物流集團有限公司) (the “**Target Company**”) and its subsidiaries (the “**Target Group**”) set out on pages 47 to 134, which comprises the consolidated statements of financial position as at 31 December 2014, 2015 and 2016 and 30 June 2017, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2016 and the six months ended 30 June 2017 (the “**Track Record Period**”) and a summary of significant policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information as set out on pages 47 to 134 forms an integral part of this report, which has been prepared for inclusion in the investment circular of Sinotrans Limited (the “**Company**”) dated 6 September 2017 (the “**Investment Circular**”) in connection with the proposed acquisition of the entire issued capital of the Target Company (the “**Acquisition**”) by the Company.

DIRECTORS' RESPONSIBILITIES FOR 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 and presentation set out in note 1 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of 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' Report 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 and presentation set out in note 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 of the Target Company, 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 Target Group's financial position as at 31 December 2014, 2015 and 2016 and 30 June 2017 and of the Target Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information.

CORRESPONDING FINANCIAL INFORMATION

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Target Group for the six months ended 30 June 2016 together with the notes thereon (the "**June 2016 Financial Information**"), which was prepared by the directors of the Target Company solely for the purpose of this report. We have reviewed the June 2016 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the June 2016 Financial Information based on our review.

Our review of the June 2016 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 2016 Financial Information.

Based on our review, nothing has come to our attention that causes us to believe that the June 2016 Financial Information is not prepared, in all material aspects, in accordance with the accounting policies consistent with those used in the preparation of the June 2016 Financial Information which conform with IFRSs.

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

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 47 have been made.

DIVIDENDS

No dividend was paid or proposed by the Target Company during the Track Record Period, nor has any dividend been proposed by the Target Company since 30 June 2017.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number: P03224

Hong Kong

CHINA MERCHANTS LOGISTICS HOLDINGS CO., LIMITED

A. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

The statutory financial statements of the Target Group for the years ended 31 December 2014, 2015 and 2016 were prepared in accordance with the applicable accounting principles and regulations applicable in the People's Republic of China (the "**PRC**") and were audited by SHINEWING Certified Public Accountants LLP.

The Historical Financial Information of the Target Group for the Track Record Period have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**") and were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("**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			Six months ended 30 June	
		2014 RMB'000	2015 RMB'000	2016 RMB'000	2016 RMB'000 (Unaudited)	2017 RMB'000
Revenue	5	8,038,498	9,463,973	13,123,809	6,127,561	7,142,690
Other income and gains	7	164,374	185,942	422,686	67,279	159,046
Transportation and related charges		(5,982,211)	(7,300,931)	(10,289,117)	(4,737,726)	(5,684,426)
Staff costs		(925,430)	(1,064,782)	(1,290,296)	(611,934)	(644,979)
Depreciation and amortisation		(419,486)	(463,954)	(647,138)	(311,004)	(350,020)
Office and other expenses		(121,906)	(142,334)	(177,605)	(90,639)	(94,870)
Other operating expenses		(358,548)	(151,031)	(152,315)	(74,231)	(77,452)
Other gain and losses, net		19,262	(127,638)	115,632	65,003	57,688
Finance costs	8	(115,216)	(138,510)	(188,390)	(88,067)	(116,947)
		299,337	260,735	917,266	346,242	390,730
Share of results of associates		-	-	765	-	(237)
Share of results of joint ventures		1,022	(40,011)	54,383	1,576	(259)
Profit before taxation		300,359	220,724	972,414	347,818	390,234
Income tax expense	9	(129,151)	(51,172)	(263,425)	(84,912)	(124,079)
Profit for the year/period	10	171,208	169,552	708,989	262,906	266,155
Profit for the year/period attributable to:						
Owners of the Target Company		228,658	130,566	620,058	235,911	242,159
Non-controlling interests		(57,450)	38,986	88,931	26,995	23,996
		171,208	169,552	708,989	262,906	266,155
Other comprehensive (expense)/income						
<i>Items that may be reclassified</i>						
<i>subsequently to profit or loss:</i>						
Fair value gains on available-for-sale investments		4,657	-	-	-	-
Release of reserve upon disposal of available-for-sale investments		-	(11,968)	-	-	-
Exchange differences arising on translating foreign operations		(284,977)	(317,163)	(92,485)	78,416	204,562
Other comprehensive (expense)/income for the year/period, net of income tax		(280,320)	(329,131)	(92,485)	78,416	204,562
Total comprehensive (expense) income for the year/period		(109,112)	(159,579)	616,504	341,322	470,717
Total comprehensive (expense) income for the year/period attributable to:						
Owners of the Target Company		(28,444)	(170,524)	538,757	314,547	444,896
Non-controlling interests		(80,668)	10,945	77,747	26,775	25,821
		(109,112)	(159,579)	616,504	341,322	470,717

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
	<i>Notes</i>	2014	2015	2016	2017
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets					
Property, plant and equipment	13	4,988,334	5,241,880	9,260,113	10,087,953
Land use rights	19	987,174	1,038,832	1,325,560	1,322,923
Investment properties	14	7,455	7,167	6,879	6,776
Intangible assets	15	2,580,265	2,570,125	2,713,017	2,806,542
Interests in associates	16	30	30	29,571	28,834
Interests in joint ventures	17	1,041,892	1,057,437	41,154	39,896
Available-for-sale investments	18	17,448	170,486	1,575	1,571
Deferred tax assets	20	131,678	143,783	148,324	132,695
Other non-current assets		88,316	102,456	126,080	178,796
		9,842,592	10,332,196	13,652,273	14,605,986
Current assets					
Inventories	21	57,685	48,773	23,648	26,191
Trade and other receivables	22	1,656,350	1,919,494	3,213,944	3,896,145
Prepayments and other current assets	23	288,770	389,043	740,465	903,560
Land use rights	19	15,902	23,298	23,299	20,270
Held-for-trading investments	24	457,269	293,893	396,710	419,396
Bank balances and cash	25	967,213	1,341,293	2,221,660	2,166,612
		3,443,189	4,015,794	6,619,726	7,432,174
Current liabilities					
Trade and bills payables	26	1,023,221	1,172,302	1,746,614	1,881,097
Other payables and accruals	27	2,706,140	5,827,645	8,107,504	6,981,614
Receipt in advance from customers	27	38,660	59,133	270,471	347,361
Salary and welfare payables		133,824	172,685	288,791	223,046
Income tax payable		53,728	60,374	202,677	179,460
Bank and other borrowings	28	308,163	497,526	986,199	2,233,488
Obligations under finance leases	29	–	11,109	4,136	407
		4,263,736	7,800,774	11,606,392	11,846,473
Net current liabilities		(820,547)	(3,784,980)	(4,986,666)	(4,414,299)
Total assets less current liabilities		9,022,045	6,547,216	8,665,607	10,191,687

	<i>Notes</i>	As at 31 December			As at
		2014	2015	2016	30 June
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities					
Deferred tax liabilities	20	209,968	172,612	200,123	228,741
Bank and other borrowings	28	2,873,215	3,245,865	4,371,958	4,839,908
Other non-current liabilities		32,773	8,521	87,359	87,922
Deferred income	31	92,263	86,850	107,030	127,977
Obligation under finance leases	29	–	6,857	407	–
Amounts due to non-controlling interests	30	–	304,104	304,104	684,464
		<u>3,208,219</u>	<u>3,824,809</u>	<u>5,070,981</u>	<u>5,969,012</u>
		<u>5,813,826</u>	<u>2,722,407</u>	<u>3,594,626</u>	<u>4,222,675</u>
Capital and reserves					
Paid-up capital	32	1,250,000	1,250,000	1,444,000	1,444,000
Reserves	32	<u>3,839,611</u>	<u>1,216,415</u>	<u>1,756,113</u>	<u>2,297,187</u>
Equity attributable to owners of the Target Company		5,089,611	2,466,415	3,200,113	3,741,187
Non-controlling interests		<u>724,215</u>	<u>255,992</u>	<u>394,513</u>	<u>481,488</u>
Total Equity		<u>5,813,826</u>	<u>2,722,407</u>	<u>3,594,626</u>	<u>4,222,675</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners to the Target Company							Sub-total	Non-controlling interests	Total
	Paid-up capital	Other reserve	Merger reserve	Translation reserve	Statutory reserves	Investment revaluation reserves	Retained earnings			
	RMB'000 (note 32a)	RMB'000 (note 32b)	RMB'000 (note 32c)	RMB'000	RMB'000 (note 32d)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	1,250,000	12,343	2,352,424	(230,953)	22,875	7,311	1,703,670	5,117,670	819,865	5,937,535
Profit (loss) for the year	-	-	-	-	-	-	228,658	228,658	(57,450)	171,208
Other comprehensive expense:										
Exchange differences arising on translation	-	-	-	(261,759)	-	-	-	(261,759)	(23,218)	(284,977)
Fair value gain on available-for-sale investments	-	-	-	-	-	4,657	-	4,657	-	4,657
Total comprehensive (expense) income for the year	-	-	-	(261,759)	-	4,657	228,658	(28,444)	(80,668)	(109,112)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(26,241)	(26,241)
Changes in ownership interests in subsidiaries without change in control (note 45)	-	385	-	-	-	-	-	385	11,259	11,644
At 31 December 2014	<u>1,250,000</u>	<u>12,728</u>	<u>2,352,424</u>	<u>(492,712)</u>	<u>22,875</u>	<u>11,968</u>	<u>1,932,328</u>	<u>5,089,611</u>	<u>724,215</u>	<u>5,813,826</u>
At 1 January 2015	1,250,000	12,728	2,352,424	(492,712)	22,875	11,968	1,932,328	5,089,611	724,215	5,813,826
Profit for the year	-	-	-	-	-	-	130,566	130,566	38,986	169,552
Other comprehensive expense:										
Exchange differences arising on translation	-	-	-	(289,122)	-	-	-	(289,122)	(28,041)	(317,163)
Release of reserve upon disposal of available-for-sale investments	-	-	-	-	-	(11,968)	-	(11,968)	-	(11,968)
Total comprehensive (expense) income for the year	-	-	-	(289,122)	-	(11,968)	130,566	(170,524)	10,945	(159,579)
Consideration for acquiring subsidiaries under common control (note 36)	-	-	(2,352,809)	-	-	-	-	(2,352,809)	-	(2,352,809)
Dividend Paid to non-controlling interests	-	-	-	-	-	-	-	-	(27,966)	(27,966)
Acquisition of subsidiaries (note 35)	-	-	-	-	-	-	-	-	21,026	21,026
Changes in ownership interests in subsidiaries without change in control (note 45)	-	(99,863)	-	-	-	-	-	(99,863)	(472,228)	(572,091)
Appropriation to statutory reserve	-	-	-	-	5,623	-	(5,623)	-	-	-
At 31 December 2015	<u>1,250,000</u>	<u>(87,135)</u>	<u>(385)</u>	<u>(781,834)</u>	<u>28,498</u>	<u>-</u>	<u>2,057,271</u>	<u>2,466,415</u>	<u>255,992</u>	<u>2,722,407</u>

APPENDIX II

ACCOUNTANTS' REPORT ON THE TARGET GROUP

	Attributable to owners to the Target Company									Total RMB'000
	Paid-up capital RMB'000 (note 32a)	Other reserve RMB'000 (note 32b)	Merger reserve RMB'000 (note 32c)	Translation reserve RMB'000	Statutory reserves RMB'000 (note 32d)	Investment revaluation reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	
At 1 January 2016	1,250,000	(87,135)	(385)	(781,834)	28,498	-	2,057,271	2,466,415	255,992	2,722,407
Profit for the year	-	-	-	-	-	-	620,058	620,058	88,931	708,989
Other comprehensive expense:										
Exchange differences arising on translation	-	-	-	(81,301)	-	-	-	(81,301)	(11,184)	(92,485)
Total comprehensive (expense) income for the year	-	-	-	(81,301)	-	-	620,058	538,757	77,747	616,504
Changes in ownership interests in subsidiaries without change in control (note 45)	-	941	-	-	-	-	-	941	15,052	15,993
Capital injection	194,000	-	-	-	-	-	-	194,000	85,103	279,103
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(39,381)	(39,381)
Appropriation to statutory reserve	-	-	-	-	31,223	-	(31,223)	-	-	-
At 31 December 2016	<u>1,444,000</u>	<u>(86,194)</u>	<u>(385)</u>	<u>(863,135)</u>	<u>59,721</u>	<u>-</u>	<u>2,646,106</u>	<u>3,200,113</u>	<u>394,513</u>	<u>3,594,626</u>
At 1 January 2017	1,444,000	(86,194)	(385)	(863,135)	59,721	-	2,646,106	3,200,113	394,513	3,594,626
Profit for the period	-	-	-	-	-	-	242,159	242,159	23,996	266,155
Exchange differences arising on translation	-	-	-	202,737	-	-	-	202,737	72,807	275,544
Total comprehensive income for the period	-	-	-	202,737	-	-	242,159	444,896	96,803	541,699
Changes in ownership interests in subsidiaries without change in control (note 45)	-	96,178	-	-	-	-	-	96,178	34,553	130,731
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(44,381)	(44,381)
At 30 June 2017	<u>1,444,000</u>	<u>9,984</u>	<u>(385)</u>	<u>(660,398)</u>	<u>59,721</u>	<u>-</u>	<u>2,888,265</u>	<u>3,741,187</u>	<u>481,488</u>	<u>4,222,675</u>
At 1 January 2016 (audited)	1,250,000	(87,135)	(385)	(781,834)	28,498	-	2,057,271	2,466,415	255,992	2,722,407
Profit for the period	-	-	-	-	-	-	235,911	235,911	26,995	262,906
Exchange differences arising on translation	-	-	-	82,847	-	-	-	82,847	(1,494)	81,353
Total comprehensive income for the period	-	-	-	82,847	-	-	235,911	318,758	25,501	344,259
Changes in ownership interests in subsidiaries without change in control	-	941	-	-	-	-	-	941	15,052	15,993
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(28,634)	(28,634)
At 30 June 2016 (Unaudited)	<u>1,250,000</u>	<u>(86,194)</u>	<u>(385)</u>	<u>(698,987)</u>	<u>28,498</u>	<u>-</u>	<u>2,293,182</u>	<u>2,786,114</u>	<u>267,911</u>	<u>3,054,025</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2016 RMB'000 (Unaudited)	2017 RMB'000
OPERATING ACTIVITIES					
Profit before taxation	300,359	220,724	972,414	347,818	390,234
Adjustments for:					
Finance costs	115,216	138,510	188,390	88,067	116,947
Interest income	(7,712)	(10,493)	(27,233)	(13,417)	(14,722)
Unrealised (gain) loss on fair value change on held-for-trading investments	(16,758)	165,236	(102,811)	(14,875)	(22,692)
Depreciation of property, plant and equipment	393,460	443,278	619,870	299,391	335,751
Depreciation of investment properties	476	288	288	133	103
Amortisation of land use rights	14,215	15,902	23,299	10,136	11,928
Amortisation of intangible assets	11,335	4,486	3,681	1,344	2,238
Impairment loss on trade and other receivables	9,251	9,358	47,538	47,538	33,238
Impairment loss on property, plant and equipment	86,973	46,294	5,763	–	2,688
Impairment loss on inventories	741	181	4,671	2,218	42
Share of (profit) loss of joint ventures	(1,022)	40,011	(54,383)	(1,576)	259
Share of (profit) loss of associates	–	–	(765)	–	237
Impairment loss recognised (reversed) on associates	–	–	1,014	–	(256)
Gain on disposal of intangible assets	–	(1,189)	–	–	–
Gain on disposal of land use rights	–	–	(209,133)	–	–
(Gain) loss on disposal of available-for-sale investments	–	(21,327)	8,332	(332)	–
Impairment loss on intangible assets	170,968	–	861	443	–
Gain on disposal of subsidiaries	(369)	(21,481)	(18,213)	–	(26,288)
Write back of impairment loss on trade and other receivables	(811)	(7,091)	(359)	(359)	(23)
Dividend income from equity investment	(1,927)	(16,871)	(21,153)	–	–
Impairment loss on available-for-sale investments	2,329	–	1,945	975	4
Government grants	(51,845)	(74,866)	(78,445)	(18,845)	(29,605)
Gain on disposal of property, plant and equipment	(53,553)	(43,836)	(52,432)	(19,053)	(59,644)
OPERATING ACTIVITIES					
Operating cash flows before movements in working capital	971,326	887,114	1,313,139	729,606	740,439
Increase in trade and other receivables	(318,339)	(216,172)	(381,830)	(869,960)	(1,177,365)
Decrease (increase) in inventories	98,850	4,384	20,868	(92)	(2,589)
(Decrease) increase in trade and bills payable	(14,794)	31,298	(636,638)	678,988	145,112
Increase (decrease) in other payables and accrued expenses	646,913	(2,115,166)	468,500	(334,265)	(423,883)
Decrease in held for trading investments	467	–	–	–	–
Cash generated from (used in) operations	1,384,423	(1,408,542)	784,039	204,277	(718,286)
Income taxes paid	(117,852)	(99,689)	(112,411)	(44,888)	(102,928)
NET CASH GENERATED FROM (USED IN)					
OPERATING ACTIVITIES	1,266,571	(1,508,231)	671,628	159,389	(821,214)

APPENDIX II
ACCOUNTANTS' REPORT ON THE TARGET GROUP

	Year ended 31 December			Six months ended 30 June	
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2016 RMB'000 (Unaudited)	2017 RMB'000
INVESTING ACTIVITIES					
Net cash outflow from acquisition of subsidiaries not under common control (note 35)	-	(144,055)	(2,792)	-	-
Net cash inflow from acquisition of subsidiaries under common control (note 36)	-	-	361,503	361,503	-
Payments for common control business combinations (note 36)	-	(59,656)	-	-	-
Net cash inflow from disposal of subsidiaries (note 37)	2,724	91,932	29,786	-	38,447
Dividend from equity investment	1,927	16,871	21,153	-	-
Interest received	7,712	10,493	27,233	13,417	14,722
Purchase of property, plant and equipment	(979,138)	(980,826)	(1,666,015)	(381,643)	(1,185,597)
Proceeds from disposal of property, plant and equipment	207,205	230,036	159,232	41,465	113,541
Purchase of available-for-sale investments	(2)	(170,365)	(289)	-	-
Proceeds from disposal of available-for-sale investments	-	38,144	161,724	2,859	-
Capital injection to associates	-	-	(10,000)	-	-
Capital injection to joint ventures	-	(400)	-	-	-
Purchase of land use rights	(87,838)	(74,690)	(64,806)	(14,992)	(6,841)
Purchase of intangible assets	(4,816)	(1,930)	(6,465)	(4,111)	(820)
Proceeds from disposal of land use rights	-	-	-	-	245,281
Proceeds from disposal of intangible assets	-	3,572	-	-	-
Government grants received	53,227	69,453	98,625	26,675	50,552
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(798,999)	(971,421)	(891,111)	45,173	(730,715)
FINANCING ACTIVITIES					
Proceeds from bank and other borrowings	2,181,053	1,619,000	1,910,182	748,468	2,468,597
Repayment of bank and other borrowings	(1,998,870)	(1,279,746)	(928,822)	(527,549)	(650,394)
Repayment of obligations under finance leases	-	(8,330)	(13,423)	(6,237)	(4,136)
Interest paid	(126,277)	(139,613)	(170,180)	(98,963)	(155,360)
Dividend paid to non-controlling interests	(25,685)	(24,627)	(31,181)	(24,634)	(26,388)
Advance from (repayment to) fellow subsidiaries and the ultimate holding company	-	2,954,752	-	-	(628,524)
Advance from non-controlling interests	-	304,104	-	-	380,360
Receipts (payments) in relation to changes in ownership interest of subsidiaries without change in control	11,644	(572,091)	15,993	15,993	130,731
Proceeds from capital injection	-	-	279,103	-	-
NET CASH FROM FINANCING ACTIVITIES	41,865	2,853,449	1,061,672	107,078	1,514,886
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	509,437	373,797	842,189	311,640	(37,043)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	472,238	967,213	1,341,293	1,341,293	2,221,660
Effect of foreign exchange rate	(14,462)	283	38,178	19,146	(18,005)
CASH AND CASH EQUIVALENTS END OF YEAR/ PERIOD, REPRESENTED BY BANK BALANCES AND CASH	967,213	1,341,293	2,221,660	1,672,079	2,166,612

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. GENERAL, BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

The Target Company was established in the PRC as a joint venture with limited liability on 1 November 2000. The Target Company is jointly owned by China Merchants Shekou Industrial Zone Holdings Co Ltd.* (招商局蛇口工業區控股股份有限公司) and China Merchants Investment Consulting (Shenzhen) Co., Ltd.* (深圳招商投資顧問有限公司). During the Track Record Period and up to the date of this report, the directors of the Target Company consider that the ultimate controlling owner of the Target Group to be China Merchants Group Limited (“**China Merchants**”), which is an unlisted state-owned company established in the PRC.

The principal activities of the Target Company and its subsidiaries (hereinafter collectively referred to as the “**Target Group**”) include freight forwarding, logistics, storage and terminal services and other services. Particulars of the companies comprising the Target Group have been set out in note 45.

The Historical Financial Information are presented in Renminbi (“**RMB**”), which is the same as the functional currency of the Target Company.

The Target Group had net current liabilities of approximately RMB4,414,299,000 as at 30 June 2017. The directors of the Target Company are of the opinion that the Target Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period given that:

- (i) the unutilised banking facilities available to the Target Group amounted to approximately RMB1,722,658,000 will not be expiring before 30 June 2018;
- (ii) subsequent to the end of the reporting period, the Target Group was granted a right to defer the repayment of amounts due to fellow subsidiaries and the ultimate holding company in aggregate of approximately RMB5,955,162,000 to a period after 30 June 2018; and
- (iii) the Target Group is able to generate positive operating cash flows.

Accordingly, the directors of the Target Company are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Target Group has consistently applied all new and revised IFRSs, International Accounting Standards (“IASs”), amendments and interpretations issued by the IASB which are effective for the accounting periods beginning on 1 January 2017 throughout the Track Record Period. At the date of this report, the Target Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
IFRS 16	Leases ²
Amendments to IFRSs	Annual Improvements to IFRSs 2014 – 2016 Cycle ¹
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 40	Transfers of Investment Property ¹
Amendments to IAS 40	Investment property ¹
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration ¹
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments ²

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after a date to be determined.

Except as described below, the directors of the Target Company anticipate that the application of the new and revised IFRSs will have no material impact on the Historical Financial Information of the Target Group.

IFRS 9 (2014) Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, IFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A version of IFRS 9 was issued in 2014 to incorporate all the requirements of IFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain financial assets. The finalised version of IFRS 9 also introduces an “expected credit loss” model for impairment assessments.

Key requirements of IFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In

addition, under IFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.
- IFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, IFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

IFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Target Company anticipate that the application of IFRS 9 (2014) in the future may have significant impact on amounts reported and disclosures made in respect of the Target Group's financial assets and financial liabilities in the Target Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 (2014) until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, IFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

- i) Identify the contract with the customer;
- ii) Identify the performance obligations in the contract;

- iii) Determine the transaction price;
- iv) Allocate the transaction price to the performance obligations; and
- v) Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the Historical Financial Information to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

IFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. The application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under IFRS 15. At this stage, the Target Group is in the process of assessing the impact of IFRS 15 on the Target Group's Historical Financial Information.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 "Property, Plant and Equipment", while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 Leases and the related Interpretations when it becomes effective.

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The directors of the Target Company are in the process of assessing their impact on the Historical Financial Information of these requirements. However, it is not practicable to provide a reasonable estimate of the effect until the Target Group performs a detailed review. As at 31 December 2014, 2015 and 2016 and 30 June

2017, the Target Group has non-cancellable operating lease commitments of approximately RMB670,218,000, RMB756,013,000, RMB859,978,000 and RMB1,102,243,000 as disclosed in note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Target Group will recognise a right-of-use asset and a corresponding liability in respect of all these lease unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the effect until the Target Group performs a detailed review.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information have been prepared in accordance with IFRSs issued by the IASB. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The principal accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial information of the Target Company and entities controlled by the Target Company (i.e. its subsidiaries).

Control is achieved where the Target Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Target Group's returns.

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 listed above.

Consolidation of a subsidiary begins when the Target Group obtains control over the subsidiary and ceases when the Target Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Target Group.

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.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Changes in the Target Group's ownership interests in existing subsidiaries

Changes in the Target Group's ownership interests in subsidiaries that do not result in the Target Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Target Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Target Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Target Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Merger accounting for business combination involving entities under common control

The consolidated financial statements include the financial statements items of the combining entities or businesses in which the common control combination occurs as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period unless the combining entities or businesses first came under common control at a later date.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of sales related taxes.

Logistics service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Target Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lease. All other leases are classified as operating leases.

The Target Group as lessee

Assets held under finance leases are recognised as assets of the Target Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Target Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Target Group's foreign operations are translated into the presentation currency of the Target Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

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

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

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as expenses when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, and interests in joint ventures and associates, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment including buildings, port and wharf settings, machinery, fixture and furnitures and equipments and vehicle ships and construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Target Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

If an item of property, plant and equipment becomes an investment property when there is a change in use, as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in properties revaluation reserve. The properties revaluation reserve in respect of that item will be transferred directly to retained earnings when it is derecognised.

Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Target Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Target Group's policy for goodwill relating to an associate or a joint venture that included in the carrying amount of the investment is set out in "investments in associates and joint ventures" below.

Investments in associates and joint ventures

An associate is an entity over which the Target Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Target Group's investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method. Under the equity method, investments in associates and joint ventures are initially recognised at cost. The Target Group's share of the profit or loss and changes in the other comprehensive income of the associates and joint ventures are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Target Group's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, which determined using the equity method together with any long-term interests that, in substance, form part of the Target Group's net investment in the associate or joint venture, the Target Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Target Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

If an associate or a joint venture uses accounting policies other than those of the Target Group for like transactions and events in similar circumstances, adjustments are made to make the associate's or joint venture's accounting policies conform to those of the Target Group when the associate's or joint venture's financial statements are used by the Target Group in applying the equity method.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment, any excess of the cost of acquisition over the Target Group's share of the net fair value of the identifiable assets and liabilities of the associate or joint venture is recognised as goodwill and is included in the carrying amount of the investment.

Any excess of the Target Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised in profit or loss in the period in which the investment is acquired.

After application of the equity method, including recognising the associate's or joint venture's losses (if any), the Target Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate or joint venture. Goodwill that forms part of the carrying amount of an investment in an associate or a joint venture is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment in the associate or joint venture. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

When the investment ceases to be an associate or a joint venture upon the Target Group losing significant influence over the associate or joint control over the joint venture, the Target Group discontinues to apply equity method and any retained interest is measured at fair value at that date which is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. Any difference between the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss. Any amount previously recognised in other comprehensive income in relation to that investment is reclassified to profit or loss or retained earnings on the same basis as it would have been required if the investee had directly disposed of the related assets or liabilities.

When the Target Group's ownership interest in an associate or a joint venture is reduced, but the Target Group continues to apply the equity method, the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest is reclassified to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

When the Target Group's ownership interest in an associate or a joint venture is reduced, but the Target Group continues to apply the equity method, the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest is reclassified to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Gains and losses resulting from transactions between the Target Group and its associate or joint venture are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate or joint venture. The Target Group's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.

Intangible assets***Intangible assets acquired separately***

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Target Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits and other receivables, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for the short-term receivables where the recognition of interest would be immaterial.

Financial assets at FVTPL

Financial assets at FVTPL are financial assets held-for-trading.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Target Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss excludes any dividend or interest earned on the financial assets and is included in separate line item in the consolidated statement of profit or loss and other comprehensive income.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL or loans and receivables.

Equity securities held by the Target Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Target Group's right to receive the dividends is established.

The fair value of available-for-sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Impairment loss of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for sale equity investment, a significant or prolonged decline in fair value of the investment below its costs is considered to be objective evidence of impairment.

For other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter into bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade, bills and other receivables and deposits, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit periods granted to individual customers, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all other financial assets with the exception of trade, bills and other receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade, bills and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Target Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities including, trade and bills payables, other payables and accruals, salary and welfare payables, bank and other borrowings and obligations under finance leases and amounts due to non-controlling shareholders are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Target Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Target Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Impairment losses on tangible assets and intangible assets (other than goodwill)

At the end of the reporting period, the Target Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of impairment loss is recognised as income immediately.

Fair value measurement

When measuring fair value, the Target Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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. Specifically, the Target Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Target Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. CRITICAL ACCOUNTING JUDGEMENT KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 3, the directors of the Target Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgment in applying accounting policies

The following are the critical judgment, apart from those involving estimations (see below), that the directors of the Target Company have made in the process of applying the Target Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

Going concern basis

Although the Target Group had net current liabilities of approximately RMB4,414,299,000 as at 30 June 2017, the Target Group manages its liquidity risk by monitoring its current and expected liquidity requirements regularly and ensuring sufficient liquid cash to meet the Target Group's liquidity requirements in the short and long term. Details of the factor that may cast doubt on the Target Group's ability to continues as a going concern and the measures taken are disclosed in note 1.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives and impairment of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation expenses. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. When events or changes in circumstances indicate that the carrying amount may not be recoverable, management will estimate the future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates

impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statement of profit or loss. As at 31 December 2014, 2015 and 2016 and 30 June 2017, the carrying amounts of property, plant and equipment were approximately RMB4,988,334,000, RMB5,241,880,000, RMB9,260,113,000 and RMB10,087,953,000, net of accumulated impairment losses of approximately RMB117,287,000, RMB163,581,000, RMB169,344,000 and RMB172,032,000 respectively.

Estimated allowance for inventories

The management of the Target Group reviews an ageing analysis of inventories at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Target Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, the costs necessary to make the sale and current market conditions. As at 31 December 2014, 2015 and 2016 and 30 June 2017, the carrying amounts of inventories were approximately RMB57,685,000, RMB48,773,000, RMB23,648,000 and RMB26,191,000 respectively, net of accumulated provision to inventories of approximately RMB922,000, RMB1,103,000, RMB5,774,000 and RMB5,816,000 respectively.

Impairment of available-for-sale financial assets

The Target Group classifies certain investments in listed securities as available-for-sale financial assets and recognised movements of their fair values in other comprehensive income and accumulated in investments revaluation reserve. No accumulated impairment losses previously recognised is released to profit or loss upon disposal during the Track Record Period.

For the available-for-sale financial assets not quoted in an active market and measured at cost, the management uses its judgement in selecting an appropriate valuation technique. Valuation techniques commonly used by the market practitioners are applied. As at 31 December 2014, 2015 and 2016 and 30 June 2017, the carrying amount of the Target Group's unlisted equity investment is RMB1,563,000, RMB170,486,000, RMB1,575,000 and RMB1,571,000, net of accumulated impairment losses recognised of approximately RMB2,329,000, RMB1,729,000, RMB3,674,000 and RMB3,678,000 respectively.

Impairment of goodwill and trademarks

Determining whether goodwill and trademarks are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and trademarks have been allocated. The value in use calculation requires the Target Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2014, 2015 and 2016 and 30 June 2017, the carrying amounts of goodwill were approximately RMB2,303,239,000, RMB2,312,255,000, RMB2,435,869,000 and RMB2,519,873,000, net of accumulated impairment losses of RMB116,624,000, RMB116,624,000, RMB116,624,000 and RMB116,624,000 and the carrying amount of trademarks were approximately RMB265,922,000, RMB250,563,000, RMB265,832,000 and RMB276,125,000, net of accumulated impairment losses of RMB5,000,000, RMB5,000,000, RMB5,000,000 and RMB5,000,000. Details of the recoverable amount calculations are disclosed in note 15.

Impairment of intangible assets (other than goodwill and trademarks)

At the end of each reporting period, the directors of the Target Company review the carrying amounts of its intangible assets (other than goodwill and trademarks) with finite useful lives of approximately RMB11,104,000, RMB7,307,000, RMB11,316,000 and RMB10,544,000 to identify if there is indication that those assets may suffer an impairment loss. The recoverable amounts of the assets are estimated in order to determine the extent of the impairment loss if indication of impairment is identified. The estimates of the recoverable amounts of the assets require the use of assumptions such as cash flow projections and discount rates. No impairment loss has been recognised during the Track Record Period.

Estimated impairment of trade and bills receivables

The Target Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and bills receivables. Allowances are applied to trade and bills receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the estimation of future cash flows. Where the expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade and bills receivables and allowance for doubtful debts in the year in which such estimation has changed. As at 31 December 2014, 2015 and 2016 and 30 June 2017, the carrying values of trade and bills receivables were approximately RMB1,310,572,000, RMB1,537,476,000, RMB2,129,504,000 and RMB3,260,630,000 respectively. Based on the estimated recoverable amounts, impairment losses of approximately RMB8,062,000, RMB8,384,000, RMB43,261,000 and RMB8,191,000 have been recognised in profit or loss during the track record period.

5. REVENUE

Revenue represents the amounts received and receivable from services provided in the normal course of business, after sales related taxes. An analysis of the Target Group's revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>
				(Unaudited)	
Logistics and related services	<u>8,038,498</u>	<u>9,463,973</u>	<u>13,123,809</u>	<u>6,127,561</u>	<u>7,142,690</u>

6. SEGMENT INFORMATION

For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Target Group) reviews the overall results and financial position of the Target Group as a whole prepared based on same accounting policies set out in note 3.

Logistics services primarily involve providing customised and professional integrated logistics services to its customers. Its related services mainly involve freight forwarding, storage, terminal services and trucking services. The chief executive officer (the chief operating decision maker) makes decisions about resources allocation and assesses performance of the Target Group based on the operating results from and financial position of these business activities. The chief executive officer is of the opinion that the logistics and related services is a single reportable operating segment of the Target Group.

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The following table provides an analysis of the Target Group's revenue by geographical market, based on the origin of the goods:

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
The PRC	7,142,167	8,628,304	12,177,352	5,685,656	6,518,018
Australia	555,936	482,626	528,060	245,020	365,369
Thailand	175,705	174,501	196,089	89,444	127,407
Indonesia	44,590	45,114	50,473	24,816	32,692
Malaysia	45,696	41,885	49,727	23,721	32,023
Vietnam	23,800	31,765	39,682	19,408	22,214
Others	50,604	59,778	82,426	39,496	44,967
	8,038,498	9,463,973	13,123,809	6,127,561	7,142,690

The following is an analysis of the carrying amount of non-current assets (*note*) analysed by the geographical area in which the assets are located:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The PRC	7,262,862	7,550,002	11,350,617	12,138,789
Australia	535,872	490,612	553,203	732,910
Thailand	311,471	342,124	393,903	485,997
Indonesia	66,514	70,302	78,055	99,692
Malaysia	13,465	27,165	91,559	61,330
Vietnam	49,640	65,113	83,703	92,075
Others	411,720	415,142	880,609	792,197
	8,651,544	8,960,460	13,431,649	14,402,990

Note: Non-current assets excluded available-for-sale investments, interests in associates, interest in joint ventures and deferred tax assets.

During the Track Record Period, no customer contributed more than 10% of the consolidated revenue of the Group for respective period.

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

7. OTHER INCOME AND GAINS

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Interest income	7,712	10,493	27,233	13,417	14,722
Exchange gain, net	–	–	9,422	4,376	13,436
Gain on disposal of property, plant and equipment	53,553	43,836	52,432	19,053	59,644
Gain on disposal of intangible assets	–	1,189	–	–	–
Gain on disposal of land use rights	–	–	209,133	–	–
Gain on disposal of subsidiaries	369	21,481	18,213	–	26,288
Government grants (<i>note</i>)	51,845	74,866	78,445	18,845	29,605
Others	50,895	34,077	27,808	11,588	15,351
	<u>164,374</u>	<u>185,942</u>	<u>422,686</u>	<u>67,279</u>	<u>159,046</u>

Note: These government grants are awarded to the Target Group by the local government agencies as incentives primarily to encourage the development of the Target Group and the contribution to the local economic development with no unfulfilled conditions. The government grants related to the amortisation of deferred income were approximately RMB7,959,000, RMB6,794,000, RMB30,313,000, RMB6,063,000 and RMB20,292,000 for the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017 respectively. The government grants that were unconditional and were recognised as income when received were approximately RMB43,886,000, RMB68,072,000, RMB48,132,000, RMB12,782,000 and RMB9,313,000 for the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017 respectively.

8. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Interest expenses on					
– bank borrowings	120,566	136,220	211,770	100,147	164,172
– others	5,711	8,865	9,267	4,939	5,106
	<u>126,277</u>	<u>145,085</u>	<u>221,037</u>	<u>105,086</u>	<u>169,278</u>
Less: amounts capitalised (<i>note</i>)	(11,061)	(6,575)	(32,647)	(17,019)	(52,331)
	<u>115,216</u>	<u>138,510</u>	<u>188,390</u>	<u>88,067</u>	<u>116,947</u>

Note: Borrowing costs capitalised during the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.7%-6.0%, 5.0%-5.4%, 3.0%-5.1%, 3.0%-5.1% and 3.4%-4.8% per annum respectively to expenditure on qualifying assets.

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9. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Current tax:					
Hong Kong Profits Tax	6,137	1,339	1,243	699	231
PRC Enterprise Income Tax (“EIT”)	111,541	59,565	99,594	46,743	54,853
PRC Land Appreciation Tax (“LAT”)	–	–	65,681	–	–
Other jurisdictions	51,482	36,824	66,218	21,042	22,065
	<u>169,160</u>	<u>97,728</u>	<u>232,736</u>	<u>68,484</u>	<u>77,149</u>
Under (over)-provision in prior years:					
Hong Kong Profits Tax	–	–	(200)	–	–
EIT	838	(1,348)	2,916	2,517	1,473
Other jurisdictions	922	(1,594)	1,704	2,363	1,210
	<u>1,760</u>	<u>(2,942)</u>	<u>4,420</u>	<u>4,880</u>	<u>2,683</u>
Deferred tax (<i>note 20</i>):	<u>(41,769)</u>	<u>(43,614)</u>	<u>26,269</u>	<u>11,548</u>	<u>44,247</u>
	<u><u>129,151</u></u>	<u><u>51,172</u></u>	<u><u>263,425</u></u>	<u><u>84,912</u></u>	<u><u>124,079</u></u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Track Record Period.

Under the Law of the EIT and Implementation Regulation of the Law of the EIT, the tax rate of the PRC subsidiaries is 25%.

The provision of PRC LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. PRC LAT has been provided at progressive rates ranging from 30% to 60% on the appreciation value, with certain allowable deductions.

Certain subsidiaries registered in PRC were subject to EIT at a rate of 15% as they were located in certain economic development zones.

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

Details of the deferred tax are set out in note 20.

	Year ended 31 December			Six months ended 30 June	
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2016 RMB'000 (Unaudited)	2017 RMB'000
Profit before taxation	<u>300,359</u>	<u>220,724</u>	<u>972,414</u>	<u>347,818</u>	<u>390,234</u>
Tax at the domestic income tax rate of 25%	75,090	55,181	243,104	86,955	97,559
Tax effect of land appreciation tax for the year	–	–	49,260	–	–
Tax effect of expenses not deductible for tax purpose	23,198	15,868	24,213	15,811	17,520
Tax effect of income not taxable for tax purpose	(14,229)	(15,391)	(63,124)	(24,555)	(8,494)
Tax effect of unrecognised deductible losses and deductible temporary difference	1,058	(779)	59,134	34,120	(56,165)
Tax effect of utilisation of tax loss not previously recognised	(29,744)	(24,696)	(56,826)	(42,066)	62,872
Effect of different tax rates of subsidiaries operating in other jurisdictions	72,274	13,928	14,226	8,276	7,969
Tax effect of the exemption granted to a PRC subsidiary	–	–	2,805	1,097	11
Tax effect of share of result of joint ventures and associates	(256)	10,003	(13,787)	394	124
Under (over)-provision in prior year	<u>1,760</u>	<u>(2,942)</u>	<u>4,420</u>	<u>4,880</u>	<u>2,683</u>
Income tax expenses	<u>129,151</u>	<u>51,172</u>	<u>263,425</u>	<u>84,912</u>	<u>124,079</u>

10. PROFIT FOR THE YEAR/PERIOD

Profit for the year/period arrived after charging (crediting):

	Year ended 31 December			Six months ended 30 June	
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2016 RMB'000	2017 RMB'000
Directors' emoluments (<i>note 11(a)</i>)	3,354	3,511	2,885	765	978
Salaries, allowances and other benefits (excluding directors' emoluments)	806,095	924,380	1,140,413	538,493	568,035
Contributions to retirement benefits plan (excluding directors' emoluments)	115,981	136,891	146,998	72,676	75,966
Total staff costs	925,430	1,064,782	1,290,296	611,934	644,979
Amortisation of intangible assets	11,335	4,486	3,681	1,344	2,238
Depreciation of investment properties	476	288	288	133	103
Depreciation of property, plant and equipment	393,460	443,278	619,870	311,004	335,751
Amortisation of land use rights	14,215	15,902	23,299	10,136	11,928
Exchange loss (gain), net	792	32,573	(9,422)	(4,376)	(13,436)
<i>Items included in other operating expenses:</i>					
Impairment loss on intangible assets	170,968	–	861	443	–
Impairment loss on property, plant and equipment	86,973	46,294	5,763	–	2,688
Impairment loss on inventories	741	181	4,671	2,218	42
Impairment loss on trade and other receivables	9,251	9,358	47,538	47,538	33,238
Impairment loss recognised (reversed) on associates	–	–	1,014	–	(256)
Write back of impairment loss on trade and other receivables	(811)	(7,091)	(359)	(359)	(23)
Impairment losses on available-for-sale investment	2,329	–	1,945	975	4
Payments under operating lease in respect of land and buildings	17,673	31,807	30,640	18,281	20,898
<i>Items included in other gain and losses</i>					
Unrealised (gain) loss on fair value change on held-for-trading investments	(16,758)	165,236	(102,811)	(14,875)	(22,692)
(Gain) loss on disposal of available-for- sale investments	–	(21,327)	8,332	(332)	–
Dividend income from equity investment	(1,927)	(16,871)	(21,153)	–	–

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11. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Emoluments paid or payable in respect of a person's services as a director, whether of the Target Company or its subsidiaries undertaking:

	Fees <i>RMB'000</i>	Salaries <i>RMB'000</i>	Retirement benefits scheme contributions <i>RMB'000</i>	Other benefit <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2014					
<i>Directors</i>					
範建雄	–	1,724	25	96	1,845
許永軍	–	1,395	25	89	1,509
	<u>–</u>	<u>3,119</u>	<u>50</u>	<u>185</u>	<u>3,354</u>
Year ended 31 December 2015					
<i>Directors</i>					
範建雄 ¹	–	1,813	28	104	1,945
許永軍 ¹	–	1,434	28	104	1,566
	<u>–</u>	<u>3,247</u>	<u>56</u>	<u>208</u>	<u>3,511</u>
Year ended 31 December 2016					
<i>Directors</i>					
張銳 ²	–	1,537	32	110	1,679
塗曉平 ³	–	1,079	32	95	1,206
	<u>–</u>	<u>2,616</u>	<u>64</u>	<u>205</u>	<u>2,885</u>
Six months ended 30 June 2016					
<i>Directors</i>					
張銳 ²	–	246	13	29	288
塗曉平 ³	–	239	13	225	477
	<u>–</u>	<u>485</u>	<u>26</u>	<u>254</u>	<u>765</u>
Six months ended 30 June 2017					
<i>Directors</i>					
張銳 ²	–	516	17	36	569
塗曉平 ³	–	341	17	51	409
	<u>–</u>	<u>857</u>	<u>34</u>	<u>87</u>	<u>978</u>

¹ Resigned on 31 December 2015.

² Appointed on 7 January 2016.

³ Appointed on 1 January 2016.

The remuneration represents remuneration received from the Target Group by the directors in their capacity as an employee of the subsidiaries during the Track Record Period.

No chief executive was appointed during the Track Record Period.

No director of the Target Company waived or agreed to waive any emolument paid by the Target Group during the Track Record Period. No emoluments were paid by the Target Group to the director of the Target Company as an incentive payment for joining the Target Group or as compensation for loss of office during the Track Record Period.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Target Group, none of them were directors of the Company. Their aggregate emoluments for the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017 were as follows:

	Year ended 31 December			Six months ended 30 June	
	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2016 <i>RMB'000</i> (Unaudited)	2017 <i>RMB'000</i>
Salaries and other benefits	15,821	14,509	11,764	7,369	9,479
Retirement benefits scheme contributions	938	847	473	233	251
	<u>16,759</u>	<u>15,356</u>	<u>12,237</u>	<u>7,602</u>	<u>9,730</u>

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

Their emoluments were within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2014 No. of employee	2015 No. of employee	2016 No. of employee	2016 No. of employees (Unaudited)	2017 No. of employees
HK\$1,500,001 to HK\$2,000,000 (equivalent to approximately Year ended 31 December 2014: RMB1,198,501 to RMB1,598,000, Year ended 31 December 2015: RMB1,261,501 to RMB1,682,000, Six months ended 30 June 2016: RMB1,276,500 to RMB1,702,000 Year ended 31 December 2016: RMB1,339,501 to RMB1,786,000 Six months ended 30 June 2017: RMB1,308,001 to RMB1,744,000)	-	-	1	4	3
HK\$2,000,001 to HK\$2,500,000 (equivalent to approximately Year ended 31 December 2014: RMB1,598,001 to RMB1,997,500, Year ended 31 December 2015: RMB1,682,001 to RMB2,102,500, Six months ended 30 June 2016: RMB1,702,001 to RMB2,127,500 Year ended 31 December 2016: RMB1,786,001 to RMB2,232,500 Six months ended 30 June 2017: RMB1,744,001 to RMB2,180,000)	2	3	2	1	-
Over HK\$2,500,000 (equivalent to approximately Year ended 31 December 2014: RMB1,997,501, Year ended 31 December 2015: RMB2,102,501, Six months ended 30 June 2016: RMB2,127,501 Year ended 31 December 2016: RMB2,232,501 Six months ended 30 June 2017: RMB2,180,001)	3	2	2	-	2
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the Track Record Period, no emoluments were paid by the Target Group to the directors and the five highest paid individuals as an inducement to join or upon joining the Target Group or as compensation for loss of office. None of the directors and the employees waived or agreed to waive any emoluments paid by the Target Group during the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017.

12. DIVIDEND

No dividend was paid or proposed by the Target Company during the Track Record Period, nor has any dividend been proposed by the Target Company since 30 June 2017.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Port and wharf settings RMB'000	Machinery, fixtures and furnitures and equipments RMB'000	Vehicles and ships RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2014	2,304,379	23,440	2,548,386	685,256	404,830	5,966,291
Exchange realignment	41	-	(72,559)	10	-	(72,508)
Additions	9,374	-	507,048	15,639	458,138	990,199
Transfer upon completion	396,783	-	2,052	217	(399,052)	-
Reclassified as investment properties	(966)	-	-	-	-	(966)
Disposal of subsidiaries (note 37)	-	-	(8,842)	(1,369)	-	(10,211)
Disposals	-	-	(248,307)	(65,295)	-	(313,602)
At 31 December 2014 and 1 January 2015	2,709,611	23,440	2,727,778	634,458	463,916	6,559,203
Exchange realignment	748	-	(70,454)	221	-	(69,485)
Additions	46,046	-	521,236	68,094	352,025	987,401
Transfer upon completion	373,204	-	6,306	-	(379,510)	-
Acquired on acquisition of subsidiaries (note 35)	-	-	5,974	24,099	-	30,073
Disposal of subsidiaries (note 37)	(63,424)	-	(66,440)	-	-	(129,864)
Disposals	(5,806)	-	(270,352)	(87,498)	-	(363,656)
At 31 December 2015 and 1 January 2016	3,060,379	23,440	2,854,048	639,374	436,431	7,013,672
Exchange realignment	1,023	-	109,977	(30)	-	110,970
Additions	9,073	5,566	639,900	32,095	1,012,028	1,698,662
Transfer upon completion	203,773	-	27,545	-	(231,318)	-
Acquired on acquisition of subsidiaries (note 35)	-	-	-	42	2,390,481	2,390,523
Effect of business combined under common control (note 36)	504,391	-	32,821	50,557	-	587,769
Disposal of subsidiaries (note 37)	-	(9,747)	(10,872)	-	-	(20,619)
Disposals	(121,417)	(2,809)	(111,896)	(46,314)	-	(282,436)
At 31 December 2016	3,657,222	16,450	3,541,523	675,724	3,607,622	11,498,541
At 31 December 2016 and 1 January 2017	3,657,222	16,450	3,541,523	675,724	3,607,622	11,498,541
Exchange realignment	(2,840)	-	(4,235)	(2,931)	-	(10,006)
Additions	3,905	-	259,513	10,981	963,529	1,237,928
Transfer upon completion	160,083	-	-	-	(160,083)	-
Disposal of subsidiaries (note 37)	(4,060)	(16,450)	(11,276)	(462)	-	(32,248)
Disposals	(1,828)	-	(105,319)	(104,457)	-	(211,604)
At 30 June 2017	3,812,482	-	3,680,206	578,855	4,411,068	12,482,611

	Buildings <i>RMB'000</i>	Port and wharf settings <i>RMB'000</i>	Machinery, fixtures and furnitures and equipments <i>RMB'000</i>	Vehicles and ships <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
ACCUMULATED DEPRECIATION						
At 1 January 2014	311,644	9,748	677,924	278,927	-	1,278,243
Exchange realignment	16	-	(23,761)	7	-	(23,738)
Provided for the year	93,628	776	244,333	54,723	-	393,460
Impairment loss recognised in profit or loss	-	-	2,089	84,884	-	86,973
Reclassified as investment properties	(208)	-	-	-	-	(208)
Disposal of subsidiaries (<i>note 37</i>)	-	-	(2,740)	(1,171)	-	(3,911)
Eliminated on disposals	-	-	(106,116)	(53,834)	-	(159,950)
At 31 December 2014 and 1 January 2015	405,080	10,524	791,729	363,536	-	1,570,869
Exchange realignment	340	-	(17,444)	143	-	(16,961)
Provided for the year	113,288	776	272,056	57,158	-	443,278
Impairment loss recognised in profit or loss	-	-	-	46,294	-	46,294
Disposal of subsidiaries (<i>note 37</i>)	(34,758)	-	(59,474)	-	-	(94,232)
Eliminated on disposals	(1,372)	-	(119,159)	(56,925)	-	(177,456)
At 31 December 2015 and 1 January 2016	482,578	11,300	867,708	410,206	-	1,771,792
Exchange realignment	402	-	26,696	(18)	-	27,080
Provided for the year	252,232	450	311,855	55,333	-	619,870
Impairment loss recognised in profit or loss	-	-	5,246	517	-	5,763
Disposal of subsidiaries (<i>note 37</i>)	-	(5,577)	(4,864)	-	-	(10,441)
Eliminated on disposals	(43,696)	(1,250)	(111,021)	(19,669)	-	(175,636)
At 31 December 2016 and 1 January 2017	691,516	4,923	1,095,620	446,369	-	2,238,428
Exchange realignment	(1,136)	-	(1,118)	(1,781)	-	(4,035)
Provided for the period	139,081	-	171,513	25,157	-	335,751
Impairment loss recognised in profit or loss	-	-	2,688	-	-	2,688
Disposal of subsidiaries (<i>note 37</i>)	(2,579)	(4,923)	(12,631)	(334)	-	(20,467)
Eliminated on disposals	(808)	-	(104,385)	(52,514)	-	(157,707)
At 30 June 2017	<u>826,074</u>	<u>-</u>	<u>1,151,687</u>	<u>416,897</u>	<u>-</u>	<u>2,394,658</u>
CARRYING VALUES						
At 31 December 2014	<u>2,304,531</u>	<u>12,916</u>	<u>1,936,049</u>	<u>270,922</u>	<u>463,916</u>	<u>4,988,334</u>
At 31 December 2015	<u>2,577,801</u>	<u>12,140</u>	<u>1,986,340</u>	<u>229,168</u>	<u>436,431</u>	<u>5,241,880</u>
At 31 December 2016	<u>2,965,706</u>	<u>11,527</u>	<u>2,445,903</u>	<u>229,355</u>	<u>3,607,622</u>	<u>9,260,113</u>
At 30 June 2017	<u>2,986,408</u>	<u>-</u>	<u>2,528,519</u>	<u>161,958</u>	<u>4,411,068</u>	<u>10,087,953</u>

Depreciation is calculated on a straight-line basis to write off the cost of assets (other than assets under construction in progress) less accumulated impairment losses to their residual values over their estimated useful lives as follows:

Buildings	10-50 years
Port and wharf settings	8-50 years
Machinery, fixtures and furniture and equipments	3-20 years
Vehicles and ships	3-25 years

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the Target Group has not obtained building ownership certificates for certain properties with a carrying amount of approximately RMB741,046,000, RMB737,888,000, RMB322,731,000 and RMB716,838,000 respectively. In the opinion of the directors, the absence of formal titles to these properties does not impair their values to the Target Group as the Target Group has paid full consideration for acquiring the relevant properties and the probability of being evicted on the ground of an absence of formal title is remote.

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the Target Group carried out a review of the recoverable amount of the Target Group's property, plant and equipment. The review led to the recognition of impairment losses of approximately RMB86,973,000, RMB46,294,000, RMB5,763,000 and RMB2,688,000 respectively, which have been recognised in consolidated statements of profit or loss and other comprehensive income.

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the Target Group's buildings with carrying amounts amounted to approximately RMB52,307,000, RMB50,627,000, RMB2,549,662,000 and RMB2,584,628,000 were pledged to secure banking facilities granted to the Target Group. Details of the pledged assets are disclosed in note 28.

14. INVESTMENT PROPERTIES

	Year ended 31 December			Six months ended 30 June
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
COST				
At 1 January	8,756	9,722	9,722	9,722
Reclassified from property, plant and equipment	966	–	–	–
At end of year/period	<u>9,722</u>	<u>9,722</u>	<u>9,722</u>	<u>9,722</u>
ACCUMULATED DEPRECIATION				
At 1 January	1,583	2,267	2,555	2,843
Reclassified from property, plant and equipment	208	–	–	–
Charge for the year/period	476	288	288	103
At end of year/period	<u>2,267</u>	<u>2,555</u>	<u>2,843</u>	<u>2,946</u>
CARRYING VALUE	<u>7,455</u>	<u>7,167</u>	<u>6,879</u>	<u>6,776</u>

Depreciation is calculated on a straight-line basis to write off the cost of investment properties less accumulated impairment losses to their residual values over shorter of the lease term of 50 years.

15. INTANGIBLE ASSETS

	Goodwill <i>RMB'000</i>	Trademarks <i>RMB'000</i>	Software <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
COST					
At 1 January 2014	2,419,863	292,795	31,708	76,460	2,820,826
Additions	–	–	4,816	–	4,816
Disposal of subsidiaries (<i>note 37</i>)	–	–	(2,512)	–	(2,512)
Disposals	–	–	–	(2,170)	(2,170)
Exchange realignment	–	(21,873)	(1,409)	–	(23,282)
At 31 December 2014 and 1 January 2015	2,419,863	270,922	32,603	74,290	2,797,678
Additions	–	–	1,927	3	1,930
Acquisition of subsidiaries (<i>note 35</i>)	134,843	–	1,117	208	136,168
Disposal of subsidiaries (<i>note 37</i>)	(407)	–	–	–	(407)
Disposals	–	–	(1,508)	(1,950)	(3,458)
Exchange realignment	(125,420)	(15,359)	(1,472)	–	(142,251)
At 31 December 2015 and 1 January 2016	2,428,879	255,563	32,667	72,551	2,789,660
Additions	–	–	5,029	1,436	6,465
Effect of business combined under common control (<i>note 36</i>)	–	–	2,545	147	2,692
Disposal of subsidiaries (<i>note 37</i>)	(209)	–	(3,113)	–	(3,322)
Write-off on winding up of a subsidiary	(861)	–	–	–	(861)
Exchange realignment	124,684	15,269	1,756	–	141,709
At 31 December 2016 and 1 January 2017	2,552,493	270,832	38,884	74,134	2,936,343
Additions	–	–	820	–	820
Disposal of subsidiaries (<i>note 37</i>)	(42)	–	(138)	–	(180)
Exchange realignment	84,046	10,293	926	–	95,265
At 30 June 2017	<u>2,636,497</u>	<u>281,125</u>	<u>40,492</u>	<u>74,134</u>	<u>3,032,248</u>

	Goodwill RMB'000	Trademarks RMB'000	Software RMB'000	Others RMB'000	Total RMB'000
AMORTISATION AND IMPAIRMENT					
At 1 January 2014	–	–	20,599	19,522	40,121
Amortisation	–	–	6,068	5,267	11,335
Impairment	116,624	5,000	–	49,344	170,968
Disposal of subsidiaries (note 37)	–	–	(840)	–	(840)
Eliminated on write-off	–	–	–	(2,170)	(2,170)
Exchange realignment	–	–	(2,001)	–	(2,001)
At 31 December 2014 and 1 January 2015	116,624	5,000	23,826	71,963	217,413
Amortisation	–	–	3,887	599	4,486
Eliminated on disposals	–	–	(575)	(500)	(1,075)
Exchange realignment	–	–	(1,289)	–	(1,289)
At 31 December 2015 and 1 January 2016	116,624	5,000	25,849	72,062	219,535
Amortisation	–	–	3,247	434	3,681
Disposal of subsidiaries (note 37)	–	–	(625)	–	(625)
Exchange realignment	–	–	735	–	735
At 31 December 2016 and 1 January 2017	116,624	5,000	29,206	72,496	223,326
Amortisation	–	–	2,177	61	2,238
Disposal of subsidiaries (note 37)	–	–	(138)	–	(138)
Exchange realignment	–	–	280	–	280
At 30 June 2017	<u>116,624</u>	<u>5,000</u>	<u>31,525</u>	<u>72,557</u>	<u>225,706</u>
CARRYING VALUES					
At 31 December 2014	<u>2,303,239</u>	<u>265,922</u>	<u>8,777</u>	<u>2,327</u>	<u>2,580,265</u>
At 31 December 2015	<u>2,312,255</u>	<u>250,563</u>	<u>6,818</u>	<u>489</u>	<u>2,570,125</u>
At 31 December 2016	<u>2,435,869</u>	<u>265,832</u>	<u>9,678</u>	<u>1,638</u>	<u>2,713,017</u>
At 30 June 2017	<u>2,519,873</u>	<u>276,125</u>	<u>8,967</u>	<u>1,577</u>	<u>2,806,542</u>

Note:

- (i) During the year ended 31 December 2016, the goodwill of Zhenjiang City Merchants Gas Co., Ltd.* (鎮江市招商燃氣有限公司), being a subsidiary of the Target Company, of approximately RMB861,000 was written-off upon its deregistration.

For the purpose of impairment testing, goodwill and trademark has been allocated to 9, 9, 7 and 6 CGUs, representing 9, 9, 7 and 6 subsidiaries as at 31 December 2014, 2015 and 2016 and 30 June 2017 respectively. The recoverable amount is determined based on value-in-use calculations. The recoverable amount of each CGU is based on certain similar key assumptions. Value-in-use calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period, 5-year period, 5-year period and 5-year period, and a discount rate of 8%, 8%, 8% and 8% for the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 respectively. Cash flow projections during the forecast period for the CGUs are based on the expected gross margins during the forecast period. Forecast gross margins have been determined based on past performance and management's expectations for the market development. Cash flows beyond the 5-year period, 5-year period, 5-year period and 5-year period are extrapolated using a 3%, 3%, 3% and 3% growth rate for the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 respectively.

The directors of the Target Company are of the opinion that the Target Group could renew the trademark continuously at minimal costs and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Target Group, which supports that the trademark has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Target Group.

As a result, the trademark is considered by the management of the Target Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

The above trademark was purchased as part of a business combination in prior years.

The above intangible assets other than trademarks have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Software	3-7 years
Others	5-10 years

* *English translated name is for identification only.*

16. INTERESTS IN ASSOCIATES

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of investments in associates	8,202	8,202	37,992	37,992
Share of post-acquisition profit and other comprehensive income, net of dividends	(596)	(596)	169	(824)
Impairment	(7,576)	(7,576)	(8,590)	(8,334)
Carrying amount	30	30	29,571	28,834

APPENDIX II
ACCOUNTANTS' REPORT ON THE TARGET GROUP

Information of major associates are as follows:

Name of associates	Place of establishment and operation	Class of shares held	Principal activities	As at 31 December				As at 30 June			
				2014		2015		2016		2017	
				Voting power	Interest held	Voting power	Interest held	Voting power	Interest held	Voting power	Interest held
United Wisdom Investment (Shenzhen) Co., Ltd.* (聚眾智投資(深圳)有限公司)	PRC	Registered capital	Investment holding	N/A	N/A	25%	25%	25%	25%	25%	25%
Guangxi Yunyu Port Limited* (廣西運宇港務有限公司)	PRC	Registered capital	Transportation	N/A	N/A	N/A	N/A	20%	20%	20%	20%

The above table lists the associates of the Target Group which, in the opinion of the directors of the Target Company, principally affected the results for the year or formed a substantial portion of the net assets of the Target Group. To give details of other associates would, in the opinion of the directors of the Target Company, result in particulars of excessive length.

The financial information and carrying amount, in aggregate, of the Target Group's interests in associates that are not individually material and are accounted for using the equity method are set out below:

	Year ended 31 December			Six months ended 30 June
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
The Target Group's share of profit (loss) for the year/period	-	-	765	(237)
Aggregate carrying amount of the Target Group's interests in these associates at the end of year/period	<u>30</u>	<u>30</u>	<u>29,571</u>	<u>28,834</u>

* English translated name is for identification only.

17. INTERESTS IN JOINT VENTURES

	As at 31 December			As at 30 June
	2014 RMB'000	2015 RMB'000	2016 RMB'000 note 35(b)	2017 RMB'000
Cost of investments in joint ventures	1,033,578	1,033,978	5,473	5,473
Share of post-acquisition profit and other comprehensive income, net of dividends	<u>8,314</u>	<u>23,459</u>	<u>35,681</u>	<u>34,423</u>
Carrying amount	<u>1,041,892</u>	<u>1,057,437</u>	<u>41,154</u>	<u>39,896</u>

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ACCOUNTANTS' REPORT ON THE TARGET GROUP

Information of major joint venture is as follows:

Name of joint ventures	Form of entity	Place of establishment and operation	Class of shares held	Principal activities	As at 31 December				As at 30 June			
					2014		2015		2016		2017	
					Voting power	Interest held	Voting power	Interest held	Voting power	Interest held	Voting power	Interest held
Shangshun Supply Chain Management (China) Co., Ltd.* (商順供應鏈管理(中國)有限公司)	Incorporated	PRC	Registered capital	Investment trading	50%	50%	50%	50%	50%	50%	50%	50%

The joint ventures are accounted for using equity method in the Historical Financial Information.

The above table lists the joint ventures of the Target Group which, in the opinion of the directors of the Target Company, principally affected the results for the year or formed a substantial portion of the net assets of the Target Group. To give details of other joint ventures would, in the opinion of the directors of the Target Company, result in particulars of excessive length.

The summarised financial information in respect of the joint venture that is material to the Target Group and is accounted for using equity method is set out below:

Shangshun Supply Chain Management (China) Co., Ltd.* (商順供應鏈管理(中國)有限公司)

	Year ended 31 December			Six months ended 30 June
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
Total assets	5,960,136	6,455,682	48,132	52,305
Total liabilities	3,895,980	4,364,142	–	–
Net assets	2,064,156	2,091,540	48,132	52,305
Revenue	10,026	54,606	114,495	–
(Loss) profit for the year/period	(10,839)	(97,284)	99,390	–
Other comprehensive expense for the year/period	–	–	–	–
Proportion of the Target Group's ownership interests	50%	50%	50%	50%
Target Group's share of joint ventures' net assets at the end of the year/period	1,032,078	1,045,770	24,066	26,153
Target Group's share of (loss) profit of joint ventures for the year/period	(5,420)	(48,642)	49,695	–

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

The financial information and carrying amount, in aggregate, of the Target Group's interests in joint ventures that are not individually material are set out below:

	Year ended 31 December			Six months ended 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Target Group's share of profit (loss) of joint ventures for the year/period	6,442	8,631	4,688	(259)
The Target Group's share of profit (loss) and total comprehensive income (expense) for the year/period	6,442	8,631	4,688	(259)
Aggregate carrying amount of the Target Group's interests in these joint ventures at the end of the year/period	9,814	11,667	17,088	13,743

* *English translated name is for identification only.*

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Listed investments:				
– Equity investments listed in Shanghai, at fair value (<i>note i</i>)	15,885	–	–	–
Unlisted investments:				
Equity investment, at fair value (<i>note ii</i>)	116	123	937	937
Equity investment, at cost (<i>note iii</i>)	3,776	172,092	4,312	4,312
Less: impairment losses recognised (<i>note iii</i>)	(2,329)	(1,729)	(3,674)	(3,678)
	17,448	170,486	1,575	1,571

Notes:

- (i) The listed equity investment is measured at fair value and is classified as level 1 fair value measurement. Fair value gain of the investment approximately RMB4,657,000, nil, nil and nil was recognised in other comprehensive income during the Track Record Period.

For the year ended 31 December 2015, the Target Group disposed of listed equity securities with carrying amount of approximately RMB15,885,000. A gain on disposal of approximately RMB18,456,000 had been recognised in profit or loss for the year ended 31 December 2015.

- (ii) The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at fair values at the end of the reporting period.

- (iii) The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Target Company are of the opinion that their fair values cannot be measured reliably. Impairment loss of approximately RMB2,329,000, nil, RMB1,945,000 and RMB4,000 had been recognised in profit or loss for the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 respectively.

For the years ended 31 December 2015 and 2016, the Target Group disposed of certain unlisted equity securities with carrying amount of approximately RMB932,000 and RMB170,056,000 respectively, which had been carried at cost less impairment before the disposal. A gain on disposal of approximately RMB2,871,000 and a loss RMB8,332,000 had been recognised in profit or loss for the years ended 31 December 2015 and 2016 respectively.

19. LAND USE RIGHTS

	Year ended 31 December			Six months ended 30 June
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
COST				
At 1 January	981,864	1,069,741	1,145,131	1,439,677
Additions	87,838	74,690	64,806	6,841
Effect of Business combination under common control (<i>note 36</i>)	–	–	281,370	–
Disposal of subsidiaries (<i>note 37</i>)	–	–	–	(2,247)
Disposals	–	–	(51,630)	–
Exchange realignment	39	700	–	–
At end of the year/period	<u>1,069,741</u>	<u>1,145,131</u>	<u>1,439,677</u>	<u>1,444,271</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT				
At 1 January	52,425	66,665	83,001	90,818
Disposal of subsidiaries (<i>note 37</i>)	–	–	–	(1,668)
Amortisation	14,215	15,902	23,299	11,928
Write back due to disposals	–	–	(15,482)	–
Exchange realignment	25	434	–	–
At end of the year/period	<u>66,665</u>	<u>83,001</u>	<u>90,818</u>	<u>101,078</u>
CARRYING VALUE	<u>1,003,076</u>	<u>1,062,130</u>	<u>1,348,859</u>	<u>1,343,193</u>

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed for reporting purposes as:				
– Non-current assets	987,174	1,038,832	1,325,560	1,322,923
– Current assets	15,902	23,298	23,299	20,270
	<u>1,003,076</u>	<u>1,062,130</u>	<u>1,348,859</u>	<u>1,343,193</u>

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the land use rights of the Target Group amounted to approximately RMB11,065,000, RMB10,817,000, RMB9,121,000 and RMB49,903,000 respectively were pledged to secure banking facilities granted to the Target Group. Details of the pledged assets are disclosed in note 28.

20. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	Year ended 31 December			Six months ended 30 June
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	131,678	143,783	148,324	132,695
Deferred tax liabilities	(209,968)	(172,612)	(200,123)	(228,741)
	<u>(78,290)</u>	<u>(28,829)</u>	<u>(51,799)</u>	<u>(96,046)</u>

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ACCOUNTANTS' REPORT ON THE TARGET GROUP

The followings are the major deferred tax assets (liabilities) recognised and movements there on during the years/ period:

	Impairment on financial assets <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Accelerated tax depreciation <i>RMB'000</i>	Fair value adjustment on acquired assets from subsidiaries acquisition <i>RMB'000</i>	Fair value change on held-for- trading investments <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2014	(6,400)	81,784	(133,104)	(21,398)	(28,165)	(12,548)	(119,831)
Disposal of subsidiaries (<i>note 37</i>)	-	-	-	-	-	(228)	(228)
(Charge) credit to consolidated profit or loss	<u>2,312</u>	<u>2,804</u>	<u>130,992</u>	<u>(120,516)</u>	<u>(4,189)</u>	<u>30,366</u>	<u>41,769</u>
At 31 December 2014 and 1 January 2015	(4,088)	84,588	(2,112)	(141,914)	(32,354)	17,590	(78,290)
Acquisition of subsidiaries (<i>note 35</i>)	-	-	-	-	-	5,847	5,847
(Charge) credit to consolidated profit or loss	<u>2,370</u>	<u>3,268</u>	<u>(157,968)</u>	<u>130,929</u>	<u>41,309</u>	<u>23,706</u>	<u>43,614</u>
At 31 December 2015 and 1 January 2016	(1,718)	87,856	(160,080)	(10,985)	8,955	47,143	(28,829)
Acquisition of subsidiaries (<i>note 35</i>)	-	-	-	-	-	3,299	3,299
(Charge) credit to consolidated profit or loss	<u>16,212</u>	<u>(13,007)</u>	<u>(14,637)</u>	<u>4,095</u>	<u>(25,702)</u>	<u>6,770</u>	<u>(26,269)</u>
At 31 December 2016 and 1 January 2017	14,494	74,849	(174,717)	(6,890)	(16,747)	57,212	(51,799)
(Charge) credit to consolidated profit or loss	<u>8,310</u>	<u>(17,620)</u>	<u>(22,692)</u>	<u>1,832</u>	<u>(5,673)</u>	<u>(8,404)</u>	<u>(44,247)</u>
At 30 June 2017	<u>22,804</u>	<u>57,229</u>	<u>(197,409)</u>	<u>(5,058)</u>	<u>(22,420)</u>	<u>48,808</u>	<u>(96,046)</u>

The Target Group has estimated unutilised tax losses of approximately RMB556,839,000, RMB458,056,000, RMB230,750,000 and RMB482,237,000 available for offset against future profits at 31 December 2014, 2015 and 2016 and 30 June 2017 respectively for which no deferred tax assets has been recognised due to the unpredictability of future profit streams. Tax losses of approximately RMB322,149,000, RMB229,412,000, RMB87,333,000 and RMB109,428,000 at 31 December 2014, 2015 and 2016 and 30 June 2017 may be carried forward indefinitely. The remaining tax losses of approximately RMB234,690,000, RMB228,644,000, RMB143,417,000 and RMB372,809,000 at 31 December 2014, 2015 and 2016 and 30 June 2017 will expire five years from the year of origination.

The Target Group has deductible temporary differences of approximately RMB19,660,000, RMB16,542,000, RMB253,078,000 and RMB28,418,000 at 31 December 2014, 2015 and 2016 and 30 June 2017 respectively. Apart from the temporary differences recognised above, no deferred tax has been recognised of the remaining deductible temporary differences.

21. INVENTORIES

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	8,589	17,223	11,696	13,228
Finished goods	42,788	27,380	8,252	11,060
Others	6,308	4,170	3,700	1,903
	<u>57,685</u>	<u>48,773</u>	<u>23,648</u>	<u>26,191</u>

22. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables (<i>note</i>)	1,286,665	1,503,414	2,093,425	3,192,311
Less: allowance for impairment loss of trade receivables	<u>(23,771)</u>	<u>(24,241)</u>	<u>(65,611)</u>	<u>(71,634)</u>
	1,262,894	1,479,173	2,027,814	3,120,677
Bills receivables	47,678	58,303	101,690	139,953
Other receivables	347,832	384,895	1,087,333	663,459
Less: allowance for impairment loss of other receivables	<u>(2,054)</u>	<u>(2,877)</u>	<u>(2,893)</u>	<u>(27,944)</u>
	<u>1,656,350</u>	<u>1,919,494</u>	<u>3,213,944</u>	<u>3,896,145</u>

Note: Included in the Target Group's trade receivables balance as at 31 December 2014, 2015 and 2016 and 30 June 2017 are RMB12,673,000, RMB45,673,000, RMB68,313,000 and RMB64,352,000 due from fellow subsidiaries respectively.

The Target Group grants different credit periods to customers. The credit period of individual customers is considered on a case-by-case basis. The following is an aged analysis of trade receivables, net of allowance for impairment of trade receivables, presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Within 183 days	1,218,960	1,438,632	1,935,450	2,965,056
Within one year	32,107	28,989	42,020	99,568
1-2 years	9,535	9,644	45,616	51,348
2-3 years	2,292	1,908	4,728	4,705
	<u>1,262,894</u>	<u>1,479,173</u>	<u>2,027,814</u>	<u>3,120,677</u>

Before accepting any new customer, the Target Group assesses the credit quality of the potential customers with reference to the credit report and their financial strength and determines the credit terms and limits for them. The Target Group also regularly monitored the credit quality of the existing customers by established credit policies and procedures. The Target Group will adjust the credit limit to the existing customers with reference to the past repayment history and external credit source on the customers' financial strength.

Included in the Target Group's trade receivable balance are debtors with aggregate carrying amount of RMB96,837,000, RMB95,065,000, RMB115,609,000 and RMB432,542,000 which are past due as at the end of the reporting period for which the Target Group has not provided for impairment loss because there has not been a significant change in credit quality and they are still considered as recoverable.

The Target Group does not hold any collateral over these balances.

The aged analysis of trade receivables which are past due but not impaired is set out below:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Past due for:				
Within 6 months	<u>96,837</u>	<u>95,065</u>	<u>115,609</u>	<u>432,542</u>

The movement in the allowance for impairment of trade receivables is set out below:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	19,880	23,771	24,241	65,611
Impairment losses recognised	8,062	8,384	43,261	8,191
Amounts written off as uncollectible	(3,706)	(974)	(1,835)	(1,975)
Amounts recovered during the year	(465)	(6,940)	(120)	-
Exchange realignment	-	-	64	(193)
At end of year/period	<u>23,771</u>	<u>24,241</u>	<u>65,611</u>	<u>71,634</u>

Included in the allowance for impairment of trade receivables are individually impaired trade receivables with an aggregate balance of approximately RMB23,771,000, RMB24,241,000, RMB65,611,000 and RMB71,634,000 as at 31 December 2014, 2015 and 2016 and 30 June 2017 respectively since the directors of the Target Company considered the prolonged outstanding balances were uncollectible.

The movement in the allowance for impairment of other receivables is set out below:

	As at 31 December			As at 30 June
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
At 1 January	27,543	2,054	2,877	2,893
Impairment losses recognised	1,189	974	4,277	25,047
Amounts written off as uncollectible	(26,332)	–	(4,036)	(49)
Amounts recovered during the year/period	(346)	(151)	(239)	(23)
Exchange realignment	–	–	14	76
At end of year/period	<u>2,054</u>	<u>2,877</u>	<u>2,893</u>	<u>27,944</u>

Included in the allowance for impairment of other receivables are individually impaired other receivables with an aggregate balance of approximately RMB2,054,000, RMB2,877,000, RMB2,893,000 and RMB27,944,000 as at 31 December 2014, 2015 and 2016 and 30 June 2017 respectively since the directors of the Target Company considered the prolonged outstanding balances were uncollectible.

As at 31 December 2016, included in other receivables is receivable from Shenzhen Shekou Asset Management Co., Ltd. (“Shekou Asset Management”) of approximately RMB245,281,000 resulting from the disposal of land use rights. The amount was settled during the six months ended 30 June 2017.

23. PREPAYMENTS AND OTHER CURRENT ASSETS

	As at 31 December			As at 30 June
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
Prepaid expenses	2,830	2,214	1,030	1,179
Value added tax receivables	43,963	61,832	266,515	278,701
Prepayments (<i>note</i>)	241,977	324,948	464,686	617,442
Others	–	49	8,234	6,238
	<u>288,770</u>	<u>389,043</u>	<u>740,465</u>	<u>903,560</u>

Note: Included in the balance as at 31 December 2014, 2015 and 2016 and 30 June 2017 are prepayments of nil, RMB310,000, RMB43,603,000 and RMB47,209,000 made to fellow subsidiaries respectively.

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24. HELD-FOR-TRADING INVESTMENTS

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Held-for-trading investments:				
– Listed equity securities	457,269	293,893	396,710	419,396
	457,269	293,893	396,710	419,396

Held-for-trading investments are stated at fair value. The fair value of the listed securities has been determined by reference to published price quotations in active markets.

25. BANK BALANCES AND CASH

- (i) Bank balances and cash comprised of cash on hand and deposits with an original maturity of three months or less.
- (ii) Bank balances carry interest at market rates which range from 2.62% to 5.31% per annum for the reporting periods.

26. TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables (<i>note</i>)	973,221	1,152,692	1,668,580	1,875,097
Bills payables	50,000	19,610	78,034	6,000
	1,023,221	1,172,302	1,746,614	1,881,097

Note: Included in the Target Group's trade payables balance as at 31 December 2014, 2015 and 2016 and 30 June 2017 are RMB34,877,000, RMB24,371,000, RMB28,167,000 and RMB13,847,000 due to fellow subsidiaries respectively.

The following is an aged analysis of trade payables presented based on invoice date at the end of the reporting period.

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	962,099	1,127,301	1,629,595	1,844,525
In second year	4,405	17,871	27,220	17,273
In third year	5,446	3,360	9,611	11,186
Over 3 years	1,271	4,160	2,154	2,113
	973,221	1,152,692	1,668,580	1,875,097

The credit period granted is ranging from 30 to 90 days. The Target Group has financial risk management in place to ensure that all payables are settled within the credit timeframe.

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27. OTHER PAYABLES AND ACCRUALS AND RECEIPT IN ADVANCE FROM CUSTOMERS

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Receipt in advance from customers (<i>note a</i>)	38,660	59,133	270,471	347,361
Interest payable (<i>note b</i>)	16,155	21,627	72,484	86,402
Dividend payable (<i>note c</i>)	1,543	4,882	103,651	121,644
Amounts due to fellow subsidiaries and the ultimate holding company(<i>note d</i>)	1,807,512	5,066,368	6,583,686	5,955,162
Others	880,930	734,768	1,347,683	818,406
	2,706,140	5,827,645	8,107,504	6,981,614

Notes:

- a) Included in the Target Group's receipt in advance from customer balance as at 31 December 2014, 2015 and 2016 and 30 June 2017, are nil, RMB972,000, RMB1,311,000 and RMB47,000 attributed to fellow subsidiaries respectively.
- b) Included in the Target Group's interest payable balance as at 31 December 2014, 2015 and 2016 and 30 June 2017, are RMB34,877,000, RMB24,371,000, RMB28,167,000 and RMB12,977,000 due to fellow subsidiaries and ultimate holding Company respectively.
- c) Included in the Target Group's dividend payable balance as at 31 December 2014, 2015 and 2016 and 30 June 2017, are RMB1,543,000, RMB3,350,000, RMB103,650,000 and RMB15,647,000 due to fellow subsidiaries respectively.
- d) The amounts are unsecured, interest-free and repayable on demand.

Subsequent to the end of the reporting period, the Target Group was granted a right to defer the repayment of amounts due to fellow subsidiaries and ultimate holding company in aggregate of approximately RMB5,955,162,000 to a period after 30 June 2018.

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28. BANK AND OTHER BORROWINGS

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loan from the ultimate holding company <i>(note a)</i>	990,000	790,000	790,000	790,000
Loan from fellow subsidiaries <i>(note b)</i>	61,000	183,000	606,000	998,276
Bank borrowings <i>(note c)</i>	2,130,378	2,770,391	3,962,157	5,285,120
	<u>3,181,378</u>	<u>3,743,391</u>	<u>5,358,157</u>	<u>7,073,396</u>
Secured	26,200	210,875	1,099,717	2,491,759
Unsecured	1,263,384	1,595,499	1,708,471	2,553,566
Guaranteed <i>(note d)</i>	1,891,794	1,937,017	2,549,969	2,028,071
	<u>3,181,378</u>	<u>3,743,391</u>	<u>5,358,157</u>	<u>7,073,396</u>
Carrying amount repayable (based on scheduled repayments dates set out in the loan agreements):				
Within one year	308,163	497,526	986,199	2,233,488
After one year but within two years	206,704	763,037	2,089,430	2,313,071
After two years but within five years	2,203,215	2,023,903	934,111	1,034,094
After five years	463,296	458,925	1,348,417	1,492,743
	<u>3,181,378</u>	<u>3,743,391</u>	<u>5,358,157</u>	<u>7,073,396</u>
Amounts shown under current liabilities	308,163	497,526	986,199	2,233,488
Amounts shown under non-current liabilities	2,873,215	3,245,865	4,371,958	4,839,908
	<u>3,181,378</u>	<u>3,743,391</u>	<u>5,358,157</u>	<u>7,073,396</u>

Notes:

- (a) As at 31 December 2014, 2015 and 2016 and 30 June 2017, nil, nil, RMB340,000,000 and RMB340,000,000 was repayable within 12 months from the end of the reporting period, the remaining balances are repayable 12 months after the reporting period. These balances carry interest at 4.65% to 5.40%.
- (b) As at 31 December 2014, 2015 and 2016 and 30 June 2017, nil, nil, RMB268,516,000 and RMB924,710,000 was repayable within 12 months from the end of the reporting period, the remaining balances are repayable 12 months after the reporting period. These balances carry interest at 1.20% to 5.65%.
- (c) These balance carry interest at 3.92% to 8.30%.
- (d) Certain fellow subsidiaries of the Target Group are the guarantors.

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

(e) The Target Group's bank and other borrowings were secured by:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	52,307	50,627	2,549,662	2,584,628
Land use rights	11,065	10,817	9,121	49,903
	63,372	61,444	2,558,783	2,634,531

29. OBLIGATIONS UNDER FINANCE LEASES

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysed for reporting purposes as:				
– Non-current liabilities	–	6,857	407	–
– Current liabilities	–	11,109	4,136	407
	–	17,966	4,543	407

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 December		As at 30		As at 31 December		As at 30	
	2014	2015	2016	June 2017	2014	2015	2016	June 2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts payable under finance leases								
Within one year	–	13,146	4,667	414	–	11,109	4,136	407
After one year but within two years	–	4,667	414	–	–	4,136	407	–
After two years but within five years	–	2,728	–	–	–	2,721	–	–
	–	20,541	5,081	414	–	17,966	4,543	407
Less: future finance charges	–	(2,575)	(538)	(7)	N/A	N/A	N/A	N/A
Present value of obligation under finance leases	–	17,966	4,543	407	–	17,966	4,543	407
Less: Amount due for settlement within 1 year (shown under current liabilities)					–	(11,109)	(4,136)	(407)
Amount due for settlement after 1 year					–	6,857	407	–

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

During the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, the Target Company entered into finance lease arrangements of vehicles. The average lease terms are 3 years. The effective interest rate for the obligations under finance leases for the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 were under fixed rates and ranged from 7.07% to 10.80% per annum.

The Target Group's obligations under finance leases are secured by the lessor's charge over the leased assets and pledged by the equity interest of certain subsidiaries.

30. AMOUNTS DUE TO NON-CONTROLLING INTERESTS

The amounts due to non-controlling interests are unsecured, non-interest bearing and not repayable within 12 months from the end of the reporting period.

31. DEFERRED INCOME

	Year ended 31 December			Six months ended 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	90,881	92,263	86,850	107,030
Additions during the year/period	9,341	1,381	50,493	41,239
Amortisation (included in the other income)	<u>(7,959)</u>	<u>(6,794)</u>	<u>(30,313)</u>	<u>(20,292)</u>
At end of year/period	<u>92,263</u>	<u>86,850</u>	<u>107,030</u>	<u>127,977</u>

During the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, the Target Group received government grants of approximately RMB9,341,000, RMB1,381,000, RMB50,493,000 and RMB41,239,000 respectively. The amounts have been treated as deferred income and are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate on a systematic basis.

32. CAPITAL AND RESERVES

(a) Paid-up capital

The consolidated share capital in the consolidated statements of financial position as at 31 December 2014, 2015 and 2016 and 30 June 2017 represented the paid-up capital of the Target Company.

(b) Other reserve

Other reserve represents the gain or losses arising from changes in ownership interests of subsidiaries that did not result in change in control.

(c) Merger reserve

The merger reserve of the Target Group arose as a result of the acquisitions of subsidiaries under common control and represented the difference between the consideration paid for the acquisitions and the carrying amount of the net assets of the subsidiaries of acquisitions.

(d) **Statutory reserves**

According to the PRC Company Law, companies in the PRC are required to transfer 10% of their respective after-tax profits, calculated in accordance with the relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners.

33. RETIREMENT BENEFITS PLAN

The Target Group operates the MPF under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. Under the MPF, the Target Group is required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the scheme vest immediately. The assets of the scheme are held separately from those of the Target Group, in funds under the control of trustees.

For members of the MPF Scheme, the Target Group contributes 5% of relevant payroll costs, capped at HK\$1,500 per month, to the MPF Scheme, in which the contribution is matched by the employee.

The employees of the Target Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme.

The total cost charged to consolidated statements of profit or loss of approximately RMB116,031,000, RMB136,947,000, RMB147,062,000 and RMB82,979,000 represent contributions payables to these schemes by the Target Group for the three years ended 31 December 2014, 2015 and 2016 and six months ended 30 June 2017.

34. LITIGATION AND CONTINGENT LIABILITIES

At the end of the reporting period, there were a number of claims arising from the normal course of business being lodged against the Target Group and no specific claim amount has been specified in the applications of these claims except as detailed below. In the opinion of the directors of the Target Company, the possibility of any outflow of resources in settling these claims was remote and/or sufficient insurance policies are maintained to cover the loss, if any, arising from these claims and therefore the ultimate liability under these claims would not have a material adverse impact on the financial position or results of the Target Group.

- (a) In April 2016, Ningbo Free Trade Zone Daejeon Fisher Supply Chain Services Limited* (寧波保稅區大田費捨爾供應鏈服務有限公司) (“**Ningbo Fisher**”) (as the plaintiff) sued against China Merchants Logistics Group Ningbo Co., Ltd.* (招商局物流集團寧波有限公司) (“**CM Ningbo**”), a subsidiary of the Target Company, in respect of failure to provide relevant storage services as stated in the storage service agreement signed between Ningbo Fisher and CM Ningbo in January 2016. Ningbo Fisher made a claim of RMB2,002,000 for breach of contract and a claim for the return of RMB95,000,000 worth of goods in the warehouse.

In September 2016, CM Ningbo raised a counter claim for the outstanding service fee for March 2016 to April 2016 in the amount of RMB1,440,000. As at the end of the reporting period, judgement was handed down and both the claims of Ningbo Fisher and the counter claim of CM Ningbo were dismissed. CM Ningbo has filed an appeal on 27 July 2017. In the opinion of the directors of the Target Company, based on the opinion from legal counsel of CM Ningbo, the Target Group has a valid defense against the claim of Ningbo Fisher and accordingly has not provided for any claim arising from the litigation.

- (b) China Merchants Logistics Group Shenyang Co., Ltd.* (招商局物流集團瀋陽有限公司) (“**CM Shenyang**”) as lessee and Shenyang Waisheng Electronics Co., Ltd.* (瀋陽惠成電子有限公司) (“**Shenyang Waisheng**”) as lessor entered into a lease agreement in relation to the lease of a warehouse from December 2006 to December 2011. As CM Shenyang and Shenyang Waisheng were unable to sign a renewed lease agreement after the lease agreement expired and CM Shenyang ceased to pay rent since July 2012, such warehouse was closed by Shenyang Waisheng in October 2012. As a result of the closure, CM Shenyang was unable to deliver the goods of Nature Home (China) Limited* (大自然家居(中國)有限公司) (“**Nature Home**”) stored in that warehouse.

In February 2014, Nature Home made a claim against CM Shenyang in the amount of RMB18,570,000 for damages in relation to such closure. The judgement for the first trial was issued in October 2015. Based on such judgment, a provision of RMB11,300,000 has been made by the Target Group during the Track Record Period. On appeal by CM Shenyang, a re-trial was granted and held on 29 June 2017. During the course of the retrial proceedings, Nature Home amended its claim to approximately RMB12,100,000. Judgement of such re-trial has not yet been handed down.

- (c) In March 2014, CM Shenyang made a claim against Shenyang Waisheng in the amount of approximately RMB9,818,000 plus legal expenses in relation to the proceeding for the potential loss it may suffer as a result of closure of the warehouse. In May 2014, Shenyang Waisheng made a claim against CM Shenyang in the amount of approximately RMB12,767,000 for unpaid warehouse rental for the period from December 2011 to May 2014 and maintenance fees. According to the rulings dated 29 March 2017, the court has ordered CM Shenyang to pay a compensation of approximately RMB5,157,000. A provision of approximately RMB7,825,000 was made by the Target Group in respect of Shenyang Waisheng's claim during the Track Record Period. CM Shenyang applied for a re-trial and such application was rejected by the court on 19 July 2017.
- (d) On 18 May, 2016, Shenzhen First Crown Electronics Co., Ltd.* (深圳市先冠電子有限公司) (“**Shenzhen Xinguan**”) sued against Shenzhen Henglu Logistics Co., Ltd.* (深圳市恒路物流股份有限公司) (“**Henglu**”), a subsidiary of the Target Company, in respect of the Onda Board delivery with compensation of RMB36,992,000. Subsequently on 13 January 2017, the claims has been dismissed regarding the sue in 2016. In the opinion of the director of Target Group, no provision was made for this litigation.
- (e) Sinotrans (Tianjin) Storage and Transportation Co., Ltd.* (中外運(天津)儲運有限公司) (“**CM Tianjin**”), a subsidiary of the Target Company, had leased a warehouse from Yao Xin Coal Co., Ltd.* (曜鑫煤焦有限公司) (“**Yaoxin Coal**”) on behalf of Tianjin Properties and Metal International Trade Co., Ltd.* (天津物產金屬國際貿易有限公司) (“**Tianjin Properties**”) in respect of taking care of the coke stored in the warehouse for Tianjin Properties. However, Tianjin Properties and Yaoxin Coal had some financial disputes and Yaoxin Coal then disallowed Tianjin Properties to take away the remaining coke stored in its warehouse. In October 2014, Yaoxin Coal obstructed the surveillance work of CM Tianjin by cutting power and utilities supply resulting in the ineffective of surveillance work. Failure of effective surveillance work would result in ineffective control of the goods and could not immediately stop the take away of goods by unpermitted person. Based on the legal counsel's opinion, since CM Tianjin does not have effective control over the goods, it is possible that Tianjin Properties would sue against CM Tianjin in the future for compensation of goods amounted to RMB27,002,900. A provision of approximately RMB30,422,000 was made by the Target Group during the Track Record Period.

* English translated name is for identification only.

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35. ACQUISITION OF SUBSIDIARIES NOT UNDER COMMON CONTROL**For the year ended 31 December 2015****(a) Henglu**

On 23 April 2015, the Target Group entered into agreements with independent third parties, Shenzhen Henglu Investment Co., Ltd.* (深圳市恒路投資有限公司), China Cheng Xin Investment Co., Ltd.* (中誠信投資有限公司), 彭曉美, 王東石, Shenzhen Top Trade Co., Ltd.* (深圳市頂創能貿易有限公司), Shenzhen Ding Chao Investment Management Co., Ltd.* (深圳市定超投資管理有限責任公司), 徐澤林 and Shenzhen Fang Sheng Investment Management Co., Ltd.* (深圳市方晟投資管理有限責任公司) to acquire 70% equity interest in Henglu, a company engaged in logistics services in PRC, for a cash consideration of approximately RMB183,904,000. The acquisition was completed on 1 May 2015.

The directors of the Target Company consider that the acquisition of Henglu will benefit the Target Group through synergies and economies of scale. The acquisition of Henglu had been accounted for using the acquisition method.

Consideration transferred	RMB'000
Cash consideration paid	171,991
Consideration payable (under current liabilities)	11,913
	<hr/>
	183,904
	<hr/> <hr/>

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

The fair value of the identified assets acquired and liabilities assumed in the above acquisition as at the date of acquisition were as follows:

	<i>RMB'000</i>
Property, plant and equipment	30,073
Intangible assets	1,325
Deferred tax assets	5,847
Trade and other receivables	213,072
Bank balances and cash	27,936
Bank and other borrowings	(76,000)
Trade and other payables	(105,870)
Obligation under finance lease	<u>(26,296)</u>
Total identifiable net assets	70,087
Less: non-controlling interests (at proportionate share of net assets)	<u>(21,026)</u>
Goodwill	49,061
	<u>134,843</u>
Total consideration	<u><u>183,904</u></u>
Analysis of net cash outflow of cash and cash equivalents arising on acquisition	
Cash consideration paid	171,991
Less: cash and cash equivalents acquired	<u>(27,936)</u>
	<u><u>144,055</u></u>

From the date of the acquisition to 31 December 2015, Henglu contributed net profit and revenue of approximately RMB36,689,000 and RMB423,205,000 respectively to the Target Group.

Had the above acquisition been completed on 1 January 2015, the directors of the Target Company estimate that the consolidated revenue and consolidated net profit for the year ended 31 December 2015 would have been approximately RMB634,808,000 and approximately RMB55,034,000 respectively.

The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and result of operations of the Target Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

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For the year ended 31 December 2016

(b) Gold Carrier Enterprise Limited (“Gold Carrier”)

On 20 September 2016, the Target Group entered into an agreements with joint venture, Shangshun Supply Chain Management (China) Co., Ltd.* (商順供應鏈管理(中國)有限公司) (“商順”) to acquire 100% equity interest in Gold Carrier, a company engaged in investment holding in BVI, for a consideration of approximately RMB1,145,021,000 which comprise a cash consideration of RMB74,570,000 and the Target Group’s interest in a joint venture. The acquisition was completed on 20 September 2016.

At the date of acquisition, Gold Carrier and its subsidiary (“**the Gold Carrier Group**”) had not commenced business whose principal asset is development project in Hong Kong. Accordingly, the acquisition has been accounted for as acquisition of assets through acquisition of subsidiaries

Consideration transferred	<i>RMB’000</i>
Cash consideration	74,570
Interest in joint venture	1,070,451
	1,145,021

The fair value of the identified assets acquired and liabilities assumed in the above acquisition as at the date of acquisition were as follows:

	<i>RMB’000</i>
Construction in progress	2,390,481
Property, plant and equipment	42
Other receivables	42,926
Bank balances and cash	2,792
Amounts due to related parties	(13,855)
Bank and other borrowings	(1,035,481)
Other payables and accruals	(241,884)
	1,145,021
Total identifiable net assets	1,145,021
Total consideration	1,145,021

Analysis of net cash inflow of cash and cash equivalents arising on acquisition

Cash consideration paid	74,570
Consideration paid by a fellow subsidiary on the Target Group’s behalf	(74,570)
Less: cash and cash equivalents acquired	(2,792)
	(2,792)

On acquisition of Gold Carrier, the Target Group allocates the consideration to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of acquisition.

* *English translated name is for identification only.*

36. BUSINESS COMBINATION UNDER COMMON CONTROL**For the year ended 31 December 2015**

- (a) The Target Group adopts merger accounting for common control combinations in respect of the following transactions which occurred during the year ended 31 December 2015:
- (i) On 5 January 2015, the Target Group entered into an equity transfer agreement to acquire 100% equity interest of Smart Ally Holdings Limited (“Smart Ally”) from China Merchants Holdings (International) Company Limited for a cash consideration of approximately RMB59,656,000. China Merchants Group Limited is the ultimate controlling shareholder of the Target Company and Smart Ally Holdings International Limited.
 - (ii) On 30 April 2015, the Target Group entered into an equity transfer agreement to acquire 100% equity interest of China Assess Investment Limited (“China Assess”) from China Merchants Holdings (Hong Kong) Company Limited for a cash consideration of RMB6. The acquisition was completed on 1 May 2015. China Merchants Group Limited is the ultimate controlling shareholder of the Company and China Asses Investment Limited before and after the acquisition.
 - (iii) On 31 December 2015, the Target Group entered into an equity transfer agreement to acquire 100% equity interest of China Merchants Loscam International Holdings Co., Limited (“Loscam”) from China Merchants Holdings (Hong Kong) Company Limited for an aggregate cash consideration of approximately RMB2,293,153,000. The acquisition was completed on 31 December 2015. China Merchants Group Limited is the ultimate controlling shareholder of the Company and China Merchants Loscam International Holdings Co., Limited before and after the acquisition.

As the Target Company, Smart Ally, China Assess and Loscam (collectively referred to as the “Acquired Companies”) are under common control of China Merchants Group Limited, the above acquisitions have constituted a business combination under common control. The assets and liabilities of the Acquired Companies have been recognised in the Historical Financial Information of the Target Group at the carrying amounts recognised previously in China Merchants Group Limited’s consolidated financial statements. The Historical Financial Information of the Target Group have been prepared as if the combination had occurred prior to the start of the earliest period presented.

For the year ended 31 December 2016

- (b) The Target Group adopts merger accounting for common control combinations in respect of the following transactions which occurred during the year ended 31 December 2016:

The Target Group acquired 100% equity interests in eight companies, which are Sinotrans Jiu Ling Storage and Transportation Co., Ltd.* (中外運久凌儲運有限公司), Guangxi Sinotrans Logistics Co., Ltd.* (廣西中外運物流有限公司), Sinotrans (Tianjin) Storage and Transportation Co., Ltd.* (中外運(天津)儲運有限公司), Beijing Sinotrans Transportation Co., Ltd.* (北京中外運運輸有限公司), Zhoushan Sinotrans Customs Co., Ltd.* (舟山中外運報關有限公司), Shenyang Sinotrans Jiuling Logistics Development Co., Ltd.* (瀋陽中外運久凌物流發展有限公司), Hebei Sinotrans Jifa Logistics Co., Ltd.* (河北中外運冀發物流有限公司) and Sinotrans Logistics Investment Holdings Limited* (中外運物流投資控股有限公司) (collectively referred to as the “**Sinotrans Entities**”), from Sinotrans & CSC Holding Co., Ltd. (“**Sinotrans & CSC**”) for a cash consideration of approximately RMB881,202,000 on 31 December 2016.

On 29 December 2015, the State-owned Assets Supervision and Administration Commission of the State Council has approved the reorganisation between Sinotrans & CSC and China Merchants. Sinotrans & CSC was thereby administratively allocated (for no consideration) to, and became a wholly-owned subsidiary of, China Merchants in year 2016 and as a result, China Merchants obtained control over Sinotrans & CSC.

The financial information of the Sinotrans Entities were included in the Historical Financial Information from 1 January 2016, the date the Sinotrans Entities and the Target Company first became under the common control of China Merchants or since their respective dates of incorporation and establishment, whichever is shorter, using merger accounting for business combination involving entities under common control.

The Historical Financial Information incorporates the financial information of the Sinotrans Entities as if they had been combined from the date when the Sinotrans Entities first came under the control of China Merchants.

The net assets of the combining entities are combined using the existing book values from China Merchant’s perspective. No amount is recognised in respect of goodwill or the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of China Merchant’s interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

The effects of the application of merger accounting for business combinations under common control that occurred during the year ended 31 December 2016 on the Target Group's financial position as at 31 December 2016 and the results for the year ended 31 December 2016 are summarised as follows:

Sinotrans Entities

	<i>RMB'000</i>
Property, plant and equipment	587,769
Intangible assets	2,692
Land use rights	281,370
Interest in associates	16,789
Interest in joint ventures	4,923
Available-for-sale investments	2,801
Deferred tax assets	3,299
Other non-current assets	1,828
Inventories	421
Trade and other receivables	1,015,981
Other current assets	24,056
Bank balances and cash	361,503
Trade and other payables	(936,672)
Income tax payable	(17,558)
Other non-current liabilities	(45,818)
Borrowings	<u>(422,182)</u>
 Total identifiable net assets	 <u><u>881,202</u></u>
 Total consideration (<i>note</i>)	 <u><u>881,202</u></u>
 <i>Note:</i> The consideration was included in other payables	
 Analysis of net cash inflow of cash and cash equivalents arising on acquisition	
Cash consideration paid	—
Cash and cash equivalents acquired	<u>361,503</u>
	<u><u>361,503</u></u>

* *English translated name is for identification only.*

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

37. DISPOSAL OF SUBSIDIARIES**For the year ended 31 December 2014****(a) China Merchants Logistics Chengdu Pharmaceutical Limited* (招商局物流集團成都醫藥有限公司) (“Chengdu Pharmaceutical”)**

On 30 December 2014, the Target Group entered in to a sale and purchase agreement with Shenzhen Shun Feng Investment Co., Ltd.* (深圳市順豐投資有限公司), an independent third party, for the disposal of its entire equity interest in Chengdu Pharmaceutical at a cash consideration of approximately RMB2,970,000. The transaction was completed on 31 December 2014.

The assets and liabilities of Chengdu Pharmaceutical at the date of disposal were as follows:

	<i>RMB'000</i>
Property, plant and equipment	6,300
Intangible assets	1,672
Other non-current asset	5,466
Bank balances and cash	246
Trade and other payables	<u>(11,083)</u>
Net assets disposed of	2,601
Gain on disposal of a subsidiary	<u>369</u>
Cash consideration for disposal	<u><u>2,970</u></u>
Net cash inflow arising on disposal	
Total cash received	2,970
Less: cash and cash equivalents disposed of	<u>(246)</u>
	<u><u>2,724</u></u>

During the year ended 31 December 2014, Chengdu Pharmaceutical contributed a loss and cash outflows from operating activities of approximately RMB4,458,000 and RMB1,450,000 to the Target Group's profit and net operating cash flows respectively.

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

For the year ended 31 December 2015

(b) *China Merchants Changjiang LPG Carriers Limited** (招商局長江液化氣運輸有限公司) (“Changjiang LPG”)

On 28 January 2015, the Target Group entered in to a sale and purchase agreement with Shanghai Jiuhue Shipping Import & Export Co., Ltd.* (上海久和船舶進出口有限公司), an independent third party, for the disposal of its entire equity interest in Changjiang LPG at a cash consideration of approximately RMB5,776,000. The transaction was completed on 1 February 2015.

The assets and liabilities of Changjiang LPG at the date of disposal were as follows:

	<i>RMB'000</i>
Bank balances and cash	4,976
Tax payable	(5)
	<hr/>
Net assets disposed of	4,971
Gain on disposal of a subsidiary	805
	<hr/>
Cash consideration for disposal	5,776
	<hr/> <hr/>
Net cash inflow arising on disposal	
Total cash received	5,776
Less: cash and cash equivalents disposed of	(4,976)
	<hr/> <hr/>
	800
	<hr/> <hr/>

During the year ended 31 December 2015, Changjiang LPG contributed a profit and cash inflows from operating activities of approximately RMB14,000 and RMB18,000 to the Target Group's profit and net operating cash flows respectively.

For the year ended 31 December 2015 (continued)

(c) *China Merchants Huangshi Gas Limited** (黃石市招商燃氣有限公司) (“Huangshi LPG”)

On 8 December 2015, the Target Group entered in to a sale and purchase agreement with Huangshi Gas Company* (黃石市煤氣公司), an independent third party, for the disposal of its entire equity interest in Huangshi LPG at a cash consideration of approximately RMB20,070,000. The transaction was completed on 17 December 2015.

The assets and liabilities of Huangshi LPG at the date of disposal were as follows:

	<i>RMB'000</i>
Property, plant and equipment	6,568
Intangible assets	407
Trade and other receivables	14,408
Inventories	2,246
Bank balances and cash	513
Trade and other payables	<u>(6,981)</u>
Net assets disposed of	17,161
Gain on disposal of a subsidiary	<u>2,909</u>
Cash consideration for disposal	<u><u>20,070</u></u>
Net cash inflow arising on disposal	
Total cash received	20,070
Less: cash and cash equivalents disposed of	<u>(513)</u>
	<u><u>19,557</u></u>

During the year ended 31 December 2016, Huangshi LPG incurred a loss and cash inflows from operating activities of approximately RMB3,779,000 and RMB322,000 to the Target Group's profit and net operating cash flows respectively.

For the year ended 31 December 2015 (continued)

(d) *China Merchants Quanzhou Petrochemical Limited** (泉州招商石化有限公司) (“*Quanzhou Petrochemical*”)

On 30 November 2015, the Target Group entered in to a sale and purchase agreement with Fujian Jinjiang Jinma LPG Carrier Limited* (福建省晉江市錦馬液化石油氣有限公司), an independent third party, for the disposal of its entire equity interest in Quanzhou Petrochemical at a cash consideration of approximately RMB35,112,000. The transaction was completed on 7 December 2015.

The assets and liabilities of Quanzhou Petrochemical at the date of disposal were as follows:

	<i>RMB'000</i>
Property, plant and equipment	19,932
Available-for-sale investments	510
Trade and other receivables	16,392
Inventories	1,034
Bank balances and cash	1,701
Trade and other payables	<u>(5,614)</u>
Net assets disposed of	33,955
Gain on disposal of a subsidiary	<u>1,157</u>
Cash consideration for disposal	<u><u>35,112</u></u>
Net cash inflow arising on disposal	
Total cash received	35,112
Cash and cash equivalents disposed of	<u>(1,701)</u>
	<u><u>33,411</u></u>

During the year ended 31 December 2015, Quanzhou Petrochemical incurred a profit and cash inflows from operating activities of approximately RMB4,429,000 and RMB6,709,000 to the Target Group's profit and net operating cash flows respectively.

For the year ended 31 December 2015 (continued)

(e) *China Merchants Wuhu Gas Limited** (蕪湖招商燃氣有限公司) (“Wuhu Gas”)

On 23 December 2015, the Target Group entered in to a sale and purchase agreement with Shenzhen Zhongyou Energy Development Co., Ltd.* (深圳市中油能源發展有限公司), an independent third party, for the disposal of its entire equity interest in Wuhu Gas at a cash consideration of approximately RMB38,310,000. The transaction was completed on 30 December 2015.

The assets and liabilities of Wuhu Gas at the date of disposal were as follows:

	<i>RMB'000</i>
Property, plant and equipment	9,132
Trade and other receivables	18,620
Inventories	1,067
Bank balances and cash	146
Trade and other payables	<u>(7,265)</u>
Net assets disposed of	21,700
Gain on disposal of a subsidiary	<u>16,610</u>
Cash consideration for disposal	<u><u>38,310</u></u>
Net cash inflow arising on disposal	
Total cash received	38,310
Cash and cash equivalents disposed of	<u>(146)</u>
	<u><u>38,164</u></u>

During the year ended 31 December 2015, Wuhu Gas incurred a loss and cash inflows from operating activities of approximately RMB5,422,000 and RMB2,911,000 to the Target Group's profit and net operating cash flows respectively.

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

For the year ended 31 December 2016**(f) China Merchants Jiujiang Gas Limited* (九江市招商燃氣有限公司) (“Jiujiang Gas”)**

On 15 October 2016, the Target Group entered in to a sale and purchase agreement with Jiujiang Shipping New Energy Technology Development Co., Ltd.* (九江交聖船舶新能源技術開發有限公司), an independent third party, for the disposal of its entire equity interest in Jiujiang Gas at a cash consideration of approximately RMB30,000,000. The transaction was completed on 27 October 2016.

The assets and liabilities of Jiujiang Gas at the date of disposal were as follows:

	<i>RMB'000</i>
Property, plant and equipment	10,178
Intangible assets	2,697
Trade and other receivables	150
Inventories	7
Bank balances and cash	214
Trade and other payables	<u>(1,459)</u>
Net assets disposed of	11,787
Gain on disposal of a subsidiary	<u>18,213</u>
Cash consideration for disposal	<u><u>30,000</u></u>
Net cash inflow arising on disposal	
Total cash received	30,000
Cash and cash equivalents disposed of	<u>(214)</u>
	<u><u>29,786</u></u>

During the year ended 31 December 2016, Jiujiang Gas incurred a loss and cash inflows from operating activities of approximately RMB424,000 and RMB47,000 to the Target Group's profit and net operating cash flows respectively.

For the six months ended 30 June 2017**(g) China Merchants Yueyang Gas Limited* (岳陽市招商燃氣有限公司) (“Yueyang Gas”)**

On 12 January 2017, the Target Group entered in to a sale and purchase agreement with Hunan Hongyuan Petrochemical Storage Co., Ltd.* (湖南泓源石化倉儲有限公司), an independent third party, for the disposal of its entire equity interest in Yueyang Gas at a cash consideration of approximately RMB57,000,000. The transaction was completed on 17 January 2017.

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

39. CAPITAL COMMITMENTS

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Commitments for the acquisition of property, plant and equipment	143,237	10,316	986,571	225,350
Others	160,581	45,701	–	–
	303,818	56,017	986,571	225,350

40. BANKING FACILITIES

(a) Banking facilities

The Target Group's banking facilities as at 31 December 2014, 2015 and 31 December 2016 and 30 June 2017 were secured by the following:

As at 31 December 2014

Facility amount	Guarantor	Guaranteed amount
USD21,600,000	China Merchants Holdings (Hong Kong) Company Limited	USD21,600,000
USD40,000,000	China Merchants Holdings (Hong Kong) Company Limited	USD40,000,000
USD44,000,000	China Merchants Holdings (Hong Kong) Company Limited	USD44,000,000

As at 31 December 2015

Facility amount	Guarantor	Guaranteed amount
RMB38,000,000	China Merchants Americold (Hong Kong) Holdings Co., Ltd.	RMB338,000,000
HK\$900,000,000	China Merchants Holdings (Hong Kong) Company Limited	HK\$900,000,000

As at 31 December 2016

Facility amount	Guarantor	Guaranteed amount
USD1,100,000,000	The Target Company	USD1,100,000,000

As at 30 June 2017

Facility amount	Guarantor	Guaranteed amount
HK\$2,900,000,000	China Merchants Holdings (Hong Kong) Company Limited	HK\$1,620,000,000
RMB800,000,000	China Merchants Group	RMB800,000,000

* *English translated name is for identification only.*

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

41. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Target Group has entered into the following transactions with related parties.

(a) Compensation to key management personnel

The key management personnel are the directors and executives of the Target Company. Details of the remuneration paid to the directors are set out in note 11 to the consolidated financial statements.

(b) Material related party transactions

	Year ended 31 December			Six months ended 30 June
	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>
Purchases:				
Sinotrans Tianjin Company Limited	–	–	23,550	–
Shenzhen Chiwan Shipping & Transportation Co., Ltd.	–	11,835	16,660	–
Sinotrans Chemical International Logistics Co., Ltd.	–	–	16,275	–
Sinotrans Beijing Transportation Company	–	–	16,045	5,364
China Merchants Hoi Tung Trading Company Limited	–	–	15,191	–
Shenzhen Lianda Tuo Co., Ltd.	9,091	9,096	8,433	–
Rental expenses:				
China-Belarus Industrial Park Development Company, Closed Joint Stock	–	–	44,640	–
Finance cost – interest expenses:				
China Merchants	61,340	42,710	39,012	–
China Merchants Bank	4,718	2,688	31,914	–
Acquisition Sinotrans entities from fellow subsidiaries:				
Sinotrans & CSC Holdings Co., Ltd.	–	–	684,215	–
Sinotrans & CSC Beijing Company	–	–	71,765	–
Sinotrans (Hong Kong) Investment Company Limited	–	–	58,282	–
Sinotrans Hebei Company	–	–	50,831	–
Zhejiang Zhoushan Sinotrans Logistics Co., Ltd.	–	–	16,109	–
Disposal of land use rights:				
Shekou Asset Management	–	–	209,133	–

Notes:

- (i) These transactions were carried out at terms determined and agreed by the Target Company and the relevant parties.

APPENDIX II ACCOUNTANTS' REPORT ON THE TARGET GROUP

- (ii) The companies were directly or indirectly owned by the China Merchants, except Tsingtao Brewery Company Limited, which is a related party.

42. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged from prior year.

The capital structure of the Target Group consists of cash and cash equivalents and equity attributable to owners of Target Company, comprising issued share capital and reserves.

The directors review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Target Company, the Target Group will balance its overall capital structure through new share issues as well as the issue of new debt.

43. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets				
FVTPL (Held-for-trading investments)	457,269	293,893	396,710	419,396
Loan and receivables including bank balance and cash	2,623,563	3,260,787	5,435,604	6,062,757
Available-for-sale investments	17,448	170,486	1,575	1,571
	3,098,280	3,725,166	5,833,889	6,483,724
Financial liabilities				
At amortised cost	7,044,563	11,238,093	15,809,713	16,844,024

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's major financial instruments include available-for-sale investments, trade and bills receivables, deposits and other receivables, held-for-trading investments, asset held-for-sale, bank balances and cash, trade and bills payables, other payables and accruals, salary and welfare payables, borrowings, obligations under finance leases, other non-current liabilities and amounts due to non-controlling shareholders. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk*(i) Currency risk*

Other than the subsidiaries established in the Hong Kong and overseas of which functional currency is Hong Kong dollar (“**HK\$**”) and United States dollars (“**USD**”) respectively, the functional currency of the Target Company and other subsidiaries is RMB. Certain trade and other receivables and bank balances and cash are denominated in currencies other than the functional currencies of the group entities to which they relate. Foreign currencies are also used to settle expenses for overseas operations, which expose the Target Group to foreign currency risk.

The carrying amounts of the Target Group’s foreign currency denominated monetary assets at the reporting date are as follows:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
HK\$	182,040	53,155	106,652	786,460
USD	866,922	676,406	333,122	1,542,049
RMB	161,441	45,973	313,803	78,853

The carrying amounts of the Target Group’s foreign currency denominated monetary liabilities at the reporting date are as follows:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
HK\$	465,963	1,053,011	275,025	1,270,862
USD	84,285	242,471	448,362	1,008,052
RMB	47,101	36,330	183,696	208,170

The Target Group currently does not have a foreign currency hedging policy but some of the subsidiaries use foreign exchange forward contracts to eliminate the currency exposures. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The Target Group is currently exposed to HK\$, USD and RMB foreign currency risk.

The following table details the Target Group’s sensitivity to a 10% increase and decrease in functional currencies of the relevant group entities, HK\$, USD and RMB, against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% change in foreign currency rates.

A positive number below indicates a decrease in profit for the year where the respective functional currency (HK\$ or USD) strengthens 10% against the relevant foreign currency (RMB, HK\$ or USD). For a 10% weakening of respective functional currency (HK\$ or USD) against the relevant foreign currency (RMB, HK\$ or USD), there would be an equal and opposite impact on the profit for the year and the balances below would be negative.

	Effect on profit or loss			
	Year ended 31 December			Six months ended 30 June
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
Strengthen against HK\$ by 10% (note a)	(21,294)	(74,989)	(12,628)	(36,330)
Strengthen against USD by 10% (note a)	58,698	32,545	(8,643)	40,050
Strengthen against RMB by 10% (note a)	8,576	723	9,758	(9,699)

Note:

- (a) This is mainly attributable to the exposure outstanding on HK\$, USD and RMB bank balances and cash not subject to cash flow hedges at year end.

(ii) **Interest rate risk**

The Target Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and pay-floating interest rate swap. It is the Target Group's policy to keep its bank balances at floating rate of interest so as to minimise the fair value interest rate risk.

The Target Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Target Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Target Group's cash flow interest rate risk is mainly concentrated on the fluctuation of RMB Benchmark Interest Rate quoted by the People's Bank of China arising from the Target Group's RMB denominated bank borrowings and the fluctuation of London Interbank Offer Rate arising from the Target Group's USD denominated bank borrowings.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the end of each reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of each reporting period were outstanding for the whole year. A 100 basis point increase or decrease is used for the reporting period when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rate had been 100 basis points higher/lower for the reporting period and all other variables held constant, the Target Group's post-tax profit would decrease/increase by approximately RMB23,860,000, RMB28,075,000, RMB40,186,000 and RMB53,050,000 respectively for the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017. This is mainly attributable to the Target Group's exposure to interest rates on its variable-rates bank borrowings.

(iii) *Other price risk*

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the Target Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Target Group's equity price risk is mainly concentrated on equity instruments quoted on the exchange.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the respective listed investments classified as held for trading investments had been 20%, 20%, 20% and 20% higher/lower for the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 respectively, the profit after tax for the three years year ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 would increase/decrease by approximately RMB68,590,000, RMB44,084,000, RMB59,507,000 and RMB62,909,000 respectively as a result of the changes in fair value of these listed investments.

If the prices of the respective available-for-sale investments stated at fair value had been 20%, 20%, 20% and 20% higher/lower, the investment revaluation reserve for the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 would increase/decrease by approximately RMB2,400,000, RMB18,000, RMB141,000 and RMB140,000 respectively as a result of the changes in fair value of these investments.

In management's opinion, the sensitivity analysis is not representative of the other price risk for the investments in listed equity securities as the year end exposure does not reflects the exposure during the year.

Credit risk

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to a failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimize the credit risk, the management of the Target Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverability of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Target Company consider that the Target Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of its bank balances and cash and considers the risk is minimal.

The following table details the Target Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

Liquidity risk tables

	On demand or within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
As at 31 December 2014	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	1,023,221	-	-	-	1,023,221	1,023,221
Bank and other borrowings	552,870	995,166	1,488,674	483,596	3,520,306	3,181,378
Other payables and accruals	2,706,140	-	-	-	2,706,140	2,706,140
Salary and welfare payables	133,824	-	-	-	133,824	133,824
	<u>4,416,055</u>	<u>995,166</u>	<u>1,488,674</u>	<u>483,596</u>	<u>7,383,491</u>	<u>7,044,563</u>

	On demand or within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
As at 31 December 2015	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	1,172,302	-	-	-	1,172,302	1,172,302
Bank and other borrowings	596,919	815,263	2,094,564	472,212	3,978,958	3,743,391
Other payables and accruals	5,827,645	-	-	-	5,827,645	5,827,645
Salary and welfare payables	172,685	-	-	-	172,685	172,685
Obligations under finance leases	13,146	4,667	414	-	18,227	17,966
Amounts due to non-controlling shareholders	-	304,104	-	-	304,104	304,104
	<u>7,782,697</u>	<u>1,124,034</u>	<u>2,094,978</u>	<u>472,212</u>	<u>11,473,921</u>	<u>11,238,093</u>

As at 31 December 2016	On demand	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Carrying amount
	or within 1 year				undiscounted	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	1,746,614	-	-	-	1,746,614	1,746,614
Bank and other borrowings	1,084,953	2,172,000	1,064,170	1,396,401	5,717,524	5,358,157
Other payables and accruals	8,107,504	-	-	-	8,107,504	8,107,504
Salary and welfare payables	288,791	-	-	-	288,791	288,791
Obligations under finance leases	4,667	414	-	-	5,081	4,543
Amounts due to non-controlling shareholders	-	304,104	-	-	304,104	304,104
	<u>11,232,529</u>	<u>2,476,518</u>	<u>1,064,170</u>	<u>1,396,401</u>	<u>16,169,618</u>	<u>15,809,713</u>

As at 30 June 2017	On demand	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Carrying amount
	or within 1 year				undiscounted	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	1,881,097	-	-	-	1,881,097	1,881,097
Bank and other borrowings	1,130,223	1,543,641	3,965,904	894,099	7,533,867	7,073,396
Other payables and accruals	6,981,614	-	-	-	6,981,614	6,981,614
Salary and welfare payables	223,046	-	-	-	223,046	223,046
Obligations under finance leases	414	-	-	-	414	407
Amounts due to non-controlling shareholders	684,464	-	-	-	684,464	684,464
	<u>10,900,858</u>	<u>1,543,641</u>	<u>3,965,904</u>	<u>894,099</u>	<u>17,304,502</u>	<u>16,844,024</u>

45. CHANGES IN OWNERSHIP INTEREST IN SUBSIDIARIES WITHOUT CHANGE IN CONTROL

For the year ended 31 December 2014

During the year ended 31 December 2014, the Target Group disposed equity interests in certain subsidiaries for aggregate cash consideration of approximately RMB11,644,000. The difference between the fair value of consideration paid and the carrying amount of non-controlling interest disposed of approximately RMB385,000 was credited in other reserve within equity.

For the year ended 31 December 2015

During the year ended 31 December 2015, the Target Group acquired equity interests in certain subsidiaries. Cash consideration of approximately RMB572,091,000 was paid to the non-controlling shareholders of the subsidiaries. The difference between the fair value of consideration paid and the carrying amount of non-controlling interest acquired of approximately RMB99,863,000 was debited in other reserve within equity.

For the year ended 31 December 2016

During the year ended 31 December 2016, the Target Group disposed equity interests in certain subsidiaries for aggregate cash consideration of approximately RMB15,993,000. The difference between the fair value of consideration paid and the carrying amount of non-controlling interest disposed of approximately RMB941,000 was credited in other reserve within equity.

For the six months ended 30 June 2017

During the six months ended 30 June 2017, the Target Group disposed equity interests in certain subsidiaries for aggregate cash consideration of approximately RMB106,466,000. The difference between the fair value of consideration received and the carrying amount of non-controlling interest transferred of approximately RMB931,000 was credited in other reserve within equity.

46. INTERESTS IN SUBSIDIARIES

- (a) As at 31 December 2014, 2015 and 2016 and 30 June 2017 and up to the date of this report, the Target Company has direct and indirect interests in the following subsidiaries comprising the Target Group:

Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Target Company				At the date of this report	Principal activities
			31 December			30 June		
			2014	2015	2016	2017		
Shenzhen Anda Freight Co., Ltd.* (深圳安達貨運有限公司)	PRC	USD5,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Shenzhen Co., Ltd.* (招商局物流深圳有限公司)	PRC	RMB16,550,000	100	100	100	100	100	Logistics
China Merchants Kin Swiss Transportation Company Limited 招商局建瑞運輸有限公司(香港)	Hong Kong	HK\$8,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Shenyang Co., Ltd.* (招商局物流集團瀋陽有限公司)	PRC	RMB70,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Zhuhai Co., Ltd.* (招商局物流集團珠海有限公司)	PRC	RMB5,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Chengdu Logistics Co., Ltd.* (招商局物流集團成都物流有限公司)	PRC	RMB20,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Beijing Co., Ltd.* (招商局物流集團北京有限公司)	PRC	RMB50,000,000	100	100	100	100	100	Logistics
China Ocean Shipping Tally Shenzhen Co., Ltd.* (深圳中理外輪理貨有限公司)	PRC	RMB1,000,000	50	50	50	50	50	Logistics
China Merchants Logistics Group Guangzhou Logistics Co., Ltd.* (招商局物流集團廣州物流有限公司)	PRC	RMB50,000,000	100	100	100	100	100	Logistics
China Merchants Shipping and Enterprises Company Limited 招商局船務企業有限公司	Hong Kong	HK\$1,000,000	100	100	100	100	100	Logistics

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Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Target Company				At the date of this report	Principal activities
			31 December			30 June		
			2014	2015	2016	2017		
China Merchants Logistics Group Huizhou Co., Ltd.* (招商局物流集團惠州有限公司)	PRC	RMB5,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group (Tianjin) Co., Ltd.* (招商局物流集團(天津)有限公司)	PRC	RMB5,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Nanjing Co., Ltd.* (招商局物流集團南京有限公司)	PRC	RMB50,000,000	90	90	90	90	90	Logistics
China Merchants Logistics Group Fujian Co., Ltd.* (招商局物流集團福建有限公司)	PRC	RMB80,000,000	60	60	60	60	60	Logistics
China Merchants Logistics Group Chongqing Co., Ltd.* (招商局物流集團重慶有限公司)	PRC	RMB20,000,000	100	100	100	100	100	Logistics
Tsingtao Brewery China Merchants Logistics Co., Ltd.* (青島啤酒招商物流有限公司)	PRC	RMB20,000,000	70	70	70	70	70	Logistics
China Merchants Logistics Group Xi'an Co., Ltd.* (招商局物流集團西安有限公司)	PRC	RMB40,000,000	100	100	100	100	100	Logistics
Shenzhen South China Liquefied Gas Shipping Co., Ltd.* (深圳華南液化氣船務有限公司)	PRC	RMB13,080,000	100	100	100	100	100	Logistics
Shenzhen China Merchants Gas Investment Co., Ltd.* (深圳市招商燃氣投資有限公司)	PRC	RMB280,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Harbin Co., Ltd.* (招商局物流集團哈爾濱有限公司)	PRC	RMB143,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Hubei Co., Ltd.* (招商局物流集團湖北有限公司)	PRC	RMB50,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Shanghai Fengxian Co., Ltd.* (招商局物流集團上海奉賢有限公司)	PRC	RMB50,000,000	100	100	100	100	100	Logistics
China Merchants Logistics (Tianjin) Co., Ltd.* (招商局物流(天津)有限公司)	PRC	USD17,680,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Hunan Co., Ltd.* (招商局物流集團湖南有限公司)	PRC	RMB100,000,000	100	100	100	100	100	Logistics
Yi Tong Jiao Tong Xin Xi Fa Zhan Co., Ltd.* (易通交通信息發展有限公司)	PRC	RMB50,000,000	100	100	100	100	100	Logistics
China Merchants Kin Swiss Transportation Company Limited (Shenzhen)* (招商局建瑞運輸有限公司(深圳))	PRC	RMB9,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Shanghai Co., Ltd.* (招商局物流集團上海有限公司)	PRC	RMB100,000,000	100	100	100	100	100	Logistics
Zhengzhou China Merchants Logistics Co., Ltd.* (鄭州招商物流有限公司)	PRC	RMB50,000,000	100	100	100	100	100	Logistics

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Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Target Company				At the date of this report	Principal activities
			31 December		30 June			
			2014	2015	2016	2017		
China Merchants Logistics Group Xinjiang Co., Ltd.* (招商局物流集團新疆有限公司)	PRC	RMB50,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Urumqi Co., Ltd.* (招商局物流集團烏木齊有限公司)	PRC	RMB50,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Suzhou Co., Ltd.* (招商局物流集團蘇州有限公司)	PRC	RMB10,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Wuhu Co., Ltd.* (招商局物流集團蕪湖有限公司)	PRC	RMB10,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Changchun Co., Ltd.* (招商局物流集團長春有限公司)	PRC	RMB50,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Anhui Co., Ltd.* (招商局物流集團安徽有限公司)	PRC	RMB80,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group (Yangzhou) Co., Ltd.* (招商局物流集團(揚州)有限公司)	PRC	USD40,000,000	100	100	100	100	100	Logistics
Guangdong Jianli Transportation Co., Ltd.* (廣東建力運輸有限公司)	PRC	HK\$10,000,000	100	100	100	100	100	Logistics
Guangdong Guangtong Transportation Co., Ltd.* (廣東廣通運輸有限公司)	PRC	USD1,300,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Ningbo Co., Ltd.* (招商局物流集團寧波有限公司)	PRC	RMB100,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Zhenjiang Co., Ltd.* (招商局物流集團鎮江有限公司)	PRC	RMB80,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Qingdao Co., Ltd.* (招商局物流集團青島有限公司)	PRC	RMB50,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Yunnan Co., Ltd.* (招商局物流集團雲南有限公司)	PRC	RMB50,000,000	100	100	100	100	100	Logistics
China Merchants Logistics Group Nanchang Co., Ltd.* (招商局物流集團南昌有限公司)	PRC	RMB50,000,000	100	100	100	100	100	Investment holding
Smart Ally Holdings Limited	BVI	USD1	-	100	100	100	100	Investment holding
China Assess Investment Limited	BVI	USD1	-	100	100	100	100	Logistics
China Merchants Logistics Group Guangxi Co., Ltd.* (招商局物流集團廣西有限公司)	PRC	RMB5,000,000	-	100	100	100	100	Logistics
China Merchants Logistics Group Shaanxi Co., Ltd.* (招商局物流集團陝西有限公司)	PRC	RMB20,000,000	100	100	100	100	100	Investment holding

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Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Target Company				At the date of this report	Principal activities
			31 December			30 June		
			2014	2015	2016	2017		
Shenzhen Henglu Logistics Co., Ltd.* (深圳市恒路物流股份有限公司)	PRC	RMB72,000,000	-	70	70	70	70	Logistics
China Merchants Loscam International Holdings Company Limited 招商路凱國際控股有限公司	BVI	USD1	-	100	100	100	100	Investment holding
China Merchants Loscam (Asia Pacific) Co., Limited	Hong Kong	HK\$32,639,998	-	100	100	100	100	Investment holding
China Merchants Loscam Holdings Australia Pty Ltd.	Australia	AUD46,000,000	-	100	100	100	100	Investment holding
China Merchants Loscam Australia Pty Ltd.	Australia	AUD46,000,000	-	100	100	100	100	Investment holding
Loscam Australia Pty Ltd.	Australia	AUD72,454,052	-	100	100	100	100	Returnable hire equipment provider
Loscam (Hong Kong) Limited	Hong Kong	HK\$3,760,020	-	100	100	100	100	Returnable hire equipment provider
Loscam (Philippines), Inc.	Philippines	Peso112,457,000	-	100	100	100	100	Returnable hire equipment provider
Loscam (Thailand) Limited	Thailand	THB286,060,825	-	100	100	100	100	Returnable hire equipment provider
Loscam Asia Private Limited	Singapore	SGD18,595,116	-	100	100	100	100	Investment holding
Loscam (Malaysia) Sdn. Bhd.	Malaysia	Ringgit2,769,033	-	100	100	100	100	Returnable hire equipment provider
Loscam Myanmar Limited	Myanmar	USD200,000	-	100	100	100	100	Returnable hire equipment provider
Loscam Packaging Equipment Leasing (Shanghai) Co., Ltd.* (路凱包裝設備租賃(上海)有限公司)	PRC	USD84,000,000	-	100	100	100	100	Returnable hire equipment provider
Loscam Logistics Equipment Leasing (Beijing) Co., Ltd.* (路凱物流設備租賃(北京)有限公司)	PRC	RMB28,000,000	-	100	100	100	100	Returnable hire equipment provider
Loscam Singapore Private Limited	Singapore	SGD3,800,000		100	100	100	100	Returnable hire equipment provider
Loscam Vietnam Co., Ltd.	Vietnam	USD2,300,000		100	100	100	100	Returnable hire equipment provider
PT. Loscam Indonesia	Indonesia	Rupiah10,035,883,494		100	100	100	100	Returnable hire equipment provider

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Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Target Company				At the date of this report	Principal activities
			31 December		30 June			
			2014	2015	2016	2017		
Greenmile Global Investments Limited	BVI	USD1	-	100	100	100	100	Investment Holding
Loscam (New Zealand) Limited	New Zealand	NZD10,000,002	-	100	100	100	100	Returnable hire equipment provider
Loscam Fresh (New Zealand) Co., Limited	New Zealand	NZD5,000,000	-	100	100	100	100	Returnable hire equipment provider
China Merchants Loscam (Greater China) Co., Limited* (招商路凱(大中華區)有限公司)	BVI	USD1	-	100	100	100	100	Investment holding
China Merchants Loscam (Hong Kong) Co., Limited 招商路凱(香港)有限公司	Hong Kong	HKD1	-	100	100	100	100	Investment Holding
China Merchants Loscam (China) Investment Holding Co., Ltd.* (招商路凱(中國)投資控股有限公司)	PRC	USD34,000,000	-	100	100	100	100	Investment holding
Loscam Supply Chain Management (Jiaxing) Co., Ltd.* (路凱供應鏈管理(嘉興)有限公司)	PRC	RMB10,000,000	-	-	100	100	100	Returnable hire equipment provider
Loscam Logistics Equipment Services (Wuhan) Co., Ltd.* (路凱物流設備服務(武漢)有限公司)	PRC	RMB15,000,000	-	-	100	100	100	Returnable hire equipment provider
China Merchants New Silk Road Supply Chain Management Co., Ltd.* (招商局新絲路供應鏈管理有限公司)	PRC	-	-	100	100	100	100	Logistics
Hebei Sinotrans Jifa Logistics Co., Ltd.* (河北中外運冀發物流有限公司)	PRC	-	-	-	100	100	100	Logistics
Beijing Sinotrans Transportation Co., Ltd.* (北京中外運運輸有限公司)	PRC	RMB20,000,000	-	-	100	100	100	Logistics
Shenyang Sinotrans Juling Logistics Development Co., Ltd.* (瀋陽中外運久凌物流發展有限公司)	PRC	RMB51,055,000	-	-	100	100	100	Logistics
Zhoushan Sinotrans Customs Co., Ltd.* (舟山中外運報關有限公司)	PRC	RMB1,500,000	-	-	100	100	100	Logistics
Sinotrans Jiu Ling Storage and Transportation Co., Ltd.* (中外運久凌儲運有限公司)	PRC	RMB320,000,000	-	-	100	100	100	Investment holdings
Sinotrans Logistics Investment Holdings Limited* (中外運物流投資控股有限公司)	PRC	RMB433,110,000	-	-	100	100	100	Logistics
Guangxi Sinotrans Logistics Co., Ltd.* (廣西中外運物流有限公司)	PRC	RMB75,000,000	-	-	100	100	100	Logistics
Sinotrans (Tianjin) Storage and Transportation Co., Ltd.* (中外運(天津)儲運有限公司)	PRC	RMB67,239,600	-	-	100	100	100	Logistics

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- (i) A domestic company established in the PRC with limited liability.
- (ii) * English translated name is for identification only.

All subsidiaries now comprising the Target Group are limited liability companies and have adopted 31 December as their financial year end date.

Composition of the Target Group

At the end of the reporting period, the Company has other subsidiaries that are not material to the Target Group. A summary of these subsidiaries are set out as follows:

Principal activities	Places of incorporation and operation	Number of wholly-owned subsidiaries			
		2014	2015	2016	2017
Investment holding	PRC	57	50	90	93

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE TARGET COMPANY

(a) Details of subsidiaries

China Merchants Loscam International Holdings Co., Limited and its subsidiaries (collectively referred to as the "Loscam Group")

	Year ended 31 December			Six months ended 30 June
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Current asset	906,053	719,539	865,207	882,361
Non-current asset	4,144,084	4,181,825	4,667,621	4,853,590
Current liabilities	469,213	499,728	638,077	568,552
Non-current liabilities	1,974,726	2,108,483	2,284,210	2,271,481
Equity attributable to owners of the				
Target Company	2,474,385	2,293,153	2,610,541	2,895,918
Non-controlling interests	131,813	-	-	-

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	2014	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,027,099	1,009,821	1,161,504	622,880
Expenses	774,984	832,097	970,239	526,441
Profit for the year	252,115	177,724	191,265	96,439
(Loss) profit and other comprehensive (expense) income attributable to owners of the Target Company	(26,401)	(83,196)	317,388	285,386
Loss and other comprehensive expense attributable to the non-controlling interests	(5,130)	(19,764)	-	-
(Loss) profit and other comprehensive (expense) income for the year	(31,531)	(102,960)	317,388	285,386
Net cash inflow from operating activities	433,579	450,790	521,855	272,226
Net cash outflow from investing activities	(312,069)	(601,861)	(429,869)	(240,844)
Net cash inflow (outflow) from financing activities	233,907	(34,322)	(35,055)	(23,317)
Net cash inflow (outflow)	<u>340,792</u>	<u>(193,203)</u>	<u>84,241</u>	<u>(5,787)</u>

(b) Details of non-wholly owned subsidiary that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiary of the Target Group that have material non-controlling interests:

Name of subsidiary	Place of registration and operation	Paid up capital	Proportion of ownership interests held by non-controlling interests				Proportion of voting rights held by non-controlling interests			
			As at 31 December		As at 30 June		As at 31 December		As at 30 June	
			2014	2015	2016	2017	2014	2015	2016	2017
China Merchants Loscam (Asia Pacific) Co., Limited	Hong Kong	HK\$32,639,988	7.13%	-	-	-	5.04%	-	-	-
Name of subsidiary	Profit allocated to non-controlling interests				Accumulated non-controlling interests					
	As at 31 December		As at 30 June		As at 31 December		As at 30 June			
	2014	2015	2016	2017	2014	2015	2016	2017		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>		
China Merchants Loscam (Asia Pacific) Co., Limited	16,294	-	-	-	131,813	-	-	-		

The summarised financial information in respect of the Target Group's subsidiary that have material non-controlling interests before intergroup eliminations:

China Merchants Loscam (Asia Pacific) Co., Limited

	As at
	31 December
	2014
	<i>RMB'000</i>
Current asset	596,302
Non-current asset	3,580,381
Current liabilities	344,909
Non-current liabilities	1,971,460
Equity attributable to owners of the Target Company	1,728,501
Non-controlling interests	131,813
	2014
	<i>RMB'000</i>
Revenue	888,130
Expenses	654,595
Profit for the year	233,535
Profit and other comprehensive income attributable to owners of the Target Company	99,910
Profit and other comprehensive income attributable to the non-controlling interests	<u>5,130</u>
Profit and other comprehensive income for the year	<u><u>105,040</u></u>
Net cash inflow from operating activities	399,537
Net cash outflow from investing activities	(141,218)
Net cash outflow from financing activities	<u>(90,915)</u>
Net cash inflow	<u><u>167,404</u></u>

48. FAIR VALUE MEASUREMENTS

The directors of the Target Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to short-term or immediate maturities.

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring measurement, grouped into Levels 1 to 2 based on the degree to which the fair value is observable in accordance to the Target Group's accounting policy.

	31 December 2014		
	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Financial assets at FVTPL			
Held for trading-listed equity securities	457,269	–	457,269
Available-for-sale investments			
Listed equity security	15,885	–	15,885
Unlisted equity investments	–	116	116
	<u>473,154</u>	<u>116</u>	<u>473,270</u>
31 December 2015			
	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Financial assets at FVTPL			
Held for trading-listed equity securities	293,893	–	293,893
Available-for-sale investments			
Listed equity security	–	–	–
Unlisted equity investments	–	123	123
	<u>293,893</u>	<u>123</u>	<u>294,016</u>
31 December 2016			
	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Financial assets at FVTPL			
Held for trading-listed equity securities	396,710	–	396,710
Available-for-sale investments			
Listed equity security	–	–	–
Unlisted equity investments	–	937	937
	<u>396,710</u>	<u>937</u>	<u>397,647</u>

	30 June 2017		
	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Financial assets at FVTPL			
Held for trading-listed equity securities	419,396	–	419,396
Available-for-sale investments			
Listed equity security	–	–	–
Unlisted equity investments	–	933	933
	<u>419,396</u>	<u>933</u>	<u>420,329</u>

There were no transfers between levels of fair value hierarchy in the current and prior years.

The valuation techniques and inputs used in fair value measurements of each financial instrument on a recurring basis are set out below:

	Fair value hierarchy	Valuation technique and key inputs
Listed equity securities	Level 1	Quoted bid prices in an active market
Unlisted fund instruments	Level 2	Quoted prices from financial institutions based on bid prices in active market for the listed shares under the portfolio of the unlisted fund instruments

49. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group, the Target Company or any of its subsidiaries in respect of any period subsequent to 30 June 2017.

A. BASIS OF PREPARATION

The following is an illustrative and unaudited pro forma consolidated statement of assets and liabilities of the Group as enlarged by the Acquisition (the “**Unaudited Pro Forma Financial Information**”).

The Unaudited Pro Forma Financial Information of the Group has been prepared by the Directors in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group as at 30 June 2017 or for any future period following the Acquisition.

The Unaudited Pro Forma Consolidated Statement has been prepared using the accounting policies consistent with those of the Group as set out in the published annual report of the Company for the year ended 31 December 2016.

The unaudited pro forma consolidated statement of financial position of the Group as enlarged by the Acquisition as of 30 June 2017 is prepared as if the Acquisition had taken place on 30 June 2017 and is based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2017, which has been extracted from the interim report of the Company for the period ended 30 June 2017; (ii) the audited consolidated statement of financial position of the Target Group as at 30 June 2017 as extracted from the accountants’ report as set out in Appendix II to this Circular, after making pro forma adjustments that are (i) directly attributable to the Acquisition; and (ii) factually supportable.

* *All capitalised terms herein have the same meaning as those defined in the Circular, unless otherwise indicated.*

Unaudited Pro Forma Consolidated Statement of Assets and Liabilities

	The Group as at 30 June 2017 <i>RMB'000</i> <i>Note 1</i>	Pro forma adjustments		Enlarged Group as at 30 June 2017 <i>RMB'000</i>
		Target Group as at 30 June 2017 <i>RMB'000</i> <i>Note 2</i>	<i>RMB'000</i> <i>Note 3</i>	
ASSETS				
Non-current assets				
Land use rights	2,679,075	1,343,193		4,022,268
Prepayments for acquisition of land use rights	38,513	–		38,513
Property, plant and equipment	8,302,322	10,087,953		18,390,275
Investment properties	285,522	6,776		292,298
Intangible assets	113,104	2,806,542		2,919,646
Investments in joint ventures	3,625,363	39,896		3,665,259
Investments in associates	1,053,716	28,834		1,082,550
Deferred income tax assets	144,994	132,695		277,689
Available-for-sale financial assets	999,119	1,571		1,000,690
Other non-current assets	214,504	178,796		393,300
	<u>17,456,232</u>	<u>14,626,256</u>		<u>32,082,488</u>
Current assets				
Prepayments and other current assets	3,550,708	903,560	(4,868)	4,449,400
Inventories	210,225	26,191		236,416
Trade and other receivables	10,240,375	3,896,145	(9,012)	14,127,508
Restricted cash	302,627	–		302,627
Term deposits with initial terms of over three months	1,444,336	–		1,444,336
Cash and cash equivalents	6,347,039	2,166,612		8,483,651
Held-for-trading investments	–	419,396		419,396
	<u>22,095,310</u>	<u>7,411,904</u>		<u>29,463,334</u>
Total assets	<u>39,551,542</u>	<u>22,038,160</u>		<u>61,545,822</u>

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	Pro forma adjustments				Enlarged Group as at 30 June 2017 RMB'000
	The Group as at 30 June 2017 RMB'000 Note 1	Target Group as at 30 June 2017 RMB'000 Note 2	RMB'000 Note 3	RMB'000 Note 4	
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	74,286	228,741			303,027
Borrowings	2,302,000	4,839,908			7,141,908
Long-term bonds	3,495,196	–			3,495,196
Other non-current liabilities	360,581	900,363			1,260,944
	<u>6,232,063</u>	<u>5,969,012</u>			<u>12,201,075</u>
Current liabilities					
Trade payables	7,190,144	1,881,097	(9,012)		9,062,229
Other payables, accruals and other current liabilities	2,069,886	6,982,021			9,051,907
Receipts in advance from customers	2,104,693	347,361	(4,868)		2,447,186
Current income tax liabilities	215,208	179,460			394,668
Borrowings	404,867	2,233,488			2,638,355
Provisions	250,129	–			250,129
Salary and welfare payables	747,340	223,046			970,386
	<u>12,982,267</u>	<u>11,846,473</u>			<u>24,814,860</u>
Total liabilities	<u>19,214,330</u>	<u>17,815,485</u>			<u>37,015,935</u>

Notes to the pro forma financial information

1. The unaudited condensed consolidated statement of financial position of the Group are extracted from the interim report of the Company for the period ended 30 June 2017 except certain figures were reclassified to align with the presentation of the Group.
2. These figures are reproduced from the audited consolidated statement of financial position of the Target Group as at 30 June 2017 which is set out in Appendix II to the Circular.

As the Group and the Target Group are both controlled by China Merchants prior to and after the Acquisition, the Group accounted for the Acquisition which is to be settled by the issuance of Consideration Shares as business combination involving entities under common control. Accordingly, the assets and liabilities of the Target Group are consolidated using their existing book values, and no amount is recognised as goodwill in accordance with the principle of merger accounting. Any difference between the fair value of the Consideration Shares to be issued and the carrying amount of assets and liabilities to be recognized at the existing book values would be recognized in the equity of the consolidated statement of financial position of the Company and no adjustment on assets and liabilities is to be made in respect of the issue of the Consideration Shares.

3. The adjustments represent elimination of intergroup balance between the Group and the Target Group as of 30 June 2017.
4. The adjustment represent estimated acquisition-related costs, including legal and professional fees and transaction costs paid by the Group.
5. No adjustments have been made to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 30 June 2017.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

Deloitte.**德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION
OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Sinotrans Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sinotrans Limited (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 unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2017 and related notes as set out on pages 135 to 138 of the circular issued by the Company dated 6 September 2017 (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on pages 135 to 138 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire issued share capital of China Merchants Logistics Holdings Company Limited (the “**Proposed Acquisition**”) on the Group's financial position as at 30 June 2017 as if the Proposed Acquisition had taken place at 30 June 2017. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 30 June 2017, on which a review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (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” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

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

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

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

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

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

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

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 6 September 2017

BUSINESS AND FINANCIAL OVERVIEW

Revenue

The Target Group's revenue represents the amounts received and receivable from logistics and related services provided in its normal course of business, after sales and related taxes. Logistics services primarily involve providing customised and professional integrated logistics services to its customers. The related services mainly involve freight forwarding, storage, terminal and trucking services.

The following table sets forth the information about the Target Group's revenue for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Logistics and related services	<u>8,038,498</u>	<u>9,463,973</u>	<u>13,123,809</u>	<u>6,127,561</u>	<u>7,142,690</u>

The Target Group's revenue was derived from providing logistics and related services for goods originated from China, Australia, Thailand, Indonesia, Malaysia, Vietnam and some other countries. China is the Target Group's largest market, which accounted for approximately 88.8%, 91.2%, 92.8%, 92.8% and 91.3% of its total revenue, respectively, for the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017. The revenue of the Target Group increased by 17.7% from RMB8,038.5 million in 2014 to RMB9,464.0 million in 2015 and subsequently increased by 38.7% from RMB9,464.0 million in 2015 to RMB13,123.8 million in 2016, primarily reflecting its continued business growth in the China market. The revenue of the Target Group increased by 16.6% from RMB6,127.6 million for the six months ended 30 June 2016 to RMB7,142.7 million for the six months ended 30 June 2017, primarily reflecting its continued business growth in the China market.

The Target Group's revenue derived from the China market increased by 20.8% from RMB7,142.2 million in 2014 to RMB8,628.3 million in 2015, primarily due to its acquisitions of two subsidiaries from China Merchants in China that are engaged in logistics service in 2015. The Target Group's revenue derived from the China market increased by 41.1% from RMB8,628.3 million in 2015 to RMB12,177.4 million in 2016, primarily due to revenue growth of its contract logistics, as well as the Target Group's acquisition of the Sinotrans Entities (as defined below in the section headed "– Material Acquisition and Disposals – Acquisition of Subsidiaries") from Sinotrans & CSC in 2016. The Target Group's revenue derived from the China market increased by 14.6% from RMB5,685.7 million for the six months ended 30 June 2016 to RMB6,518.0 million for the six months ended 30 June 2017, primarily due to revenue growth of its contract logistics, as well as the Target Group's acquisition of the Sinotrans Entities. The Sinotrans Entities are all engaged in logistics services and related services such as storage, transportation and clearance services, and accounted for approximately 23.1% and 23.5% of the Target Group's revenue for the year ended 31 December 2016 and the six months ended 30 June 2017, respectively.

Profit for the year and net profit margin

The Target Group's profit for the year were approximately RMB171.2 million, RMB169.6 million, RMB709.0 million, RMB262.9 million and RMB266.2 million, respectively, for the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017 and the Target Group's net profit margin, which is calculated by dividing the profit for the year by revenue, were approximately 2.1%, 1.8%, 5.4%, 4.3% and 3.7% respectively, for the same periods.

The profit for the year of the Target Group remained relatively stable in 2014 and 2015, but increased significantly by 318.2% from RMB169.6 million in 2015 to RMB709.0 million in 2016, primarily due to (i) the increase in the Target Group's revenue, and (ii) the increase in the gain on disposal of prepaid lease payments resulting from the disposal of a parcel of land in Shenzhen and a parking lot in Hong Kong. The net profit margin of the Target Group remained relatively stable in 2014 and 2015 but significantly increased from 1.8% in 2015 to 5.4% in 2016, primarily due to the increased profit for the year as a result of the foregoing. The profit for the year of the Target Group remained relatively stable for the six months ended 30 June 2016 and 2017. The net profit margin of the Target Group slightly decreased from 4.3% for the six months ended 30 June 2016 to 3.7% for the six months ended 30 June 2017, primarily due to increased financing costs resulted from increased bank borrowings during the six months ended 30 June 2016.

LIQUIDITY AND FINANCIAL RESOURCES**Capital management policy**

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged from prior year.

The capital structure of the Target Group consists of cash and cash equivalents and equity attributable to owners of the Target Company, comprising issued share capital and reserves.

The Directors of the Target Group review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors of the Target Company, the Target Group will balance its overall capital structure through new share issues as well as the issue of new debt.

Net current liabilities

The Target Group recorded net current liabilities of approximately RMB820.5 million, RMB3,785.0 million, RMB4,986.7 million and RMB4,414.3 million as at 31 December 2014, 2015 and 2016 and 30 June 2017, respectively. The directors of the Target Company are of the opinion that the Target Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period given that (i) the unutilised banking facilities available to the Target Group amounted approximately RMB1,722.7 million will not be expiring before 30 June 2018; (ii) subsequent to the end of the reporting period, the Target Group was granted a right to defer the repayment of amounts due to fellow subsidiaries and the ultimate holding company in aggregate of approximately

RMB5,955.2 million to a period after 30 June 2018; and (iii) the Target Group is able to generate positive operating cash flows to maintain its operations. In addition, China Merchants has agreed with the Target Company that if and to the extent that any of the amounts payable to fellow subsidiaries are not settled when due, interest will accrue at market rates on those amounts and the parties will agree on settlement arrangements without affecting the working capital requirements and operations of the Target Company.

Bank and other borrowings

The following table sets out the bank and other borrowings of the Target Group as of the date indicated.

	As at 31 December		As at 30 June	
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Loan from the ultimate holding company ⁽¹⁾	990,000	790,000	790,000	790,000
Loan from fellow subsidiaries ⁽²⁾	61,000	183,000	606,000	998,276
Bank borrowings ⁽³⁾	2,130,378	2,770,391	3,962,157	5,285,120
	<u>3,181,378</u>	<u>3,743,391</u>	<u>5,358,157</u>	<u>7,073,396</u>
Secured	26,200	210,875	1,099,717	2,491,759
Unsecured	1,263,384	1,595,499	1,708,471	2,553,566
Guaranteed ⁽⁴⁾	1,891,794	1,937,017	2,549,969	2,028,071
	<u>3,181,378</u>	<u>3,743,391</u>	<u>5,358,157</u>	<u>7,073,396</u>

Notes:

- (1) As at 31 December 2014, 2015 and 2016 and 30 June 2017, nil, nil, RMB340.0 million and RMB340.0 million was repayable within 12 months from the end of the reporting period, the remaining balances are repayable 12 months after the reporting period. These balances carry interest at 4.65% to 5.40%.
- (2) As at 31 December 2014, 2015 and 2016 and 30 June 2017, nil, nil, RMB268.5 million and RMB924.7 million was repayable within 12 months from the end of the reporting period, the remaining balances are repayable 12 months after the reporting period. These balances carry interest at 1.20% to 5.65%.
- (3) These balances carry interest at 3.92% to 8.30%.
- (4) Certain fellow subsidiaries of the Target Group are the guarantors.

- (5) The Target Group's bank and other borrowings were secured and guaranteed by:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	52,307	50,627	2,549,662	2,584,628
Land use rights	11,065	10,817	9,121	49,903
	<u>63,372</u>	<u>61,444</u>	<u>2,558,783</u>	<u>2,634,531</u>

The following table sets out maturity profile of the Target Group's bank and other borrowings (based on scheduled repayments dates set out in the loan agreements) as at the respective dates:

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	308,163	497,526	986,199	2,233,488
After one year but within two years	206,704	763,037	2,089,430	2,313,071
After two years but within five years	2,203,215	2,023,903	934,111	1,034,094
After five years	463,296	458,925	1,348,417	1,492,743
	<u>3,181,378</u>	<u>3,743,391</u>	<u>5,358,157</u>	<u>7,073,396</u>
Amounts shown under current liabilities	308,163	497,526	986,199	2,233,488
Amounts shown under non-current liabilities	<u>2,873,215</u>	<u>3,245,865</u>	<u>4,371,958</u>	<u>4,839,908</u>
	<u>3,181,378</u>	<u>3,743,391</u>	<u>5,358,157</u>	<u>7,073,396</u>

The Target Group's bank and other borrowings due on demand or within one year were primarily incurred to supplement its working capital. The Target Group's bank and other borrowings due on demand and within one year increased from RMB308.2 million as at 31 December 2014 to RMB497.5 million as at 31 December 2015, primarily due to additional short-term borrowings consolidated to the balance sheet of the Target Group as a result of its acquisition of Shenzhen Henglu Logistics Co., Limited (深圳市恒路物流股份有限公司). The Target Group's bank and other borrowings due on demand and within one year increased from RMB497.5 million as at 31 December 2015 to RMB986.2 million as at 31 December 2016, primarily as a result of a three-year bank loan falling due within one year and being reclassified as repayable within one year in 2016. The Target Group's bank and other borrowings due on demand and within one year significantly increased from RMB986.2 million as at 31 December 2016 to RMB2,233.5 million as at 30

June 2017, primarily as a result of additional bank and other borrowings incurred for (i) repayment of amount due to subsidiaries, (ii) construction of our logistics park project in Belarus and (iii) capital expenditure and working capital needs of our logistics facilities in China. The Target Group's bank and other borrowings due after one year increased from RMB2,873.1 million as at 31 December 2014 to RMB3,245.9 million as at 31 December 2015, primarily due to additional long-term borrowings consolidated to the balance sheet of the Target Group as a result of its acquisition of Shenzhen Henglu Logistics Co., Limited (深圳市恒路物流股份有限公司) as well as an increase in the RMB translation of its United States dollar denominated long-term borrowings as a result of appreciation of US dollars against RMB in 2015. The Target Group's bank and other borrowings due after one year increased from RMB3,245.9 million as at 31 December 2015 to RMB4,372.0 million as at 31 December 2016, primarily due to the long-term bank borrowings incurred in connection with construction of one warehouse project in Hong Kong and one logistics park project in Belarus. The Target Group's bank and other borrowings due after one year increased from RMB4,372.0 million as at 31 December 2016 to RMB4,839.9 million for the six months ended 30 June 2017, primarily due to an increase in the long-term bank borrowings incurred in connection with construction of our warehouse project in Hong Kong.

Amounts due to fellow subsidiaries and the ultimate holding company

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the amounts due to fellow subsidiaries and the ultimate holding company of the Target Group amounted to approximately RMB1,807.5 million, RMB5,066.4 million, RMB6,583.7 million and RMB5,955.2 million respectively. The amounts due to fellow subsidiaries are unsecured, non-interest bearing and repayable on demand. The balances of the amount due to fellow subsidiaries and the ultimate holding company as at 31 December 2015 and 2016 and 30 June 2017 were significantly higher than the balance as at 31 December 2014, primarily due to increased advances from the ultimate holding company and certain related parties, which were incurred in relation to the Target Group's acquisition of certain subsidiaries in 2015 and 2016 respectively. On 22 August, 2017, the Target Company has entered into a repayment agreement with China Merchants, pursuant to which, the Target Group was granted a right to defer the repayment of amounts due to fellow subsidiaries and the ultimate holding company in aggregate of approximately RMB5,955.2 million to a period after 30 June 2018. In addition, China Merchants has agreed with the Target Company that if and to the extent that any of the amounts payable to fellow subsidiaries are not settled when due, interest will accrue at market rates on those amounts and the parties will agree on settlement arrangements without affecting the working capital requirements and operations of the Target Company.

Capital commitments

The table below sets out details relating to the capital commitments of the Target Group as at the dates indicated.

	As at 31 December		As at 30 June	
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Commitments for the acquisition of property, plant and equipment	143,237	10,316	986,571	225,350
Others	160,581	45,701	–	–
	<u>303,818</u>	<u>56,017</u>	<u>986,571</u>	<u>225,350</u>

The capital commitments described above primarily related to purchase of property, plant and equipments. The Target Group intends to fund these commitments with cash generated from its operations.

MATERIAL ACQUISITIONS AND DISPOSALS**Acquisition of subsidiaries**

In 2015, the Target Group acquired 70% equity interest in Shenzhen Henglu Logistics Co., Limited (深圳市恒路物流股份有限公司), a company engaged in logistics services in the PRC, from certain independent third parties. In addition, the Target Group also acquired 100% equity interest in Smart Ally Holdings Limited (“**Smart Ally**”), 100% equity interest in China Assess Investment Limited (“**China Assess**”) and 100% equity interest in China Merchants Loscam International Holdings Co., Limited (“**Loscam**”), respectively, from certain subsidiaries of China Merchants. As the Target Company, Smart Ally, China Assess and Loscam (collectively referred to as the “**Acquired Companies**”) are under common control of China Merchants, the above acquisitions have constituted a business combination under common control. The assets and liabilities of the Acquired Companies have been recognised in the consolidated financial statements of the Target Group at the carrying amounts recognised previously in China Merchants’ consolidated financial statements.

In 2016, the Target Group acquired 100% equity interests in eight companies, which are Sinotrans Jiu Ling Storage and Transportation Co., Ltd (中外運久凌儲運有限公司), Guangxi Sinotrans Logistics Co., Ltd (廣西中外運物流有限公司), Sinotrans (Tianjin) Storage and Transportation Co., Ltd (中外運(天津)儲運有限公司), Beijing Sinotrans Transportation Co., Ltd (北京中外運運輸有限公司), Zhoushan Sinotrans Customs Co., Ltd (舟山中外運報關有限公司), Shenyang Sinotrans Jiuling Logistics Development Co., Ltd (瀋陽中外運久凌物流發展有限公司), Hebei Sinotrans Jifa Logistics Co., Ltd (河北中外運冀發物流有限公司) and Sinotrans Logistics Investment Holdings Limited (中外運物流投資控股有限公司) (collectively referred to as the “**Sinotrans Entities**”), from Sinotrans & CSC, the former ultimate holding company of the Sinotrans Entities. On 29 December 2015, the State-owned Assets Supervision and Administration

Commission of the State Council has approved the reorganisation between Sinotrans & CSC and China Merchants. Sinotrans & CSC was thereby administratively allocated (for no consideration) to, and became a wholly-owned subsidiary of, China Merchants in year 2016 and as a result, China Merchants obtained control over Sinotrans & CSC.

In 2016, the Target Group also entered into an agreement with joint venture, Shangshun Supply China Management (China) Co., Ltd. (商順供應鏈管理(中國)有限公司) (“商順”), to acquire 100% equity interest in Gold Carrier Enterprise Limited. The principal asset of Gold Carrier Enterprise Limited and its subsidiaries is development project in Hong Kong.

For details of the Target Group’s material acquisitions, please refer to the Notes 34, 35 and 45 to the Accountants’ Report of the Target Group.

Disposal of subsidiaries

Apart from the Reorganisation, during the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, the Target Group disposed of its entire equity interest in six subsidiaries, including China Merchants Logistics Chengdu Pharmaceutical Limited (招商局物流集團成都醫藥有限公司), China Merchants Changjiang LPG Carriers Limited (招商局長江液化氣運輸有限公司), China Merchants Huangshi Gas Limited (黃石市招商燃氣有限公司), China Merchants Quanzhou Petrochemical Limited (泉州招商石化有限公司) and China Merchants Wuhu Gas Limited (蕪湖市招商燃氣有限公司), China Merchants Jiujiang Gas Limited (九江市招商燃氣有限公司) and China Merchants Yueyang Gas Limited (岳陽市招商燃氣有限公司). For details of the Target Group’s material disposals, please refer to the Notes 37 to the Accountants’ Report of the Target Group.

GEARING RATIOS

The following table sets out a summary of the Target Group’s gearing ratios as at the respective dates:

	As at 31 December		As at 30 June	
	2014	2015	2016	2017
Gearing ratio ⁽¹⁾	135.2% ⁽²⁾	137.5%	149.1%	167.5%

Note:

- (1) Gearing ratio is calculated by dividing total bank and other borrowings by total equity, multiplying the resulting value by 100.0%.
- (2) The amount of total equity used in the calculation of gearing ratio as at 31 December 2014 had been adjusted for an amount of RMB2,352.8 million, which represented the consideration payable for the acquisition of certain subsidiaries during the year ended 31 December 2015 accounted for as business combinations under common control. Such consideration was treated as reserve under total equity as at 31 December 2014 prior to its settlement during the year ended 31 December 2015. Following its settlement in 2015, such consideration had been deducted from reserve and no longer included in the amount of total equity as at 31 December 2015.

CONTINGENT LIABILITIES

Apart from the note 34 headed “Litigation and Contingent Liabilities” in Appendix II of this circular, the Target Group did not have any material contingent liability as at 30 June 2017.

SIGNIFICANT INVESTMENTS**Interests in joint ventures**

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the carrying amount of interests in joint ventures of the Target Group were approximately RMB1,041.9 million, RMB1,057.4 million, RMB41.2 million and RMB39.9 million, respectively. The significant lower of interests in joint ventures as at 31 December 2016 was due to the disposal of a joint venture by the Target Group and the disposal of certain subsidiaries by a joint venture of the Target Group.

Held-for-trading investments

As at 31 December 2014, 2015 and 2016 and 30 June 2017, the held-for-trading investments of the Target Group were approximately RMB457.3 million, RMB293.9 million, RMB396.7 million and RMB419.4 million, representing listed equity securities held by the Target Group.

Held-for-trading investments are stated at fair value. The fair value of the listed securities has been determined by reference to published price quotations in active markets.

FOREIGN EXCHANGE EXPOSURES

Other than the subsidiaries established in Hong Kong and overseas of which functional currency is Hong Kong dollar (“**HK\$**”) and United States dollars (“**USD**”) respectively, the functional currency of the Target Company and other subsidiaries is RMB. Certain trade and other receivables and bank balances and cash are denominated in currencies other than the functional currencies of the group entities to which they relate. Foreign currencies are also used to settle expenses for overseas operations, which expose the Target Group to foreign currency risk.

The Target Group currently does not have a foreign currency hedging policy but some of the subsidiaries use foreign exchange forward contracts to eliminate the currency exposures. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Target Group employed a total of 10,973 persons. Remuneration for the employees of the Target Group includes salaries and other benefits and retirement benefits scheme contributions. For the years ended 2014, 2015 and 2016 and the six months ended 30 June 2017, the Target Group's staff costs were approximately RMB925.4 million, RMB1,064.8 million, RMB1,290.3 million and RMB645.0 million, respectively. Employees' remunerations of the Target Group include basic salaries, wages allowances and performance-based bonuses, which are determined by their working performance, human resource market condition and economic environment. The Target Group's remuneration policy is reviewed on a regular basis. The Target Group has participated in the Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong, and the employees of the Target Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The Target Group offers internal trainings to the employees for their self-elevation and improvement on skills related to their positions.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS**I. Interests of Directors**

As at the Latest Practicable Date, so far as the Directors, chief executive or supervisor of the Company are aware, none of the Directors, chief executive or supervisors of the Company has interests and short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Saved as disclosed in the sections headed “II. Interests of Shareholders discloseable pursuant to the SFO” and “III. Directors’ Interests in competing business” below, as at the Latest Practicable Date, none of the Directors or a proposed Directors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

II. Interests of Shareholders discloseable pursuant to the SFO

As at the Latest Practicable Date, so far as is known to the Directors, chief executive or supervisors of the Company and based on the Company’s register required to be maintained pursuant to section 336 of the SFO, the following persons (other than a Director, chief executive or supervisor of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10 per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group are as follows:

(a) *Interests in the Shares*

Name	Corporate Interests	Class of Shares	Percentage of the Company's Total issued Share Capital	Percentage of the Company's issued H Share Capital
SINOTRANS & CSC (<i>Note 1</i>)	2,461,596,200 (L)	Domestic Shares	53.44%	–
	107,183,000 (L)	H Shares	2.33%	4.997%
FIL Limited (<i>Note 2</i>)	191,198,000 (L)	H Shares	4.15%	8.91%
Norges Bank (<i>Note 3</i>)	116,404,840 (L)	H Shares	2.53%	5.43%
Citigroup, Inc. (<i>Note 4</i>)	135,868,562 (L)	H Shares	2.95%	6.33%
	319,000 (S)	H Shares	0.00%	0.01%
	132,885,295 (P)	H Shares	2.88%	6.20%
BlackRock, Inc. (<i>Note 5</i>)	114,058,268 (L)	H Shares	2.48%	5.32%

* *Notes:* (L) Long Position, (S) Short Position, (P) Lending Pool

Notes:

- SINOTRANS & CSC is the controlling shareholder of the Company and a wholly-owned subsidiary of China Merchants. The Company's Chairman Mr. Zhao Huxiang and Executive Director Mr. Song Dexing also serve in SINOTRANS & CSC. The 2,461,596,200 Domestic Shares, being 100% of the Domestic Shares in issue as of the Latest Practicable Date, were directly owned by SINOTRANS & CSC and the 107,183,000 H Shares were indirectly held by SINOTRANS & CSC through its wholly owned subsidiaries, among which Sinotrans (Hong Kong) Holdings Ltd. was interested in 106,683,000 H Shares and Sinotrans Shipping Inc. was interested in 500,000 H Shares as at the Latest Practicable Date.
- According to the disclosure of interests form filed by FIL Limited available on the Stock Exchange's website, FIL Limited held these interests in the H Shares through companies wholly-owned by it.
- According to the disclosure of interests form filed by Norges Bank available on the Stock Exchange's website, Norges Bank held these H Shares directly.
- According to the disclosure of interests form filed by Citigroup Inc. available on the Stock Exchange's website, these shares/underlying shares are held by various wholly-owned subsidiaries of Citigroup Inc., in respect of which 2,983,267 H Shares (L) and 319,000 H Shares (S) were interest of controlled corporations and 132,885,295 H Shares (L/P) were held in the capacity of custodian corporation/approved lending agent. 319,000 H Shares (S) have also been reported as cash settled unlisted derivatives.
- According to the disclosure of interests form filed by BlackRock, Inc. available on the Stock Exchange's website, these shares/underlying shares are held by various subsidiaries of BlackRock, Inc., in respect of which 2,972,000 H Shares (L) have been reported as cash settled unlisted derivatives.

(b) Substantial Shareholders of other members of the Group

As at the Latest Practicable Date, save as disclosed below and so far as is known to the Directors or supervisor of the Company, no person (not being a Director or supervisor of the Company) was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the other members of the Group.

Name of entitles holding 10% or more interest in a member of the Group	Interest in relevant company	Name of subsidiary of the Company
Transhold (Pvt) Ltd.	40%	中國外運(巴基斯坦)物流有限公司 (Sinotrans Logistics (Pakistan) (Pvt.) Ltd*)
蘇州物流中心有限公司 Suzhou Logistics Center Co., Ltd*	49%	中國外運蘇州物流中心有限公司 (Sinotrans Suzhou Logistics Center Co., Ltd*)
香港金發船務有限公司 (Golden Shipping Co., Ltd*)	33%	上海華發國際貨運有限公司 (Shanghai Huafa International Transportation Co., Ltd.*)
上海化學工業區奉賢分區發展有限公司 (Shanghai Chemical Industrial Park Fengxian Sub-zone Development Co., Ltd*)	12.8%	中外運化工國際物流有限公司 (Sinotrans Chemical International Logistics Co., Ltd.*)
上海颯諾諾權商務諮詢合夥企業 (有限合夥)	20%	中外運化工國際物流有限公司 (Sinotrans Chemical International Logistics Co., Ltd.*)
日本通運株式會社 (Nippon Express Co., Ltd.*)	49%	上海通運國際物流有限公司 (Shanghai Express International Co., Ltd.*)
勝獅堆場企業有限公司 (Singamas Depot Co., Ltd.*)	40%	上海華星國際集裝箱貨運有限公司 (Shanghai Huasing International Container Freight Transportation Co., Ltd.*)
新加坡太平船務有限公司 (Pacific International Lines (Pte) Ltd.*)	45%	寧波太平國際貿易聯運有限公司 (Ningbo Taiping International Trade Transportation Company Limited*)
	27%	寧波保稅區太平倉儲有限公司 (Ningbo Free Trade Zone Taiping Warehouse Co., Ltd.*)

Name of entitles holding 10% or more interest in a member of the Group	Interest in relevant company	Name of subsidiary of the Company
蘇州高新技術產業股份有限公司 (Suzhou New District New & Hi-Tech Industrial Co., Ltd.*)	40%	中外運高新物流(蘇州)有限公司 (Sinotrans Gaoxin Logistics (Suzhou) Ltd.*)
蘇州高新區經濟發展集團總公司 (Suzhou New District Economy Development (Group) Corporation*)	25%	蘇州新區報關有限公司 (Suzhou New District Customs Broker Co., Ltd.*)
以星航運中國有限公司 (Zim Integrated Shipping Services Ltd.*)	49%	上海運星國際船務代理有限公司 (Shanghai Yunsheng International Shipping Agency Company Limited*)
阿聯船務代理(香港)有限公司 (Alian Shipping Agency (Hong Kong) Company Limited*)	49%	寧波中外運阿聯船舶代理有限公司 (Sinotrans Ningbo Alian Shipping Agency Company Limited*)
寧波泛洋國際貨運代理有限公司 職工持股會 (Ningbo Transocean International Forwarding Agency Ningbo Co. Ltd.*)	40%	寧波泛洋國際貨運代理有限公司 (Ningbo Transocean International Forwarding Agency Company Limited*)
寧波船務代理有限公司職工持股會 (China Marine Shipping Agency Ningbo Co. Ltd. Employee Shareholding Society*)	40%	寧波船務代理有限公司 (China Marine Shipping Agency Ningbo Co., Ltd.*)
寧波外運國際貨運代理有限公司 職工持股會 (Sinotrans Ningbo International Freight Forward Agency Co., Ltd. Employee Shareholding Society*)	40%	寧波外運國際貨運代理有限公司 (Sinotrans Ningbo International Freight Forwarding Agency Co., Ltd.*)
寧波外運國際集裝箱貨運有限公司 職工持股會 (Sinotrans Ningbo International Container Transportation Company Limited Employee Shareholding Society*)	40%	寧波外運國際集裝箱貨運有限公司 (Sinotrans Ningbo International Container Transportation Company Limited*)

Name of entitles holding 10% or more interest in a member of the Group	Interest in relevant company	Name of subsidiary of the Company
南通市經濟技術開發區總公司 (Nantong Economic & Technological Development Area Controlling Corporation*)	10%	南通中外運化工物流有限公司 (Sinotrans Nantong Chemical Logistics Co., Ltd.*)
廣東省食品進出口集團公司 (Guangdong Foodstuffs Imp & Exp (Group) Corporation*)	20%	佛山中外運倉碼有限公司 (Sinotrans Foshan Warehousing & Terminal Company Limited*)
廣東省南海食品進出口有限公司 (Guangdong Nanhai Foodstuffs Company Limited*)	25%	佛山中外運倉碼有限公司 (Sinotrans Foshan Warehousing & Terminal Company Limited*)
中山市岐江工業發展有限公司 (Zhongshan Qijiang Industry Development Co., Ltd.*)	40.546%	中山中外運倉碼有限公司 (Sinotrans Zhongshan Warehousing & Terminal Corp., Ltd.*)
梧州市木材公司 (Wuzhou Lumber Company*)	17.67%	廣西梧州中外運倉碼有限公司 (Sinotrans Wuzhou Warehousing & Terminal Corp., Ltd.*)
東莞市石龍鎮工業總公司 (Dongguan Shilong Town Industry Co., Ltd.*)	20%	東莞中外運物流有限公司 (Sinotrans Dongguan Logistics Co., Ltd.)
遠升有限公司 (Lailon Enterprises Ltd.*)	25%	青島聯通報關有限公司 (Qingdao Liantong Customs Broker Co., Ltd.*)
	25%	山東中外運弘志物流有限公司 (Sinotrans Shandong Hongzhi Logistics Co. Ltd.*)
	25%	青島金運航空貨運代理有限公司 (Qingdao Jinyun Air Cargo Freight Forwarding Co. Ltd.*)
好明國際物流(上海)有限公司 (Hao Ming International Logistics (Shanghai) Co., Ltd.*)	49%	天津中外運好好冷鏈物流有限公司 (Sinotrans Tianjin Good Cold Chain Logistics Co., Ltd.*)

Name of entitles holding 10% or more interest in a member of the Group	Interest in relevant company	Name of subsidiary of the Company
福州開發區國有資產營運有限公司 (Fuzhou Development Zone State-owned Assets Management Company*)	30%	福州中外運大裕保稅倉儲有限公司 (Fuzhou Davu Bonded Storage Company Limited*)
SIMME TRANSIT INTERNATIONAL	25%	吉布提運輸有限公司 Djibouti Transit & Transport SARL*
MAMBUK TRADING AND LOGISTICS PRIVATE LIMITED CO.	24%	吉布提運輸有限公司 Djibouti Transit & Transport SARL*
韓進海運株式會社 (Hanjin Shipping Company Limited*)	49%	上海星瀚船務代理有限公司 (Shanghai Shenhan Shipping Agency Company Limited*)
成都高新投資集團有限公司 (Chengdu New District Investment Group Corporation*)	45.71%	成都保稅物流投資有限公司 (Chengdu Bonded Logistics Investment Company Limited*)
武漢東湖綜合保稅區建設投資有限公司 Wuhan Eastlake Free Trade Zone Construction Investment Co. Ltd*	40%	武漢東湖綜合保稅區保稅物流有限公司 Wuhan East Lake Comprehensive Bonded Area Bonded Logistics Co. Ltd*
瀘州市興瀘投資集團有限公司 LUZHOU XINGLU INVESTMENT GROUP CO. LTD*	40%	中外運瀘州港保稅物流有限公司 SINOTRANS LUZHOU PORT BONDED LOGISTICS CO. LTD.*
上海外高橋物流中心有限公司 Shanghai Waigaoqiao Logistics Center Co., Ltd.*	20%	中外運外高橋上海(國際)物流有限公司 Sinotrans Waigaoqiao Shanghai (International) Logistics Co., Ltd.*
江門高新技術工業園有限公司 Jiangmen High Tech Industrial Park Co., Ltd.*	35%	江門高新港務發展有限公司 Jiangmen High Tech Port Development Co., Ltd.*
東莞港務集團有限公司 Dongguan Port Group Co., Ltd*	30%	廣東中俄貿易產業園投資有限公司 Guangdong Sino-Russian Trade Industrial Park Investment Co., Ltd*

Name of entitles holding 10% or more interest in a member of the Group	Interest in relevant company	Name of subsidiary of the Company
青島港國際股份有限公司 Qingdao Port International Co., Ltd*	49%	青島港董家口中外運物流有限公司 Qingdao Port Dongjiakou Sinotrans Logistics Co., Ltd*
威球船務代理私人有限公司 Weiqiu Shipping Agency Private Co., Ltd*	49%	威潤馬航物流(天津)有限公司 Weirun Mahang Logistics (Tianjin) Co., Ltd*
PT.TRANSLINDO NUSAPACIFIC	51%	中國外運長航印度尼西亞有限公司 (PT Sinotrans & CSC Indonesia*)
Maritime and Commerce Agency India LLP	40%	中國外運印度有限公司 (Sinotrans India Private Limited*)
合肥市供銷商業總公司 Hefei Supply and Marketing Commercial General Company*	40%	中國外運物流發展合肥有限公司 Sinotrans Logistics Development Hefei Co., Ltd*
中外運上海(集團)有限公司 Sinotrans Shanghai (Group) Co., Ltd*	30%	上海華展倉儲貿易有限公司 Shanghai Huazhan Warehousing Trade Co., Ltd*
	15%	上海外紅伊勢達國際物流有限公司 Shanghai Waihong Yishida International Logistics Co., Ltd*
上港集團物流有限公司 Shanggang Group Logistics Co., Ltd*	15%	上海外紅伊勢達國際物流有限公司 Shanghai Waihong Yishida International Logistics Co., Ltd*
上海外高橋保稅區聯合發展有限公司 Shanghai Waigaoqiao Tax-protected Zone Union Development Co.,Ltd.*	10%	上海外紅伊勢達國際物流有限公司 Shanghai Waihong Yishida International Logistics Co., Ltd*
Sabrina Musharraf Mohammed	51%	中國外運迪拜有限公司 Sinotrans Gulf Shipping L.L.c*

Save as disclosed above, the Directors are not aware that there is any person (other than a Director, chief executive or supervisor of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any other member of the Group.

III. Directors' interests in competing business

Mr. Jerry Hsu (a non-executive Director) is considered to have interests in other business apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business as at the Latest Practicable Date, within the meaning of the Listing Rules. He is a representative nominated by DHL Worldwide Express BV, the strategic investor of the Company (the "**Strategic Investor**").

DHL Worldwide Express BV is a member of the Deutsche Post World Net Group whose business operations are global mail, express delivery, logistics and financial services serving both in Europe and around the world. While, for the purposes of the Listing Rules, Jerry Hsu is considered to have interests (by way of minority equity interests or stock options or directorships) in competing businesses (i.e. those of the Strategic Investor, being a major international company in the transportation and logistics industry), the Company has been and continues to carry on its business, management and operation independently of and at arms length from, those businesses and through its joint venture and cooperation arrangements with the Strategic Investor.

The Chairman of the Board of the Company, namely Mr. Zhao Huxiang, is the Vice Chairman of China Merchants, and the Executive Director of the Company, namely Mr. Song Dexing, is the Head of Integrated Logistics Department of China Merchants. China Merchants is the ultimate controlling shareholder of the Company. Certain subsidiaries of China Merchants engage in the Group's "core businesses" (namely freight forwarding and shipping agency operations) in certain "core strategic regions" of the Group in the PRC which have only nominal operations which are the same as or similar to the "core businesses" of the Group.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or supervisor of the Company, no other Directors or any of their respective close associates had any interests in a business, which competes or may compete with the business of the Group.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or proposed Directors had entered into or proposed to enter into any service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensation)).

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. DIRECTORS' INTERESTS IN CONTRACT OR ARRANGEMENT AND ASSETS OF THE ENLARGED GROUP

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors or proposed Director had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which had been proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 December 2016 (the date to which the latest published audited consolidated financial statements of the Group were made up).

6. EXPERTS

The following is the qualification of the experts which has given its opinion or advice which is contained in this circular:

Name	Qualification
Octal Capital Limited (Independent Financial Advisor)	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
SHINEWING (HK) CPA Limited	Certified Public Accountants
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, each of the Independent Financial Advisor, SHINEWING (HK) CPA Limited and Deloitte Touche Tohmatsu did not have:

- (a) any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up; and
- (b) any shareholding in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

Each of the Independent Financial Advisor, SHINEWING (HK) CPA Limited and Deloitte Touche Tohmatsu has given and has not withdrawn its consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they respectively appear.

7. LITIGATION

As at the Latest Practicable Date, save as disclosed in note 34 of the Accountant's Report on the Target Group set out in Appendix II, no member of the Enlarged Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance to the Enlarged Group was known to the Directors to be pending or threatened against any member of the Enlarged Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered or to be entered into by any member of the Enlarged Group within the two years immediately preceding the Latest Practicable Date and are or may be material to the Enlarged Group:

- (a) the Acquisition Agreement;
- (b) the supplemental deed dated 20 September 2016 entered into among China Assess Investment Limited, SF Holding Limited, China Merchants Holdings (Hong Kong) Company Limited, SF Enterprise (BVI) Limited, and China Merchants Express Supply Chain Management Company Limited in relation to the de-registration of China Merchants Express Supply Chain Management Company Limited pursuant to which China Assess Investment Limited exercised an option to purchase the entire issued share capital in Gold Carrier Enterprise Limited and certain loans at a consideration of HK\$1,280,000,000 from China Merchants Express Supply Chain Management Company Limited; and
- (c) the share transfer agreement dated 31 December 2015 entered into between 招商局船務企業有限公司 (China Merchants Shipping and Enterprises Company Limited) and 招商局集團(香港)有限公司 (China Merchants Holdings (Hong Kong) Company Limited) in relation to the transfer of 1 issued share in 招商路凱國際控股有限公司 (China Merchants Loscam International Holdings Co., Limited) from China Merchants Holdings (Hong Kong) Company Limited to China Merchants Shipping and Enterprises Company Limited at a consideration of HK\$2,737,112,917.62.

9. MISCELLANEOUS

- (a) The joint secretaries of the Company are Mr. Li Shichu and Ms. Hui Wai Man, Shirley. Mr. Li Shichu is also the General Manager of the Developing & Planning Department of the Company. Mr. Li obtained his bachelor degree in economics from University of International Business and Economics, and graduated with an EMBA degree from Cheung Kong Graduate School of Business. Ms. Hui Wai Man, Shirley is a fellow member of Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants, The

Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries, and a member of the Society of Chinese Accountants and Auditors and the Hong Kong Securities Institute.

- (b) The registered address of the Company is situated at Sinotrans Plaza A A43, Xizhimen Beidajie, Haidian District, Beijing 100082, the People's Republic of China. The headquarter of the Company is situated at Building 10/ Sinotrans Tower B, No.5 Anding Road, Chaoyang District, Beijing 100029, People's Republic of China. The principal place of business of the Company in Hong Kong is situated at Room F & G, 20/F., MG Tower, 133 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.
- (c) The share registrars of the Company is Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

In any event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the office of Reed Smith Richards Butler at 20th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong from the date of this circular, for a period of 14 days:-

- (a) the Articles of Association of the Company;
- (b) the letter from the Independent Financial Advisor, the text of which is set out on pages 18 to 39 of this circular;
- (c) the annual reports of the Company for each of the two years ended 31 December 2016;
- (d) the Accountant's Report on the Target Group prepared by SHINEWING (HK) CPA Limited, the text of which is set out in Appendix II to this circular;
- (e) the report on the unaudited pro forma financial information of the Enlarged Group issued by Deloitte Touche Tohmatsu, the text of which is set out in Appendix III to this circular;
- (f) the consent letters referred to in the paragraph headed "Expert" in this Appendix;
- (g) the contracts referred to in the paragraph headed "8. Material Contracts" in this Appendix; and
- (h) this circular.