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OVERVIEW

We are a one-stop service provider of the Intra-Port Services and the Logistics Services.

Our Intra-Port Services

Our Intra-Port Services consist of (i) intra-port ancillary services, including assisting in the loading and unloading of containers and bulk/general cargo for international and domestic trade, berthing, unberthing, moorage services of the vessels, and ancillary services in respect of container inspection at gate inside the port area; and (ii) intra-port container transportation services between the loading and unloading areas at the berth, the port stacking yards, and the inspection area of Xiamen Customs and XEIQB inside port areas in Xiamen, and the empty container stacking yards. According to the F&S Report, we ranked the second and the third in term of total revenue generated for the year ended 31 December 2016 in the Intra-Port Services market in Xiamen and Fujian respectively.

We carry on our Intra-Port Services through Xiangxing Terminal in Haitian Port in the Dongdu port area, and Yuanhai Port and Tongda Port in the Haicang port area in Xiamen. Our Group’s Intra-Port Services can be traced back to 2000 where we provided services in berth number 12 of Dongdu port area (now part of Haitian Port) under the name of Xiangxing Group. We started providing Intra-Port Services in Yuanhai Port and intra-port ancillary services in Tongda Port in 2011 and 2015 respectively. Our customers for our Intra-Port Services comprise container port operators, a bulk/general cargo port operator and an empty container stacking yard operator in Xiamen.

The table below sets forth the breakdown of our revenue and the related percentage of revenue attributable to the Intra-Port Services provided by our Group at each port area in Xiamen in which we operated during the Track Record Period:

	For the year ended 31 December					
	2014		2015		2016	
	Amount	Percentage of revenue attributable to Intra-Port Services	Amount	Percentage of revenue attributable to Intra-Port Services	Amount	Percentage of revenue attributable to Intra-Port Services
	RMB’000	(%)	RMB’000	(%)	RMB’000	(%)
Dongdu port area ⁽¹⁾	26,663	50.3	22,028	41.2	25,379	42.4
Haicang port area ⁽²⁾	26,381	49.7	31,376	58.8	34,416	57.6
Total	53,044	100.0	53,404	100.0	59,795	100.0

Notes:

- Berth numbers 5 to 16 of the Dongdu port area in Xiamen, within which we provide our services at berth numbers 12 to 16 (normally referred to as Haitian Port).*

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- 2. Berth numbers 13 to 17 of the Haicang port area in Xiamen, within which we provide our services in areas normally referred to as Yuanhai Port and Tongda Port. We only started providing intra-port ancillary services in Tongda Port of the Haicang port area in 2015.

The maps below diagrammatically illustrate the locations of the ports and berths at which our Group provides Intra-Port Services as at the Latest Practicable Date:



Source: Administration Committee of Xiamen Area of China (Fujian) Pilot Free Trade Zone

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Our Logistics Services

Our Logistics Services consist of (i) import and export agency services, with a special focus on the import of Reusable Solid Waste; and (ii) container road freight forwarding services in Xiamen and its economic hinterland. According to the F&S Report, we ranked the first in the import agency services market in respect of the Reusable Solid Waste in terms of the total revenue generated for the year ended 31 December 2016 in Xiamen and Fujian, respectively.

We have been carrying on our Logistics Services through Xiangxing Logistics since 2002. Our import agency services mainly relate to the import of the Reusable Solid Waste via Xiamen and include container stacking yard services, cargo inspection services, cargo disinfection and sterilisation liaison services, assistance in inspection services with XEIQB and customs clearance services with Xiamen Customs for Reuseable Solid Waste. During the Track Record Period, a majority of the customers of our import agency services comprised companies in the waste paper processing industry, the scrap plastics processing industry and scrap metal processing industry. Our export agency services mainly include arranging shipping schedule, and handling relevant paperwork, cargo inspection and clearance procedures with the Customs and/or XEIQB. Customers of our export agency services include companies that engage in a variety of businesses including manufacturers of light industrial products such as garments and shoes.

We also provide container road freight forwarding services in Xiamen and its economic hinterland through Xiangxing Logistics. Our container road freight forwarding services focus on picking up loaded (in respect of import) and empty (in respect of export) containers and delivering them between the designated locations of our customers (in respect of import) and the relevant designated ports (in respect of export). Customers of our container road freight forwarding services mainly include importers of Reusable Solid Waste.

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The table below sets forth the breakdown of our revenue and the related percentage attributable to the Logistics Services provided by our Group during the Track Record Period:

	For the year ended 31 December					
	2014		2015		2016	
	Amount RMB'000	Revenue attributable to Logistics Services (%)	Amount RMB'000	Revenue attributable to Logistics Services (%)	Amount RMB'000	Revenue attributable to Logistics Services (%)
Import and export agency services						
Import agency services in respect of Reusable Solid Waste	47,061	76.2	53,077	77.9	33,701	70.8
Export agency services	2,265	3.7	1,226	1.8	558	1.1
Sub-total	49,326	79.9	54,303	79.7	34,259	71.9
Container road freight forwarding services	12,393	20.1	13,817	20.3	13,364	28.1
Total	61,719	100.0	68,120	100.0	47,623	100.0

OUR COMPETITIVE STRENGTHS

Our Directors believe that our Group has the following principal competitive strengths:

Our Group ranked the second in the Intra-Port Services market in Xiamen which was the seventh and the fifteenth amongst the container ports in China and the world respectively in 2016

According to the F&S Report, Xiamen ranked the seventh and the fifteenth amongst the container ports in China and the world respectively in term of container throughput in 2016. The container throughput of Xiamen grew at a CAGR of 8.3% from 2011 to 2016, and the TEU also increased from 6.5 million TEU to 9.6 million TEU. In 2016, the container throughput handled by our Group comprised mainly container throughput in Haitian Port in the Dongdu port area and Yuanhai Port in the Haicang port area.

Our Directors believe that the natural environment, strategic location and transportation network of Xiamen will continue to play a favourable role in the competitiveness of the city and its international and domestic trade. As an Intra-Port Services and Logistics Services provider based in, and with a focus on, Xiamen, our Directors believe that we are positioned to benefit from the economic development and international and domestic trade business of Xiamen.

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Ranking the second in the Intra-Port Services market in Xiamen in 2016 (according to the F&S Report), our Group has established long-standing business relationships with port operators in Xiamen and has an experienced management team with expertise in the Intra-Port Services industry. Also, our Group has provided its services in the Xiamen port areas for more than 14 years, which our Directors believe indicates that our Group has a substantial market presence in Xiamen’s Intra-Port Services market and is more likely to be familiar with the relevant policies, procedures, and have better relationship with industry participants.

Our Group provides a range of Intra-Port Services which covers various stages from berthing/unberthing of vessels, loading/unloading of containers to intra-port-related logistics. Our Directors believe that one of the competitive strengths of our Group is our ability to deliver a range of Intra-Port Services to satisfy the operation needs of our port operator customers.

Our Group is one of the major import agency services providers with a special focus on the Reusable Solid Waste in Xiamen and Fujian

According to the F&S Report, the import agency services market in respect of the Reusable Solid Waste in Xiamen and Fujian is highly concentrated and we ranked the first in both Xiamen and Fujian in term of the total revenue generated for the year ended 31 December 2016. When the Reusable Solid Waste is imported into the PRC, relevant procedures and requirements as stipulated by the AQSIQ and Customs need to be observed. Examples of the foregoing include quarantine, disinfection and sterilisation of the relevant imported containers and the cargoes therein in the container stacking yards and on-site supervision in Customs Supervision and Control Locations. Please refer to the section headed “Regulatory Overview” in this document for further details. Our Directors consider that entry into the import agency services market in respect of Reusable Solid Waste in the PRC requires construction of a container stacking yard, investment in machinery and equipment, and installation of monitoring and surveillance system, which would require substantial capital investment and the relevant approvals of Xiamen Customs.

As the largest import agency services provider for Reusable Solid Waste in Fujian province and Xiamen, our Directors believe that our Group enjoys a high reputation and has established solid relationships with its customers. In addition, our Directors believe that our Group has also established a full service chain from container and cargo inspection, disinfection and sterilisation, and customs clearance, which allows it to offer better services to its customers. With deep industry know-how, our Directors believe that one of the competitive strengths of our Group is that we are one of the few enterprises in Xiamen capable of delivering one-stop import agency services to importers of Reusable Solid Waste and is likely to continue to consolidate our market position in the future.

We have established long-standing business relationships with certain of our major customers

During the Track Record Period, we have established strong business relationships with certain of our major customers with whom we have maintained business relationships for periods of time ranging from 2 years to 17 years, respectively. Our Directors believe that one of our strengths is our ability to secure and maintain long-term business relationships with our major customers.

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We believe that our ability to deliver to our customers one-stop services in the Intra-Port Services market and the Logistics Services market has enabled us to obtain business from our major customers. We also believe that, with a stable customer base, we are positioned to implement our development plans.

Our Directors believe that the key to maintain long-term business relationships with our customers is by understanding our customers and their needs, and our ability to provide services to their satisfaction.

We have an experienced management team

We have a management team that is experienced in, and is familiar with, the Intra-Port Services industry and the Logistics Services industry in the PRC. Our management team is led by our chairman and an executive Director of our Company, Mr. Cheng, who has more than 17 years of experience in such industries and has been responsible for the overall strategic and business direction of our Group.

Mr. Qiu, our executive Director and chief executive officer, and Mr. Yao Aiming and Mr. Zhou Xiaoxiong, members of our senior management, also have more than 15 years of experience and knowledge in the Intra-Port Services and/or the Logistics Services industry. We believe that the experience and knowledge of our Directors and senior management are instrumental to our success and will continue to contribute to the development of our Group.

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Establish our own empty container stacking yard to expand the scope of our services to our existing customers and to widen our customer base

For carrying our import and export agency services, our Group has leased a parcel of land within the Dongdu port area for a term of six years from 1 July 2014 until 30 June 2020, a parcel of land within the Haicang port area for a term of eight years from 1 February 2015 until 31 January 2023, and a parcel of land within the Haicang port area for a term of 14.5 years from 1 July 2011 until 31 December 2025 which we use as a loaded container stacking yard for our import agency services in respect of Reusable Solid Waste. For further details of these parcels of land, please refer to the paragraph headed “Properties” in this section.

We plan to purchase a parcel of land of approximately 30,000 sq.m. for the establishment of our own empty container stacking yard and for the operation of loading and unloading cargo to and from containers in the empty container stacking yard.

Our Directors propose to fund the acquisition of this parcel of land partially out of the [REDACTED] of the [REDACTED] and consider that not owning the relevant land for our proposed empty container stacking yard operation that we plan to establish may subject our Group to fluctuations in rental expenses and/or render us vulnerable to termination of the relevant lease which would have a direct impact on our operation and business performance. Consequently, to

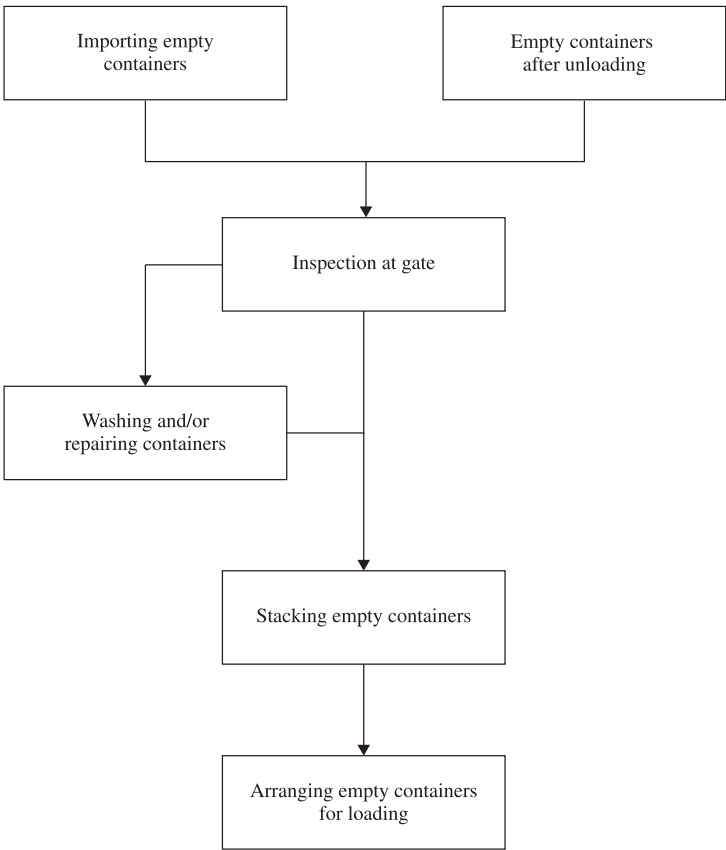
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ensure the continuing growth of our business and maintain our competitiveness by expanding our scope of services, we plan to purchase a parcel of land to develop our own empty container stacking yard operation. The details of our business plan are set out below.

The proposed business plan

As mentioned above, we intend to establish our own empty container stacking yard and to fund the acquisition of the relevant parcel of land, related construction works and establishment of this operation out of the [REDACTED] from the [REDACTED]. On this parcel of land that we intend to acquire, we plan to construct and establish an empty container operation area of approximately 20,000 sq.m., a container washing and repairing area of approximately 2,500 sq.m., a loaded container operation area of approximately 5,000 sq.m. and an administrative and office area of approximately 2,500 sq.m.. The following diagrams illustrate our proposed plan to carry out the expansion of the scope of our business operations through the empty container stacking yard:

The operation flow of the proposed business of empty container stacking yard



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Reasons and benefits of the proposed empty container stacking yard

Our Directors believe that, by operating our owned empty container stacking yard, we shall be able to broaden our customer base. As our Group’s existing businesses only provide services for port operators and importers/exporters, our owned empty container stacking yard will allow us, in addition, to include shipping companies as our customers. Our Directors consider that this will help to diversify our business and reduce our reliance on our existing major customers.

We intend to leverage on the long-term co-operation between our Group and some of our major Logistics Services customers (being the consignors) to expand our business to new customers, since our Directors believe that we, together with our Logistics Services customers, have bargaining power over the shipping companies in using our empty container stacking yard. According to the knowledge of our Directors, empty container stacking yard operators currently charge a standard lift on lift off fee of RMB115 per TEU or RMB170 per FEU, both when the containers are stacked and unstacked, which are payable by us on behalf of our Logistics Services customers. By operating our own empty container stacking yard, we may incentivize our Logistics Services customers to use our empty container stacking yard by providing them with a rebate of the lift on lift off fee when the containers are stacked and stored at our empty container stacking yard. The consignors have the final say in the selection of empty container stacking yards as the lift on lift off fees are ultimately payable by them directly to the empty container stacking yard operators. However, it is market practice that they would leave such matters to shipping companies to handle unless (i) the consignors are not satisfied with the services of the empty container stacking yard companies or (ii) they are provided with a rebate of lift on lift off fee as an incentive, where the consignors will give the instructions to the shipping companies to change to a different empty container stacking yard and the shipping companies will follow the consignors’ instructions accordingly. Our Directors believe that our Group and our Logistics Services customers, through the rebate to be provided to them, are able to have bargaining power in persuading shipping companies to use our empty container stacking yard. Consequentially, our Logistics Services customers would economically benefit from our horizontal expansion of business scope.

With our Group’s established relationship and presence in Xiamen’s port areas, our Directors believe that such an expansion of business scope would bring about economies of scale since shipping companies are already aware of us. As the operation of an empty container stacking yard, in the view of our Directors, is similar to, and consistent with, our existing businesses, our Directors believe that we would have no difficulty in delivering sufficient manpower to handle daily operations. Our Directors also believe that our owned empty container stacking yard operation will be a horizontal expansion of our business which will facilitate the development of new customers for our Intra-Port Services and is consistent with our Group’s current business model and will complement our existing range of services to our customers.

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According to the Xiamen Municipal Bureau of Land Resources and Real Estate Management, the standard land price of Xiamen’s industrial land increased by approximately 45% in 2016 for the first time in the last 10 years. According to Frost & Sullivan, considering the increasing land development cost by the PRC government, the standard land price of Xiamen’s industrial land is likely to rise further and realize a CAGR of approximately 3% to 5% from 2016 to 2021 and the rental expenses in Xiamen is likely to rise further accordingly. Hence, the current rent payable by our Group shall not be treated as a meaningful benchmark for future reference. Our Directors believe that, by owning a parcel of land, our Group can avoid fluctuations in rental expenses and reduce the risk of relocation when the leases for our parcels of land are subject to lease renewal negotiations.

We have carried out a feasibility study into the operation of similar container stacking yards in the port areas of Xiamen where we conduct our operations, by considering (i) the market potential of an empty container stacking yard business and our competitiveness, (ii) the location of the potential site, (iii) the development process of an empty container stacking yard and (iv) the detailed operating procedures, the budget and the costs involved through obtaining quotations from relevant independent third parties regarding fees for carrying out construction activities and equipment acquisition. Apart from conducting our own research, we have also entered into discussions with existing major market players in the empty container stacking yard services market in Xiamen on their experience in operating an empty container stacking yard.

Our Group’s leased properties in the Dongdu and Haicang port area are used as our Group’s container stacking yard for our import agency services in respect of Reusable Solid Waste, where no empty containers will be stacked or stored. According to the Administrative Measures for Customs Supervision and Control Locations of the PRC (中華人民共和國海關監管場所管理辦法) and the Customs Law of the PRC (中華人民共和國海關法), only cargoes under the supervision of customs other than empty containers (which refers to those discharged containers without any cargos in them) are permitted to be stored in the Customs Supervision and Control Locations. Accordingly, we are not permitted to operate our empty container stacking yard business on our leased container stacking yards, being Customs Supervision and Control Locations.

Our Directors consider that there will be sufficient demand for the proposed empty container stacking yard business in the Haicang port area for the following reasons:

- (1) Xiamen’s natural environment, strategic location and transportation network will continue to play a favourable role in our competitiveness. The average daily volume of empty containers in Fujian and Xiamen comprised 327,900 TEU and 218,900 TEU in 2016 respectively. Along with the growing container throughput of both Fujian and Xiamen, the average daily volume of empty containers in Fujian and Xiamen is expected to increase to 441,900 TEU and 295,600 TEU in 2021 respectively, according to the F&S Report.
- (2) The Dongdu port area and the Haicang port area are both within the China (Fujian) Pilot Free Trade Zone established in December 2014. According to the F&S Report, due to the adjustment and re-direction of ocean-going shipping lines from the Dongdu port area to

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the Haicang port area by the Xiamen port management authority, the Haicang port area will become an important container hub port for the Asia-Pacific region and the increase in container throughput will likely concentrate in Haicang port area.

- (3) According to the F&S Report, after the containers are being unloaded or imported, it is an industry norm to place all empty containers in an empty container stacking yard for inspection and quarantine purposes, in order to ensure the sanitization and hygiene of the empty containers.
- (4) Along with the growing container throughput in the foreseeable future, the demand for the market of empty container yard services is expected to experience further expansion, which gives a good business opportunity for Intra-Port Services providers to extend their service chain.

Our Directors also believe that we will be competitive in the proposed empty container stacking yard business for the following reasons:

- (1) Leveraging on our Group’s experience in providing Intra-Port Services and Logistics Services, we aim to further expand our business scope with a goal to provide one-stop services and improving our operational efficiency. According to the F&S Report, Xiamen International Port Co. Limited is currently the only entity providing Intra-Port Services, Logistics Services and empty container stacking yard services in Xiamen, with a market share of approximately 7% for its empty container stacking yard services in Xiamen. Upon operating our empty container stacking yard business, we will be one of the two entities providing one-stop services comprising Intra-Port Services, Logistics Services as well as empty container stacking yard services in Xiamen, which provides us with a unique competitive advantage over our competitors.
- (2) The operation of an empty container stacking yard is, in our Directors’ view and experience, similar to, but relatively less complicated than, our Group’s existing business in operating a loaded container stacking yard. Our Directors consider that our Group has sufficient site workers with the requisite skills and experience in handling daily operations of our proposed empty container stacking yard.
- (3) Leveraging on the long-term co-operation between our Group and our port operator customers and our Group’s expertise in the provision of Intra-Port Services, our Group, together with our port operator customers, have bargaining power over shipping companies in using our empty container stacking yard. Since we directly assist in the unloading of containers and have the detailed shipment schedule regarding the time of mooring and berthing of inbound vessels, we may arrange for the direct transportation of empty containers from the port area to our empty container stacking yard. With the limited space at the port areas, we may provide one-stop services of Intra-Port Services and empty container stacking yard services to our port operator customers by directly transporting the empty containers to our empty container stacking yard upon the unloading of empty containers. Such direct transportation of empty containers is

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beneficial to our port operator customers as (i) the port area occupancy can be reduced through the reduction of container storage time by approximately two to three days, and (ii) the usage of rail-mounted gantry cranes in the port areas can be reduced, thus reducing the electricity or diesel oil costs of rail-mounted gantry cranes (estimated to be approximately RMB10 to RMB15 per container) as well as repair and maintenance costs. Our Directors believe that such direct transportation is also beneficial for shipping companies since the container turnover rate and economic efficiency can be increased. Further, 7 shipping companies have issued non-legally binding confirmations expressing their intention to work and co-operate with us upon our Group’s successful acquisition of a parcel of land and construction of our empty container stacking yard.

- (4) We have been providing services in the Xiamen port area for more than 14 years, and our Directors believe that we has established a positive corporate image.

Bearing in mind our Group’s existing business model (including our familiarity with the operation of loaded container stacking yards from our existing business operation) and our current business scale, our Directors are of the view, with which our Sponsor concurs, that our Group’s business expansion plan through the establishment of our owned empty container stacking yard is feasible and commercially viable and would add value to our business and facilitate our Group’s future business development.

Site selection process

Our Directors believe that it is crucial for our Group to select an appropriate location for our planned development of an empty container stacking yard. Our Group has received a letter of support from 福建自由貿易試驗區廈門片區管委會海滄園區辦事處 (Haicang District Office of the Management Committee of Fujian Free Trade Pilot Zone in Xiamen) dated 11 May 2016, being one of the two important and essential government authorities involved in the land granting scheme in Haicang District of Fujian Free Trade Pilot Zone in Xiamen, to acknowledge and support our Group’s intention to acquire a parcel of land in Haicang Port for the purpose of expansion of our Group’s Intra-Port Services.

Since we are currently actively preparing for the [REDACTED], we have been named as one of the 重點上市後備企業 (Key Enterprises Reserved for Listing) by the Fujian Development and Reform Commission. On 14 December 2016, we also obtained a supportive letter from the other important and essential government authority involved in the land granting scheme in Haicang District, that is 廈門市國土資源與房產管理局海滄分局 (Haicang Branch of Xiamen Municipal Bureau of Land Resources and Real Estate Management), the competent land administrative department in charge of land administration of Haicang District, which confirmed that it would provide all the necessary support and assistance to us in accordance with the applicable PRC laws and regulations in the acquisition of land use rights. As advised by our PRC Legal Advisers, under the applicable PRC laws and regulations, the Haicang Branch of Xiamen Municipal Bureau of Land Resources and Real Estate Management is the competent land administrative authority which grants the land use right in accordance with legal procedure in the Haicang District. With such supportive letter and the letter of support from the Haicang District Office of the Management Committee of

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Fujian Free Trade Pilot Zone in Xiamen, our Directors are confident that we can obtain land use rights in Haicang District from the relevant land administrative department after the [REDACTED]. As advised by our PRC Legal Advisers, there is a high certainty that we will be able to acquire land in the Haicang port area for the following reasons:

- (i) We have obtained letters of support from key necessary competent government departments in connection with our acquisition of land for our empty container stacking yard;
- (ii) We have been named as one of the 重點上市後備企業 (Key Enterprises Reserved for Listing), referring to those enterprises whose business developments are in line with future local economic development, with good profitability and high growth, and intending to seek for listing on a recognised stock exchange. According to various opinions issued by the Fujian and Xiamen Government, key enterprises reserved for listing would receive preferential treatment in the application procedures for land use rights in accordance with relevant laws and procedures;
- (iii) Under the PRC laws and regulations, only the applicants complying with the requirements as set down in the announcement of land grant through bidding, auction or listing are qualified to participate in the bidding, auction or listing of such land;
- (iv) We have further obtained another supportive letter from the Haicang Branch of Xiamen Municipal Bureau of Land Resources and Real Estate Management on 4 February 2017 which confirmed that there is sufficient land in the Haicang port area available for our Company’s future development, and when they formulate the land bidding process of relevant land for sale, they would take into consideration of our specific need and would provide all necessary support to us in the land acquisition process till the land acquisition process is completed. When we become a [REDACTED] company, there are no policy, legal or regulatory obstacles in relation to the land acquisition in the Haicang port area; and
- (v) A resolution has been passed on 2 February 2017 by our Directors to apply for land use rights from the relevant land administrative department upon [REDACTED].

Our Directors and senior management have been involved in the site selection process, including selection, evaluation, inspection and site approval prior to the development process. Our Group’s finance department is responsible for evaluating the estimated capital expenditure and estimated return on investment for this plan. Our Directors consider that the development of our owned empty container stacking yard operation at a location situated close to our Group’s existing business will increase our Group’s market penetration and differentiate our Group from other competitors. Our Directors are confident that, based on the supportive letters issued by key necessary competent government departments (including Haicang Branch of Xiamen Municipal Bureau of Land Resources and Real Estate Management), the said prevailing factors and the PRC legal advice obtained by our Company, there is high certainty, without policy, legal or regulatory obstacles in the PRC, for our Group to secure the land acquisition from Haicang Branch of Xiamen

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Municipal Bureau of Land Resources and Real Estate Management in Haicang port area for our Group’s proposed empty container stacking yard operation after we successfully become a [REDACTED] company.

The details of our proposed empty container stacking yard are as follows:

Location	Haicang port area	
Estimated expected capacity per year	Approximately 111,600 containers	
Source of income	Lift on lift off fee of RMB 115 per TEU or RMB 170 per FEU (prevailing market flat rate), container disinfection and repairing fees, handling fees	
Pricing policy	We take into account various factors including (i) the prevailing market rates offered by other empty container stacking yard service providers and (ii) cost analysis taking into account potential increases in wages and diesel oil costs etc.	
Estimated annual operating costs	Approximately 17.1 million, which include logistics expenses, diesel oil costs, wages and repair and maintenance fees	
Depreciation Rate	Land:	Apportioned into 50 years
	Construction, civil engineering, water and electrical installation:	20 years
	Equipment:	10 years
Estimated amount of depreciation (per year)	Land:	RMB367,200
	Construction:	RMB225,000
	Civil engineering:	RMB187,500
	Water and electrical installation:	RMB30,000
	Equipment:	RMB745,000

In 2016, the daily container storage capacity in Haicang port area was around 110,000 TEU, while the daily generated empty containers in Haicang port area were approximately 140,000 TEU. There existed a demand-supply gap of approximately 30,000 TEU for empty container storage in 2016. Such demand-supply gap is estimated to be further enlarged in the future along with the

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increasing container throughput in Haicang port area. We have planned to construct an empty container stacking yard with a daily capacity of approximately 6,500 TEU, which is smaller than the demand-supply gap of approximately 30,000 TEU in 2016. Therefore, it is expected that the increasing demand-supply gap of the empty container stacking yard business would be over the estimated capacity of our proposed new empty container stacking yard.

Comparison of the economic benefits of renting and acquiring a parcel of land

According to our Directors, it is more advantageous for our Group to own our parcel of land, for the purpose of establishing and operating an empty container stacking yard, for the following reasons:

- (1) in the long term, it is more economical to purchase than to rent a parcel of land. Assuming the purchase of land is completely funded by bank borrowings, the purchase cost per sq.m. will be RMB43.95, which is 26.75% lower than the current market rental price at RMB60.00 per sq.m..
- (2) the average land price of the Xiamen’s industrial land has been increasing over the past ten years, especially since the establishment of the China (Fujian) Pilot Free Trade Zone in December 2014. According to the F&S Report, the standard land price of Xiamen’s industrial land increased by approximately 45% in 2016 for the first time in the last 10 years. The standard land price of Xiamen’s industrial land is likely to rise further and realize a CAGR of approximately 3% to 5% from 2016 to 2021 and the rental expenses in Xiamen is likely to rise further accordingly. If we do not purchase a parcel of land at this moment, it is expected that we may need to pay higher land price when we decide to purchase a parcel of land as our empty container stacking yard in the future.
- (3) we may plan, design and construct more permanent facilities on the land we own according to our needs in order to meet the operational needs of an empty container stacking yard, such as an office building, piling and foundation, fences, lighting, mechanical and utilities installation, water drainage, most of which cannot be relocated.
- (4) acquiring and owning such land would also enhance our profile, business stability and sustainability in the provision of its empty container stacking yard services which would in turn enhance competitiveness of our Group.

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The comparison of the economic benefits of renting and acquiring a parcel of land at the Haicang port area is as follows:

<u>Factors</u>	<u>Renting a parcel of land</u>	<u>Acquiring a parcel of land</u>
Comparison of the economic benefits of unconstructed land	Current market rental expenses — RMB60.00 per sq.m. per year	Expected total purchase cost — RMB43.95 per sq.m. per year, comprises of: <ol style="list-style-type: none"> 1) Land cost — RMB11.00 per sq.m. per year 2) Annual interest of bank borrowings — RMB26.95 3) Land use tax — RMB6.00 per sq.m. per year
Comparison of the economic benefits of constructed land	Current market rental expenses — RMB90.00 per sq.m. per year	Expected total purchase cost — RMB58.80 per sq.m. per year, comprises of: <ol style="list-style-type: none"> 1) Land cost — RMB11.00 per sq.m. per year 2) Construction cost — RMB7.50 per sq.m. per year 3) Annual interest of bank borrowings — RMB34.30 per sq.m. 4) Land use tax — RMB6.00 per sq.m. per year

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<u>Factors</u>	<u>Renting a parcel of land</u>	<u>Acquiring a parcel of land</u>
Facilities to be constructed	Facilities built cannot be relocated to another rented land	Can plan, design and construct more permanent facilities to meet operational needs
Effect of increase in the land price (average land price of Xiamen’s industrial land has been increasing and recently increased in March 2016 from RMB 480 per sq.m. to RMB 550 per sq.m.)	The rental expenses will increase along with the increase in land price	Lower cost to buy now as mentioned above and could enjoy potential capital appreciation in the future
Trade finance aspect	Need to pay rental expenses and the land or properties cannot be pledged for further bank borrowings	In addition to saving rental expenses, the land or the properties erected on it can be pledged to banks for bank borrowings. Interest has to be paid (at an interest rate of 4.90% assuming the loan is payable in 5 years or above) (Therefore, capital not fully tied up and can still help with trade finance)

Empty container stacking yard development procedures

Our Directors consider the typical lead time from the commencement of the site selection process to the commencement of operation of an empty container stacking yard to be approximately 18 months. Key steps in the development process of an empty container stacking yard would include the following:

Land acquisition

After identifying the relevant parcel of land suitable for our proposed empty container stacking yard, we shall participate in the tender procedures for such parcel of land. Based on the benchmark land price published by the Xiamen Municipal People’s Government, our Directors estimate that the purchase price for acquiring a parcel of land with an area of

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approximately 30,000 sq.m. in Xiamen that can be used for the purpose of an empty container stacking yard will be within or around RMB18,361,000. Upon successful bidding, we shall enter into a land grant contract with the local government.

Construction

After the acquisition of the parcel of land, the Company will select and engage third-party contractors to carry out various kinds of construction activities relating to the construction of the empty container stacking yard and an office building, which would, include excavation, piling and foundation, civil works, interior decoration, mechanical and electrical installation and utilities installation. The appointments of third party contractors will be through tendering procedures. Selection of tenderers will be based on factors including their company reputation, job references, financial background, licence/certificate attained by the company, management team (e.g. structure, background, experience), project team composition and experience and previous working experience with our Group. Our Directors estimate that the time required for the construction of the empty container stacking yard and an office building, would be around 12 months. with the total construction costs estimated to be approximately RMB8,250,000.

Obtaining the relevant construction permits

Before commencement of the construction works on the parcel of land, our Group shall obtain the construction land planning permits, the construction project planning permit and the construction permit.

As advised by our PRC Legal Advisers, under the applicable PRC laws and regulations, there are no other industry licences or permits to be obtained by us for the operation of empty container (which refers to those discharged containers without any cargos contained therein) stacking yard except the Registration Certificate for Operation of Auxiliary Businesses Relating to International Maritime Transportation (國際海運輔助業經營資格登記證) which we have obtained on 28 January 2016.

Staffing and equipment

After completion of the construction works in accordance with the design layout, our Group's human resources department shall relocate experienced staff (who have been involved in our loaded container stacking yard operations), and will arrange recruitment and training of new staff in preparation for the launch of our Group's proposed empty container stacking yard.

Under our proposed head count for the business expansion, we would recruit not less than 30 persons, including a deputy general manager, a manager responsible for empty container operations (together with additional staff responsible for transport at gate, container inspection equipment operation, site planning and business documents), manager of loaded container operations (together with eight additional staff responsible for equipment operation,

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site planning and business documents), and a manager in charge of container repair and cleaning (together with nine additional staff responsible for materials, container repair and container washing).

Our Directors confirm that, as of the Latest Practicable Date, we have not identified a specific parcel of land as an acquisition target. Expenditure of approximately RMB5.1 million for this project would be borne from the Group’s internal financial resources.

Capital expenditure and estimated breakeven period

Our Directors’ estimation of expenses in respect of the establishment of an empty container stacking yard is set out as below:

	<u>Total</u> (RMB’000)
Acquisition of land	18,361
Construction fees for the empty container stacking yard and the office building	8,250
Acquisition of equipment and installation fees	600
Ancillary facilities and other fees	<u>8,150</u>
Total	<u><u>35,361</u></u>

For further details, please refer to the section headed “Future Plans and [REDACTED]” of this document.

Our Directors’ estimation of the breakeven period in respect of our planned empty container stacking yard is expected to be approximately one year and the payback period in respect of our land acquisition cost and initial setup costs is expected to take approximately eight years.

We believe that the following factors should provide sufficient potential market demand for our operation of an empty container stacking yard:

- the average daily volume of empty containers in Xiamen comprised 218,900 TEU in 2016 and this is expected to increase to 295,600 TEU in 2021, according to the F&S Report.
- given our Group’s established presence in Xiamen’s port areas, shipping companies are already aware of us.

As such, we believe that the proposed empty container stacking yard would be able to capture market demand.

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Implementation preparation

In order to prepare for our owned empty container stacking yard operation, our Group has made the following implementation preparations in addition to those which have been described in the preceding paragraphs:

- We have formed a top management-level planning team headed by Mr. Qiu, our executive Director and chief executive officer, to oversee the implementation of this business development plan. For details of Mr. Qiu’s experience and qualifications, please refer to the section headed “Directors, senior management and staff” in this document;
- From our Logistics Services staff, we have designated those with specific experience in managing our container stacking yards in Dongdu port area and Haicang port area who would be involved in the detailed operation of the stacking yard once established; and
- Our human resources department is making plans to recruit additional experienced staff to manage the day-to-day operation of the container stacking yard and will conduct regular training courses for our staff who will be handling this aspect of our business.

Investing in container-related handling equipment to replace the relevant existing equipment which are operating beyond their estimated life span and to assist in the expansion of our business.

In order to prepare for the expansion of the scale of our existing business, we intend to invest in more container-related handling equipment for our Intra-Port Services and Logistics Services. The reason why we intend to procure more equipment is that some of the equipment that we have been using in our container stacking yard for handling of Reusable Solid Waste in the Dongdu port area are old and need replacement. Therefore, we intend to purchase 2 further fork trucks for this purpose using a portion of the [REDACTED] from the [REDACTED], with an average price of approximately RMB150,000 each. According to our depreciation policy, the rate of depreciation of a fork truck is estimated to be 10 years. In addition, our Directors consider that, following the merger of China Ocean Shipping (Group) Company and China Shipping Group in February 2016 to form the China COSCO Shipping Corp., there is a need to expand our Group’s Intra-Port Services capability in the Haicang port area in preparation for an anticipated increase in use of the port facilities by vessels of the newly merged shipping group. To prepare for this, the Company has decided to purchase 14 more container tractors using a portion of the [REDACTED] from the [REDACTED], with an average price of approximately RMB300,000 each. According to our depreciation policy, the rate of depreciation of a container tractor is estimated to be 8 years.

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The reasons for the addition of 14 container tractors for our intra-port container transportation services in the Yuanhai port in the Haicang port area are as follows:

- During the Track Record Period, our revenue from intra-port container transportation services in Yuanhai Port in the Haicang Port area for the three years ended 31 December 2016 was approximately 1.14%, 4.13% and 3.75% higher than the revenue from Haitian port in the Dongdu port area respectively. During the Track Record Period, we also handled more containers in Yuanhai port in the Haicang port area than in Haitian port in the Dongdu port area for our Intra-Port Services.
- As the Yuanhai port is equipped with equipment with relatively more advanced specifications, two TEU containers maybe unloaded or loaded at the same time, which requires container tractors with higher specifications to ensure smoother operations.
- Our Directors consider that, following the merger of China Ocean Shipping (Group) Company and China Shipping Group in February 2016 to form the China COSCO Shipping Corp., there is a need to purchase container tractors with higher specifications to further enhance our service level in order to match the anticipated increase in use of the port facilities by vessels of the newly merged shipping group in Yuanhai Port in the Haicang Port area.
- 23 container tractors that we have been using in our Intra-Port Services have reached the end of their useful life and gradually need replacement.
- Our Directors consider that container tractors can be used to support our container road freight forwarding services as well as for container-related handling operation purposes.

In relation to our intention to purchase 2 fork trucks and 14 container tractors (as equipment for container-related handling operation), it is submitted that the primary objective of the proposed purchase is to replace the relevant existing fork trucks and container tractors which are operating beyond their estimated life span, in order to maintain our quality service and to assist in the expansion of our business. Therefore, the proposed purchase is not subject to the utilization rate. For further details, please refer to the section headed “Business — Our Operation Efficiency”.

Enhancement of our operational efficiency and quality of our services

We believe that our ability to consistently deliver high quality services in an efficient and timely manner is a key factor when our customers select us as their preferred Intra-Port Services and Logistics Services provider. We are striving to build a highly skilled, well managed, motivated and capable workforce that can quickly adapt to changing market environments and drive our business growth while continuing to improve our operating efficiency. In addition, we are

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constantly striving to deliver high quality services and stable performance to address the needs of our customers. We seek to raise our quality of services to strengthen our relationship with our customers by conducting research on the market development and industry trend in China and will continue to exchange market information with our existing customers.

Strengthening relationships with our customers to achieve mutual development

We are committed to building strong and long-term relationships with our major customers. We plan to promote customer loyalty and increase our business turnover by continuing to provide services to our long-term customers.

Our Group intends to continue to co-operate with major Xiamen port operators, since we believe that enhanced cooperation with such port operators and the importers of Reusable Solid Waste will enable our Group to understand better the needs of such partners and, in turn, to provide more targeted services to them. Our Directors believe that the business development that results from such cooperation will enhance our Group’s profile as a leading enterprise in Xiamen.

OUR BUSINESS MODEL

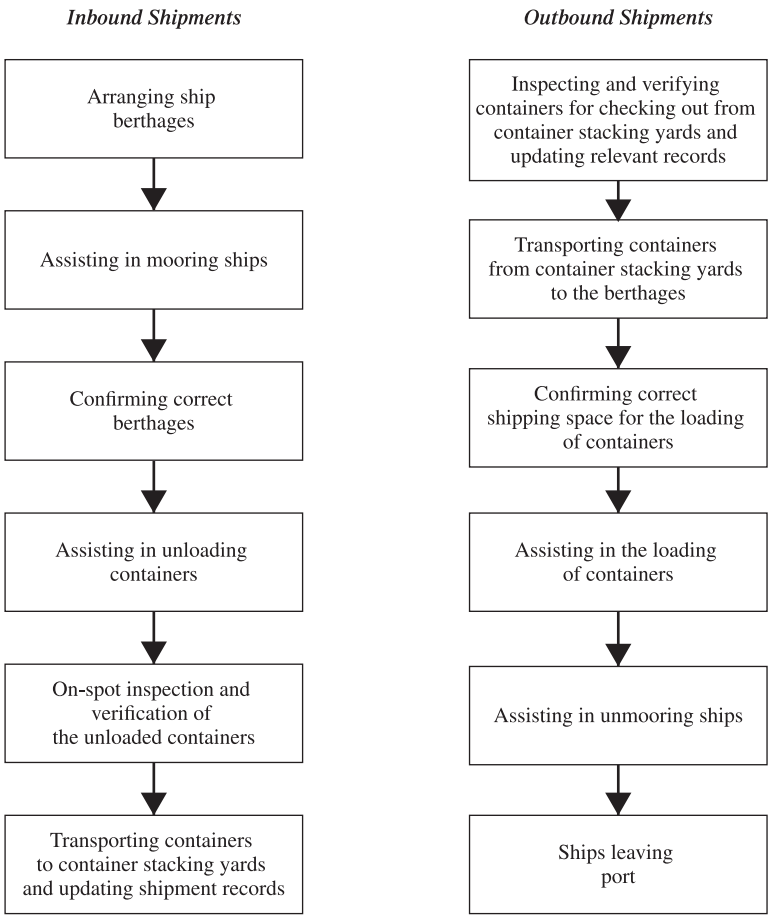
Our business consists of the provision of the Intra-Port Services and the Logistics Services.

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OUR INTRA-PORT SERVICES

(i) Intra-port ancillary services

The following diagrams illustrate the principal stages of operation of our intra-port ancillary services, in respect of container handling at the Dongdu and Haicang port areas:



Our intra-port ancillary services involve the whole process of assisting in berthing and mooring inbound vessels, assisting in unloading containers from the ships, on-spot verification as to the correctness of the containers handled and transporting the containers from the berthages to the designated container stacking yards inside the relevant port areas, transporting the containers from the relevant container stacking yards inside the relevant port areas to the designated berthages and assisting in loading containers onto outbound vessels at a port and assisting in unmooring the same. Our Group charges our port operator customers for each type of the abovementioned services performed, which includes mooring and unmooring fees, and stevedoring charges. For details of our pricing policy, please refer to the paragraph headed “Pricing Policies and Payment” in this section.

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Berthage arrangement and moorage

Container ships berth at the port areas in Xiamen on a regular basis and on pre-determined dates. Before the vessels’ arrival/departure, we can check from the system of our port operator customers as to the expected time of arrival/departure and the number and type of the containers carried or to be loaded. We will act under the instructions of our port operator customers as to the operation schedules, which include details of equipment and machinery operation, organisation of labour, container stacking plan, vessel berthing and unberthing sequence, stowage plan and control plan for loading or unloading the containers. At least half an hour before the scheduled arrival/departure of the vessels, our staff responsible for intra-port ancillary services will arrive at the relevant berthages and erect signal flags thereon to confirm and ensure correct berthages. At the arrival/departure of the vessels at the berthages, we will provide assistance to the port operators in mooring/unmooring work on the vessels.

Assisting in handling containers

Unloading of containers

Once the vessels berth and moor, we will verify the general condition of the containers and relevant shipment(s) on the vessel, against the information at hand to ensure that the vessels are berthed and moored at the correct berthages and that relevant containers are on board. We will only assist the rail mounted gantry crane operators of our port operator customers to unload the containers after confirming that the relevant vessels have berthed and moored at the correct berthages and that the relevant containers are on board.

A team of personnel deployed by our Group will then assist each rail mounted gantry operator of our port operator customers to unload the containers off the vessels. Certain of our personnel deployed will be posted on the relevant vessel, at the shore, in charge of the team operation or assigned to give signals to the rail mounted gantry operator for adjustment and confirmation of the position of the jib and the containers. The rail mounted gantry operators will only unload the containers after our personnel have given a confirmatory signal to them.

Once the containers are taken off the vessels onto the shore, we will commence the container verification process. The verification process conducted by our staff involves the checking of the numbers, specifications, status (empty or loaded) and conditions of the containers, and the recording and reporting of apparent abnormalities as to the exterior of the containers.

Upon completion, containers are then handed to our trucking team for intra-port transportation. For details, please refer to the paragraph headed “(ii) Intra-port container transportation services” in this section.

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Loading of containers

Our trucking team transports the loaded containers from the container stacking yard to the relevant berth for loading. For details, please refer to the paragraph headed “(ii) Intra-port container transportation services” in this section.

Prior to the loading of the containers, we will verify the general condition of the containers and the vessel’s stowage plan against the information at hand. We will then commence the container verification process, which involves the checking of the numbers, specifications, status (empty or loaded) and conditions of the containers, and the recording and reporting of apparent abnormalities as to the exterior of the containers. We will only assist the rail mounted gantry crane operators to load the containers after we have confirmed that the vessels have been berthed and moored at the correct berthages properly and that the relevant containers to be loaded are correct.

A team of personnel deployed by our Group will then assist each rail mounted gantry crane operators to load the containers onto the vessels. Certain of our personnel deployed will be posted on the relevant vessel, at the shore, in charge of the team operation or assigned to give a signal to the rail mounted gantry crane operator for adjustment and confirmation of the position of the container on the vessel. The rail mounted gantry crane operators will only load the containers onto the vessel after our personnel have given a confirmatory signal to them.

Both the rail mounted gantry cranes and their operators are provided by our port operator customers and are not our properties or employees respectively.

Our port operator customers generally place their instructions approximately one day before the arrival of the designated shipment. Our Directors confirm that, in general, the service lead time for the completion of the entire loading and unloading process of our intra-port ancillary services normally take approximately 5–24 hours, subject to the size of shipment and weather conditions.

Assisting in bulk/general cargo handling

Our Group’s revenue is also derived from our services in relation to assisting in bulk/general cargo loading and unloading for international and domestic trade at Tongda Port in the Haicang Port area. The provision of intra-port ancillary services in respect of bulk/general cargo at Tongda Port accounted for approximately 16.9% and 17.7% of the revenue of our Group attributable to intra-port ancillary services for the two years ended 31 December 2016, respectively.

Our Directors consider that the overall workflow and procedures for handling bulk/general cargo are generally similar to handling containers save for the tying up of the bulk/general cargo before loading and unloading. One of the main differences in the computation of our handling fees is that the bulk/general cargo that we handle is determined by tonnes and types of the cargo handled rather than the number of containers handled.

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Ancillary services for the inspection at the gate

Our Group also provides ancillary services for the inspection of containers at the gate to the port areas by arranging our workers at the gate to verify the incoming and outgoing containers. Similar to our on-spot verification process when assisting in handling containers, the container verification process at the gate involves checking the numbers, specifications, seal number and condition of the containers and recording and reporting apparent abnormalities as to the exterior of the containers.

Other ancillary services

We cooperate with Xiamen Customs and XEIQB for the inspection of the containers. We also assist our port operator customers in the reinforcement of containers and equipment within the port areas during typhoon.

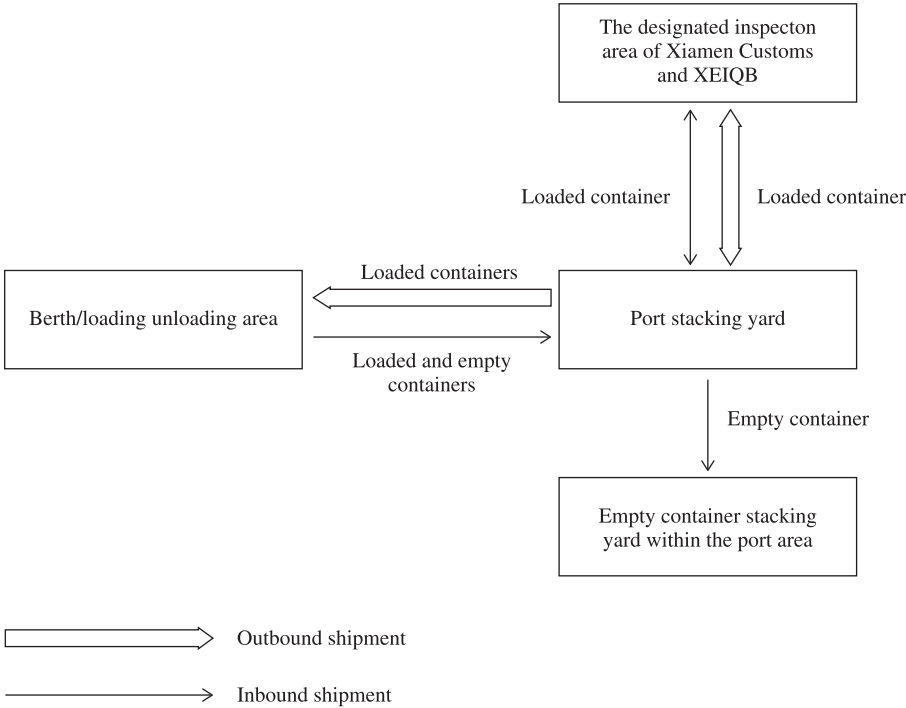
(ii) Intra-port container transportation services

We provide intra-port container transportation services between our container stacking yard and (i) the berth loading/unloading area, (ii) empty container stacking yard within the port area and (iii) the designated inspection area of Xiamen Customs and XEIQB.

For inbound shipments, immediately after the unloading process, we will load the containers (loaded or empty) onto our container tractors and will transport them to the designated container stacking yards within the container port. We will then update the status of these handled shipments in the system for recording and management purposes accordingly. For the loaded containers which have been selected by the relevant authorities for inspection, we provide transportation services between the container stacking yard within the port and the inspection centres of Xiamen Customs and XEIQB. We also transport certain empty containers, which are to be transferred to other empty container stacking yards within the Haitian port area and Yuanhai port area, to the relevant empty container stacking yard designated by our customers.

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For outbound shipments, other third party service providers will deliver loaded containers to the container stacking yard within the port area. We then transport the loaded containers from the container stacking yard within the port area to the relevant berth for loading. For the loaded containers which have been selected by the relevant authorities for inspection, we provide transportation services between the container stacking yard within the port and the inspection centres of Xiamen Customs and XEIQB.

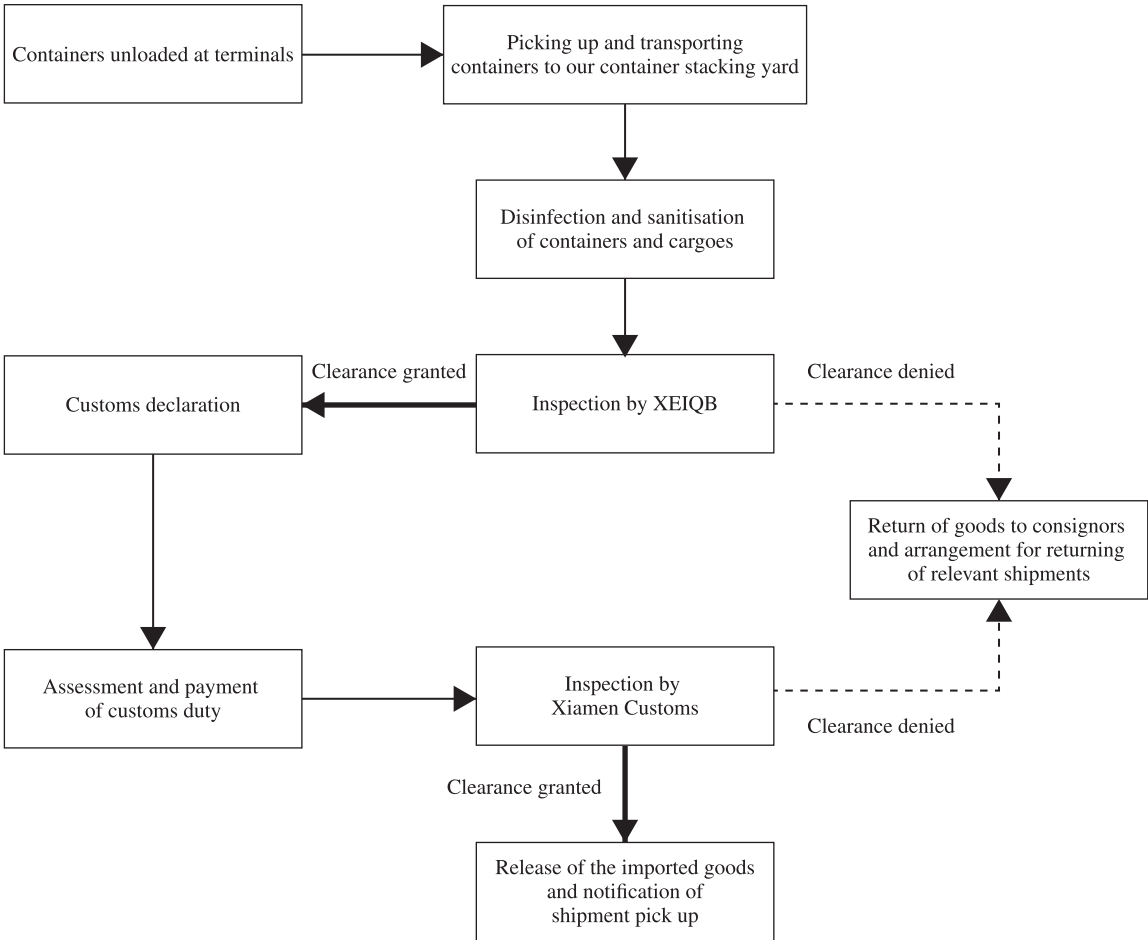


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OUR LOGISTICS SERVICES

(i) Import and export agency services, with a special focus on the import of Reusable Solid Waste via Xiamen

The following diagram illustrates the principal stages of operation of our import agency services in respect of Reusable Solid Waste:



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Picking up containers and transfer to our container stacking yard

For import agency services in respect of Reusable Solid Waste, it is the primary responsibility of our customers to prepare proper documentation regarding the relevant shipment(s) for inspection by XEIQB and for declaration and clearance with the Customs in Xiamen. Upon receiving requests and the relevant shipping and customs documentation from our customers, we will send our container trailers to the relevant ports to pick up the relevant containers and arrange for the transfer of the containers to the container stacking yard of our Group at the Dongdu or Haicang port areas for further processing.

Inspection, Quarantine, disinfection and sanitisation

Upon the arrival of the relevant containers at our container stacking yards located in the Dongdu or Haicang port areas, the accredited tallying service providers will perform tallying services on the containers. Our services in respect of the containers of imported Reusable Solid Waste involve checking the numbers and specification and recording the status of the relevant container, including its number and the container seal. We will then set aside the relevant containers to specific areas for our specialised disinfection and sanitisation services provider to perform disinfection and sanitisation procedures on them, following which we quarantine the disinfected containers and the cargo contained within for at least 24 hours in compliance with the specific requirements and procedures under 進出境集裝箱檢驗檢疫管理辦法 (the Administration of Entry, Exit Inspection and Quarantine of Containers) promulgated by AQSIQ. In the meantime, we will arrange with XEIQB for the required on-site inspection. Upon the grant of approval by XEIQB, we will then proceed to arrange for clearance procedures with the Customs in Xiamen. Where application for approval of the imported cargo has been denied by XEIQB for failing to meet the mandatory requirement of national environmental protection control standards or related technical specifications, we will rearrange for on-site inspection by XEIQB on another date; where application for approval is still denied, we will notify our customers and return the relevant container and cargoes therein to the related overseas consignors.

Our Directors confirm that during the three years ended 31 December 2016, there were 0, 1 and 1 cases of return to consignors of imported Reusable Solid Waste for failing to meet the requirements of XEIQB respectively. Our Directors further confirm that the reasons for the above-mentioned approval denials by XEIQB issued on 16 July 2015 and 5 August 2016 were that (i) there were excessive impurities contained in the relevant Reusable Solid Waste, which was the kind of solid waste prohibited under the relevant laws and/or regulations in respect of the importation of solid waste into the PRC, and (ii) the imported scrap plastic was not sufficiently cleaned so as to remove obvious stains and odour.

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Customs clearance

Upon receiving approval from XEIQB, we will instruct our accredited customs declaration services providers to proceed with the relevant declaration procedures with Xiamen Customs. Upon payment of relevant customs duties by our customers (or by us on behalf of our customers on a reimbursement basis) we will then arrange for on-site inspection of the relevant shipments by Xiamen Customs. Once customs clearance is granted by Xiamen Customs, we will inform our customers and arrange for delivery of the shipments to our customers; where customs clearance is denied, we will notify our customers for further processing by Xiamen Customs, including re-inspection. Where customs clearance is still denied, a penalty may be imposed on the relevant customers and we will arrange for return to the relevant overseas consignors.

Our Directors confirm that during the three years ended 31 December 2016, there were 0, 1 and 0 cases respectively of return to consignors of imported Reusable Solid Waste due to clearance denial by Xiamen Customs. Our Directors further confirm that the reason provided by Xiamen Customs for its denial of clearance issued on 15 April 2016 was that the type of Reusable Solid Waste being imported was different from what was declared with Xiamen Customs, which was in contrary to the relevant laws and/or regulations in respect of the importation of solid waste into the PRC.

Picking up cleared containers and transportation and delivery

Upon clearance by Xiamen Customs, we will inform our customers regarding the collection of the relevant containers from our container stacking yards at the Dongdu or Haicang port areas. Where requested, we also provide container road freight forwarding services to deliver the cleared shipment(s) to locations designated by our customers.

General import and export agency services

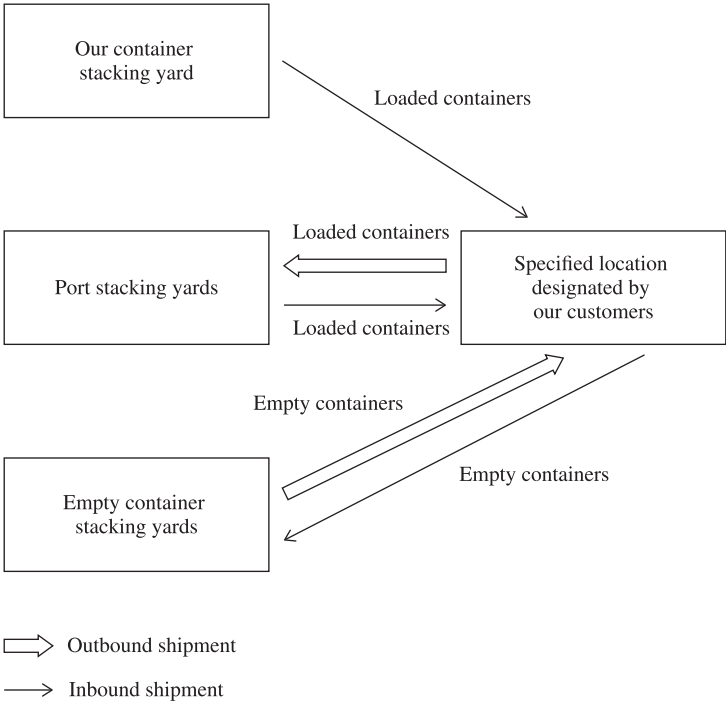
Our Group engages in a limited amount of general import and export agency services, which involve arranging for a vessel's arrival at, and planned departure from, a port, assisting in customs declaration and clearance procedures, berthing and unberthing of vessels, cargo space booking, handling shipping documentation on behalf of carriers, collecting freight and settling payment on behalf of consignors.

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(ii) Container road freight forwarding services

Our Group also provides container road freight forwarding services in the economic hinterland of Xiamen. Our container road freight forwarding services consist of the delivery of containers to and from specified locations as instructed by our customers. The revenue derived from our container road freight forwarding services amounted to RMB12.4 million, RMB13.8 million and RMB13.4 million for the three years ended 31 December 2016, respectively, representing 10.8%, 11.4% and 12.4% of the overall revenue of our Group, respectively.

The following diagram illustrates the principal stages of operation of our container road freight forwarding services:



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OUR OPERATION EFFICIENCY

Intra-Port Services

As of the Latest Practicable Date, we provided our Intra-Port Services in Haitian Port in the Dongdu port area, and Yuanhai Port and Tongda Port in the Haicang port area. The following table sets forth our estimated maximum operation capacity, operation volume and utilisation rate for our intra-port ancillary services for the periods indicated.

	Year ended 31 December		
	2014	2015	2016
Haitian Port			
Estimated maximum operation capacity (TEU) <i>(Note 1)</i>	3,252,150	3,252,150	3,252,150
Operation volume (TEU)	951,520	787,796	853,015
Utilisation rate (%) <i>(Note 2)</i>	29.3%	24.2%	26.2%
Yuanhai Port			
Estimated maximum operation capacity (TEU) <i>(Note 1)</i>	3,902,580	3,902,580	3,902,580
Operation volume (TEU)	1,031,266	966,208	1,075,910
Utilisation rate (%) <i>(Note 2)</i>	26.4%	24.8%	27.6%
Tongda Port			
Estimated maximum operation capacity (Tonnes)	N/A <i>(Note 3)</i>	4,000,000	4,000,000
Operation volume (Tonnes)	N/A <i>(Note 3)</i>	1,462,788	1,879,035
Utilisation rate (%) <i>(Note 2)</i>	N/A <i>(Note 3)</i>	36.6%	47.0%

Note 1: The respective estimated maximum operation capacity is calculated based on the assumption of 365 days per year, 24 working hours per day and the estimated average operation volume per hour for illustration purpose only. The estimated maximum operation capacity may be affected by, among other things, shipments schedule and weather.

Note 2: Utilisation rate is calculated by dividing the operation volume by the estimated maximum operation capacity of the relevant period.

Note 3: We only commenced the provision of intra-port ancillary services in Tongda Port in 2015.

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The following table sets forth our estimated maximum operation capacity, operation volume and utilisation rates for our intra-port container transportation services for the periods indicated:

	Year ended 31 December		
	2014	2015	2016
Dongdu port area			
Estimated maximum operation capacity (TEU)			
<i>(Note 1)</i>	3,252,150	3,252,150	3,252,150
Operation volume (TEU)	1,055,716	925,220	973,708
Utilisation rate (%) <i>(Note 2)</i>	32.5%	28.4%	29.9%
Haicang port area			
Estimated maximum operation capacity (TEU)			
<i>(Note 1)</i>	3,902,580	3,902,580	3,902,580
Operation volume (TEU)	1,119,133	1,132,147	1,144,368
Utilisation rate (%) <i>(Note 2)</i>	28.7%	29.0%	29.3%

Note 1: The respective estimated maximum operation capacity is calculated based on the assumption of 365 days per year, 24 working hours per day and the estimated average operation volume per hour for illustration purpose only. The estimated maximum operation capacity may be affected by, among other things, shipments schedule and weather.

Note 2: Utilisation rate is calculated by dividing the operation volume by the estimated maximum operation capacity of the relevant period.

Note 3: During the Track Record Period, we only provided intra-port ancillary services in Tongda Port, but not intra-port container transportation services.

The decrease in the utilisation rate of our Intra-Port Services in Haitian Port in 2015 was due to the re-positioning of the Haicang port area and the Dongdu port area due to the respective port environments in light of the establishment of the China (Fujian) Pilot Free Trade Zone in December 2014. According to the F&S Report, the Xiamen port management authority recently adjusted and re-directed ocean-going shipping lines from the Dongdu port area (including Haitian Port) to other ports in the Haicang port area, such as G6 US East Coast Line, Evergreen Marine US West Coast Line and ZIM BKS Line in 2015 as part of the measures adopted by the Xiamen port management authority to fulfill the strategic plan of Haicang port area to have a clearer identification of shipping routes at both the Haicang and Dongdu port area, following the merger of XYP, NWP, XPO and XMGM to jointly form Customer B in 2013, but not Yuanhai Port which we operate at. This led to a reduction in the number of ocean-going ships berthing at Haitian Port in the Dongdu port area. The increase in the utilisation rate of our intra-port ancillary services in Haitian Port for the year ended 31 December 2016 was due to the fact that the container throughput of the Dongdu port area which is to be designated as a port area mainly focusing on domestic shipping lines, will become stable after the abovementioned shipping route adjustment by the Xiamen port management authority, according to the F&S Report.

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Our Directors confirm that the slight decrease in utilisation rate of our intra-port ancillary services in Yuanhai Port in 2015 was because Yuanhai Port in the Haicang port area ceased to handle domestic containers due to the change of function of the Haicang Bonded Port from 1 August 2014 onwards. The increase in the utilization rate for our intra-port ancillary services in Yuanhai Port for the year ended 31 December 2016 was due to the re-direction of shipping routes by the Xiamen port management authority following the merger of China Ocean Shipping (Group) Company and China Shipping Group in February 2016.

According to the F&S Report, the re-direction of shipping routes by the Xiamen port management authority is infrequent. Historically, there is no such port re-positioning plan of port area in Xiamen. According to the Administration Committee of Xiamen Area of China (Fujian) Pilot Free Trade Zone, due to the outstanding port condition such as deep water and excellent geographical location of the Haicang port area, it has been planned and positioned as the hub port area of international container shipping in south-east China since the establishment approved by the State Council in 2008. The re-direction of ocean-going shipping lines from the Dongdu port area to the Haicang port area was simply part of the measures adopted by the Xiamen port management authority to fulfill the strategic plan of Haicang port area to have a clearer identification of shipping routes at both the Haicang and Dongdu port area, following the merger of XYP, NWP, XPO and XMGM to jointly form Customer B in 2013, but not Yuanhai Port which we operate at. Looking forward, based on the predetermined strategic plan of Haicang port area, it is expected that the Haicang port area will be further constructed and positioned as the major container port area in Xiamen which serves international and ocean-going shipping lines.

Our Directors expect that, over time, the re-positioning of the ports together with the change of function of Haicang Bonded Port in 1 August 2014 will increase the number of containers that we will handle in both Haitian Port and Yuanhai Port going forward, in light of the expected increase in Xiamen’s container throughput, especially in the Haicang port area.

Our Directors confirm that the abovementioned reasons for the change in the utilization rate of Intra-Port Services have not caused material operational impact on our Group nor have they caused material adverse change to our financial or trading position or prospects during the Track Record Period and going forward.

If necessary and appropriate, our Directors confirm that we would reallocate relevant human resources and equipment such as fork trucks and container tractors in the Dongdu port area and Haicang port area to facilitate its Intra-Port Services and to cater for the changes in container throughput of the Haicang port area and Dongdu port area.

For further details, please refer to the sections headed “Business — Our Equipment”, “Business — Maintenance” and “Future Plans and [REDACTED]” in this document.

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Logistics Services

As of the Latest Practicable Date, we provided our import agency services in respect of the Reusable Solid Waste in the container stacking yards of the Dongdu port area and Haicang port area. The following table sets forth our estimated maximum operation capacity, operation volume and utilisation rate for the periods indicated.

	Year ended 31 December		
	2014	2015	2016
Dongdu port area			
Estimated maximum operation capacity (per container) (<i>Note 1</i>)	12,000	12,000	12,000
Operation volume (per container)	6,495	4,895	3,856
Utilisation rate (%) (<i>Note 2</i>)	54.1%	40.8%	32.1%
Haicang port area			
Estimated maximum operation capacity (per container) (<i>Note 1</i>)	8,400	20,500	21,600
Operation volume (per container)	6,019	10,594	9,471
Utilisation rate (%) (<i>Note 2</i>)	71.7%	51.7%	43.8%

Note 1: The respective estimated maximum operation capacity is calculated based on the usable floor area of our container stacking yards in the Dongdu port area and Haicang port area of the relevant period, on the assumption that container turnover rate is, on average, 3 times per month.

Note 2: Utilisation rate is calculated by dividing the operation volume by the estimated maximum operation capacity of the relevant period.

The decrease in utilisation rate in the Dongdu port area was due to (i) the low domestic demand for Reusable Solid Waste during the Track Record Period and (ii) the re-positioning of the Haicang port area and the Dongdu port area due to the respective port environments in light of the establishment of the China (Fujian) Pilot Free Trade Zone in December 2014. According to the F&S Report, the Xiamen port management authority recently adjusted and re-directed ocean-going shipping lines from the Dongdu port area to the Haicang port area, such as G6 US East Coast Line, Evergreen Marine US West Coast Line and ZIM BKS Line. This led to a reduction in the number of long-distance ships berthing at Haitian Port in the Dongdu port area. It is expected that the container throughput of the Dongdu port area which is to be designated as a port area mainly focusing on domestic shipping lines, will become stable after the abovementioned shipping route adjustment by the Xiamen port management authority, according to the F&S Report.

The decrease in utilisation rate in Haicang port area was due to (i) the low domestic demand for Reusable Solid Waste during the Track Record Period and the cessation of business relationship with Customer F in 2016 and (ii) the lease of an extra parcel of container stacking yard in the Haicang port area since 1 February 2015, which increased our maximum operation efficiency. For

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details, please refer to the section headed “Business — Properties” in this document. Our Directors confirm that we have been making effort in expanding our import agency services in respect of Reusable Solid Waste.

As of the Latest Practicable Date, we provided our container road freight forwarding services in the economic hinterland of Xiamen. The following table sets forth our estimated maximum operation capacity, operation volume and utilisation rate for our container road freight forwarding services for the periods indicated:

	Year ended 31 December		
	2014	2015	2016
Estimated maximum operation capacity (days)	365	365	366
Average days in operation (per container tractor) (<i>Note 1</i>)	268.8	298.8	307.1
Utilisation rate (%) (<i>Note 2</i>)	73.6%	81.9%	83.9%

Note 1: The respective number of days in operation of our container tractors rate refers to the days in which our container tractors were in operation, irrespective of the distance travelled and the hours spent on the delivery of our services during the day.

Note 2: The utilisation rate is calculated by dividing the average days in operation per container tractor used for the provision of Logistics Services by the maximum operation capacity of the relevant period.

The increase in utilisation rate is mainly attributable to the increase in the demand for our long distance container road freight forwarding services during the Track Record Period.

Our Directors confirm that the abovementioned reasons for the change in the utilization rate of Logistics Services have not caused material operational impact on our Group nor have they caused material adverse change to our financial or trading position or prospects during the Track Record Period and going forward.

If necessary and appropriate, our Directors confirm that we would reallocate the relevant human resources and equipment such as fork trucks and container tractors in the Dongdu port area and Haicang port area to facilitate its Logistics Services and to cater for the changes in container throughput of the Haicang port area and Dongdu port area, as well as the domestic demand for Reusable Solid Waste and container road freight forwarding services.

For further details, please refer to the sections headed “Business — Our Equipment”, “Business — Maintenance” and “Future Plans and [REDACTED]” in this document.

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OUR EQUIPMENT

Material assets or facilities owned by our Group

The key equipment used in our operations include container tractors, container stackers, fork trucks and container semi-trailers. Set out below is information concerning our equipment currently being deployed in our business, which we own:

<u>Type of Equipment</u>	<u>Number of equipment owned by our Group</u>	<u>Normal useful life (years)</u>	<u>Average useful life (years)</u>	<u>Life of equipment (years)</u>	<u>Remaining useful life (years)</u>
Fork truck	8	10	7	0–11	0–10
Container stacker	2	12	8	5–10	2–7
Container tractor	162	8	5	0–10	0–8
Container semi-trailer	48	12	2	0–2	10–12

The pictures below demonstrate certain of our equipment used in our daily operations:



Fork truck



Container stacker



Container tractor



Container semi-trailer

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Maintenance

Our key equipment has been in use for less than 1 year to 12 years. Based on the estimated useful lives of our equipment of 8 to 12 years, we anticipate certain equipment replacement expenditures for our key equipment in the near future. For further details, please refer to the section headed “Future Plans and [REDACTED]” in this document. We have in place internal regulations and procedures with respect to the maintenance of our equipment, which include regular maintenance and repairs, and regular inspection. As at the Latest Practicable Date, we had a team of 25 staff in our maintenance department responsible for the daily maintenance of our Group’s container tractors and container semi-trailers. Our Group carries out monthly inspections on our equipment to assess whether they are in working order, while our frontline operation staff are also responsible for conducting routine and continuing inspections in the course of day-to-day operations and to report any maintenance issues. For container stackers and fork trucks, we also outsource equipment maintenance and repair services to Independent Third Parties. For the three years ended 31 December 2016, our maintenance costs amounted to approximately RMB1.6 million, RMB1.9 million and RMB3.3 million respectively.

The Directors confirm that during the Track Record Period, there has been no material interruption to our operation due to equipment or machinery failure.

MARKET AND COMPETITION

Intra-Port Services

In the Intra-Port Services market, our Group faces competition from other services providers in the Dongdu and Haicang port areas.

Our Directors believe that one of the Group’s key competitive strengths in the Intra-Port Services market is our ability to provide one-stop services and quality of service to satisfy the operation needs of our customers. With our experience in the industry, our supply of skilled workers and our long-standing relationships with existing customers, our Directors believe that our Group is competitive and will continue to secure our market position in Xiamen.

Import agency services in respect of Reusable Solid Waste

Our Directors consider that our Group faces competition from other import agencies in respect of Reusable Solid Waste in Xiamen. According to the F&S Report, the top five entities engaged in the provision of import agency services for Reusable Solid Waste in Xiamen accounted for a total of 73.1% of the total market size of RMB180.8 million in 2016. Among them, our Group ranked the first in terms of revenue for the year ended 31 December 2016 of approximately RMB33.7 million accounting for a market share of 18.6% in 2016.

Our Group maintained a gross profit margin of 30.7%, 18.3% and 24.3% for the three years ended 31 December 2016. For details, please refer to the section headed “Financial Information — Gross profit and gross profit margin” in this document.

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Our Directors believe that amongst our key competitive factors in the market of import agency services in respect of Reusable Solid Waste are (i) our competitive pricing policy; (ii) our industry experience; and (iii) our ability to provide integrated services of Logistics Services. Our Directors believe that our Group has competitive advantages over our competitors and will continue to enhance our market leading position in the market of import agency services for Reusable Solid Waste in Xiamen.

Container Road Freight Forwarding Services

Our Group faces competition from other local container road freight forwarding services providers in Xiamen. According to the F&S Report, the market of container road freight forwarding services in Fujian is highly fragmented and there is no salient market leader in the region.

Some players such as the Group offer container road freight forwarding services apart from their import agency services in order to provide one-stop service to customers. Most players are private small players who only deliver loaded and empty containers between the designated locations of customers and the designated ports.

SUBCONTRACTING ARRANGEMENT

Our Directors confirm that during the Track Record Period and as of the Latest Practicable Date, we have subcontracted some of our container road freight forwarding services to Independent Third Parties, which are domestic logistics companies providing transportation services.

For the three years ended 31 December 2016, our subcontracting fees accounted for approximately 3.1%, 3.0% and 2.5% of our total cost of services, respectively.

Our Group entered into sub-contracting agreements with 2, 15 and 18 subcontractors with respect to container road freight forwarding services for the three years ended 31 December 2016, respectively. We have developed co-operative relationships with these subcontractors for periods ranging from around 1 year to 3 years as at the Latest Practicable Date. We will exercise all reasonable endeavours to cultivate and maintain such relationships in the future. To the best knowledge of our Directors, all of our subcontractors possess relevant licences for operating their own vehicles.

Reasons for subcontracting

We consider that subcontracting arrangement would: (i) reduce our need for maintaining extra workforce and vehicles to meet unexpected fluctuations in the demand for our Logistics Services; and (ii) increase our flexibility and cost effectiveness in carrying out our Logistic Services.

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Salient terms of the master subcontracting agreements in relation to our Group’s container road freight forwarding services

We usually enter into master subcontracting agreements with our subcontractors setting out the principal terms of the relevant subcontracting arrangement and the specific conditions of each transaction will be set out in the relevant purchase order in respect of each transaction. Our Directors are of the view that such subcontracting arrangement is common within the logistics industry.

Our Group places orders with our subcontractors in view of the orders received for our container road freight forwarding services subject to the schedules and availability of our container tractors.

We set forth below a summary of salient terms of the master subcontracting arrangements which our Group has entered into with our subcontractors in relation to our Group’s container road freight forwarding services:

Duration	One year, to be renewed annually
Minimum utilisation commitment	None
Subcontractor’s responsibility	Our sub-contractor is required to arrange for container road freight forwarding services upon receiving orders from us and to deliver the cargo in time
Service charge	Generally to be determined, confirmed and mutually agreed in separate purchase orders in respect of each transaction (such as price, payment terms and delivery schedule), based on the type of container, the number of containers transported and the distance travelled
Credit term	30 days

Selection of subcontractors

We generally select independent subcontractors based on their track records, availability, ability and capability to handle the relevant orders, and the cost of services. Once a suitable subcontractor is identified, we then negotiate the terms of services including the means and time of delivery with the selected subcontractors.

Our Directors confirm that, during the Track Record Period, we did not experience any material delay of services due to defaults of our subcontractors nor was any material breach of subcontracting arrangements by our subcontractors. In the event that any master subcontracting

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agreement is terminated for whatever reason, our Directors do not anticipate that there would be any material difficulties in sourcing new subcontractors for replacement as there are many comparable subcontractors in the market.

SEASONALITY

Reusable Solid Waste importers are required to apply and/or renew their annual import permit every year, and our Directors believe that it is an industry norm for such importers to submit an application to the relevant authorities at or around every calendar year end. Our Directors confirm that the demand for our services is generally weaker at the beginning of the year, due to the impact of long public holidays during Lunar New Year.

SALES AND MARKETING

Our Directors and senior management are primarily responsible for sales and marketing.

We conduct customer visits and send representatives to meet with our customers to collect service requirements and service feedback. Our goal is to maintain and generate increasing volumes of business from our existing customer base while also attracting new customers.

PRICING POLICIES AND PAYMENT

Our Group provides Intra-Port Services through Xiangxing Terminal and Logistics Services through Xiangxing Logistics. Our Group generally specifies our service charge for each type of services we provide in the relevant co-operation agreements. Our pricing policy takes into account various factors and some of the material factors when negotiating with our customers include: (i) type of service required; (ii) prevailing market rates offered by other intra-port or logistics service providers; (iii) cost analysis taking into account potential increases in wages, cost of fuel or fees for any third party service provider and the rentals; and (iv) complexity and difficulty of the services required.

There is no difference between the average service fees charged for our intra-port container services and container road freight forwarding services relating to outbound and inbound shipments, and loaded and empty containers.

We generally issue invoices to charge our customers on a monthly basis with reference to the types of services we rendered in that particular month, hence our monthly fees vary, depending on the actual type and amount of services rendered.

During the Track Record Period, our revenue was denominated in Renminbi. The payment methods used by our customers mainly comprise bank transfer.

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The average service fees for our Intra-Port Services during the Track Record Period is indicated in the following table:

	For the year ended 31 December					
	2014		2015		2016	
	Average service fee	Revenue	Average service fee	Revenue	Average service fee	Revenue
	RMB	RMB ('000)	RMB	RMB ('000)	RMB	RMB ('000)
Intra-port ancillary services						
1. Haitian Port (<i>Note 1</i>)	12.4	11,769.3	11.1	8,759.9	11.8	10,092.1
2. Yuanhai Port (<i>Note 1</i>)	9.9	10,178.8	9.7	9,399.3	9.9	10,645.9
3. Tongda Port (<i>Note 2</i>)	N/A	N/A	2.5	3,689.9	2.4	4,449.0
Intra-port container transportation services						
1. Dongdu port area (<i>Note 1</i>)	14.1	14,893.2	14.3	13,268.2	15.7	15,287.5
2. Haicang port area (<i>Note 1</i>)	14.5	16,202.1	16.2	18,287.1	16.9	19,320.8

Note 1: The average service fee is calculated on the basis of per TEU.

Note 2: The average service fee is calculated on the basis of per tonne. We only commenced the provision of intra-port ancillary services in Tongda Port in 2015.

The major charging bases for our intra-port ancillary services comprise the number and the type of the containers handled by us. Examples of the fees charged by us for our intra-port ancillary services include service fees charged for container loading and unloading, cargo loading and unloading, mooring and unmooring, and ancillary services of inspection at gate.

The major charging bases for our intra-port container transportation services comprise mainly the type and the number of containers delivered as well as the distance travelled. Examples of the fees charged by us for our intra-port container transportation services include fees for transportation of empty and loaded containers within the port area, between container stacking yard and the designated inspection area of Xiamen Customs and XEIQB, and between container stacking yard and empty container stacking yard.

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The average service fees for our Logistics Services during the Track Record Period is indicated in the following table:

	For the year ended 31 December					
	2014		2015		2016	
	Average service fee	Revenue	Average service fee	Revenue	Average service fee	Revenue
	RMB	RMB ('000)	RMB	RMB ('000)	RMB	RMB ('000)
Import and export agency services	3,823.7	49,326.2	3,451.1	54,303.0	2,552.6	34,259.0
Container road freight forwarding services	571.6	12,392.7	674.5	13,816.9	735.4	13,363.6

Note: The average service fee is calculated on the basis of per container.

The major charging bases for our import agency services in respect of Reusable Solid Waste comprise mainly the number of containers and the type of cargo (waste paper, scrap plastic, scrap metal).

The major charging bases for our container road freight forwarding services comprise mainly the types of the container and the distance travelled.

CUSTOMERS

We have developed business relationships with our major customers through our provision of Intra-Port Services and Logistics Services. We had business relationships with our major customers for 2–17 years as at the Latest Practicable Date.

For the three years ended 31 December 2016:

- the aggregate revenue attributable to our five largest customers accounted for approximately 69.7%, 78.8% and 77.3% of our total revenue for the corresponding period respectively; and
- the aggregate revenue attributable to our largest customer accounted for approximately 23.0%, 27.4 % and 29.4% of our total revenue for the corresponding period respectively.

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During the Track Record Period, we maintained relatively stable business relationships with our customers. We had 67, 62 and 57 recurring customers for the three years ended 31 December 2016, being those customers who have engaged us for the provision of Intra-Port Services and/or Logistics Services in the previous year/period and re-engaged us again for the provision of services in the subsequent year/period. The revenue derived from our recurring customers amounted to approximately RMB108.5 million, RMB114.6 million, and RMB104.6 million, representing approximately 94.6%, 94.3% and 97.4% of our total revenue, respectively.

The table below sets forth certain information with respect to our Group’s five largest customers during the Track Record Period.

For the year ended 31 December 2014

<u>Five largest customers</u>	<u>Business nature</u>	<u>Services provided by our Group</u>	<u>Credit period</u>	<u>Business with the customer commenced since</u>	<u>% of total revenue</u>
Customer A <i>(Note 1)</i>	One of the port operators in Xiamen, which is a state-owned company	Intra-Port Services	40 days	2011	23.0%
Customer B <i>(Note 1)</i>	Largest port operator in Xiamen, which is a state-owned company	Intra-Port Services	40 days	2000	22.4%
Customer C	A subsidiary of a conglomerate company in Xiamen, principally engaged in the import and export of commodities such as textiles, garments, chemicals, paper and paper products, which is a state-owned company	Logistics Services	90 days	2003	10.3%
Liansheng Logistics <i>(Note 2)</i>	Principally engages in the manufacturing of paper products and general freight transportation in Zhangzhou	Logistics Services	90 days	2005	7.3%
漳州新格有色金属有限公司 (Zhangzhou Sigma Metals Co., Ltd) (“Sigma Metals”)	Principally engages in the production of metals products in Zhangzhou	Logistics Services	90 days	2007	6.7%

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For the year ended 31 December 2015

<u>Five largest customers</u>	<u>Business nature</u>	<u>Services provided by our Group</u>	<u>Credit period</u>	<u>Business with the customer commenced since</u>	<u>% of total revenue</u>
Liansheng Logistics (Note 2)	Principally engages in the manufacturing of paper products and general freight transportation in Zhangzhou	Logistics Services	90 days	2005	27.4%
Customer A (Note 1)	One of the port operators in Xiamen, which is a state-owned company	Intra-Port Services	40–60 days	2011	23.6%
Customer B (Note 1)	Largest port operator in Xiamen, which is a state-owned company	Intra-Port Services	40 days	2000	17.9%
Customer F	Principally engages in the production and the import and export of paper products in Zhangzhou	Logistics Services	90 days	2011	6.0%
Sigma Metals	Principally engages in the production of metals products in Zhangzhou	Logistics Services	90 days	2007	4.0%

For the year ended 31 December 2016

<u>Five largest customers</u>	<u>Business nature</u>	<u>Services provided by our Group</u>	<u>Credit period</u>	<u>Business with the customer commenced since</u>	<u>% of total revenue</u>
Customer A (Note 1)	One of the port operators in Xiamen, which is a state-owned company	Intra-Port Services	40–60 days	2011	29.4%
Customer B (Note 1)	Largest port operator in Xiamen, which is a state-owned company	Intra-Port Services	40 days	2000	23.3%
Liansheng Logistics (Note 2)	Principally engages in the manufacturing of paper products, and general freight transportation in Zhangzhou	Logistics Services	180 days	2005	18.5%
Customer G	Principally engages in the manufacturing of plastic products in Quanzhou	Logistics Services	90 days	2015	3.1%
Customer H	Principally engages in the production of plastic products in Quanzhou	Logistics Services	90 days	2014	3.0%

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Notes:

- (1) The port operation sector in Xiamen is highly concentrated. Customer A and Customer B, being the two major operators, operated approximately over 10% and around 85% of the container throughput in Xiamen in terms of the total container throughput of Xiamen Port in 2016, respectively. Hence, as one of the business partners and Intra-Port Services provider of these two dominant port operators in Xiamen, our Directors expect that our Group will maintain stable and sustainable development and growth in the future.
- (2) Liansheng Logistics includes 福建省聯盛物流有限公司 (Fujian Liansheng Logistics Co., Ltd.), 福建省聯盛紙業有限責任公司 (Fujian Liansheng Paper Industry Co., Ltd.) and 聯盛紙業(龍海)有限公司 (Liansheng Paper (Longhai) Co., Ltd.), being related companies. We only commenced business relationship with Fujian Liansheng Logistics Co., Ltd. in 2015.

Our Directors confirm that all of the above five largest customers are Independent Third Parties and none of our Directors or their associates nor any shareholders who or which, to the best knowledge of our Directors, own more than 5% of the issued Shares or their respective close associates has any interests in any of the above five largest customers.

Relationship with Customer B

Customer B, an operating subsidiary owned as to approximately 60% by a company whose shares are listed in Hong Kong and whose controlling shareholder (“XPO”) is a wholly state-owned enterprise. Customer B is one of our major customers and is the largest port operator in Xiamen providing a one-stop port service for over six terminals in the Xiamen port area. XPO also provides Intra-Port Services via its another operating subsidiary. Therefore, XPO is not only the controlling shareholder of one of our major customers (i.e. Customer B) but is also the holding company of one of our competitors.

In addition, Customer B is the landlord of one of the parcels of land we use as a stacking yard in Dongdu port area, occupying 12,520 sq.m. which contributed to 11.0% of our total sales for the year ended 31 December 2016. Our Directors consider the possibility that our Group would be required to relocate part of our operation from the area leased to us by Customer B (whose lease period is due to expire on 30 June 2020) to be relatively low. As such, our Group intends to continue the leases of the properties in the Dongdu port area. For details, please refer to the section headed “Business — Properties”.

Since Customer B is a port operator and conducts its port terminal operations in the Dongdu and Haicang port areas in Xiamen, our Group is required to pay port charges for our customers when utilising these port areas in order to provide our services. Examples of such port charges include port entrance fees, security fees, and inspection fees. In this sense, Customer B is also our service provider. For details, please refer to the subsection headed “Entities which are our customers and our supplier/subcontractor” in this section.

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Background of Customer B

In 2000, our Group commenced our business relationship with XYP (currently a state-owned business conglomerate in Xiamen) for our Intra-Port Services. In 2003, XYP and NWP (a wholly-owned subsidiary of a conglomerate listed in Hong Kong) jointly formed XYNWP in equal shares to which our Group continued to provide services.

In 2013, upon further restructuring with respect to the structure of the operation of Xiamen port, XYP, NWP, XPO and XMGM jointly formed Customer B. Since then, Customer B has been the port operator of berth numbers 12 to 16 of Dongdu port area. Following the completion of the aforementioned industry restructuring in 2013, XYP, NWP, XPO and XMGM owned 10%, 20%, 60%, and 10% of Customer B respectively.

As the controlling shareholder of our competitor, XPO, cooperated with our long-established customer, XYP, to form Customer B, we have since then been providing our Intra-Port ancillary Services to our customer which also shares the role of our competitor.

Our Directors believe that, with our skilled labour force, our fleets of container tractors, the quality of our services and our established record of cooperation with XYP, XYNWP, and Customer B, the possibility of Customer B terminating our business relationship is low.

For details of the risks resulting from such competitive landscape, please refer to the section headed “Risk Factors — Risks relating to business and operations of our Group”.

Reliance on major customers

We derive a significant portion of our revenue from a small number of customers, including, in particular, Customer A and Customer B with respect to our Intra-Port Services. This reliance is in part due to the fact that Dongdu port area and Haicang port area are mainly operated by a few state-owned port operators. Therefore historically we have been required to provide our Intra-Port Services to a few customers, resulting in our reliance on some major customers.

Our Group’s major customers include large state-owned or state-controlled companies, companies which are listed companies or the subsidiaries of listed companies and medium-to-large private enterprises which are manufacturers. Our Company monitors closely the payment performance of our major customers and, while our Directors acknowledge that, if any of our major customers were to experience problems in relation to financial stability or condition, such circumstance would adversely affect our Group’s business and our business relationship with such customer(s), our Directors confirm that there has been no incidence of default in payment by our major customers during the Track Record Period which would have given rise to concerns in relation to the financial stability and condition of our major customers. The Sole Sponsor concurs with our Directors’ confirmation. Our Directors will continue to review closely the payment record of our major customers and, if deemed necessary, adjust the credit period accordingly.

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The following paragraphs set out (i) our plans to diversify our business and/or reduce the reliance on our major customers; (ii) the industry norm of reliance on a few customers; (iii) mutual and complementary reliance; and (iv) our capability to maintain our revenue growth.

Our plans to diversify business and/or reduce the reliance on our major customers

As explained in the paragraph headed “Business — Business Strategies” of this document, our Group is planning to acquire a parcel of land in order to operate an empty container stacking yard. Our Directors believe that, with an additional parcel of container stacking yard, we will be in a better position to expand our scope of services and provide more differentiated services targeting additional customers, which in turn will help our Group to have a more diversified customer base. To ensure that the acquisition of the new parcel of land will effectively reduce our reliance on major customers (i.e. Customer A and Customer B), our Directors confirm that the new parcel of land to be acquired using the [REDACTED] from the [REDACTED] will only be used for the operation of an empty container stacking yard for customers other than Customer A and Customer B, which would include, but not be limited to, shipping companies.

We started to provide intra-port ancillary services (in particular bulk cargo loading and unloading services) in Tongda Port in Haicang port area in 2015. Our Group’s sales revenue derived from Tongda Port amounted to approximately RMB3.69 million, which accounted for approximately 16.9% of our Group’s sales revenue from our intra-port ancillary services for the year ended 31 December 2015. The relevant proportion of revenue derived from our intra-port ancillary services in Haitian Port and Yuanhai Port decreased from 2014 to 2015 from approximately 53.6% to approximately 40.1% and from approximately 46.4% to approximately 43.0% of our Group’s revenue, respectively.

The industry norm of reliance on a few customers

According to the F&S Report, the Intra-Port Services markets in Fujian and Xiamen are highly concentrated, where the top five and top three port service providers in Fujian and Xiamen together accounted for approximately 94.6% and 98.2% respectively of the Fujian and Xiamen markets, respectively in 2016. Our Group operates in the berth numbers 12–16 in Haitian Port, while the associated company of Customer B, which also provides Intra-Port Services, operates in the remaining berths (i.e. berth numbers 5–11) in Haitian Port. As there are only two principal port operators in Xiamen, our Group, in its provision of Intra-Port Services, has to rely on these particular major customers.

Given the foregoing, our Directors believe that it is an industry norm, in relation to Intra-Port Services, to rely on a few customers.

Mutual and complementary reliance

Given the importance of our business relationship with certain of our major customers, we have obtained confirmation letters from each of Customer A and Customer B, our port operator customers dated 12 May 2016 that they will prioritize our Group as their Intra-Port Services

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provider under fair market price and that they will continue to use our Intra-Port Services, respectively. In the view of our Directors, there exists mutual and complementary reliance between our Group and our major customers. For example, we are the largest independent services provider of Customer B (apart from its intra-port ancillary service providing fellow subsidiary) in the Dongdu port area. Customer B also confirmed to us in its letter dated 27 September 2016 that it is important to use our services in addition to its fellow subsidiary due to our Group’s service quality and the need to maintain a certain extent of competition between its fellow subsidiary and our Group in order to avoid over-reliance on Customer B’s controlling shareholder. Accordingly, Customer B is able to control the proportion of services to be provided by our Group or its fellow subsidiary and has indicated that with fair pricing and good quality service, it agrees to continue to develop cooperation with our Group. In the relevant berths operated by Customer A in the Haicang port area, our Directors confirm that we are Customer A’s sole service provider. According to the F&S Report, there are only two major Intra-Port Services providers in Xiamen. Save for the associated company of Customer B and our Group, to the best of our Directors’ knowledge, the third largest Intra-Port Services provider in Xiamen only provides intra-port container transportation services but not intra-port ancillary services. Hence, our Directors believe that we are one of the two Intra-Port Services providers which can provide the full range of Intra-Port Services in Xiamen.

In view of the foregoing, our Directors believe that there is a degree of mutual and complementary reliance between us and our major customers in respect of our Intra-Port Services.

Our capability to maintain our revenue growth

For the three years ended 31 December 2016, our Group’s sales revenue derived from our Intra-Port Services segment remained stable at approximately RMB53.0 million, RMB53.4 million and RMB59.8 million respectively. Based on the F&S Report, it is projected that the sales value of Intra-Port Services between 2016 and 2021 in Xiamen will increase from approximately RMB335.8 million to RMB500.7 million, at a CAGR of 8.3%. Based on the above, our Directors believe that the Intra-Port Services market in Xiamen is in a growth phase and that our Group is positioned to continue to benefit from the growing market.

Salient terms of the contracts in relation to our Group’s intra-port ancillary services

We generally enter into a master agreement with our port-related customers for a period of not more than three years setting out the pricing and the principal terms of agreement. The actual amount chargeable and receivable will be in accordance with the types and amount of services actually provided. We generally offer a credit term of 40 days to our customers.

We set forth below a summary of salient terms of the contracts which Xiangxing Terminal has entered into with our port operator customers in relation to our Group’s intra-port ancillary services of assisting in handling containers and bulk/general cargo:

Duration	Fixed term agreed by both parties from one to two years
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Minimum utilisation commitment	Generally none
Minimum equipment and manpower requirement	The Group is required to arrange a certain number of workers in place for the delivery of our services
Service charge	Generally to be determined and confirmed based on separate contracts which stipulate the unit charge for each type of services or the type of containers of the type of cargos
Provision of facilities	As our Group provides only intra-port ancillary services, our customers, usually the port operators, will provide the necessary facilities and equipment, including railway mounted gantry container cranes, and communication devices
Guarantee deposit	For some contracts, our Group has to deposit a sum of money for any potential damage or disturbance of business caused to our customers. Such deposits are in general not more than RMB1,000,000 and are refundable upon discharging our contractual duties
Termination clauses	Either party is entitled to terminate the contract if the other party fails to perform the conditions of the contract. In case there is no fault on either party, the terminating party has to notify its intention of termination three months in advance and pay for any compensation to the other party
Exclusivity Clause	Nil

Salient terms of the contracts in relation to our Group’s intra-port container transportation services

We generally sign a master agreement with our port-related customers for a period of not more than three years. The actual amount chargeable and receivable for our services will be in accordance with the time of service actually provided. We generally offer a credit term of 40 days to our customers.

We set forth below a summary of salient terms of the contract that Xiangxing Terminal has entered into with our customers in relation to our Group’s intra-port container transportation services:

Duration	Fixed term agreed by both parties for not more than three years
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Our Group’s obligation	Our Group is required to arrange a certain number of container tractors to stand by to guarantee its adequate discharge of duty
Service charge	To be determined and confirmed under separate contracts which stipulate the unit charge for each container and any adjustment due to the fluctuations of the price of diesel fuel
Customer’s responsibility	Our customers are required to inform our Group of the number of container tractors required 2 hours in advance

Salient terms of the contracts in relation to our Group’s import agency services in respect of Reusable Solid Waste

We generally sign a master agreement for a period of one year with our customers who use our import agency services in respect of Reusable Solid Waste. The actual amount chargeable and receivable under such agreement will be in accordance with the times of services actually provided by us. We generally offer a credit term of 90 days to our customers.

We set forth below a summary of salient terms of the contracts that Xiangxing Logistics has entered into with our customers in relation to our import and export agency services, with a special focus on Reusable Solid Waste:

Duration	Generally one year
Minimum utilisation commitment	Generally none
Our Group’s obligation	Our Group is required to provide a container stacking yard for containers and coordinate the inspection and the quarantine of cargo by Xiamen Customs and/or XEIQB
Service charge	Charge per container, including, container stacking fee, documentation fee, vanning and devanning fees, security fee, and logistics fee
Customer’s responsibility	Our customers are to obtain the approval from the relevant governmental authorities in relation to the import of the cargo of Reusable Solid Waste, and inform us of the cargo arrival dates and information in relation to inspection and quarantine of the shipments

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Salient terms of the contracts in relation to our Group’s container road freight forwarding services

We generally enter into a master agreement with our customers for a period of one year. The actual amount chargeable and receivable will be in accordance with the times of services actually provided by us. We generally offer a credit term of 90 days to our customers.

We set forth below a summary of the salient terms of the contract which Xiangxing Logistics has entered into with our customers in relation to our Group’s container road freight forwarding services in Xiamen and its economic hinterland:

Duration	One year
Minimum equipment and manpower requirement	The Group is required to arrange a certain number of container tractors and operators in place for the delivery of our services
Service charge	Generally to be determined and confirmed based on separate contracts which stipulate the unit charge for each type of service or each container
Customer’s responsibility	Our customers are required to inform our Group of their requirement for container road freight forwarding services 24 hours in advance
Risk allocation	Obligated to accept any change of schedule prior to the commencement of the relevant transportation, whereas for any change of schedule after the commencement of the transportation, our customers have to compensate our Group for any loss

SUPPLIERS/SERVICE PROVIDERS

We purchase diesel fuel from our principal supplier, 中石化森美(福建)石油有限公司廈門分公司 (Sinopec Senmei (Fujian) Petroleum Company Limited Xiamen Branch) (“Sinopec”), which is mainly situated in Xiamen. We also engage domestic disinfection and sterilisation service providers for the sanitisation of containers of Reusable Solid Waste, domestic logistics companies for the sub-contracting of container road freight forwarding services and import and export agencies for their agency services. Our major suppliers have had business relationships with us for periods of time ranging from 2–17 years as at the Latest Practicable Date.

For the three years ended 31 December 2016:

- the costs incurred in respect of our five largest suppliers accounted for approximately 67.5%, 73.9% and 65.7% of our total purchase costs incurred respectively; and

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- the cost incurred in respect of our largest supplier accounted for approximately 24.3%, 32.8% and 22.7% of our total purchase costs incurred respectively.

The tables below set forth certain information with respect to our Group’s five largest suppliers during the Track Record Period.

For the year ended 31 December 2014

<u>Five largest suppliers</u>	<u>Business</u>	<u>Credit period</u>	<u>Business relationship with the supplier since</u>	<u>% of total purchase cost</u>
Sinopec	Retail sale of diesel fuel and petroleum	Payment in advance	2000	24.3%
Supplier B and Customer B <i>(Note 1)</i>	Port operation, import and export agency	Payment in advance to 50 days	2000	23.1%
Supplier C	Disinfection and sterilisation provision	90 days	2011	8.3%
Supplier D	Logistics Services, import and export agency	30 days	2011	6.1%
Supplier E	Import and export agency	40 days	2002	5.7%

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For the year ended 31 December 2015

Five largest suppliers	Business	Credit period	Business relationship with the supplier since	% of total purchase cost
Supplier B and Customer B (Note 1)	Port operation	Payment in advance to 50 days	2000	32.8%
Sinopec	Retail sale of diesel fuel and petroleum	Payment in advance	2000	14.3%
Supplier E	Import and export agency	40 days	2002	12.5%
Supplier C	Disinfection and sterilisation provision	40 days	2011	8.4%
Supplier F	Port operation	30–90 days	2011	5.9%

For the year ended 31 December 2016

Five largest suppliers	Business	Credit period	Business relationship with the supplier since	% of total purchase cost
Supplier B and Customer B (Note 1)	Port operation	Payment in advance	2000	22.7%
Sinopec	Retail of diesel fuel and petroleum	Payment in advance	2000	20.5%
Supplier C	Disinfection and sterilisation provision	30 days	2011	11.2%
Supplier E	Import and export agency	40 days	2002	7.5%
廈門通輝順物流有限公司 (Xiamen Tonghuishun Logistics Co., Ltd)	Container road freight forwarding	90 days	2015	3.8%

Note 1: Supplier B and Customer B are under the same holding company.

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We set forth below the salient terms of the contracts with Sinopec in respect of diesel fuel.

Duration	One year, to be renewed annually
Minimum purchase commitment	1,750 tonnes of diesel fuel a year, with a discount to be offered if 80% of such target is achieved
Determination of price	Price of diesel fuel from time to time is calculated in accordance with the internal pricing mechanism of Sinopec
Payment term	Payment in advance
Penalty	The Group is required to obtain diesel fuel within 10 days after it has been made available by Sinopec, or it shall be penalised for storage costs; if the diesel fuel supplied is not in conformity with the agreed standard, Sinopec is obliged to replace the standard one, or it shall be penalised on a daily basis
Termination	If the utilisation rate of diesel fuel for three consecutive months is lower than 80% of the monthly minimum purchase commitment, Sinopec is entitled to terminate the contract and the Group is required to compensate Sinopec in accordance with the terms of the agreement

Our Directors confirm that, during the Track Record Period, our Group has not purchased diesel fuel below the monthly minimum purchase commitment stipulated in the contracts with Sinopec. Hence, our Directors are of the view that our Group will not have material difficulties in renewing the contracts.

Our Directors confirm that all of the Group’s largest suppliers are Independent Third Parties and none of their directors nor any shareholders who or which, to the knowledge of our Directors, own more than 5% of the issued Shares or their respective close associates has any interests in any of the above five largest suppliers.

Our Directors confirm that, during the Track Record Period we did not experience any material shortage or delay in the products and/or services provided by our suppliers.

Further information of the subcontracting agreements relating to our Group’s container road freight forwarding services is set out in the sub-section headed “Subcontracting Arrangement” in this section.

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ENTITIES WHO ARE OUR CUSTOMERS AND ALSO OUR SUPPLIERS/ SUBCONTRACTORS

During the Track Record Period, to the best knowledge and belief of our Directors, two of our major customers and/or their related companies in the same group were also our suppliers.

To the best knowledge and belief of our Directors, these entities and their ultimate beneficial owners are Independent Third Parties. Two of these customers together with their related group companies principally engage in port operation (i.e. Customer A and Customer B). Our Directors believe that, as our Group also engages in import and export agency services, it is not uncommon for our customers to require us to pay for certain port charges to the port operators (i.e. Customer A and Customer B) for them.

In addition, to the best knowledge and belief of our Directors, during the Track Record Period, 20 of our customers and/or their related companies in the same group who use our container road freight forwarding services were also our subcontractors. These customers/subcontractors, together with their related group companies, principally engage in providing container road freight forwarding services. This arrangement works as a form of cooperation with our Group whereby such customers will supply container road freight forwarding services to our Group and vice versa. Our Directors believe that such cooperation is more prevalent during peak seasons, where both our Group and these customers/subcontractors need the tractor fleet support from each other in order to meet the requirements of our respective customers.

For the three years ended 31 December 2016, our sales to such customers/subcontractors for our container road freight forwarding services accounted for approximately RMB468,000, RMB1,146,000 and RMB829,000 respectively of our Group's total revenue. Our Directors confirm that the gross profit margin attributable to our services provided to these nine, eight and six customers amounted to approximately 25.3%, 13.0% and 21.4% for the three years ended 31 December 2016 which were lower than our overall gross profit margin. Our Directors confirm that the reasons for the gross profit margin attributable to the container road freight forwarding services provided to certain customers who were also our suppliers being lower than our Group's overall gross profit margin were:

- (1) our strategy to retain staff following the implementation of our staff remuneration policy in July 2015, where our driver's remuneration comprises basic salary plus commission based on the distance driven. Our Directors confirm that typically there are fluctuations in the volume of container road freight forwarding services provided by us, and we are normally not able to operate at full capacity on a daily basis. In order to enhance personnel stability of our drivers and to better utilize our capacity, we have accepted container road freight forwarding services from the market with a lower gross profit margin in order to increase our driver's commission, even though we derived little or no profit in such occasions, and

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- (2) our strategy to maintain a co-operative relationship with our customers/subcontractors for our container road freight forwarding services. According to the F&S report, it is an industry norm for companies who offer container road freight forwarding services to sub-contract their services when they are beyond their capacity, in order to meet the requirements of their respective customers. Therefore, we accepted sub-contracted services from other container road freight forwarding services providers with a relatively low gross profit margin, resulting in a lower gross profit margin attributable to the services provided to our customers who were also our suppliers for the three years ended 31 December 2016 compared to our overall gross profit margin.

For the three years ended 31 December 2016, our sales to such customers/subcontractors of our import and export agency services accounted for approximately RMB1,252,000, RMB89,000 and RMB17,000 respectively of our Group’s total revenue. Our Directors confirm that the gross profit margin attributable to our services provided to these two, two and one customer(s) amounted to 34.4%, 38.5% and 36.9% for the three years ended 31 December 2016, which were higher than our overall gross profit margin for the respective periods.

Our Directors confirm that negotiations of the terms of our sales to, and purchases from, these customers/subcontractors and/or their related group companies were conducted on an individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. Our Directors further confirm that the terms of transactions with these entities are in line with the market and similar to those transactions with our other customers and suppliers/subcontractors of our Company.

INSURANCE

Our Group maintains insurance policies in respect of risks related to third party liabilities, employees’ claims and liabilities, and vehicles. The following table sets forth our approximate maximum aggregate insurance coverage during the Track Record Period:

	<u>Equipment^(Note)</u> (RMB million)	<u>Vehicles</u> (RMB million)	<u>Employees</u> (RMB million)
As at 31 December 2014	35.8	6.4	112.2
As at 31 December 2015	35.8	14.2	121.8
As at 31 December 2016	35.3	14.7	110.6

Note: For details of our equipment, please refer to the section headed “Business — Our equipment” in this document.

For the three years ended 31 December 2016, we received insurance payouts in the amount of approximately RMB240,000, RMB332,000 and RMB600,000, and made payments above what was paid by the insurance company in the amount of approximately RMB32,000, RMB109,000 and RMB23,000 respectively. As at the Latest Practicable Date, our Group did not have any material unsettled insurance claims. Our Directors believe that our Group carries an adequate level of

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insurance and follows industry norms. Our Directors confirm that, during the Track Record Period, save for the work-related injuries or accidents of a minor and general nature disclosed in the section headed “Business — Work Safety”, no major disputes or accidents occurred, and hence we had not made, nor been subject to, any insurance claims which were material to our Group, its operation and financial position.

ENVIRONMENT PROTECTION

Due to the nature of our business, our operational activities do not directly generate industrial pollutants, and we did not directly incur any cost of compliance with applicable environmental protection rules and regulations during the Track Record Period. Our Directors expect that our Group will not directly incur significant costs for compliance with applicable environmental protection rules and regulations in the future. As at the Latest Practicable Date, our Group had not come across any material non-compliance issues in respect of any applicable laws and regulations on environmental protection.

WORK SAFETY

Our Group has established procedures to provide our staff with a safe and healthy working environment by setting out a series of work safety rules in the staff manual for our staff to follow. In addition, our Group provides our employees with occupational safety education and training to enhance their awareness of safety issues. Our Group follows relevant health and safety-related rules and regulations in accordance with the 中華人民共和國勞動法 (the Labour Law of the PRC) and devises a series of requirements for workplace environmental control and hygiene at workplaces pursuant to the need of different positions. During the Track Record Period, our Group did not experience any significant incidents or accidents in relation to workers’ safety or any non-compliance with the applicable laws and regulations relevant to work safety and health issues, despite the fact that we experienced 11 counts of work-related injuries or accidents of a minor and general nature and paid RMB5,469.62 as injuries compensation to the relevant workers. Our Group is dedicated to the implementation of work safety measures and standards to ensure that there is a safe working environment at our work sites and that the work undertaken by staff of our Group does not pose any danger to the general public. Our Company has established a committee for work safety, which sets out safety measures and standards in compliance with the relevant safety laws and regulations in the PRC. Our Company oversees the implementation and compliance of these safety measures and standards for the members of our Group. Our Group’s safety measures and standards include equipment operation procedures for loading and unloading of containers, fire-fighting measures, vessel berthing and unberthing procedures.

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INTELLECTUAL PROPERTY

Trademarks

As at the Latest Practicable Date, we registered one trademark in Hong Kong under classes 35 and 39 and one trademark in PRC under class 35. We had made one trademark application in PRC under class 39. Details of such trademarks are set out in the section headed “Statutory and General Information — Further Information about the Business of Our Group — Intellectual property rights of our Group — (a) Trademarks” in Appendix IV to this document.

Save as disclosed above, our business or profitability is not dependent on any patents or licences or any other intellectual property rights. To the best of our Directors’ knowledge and belief, during the Track Record Period and as at the Latest Practicable Date, there was no material infringement of intellectual property rights between our Group and other third parties nor were we involved in, nor were we aware of, any litigation or legal proceedings for violation of intellectual property rights of any person, or any material violation.

Domain name

As at the Latest Practicable Date, we had registered our corporate domain name (www.xxlt.com.cn). Details of such domain name is set out in the section headed “Statutory and General Information — Further Information about the Business of Our Group — (b) Domain names” in Appendix IV to this document.

EMPLOYEES

As at the Latest Practicable Date, our Group employed a total of 758 employees. The following table presents a breakdown of our employees in our Group by function:

<u>Personnel</u>	<u>Number of Employees</u>	<u>Percentage of Total Employees</u> (%)
Drivers	310	40.9
Site workers	336	44.3
Sales	7	0.9
Commanding officers and team leaders	51	6.7
Finance and administration	8	1.1
Management	21	2.8
Repairs	<u>25</u>	<u>3.3</u>
Total	<u>758</u>	<u>100.0</u>

Our employees play an important role in our business. Our workers’ level of skills are of paramount importance to our business. We provide in-house training to our employees to enhance their knowledge of our operations and safety practices. It requires our labour to be proficient in order to have the jobs properly done.

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In accordance with the relevant requirements of local government authorities in the PRC where we operate, our payments for staff include contributions to social security insurance and housing provident funds.

During the Track Record Period, our employees belonged to the labour union formed under Xiangxing Group. However, due to the Reorganisation in preparation for the [REDACTED], the business was transferred to Xiangxing Terminal and the status of the trade union was not updated accordingly. Our Directors confirmed that our Group would assist in forming the trade union under Xiangxing Logistics. Pursuant to approval documents 厦海工組[2017] no. 38 document dated 17 March 2017 and 厦海工組[2017] no. 41 document dated 22 March 2017 issued by the Xiamen Municipal Haicang District General Trade Union, the formation of a trade union under Xiangxing Logistics was approved and its first election held and office holding election held in respect of a period of 5 years from 16 March 2017 to 15 March 2022. Our Directors further confirm that there has not been significant turnover of staff nor any disruptions to our services due to labour disputes during the Track Record Period. Our Directors further confirm that there have been no disputes between our Group and the labour union. Our Directors consider that we maintain a good relationship with our employees.

PROPERTIES

As at the Latest Practicable Date, the properties leased by our Group are set out in the following table:

Port area	Parcel/building complex	Deposit (RMB)	Landlord	Size (sq. meter)	Rental (RMB) per year	Duration
Dongdu port area	Building complex	20,000	Landlord A/ Customer B	621	216,108.00 for the first year; 223,560 for the second year	1 Sep 2015 – 31 Aug 2017
		20,000	Landlord A/ Customer B	621	according to new lease (1 September 2017–31 August 2020), rental per year as follows: 230,266.80 for the first year; 241,817.40 for the second year; 253,889.64 for the third year	1 Sep 2017 – 31 Aug 2020
	Parcel of container stacking yard	150,000	Landlord A/ Customer B	12,520	1,577,520.00 for the first year; 1,657,147 for the second year; 1,739,779 for each of the following four years	1 Jul 2014 – 30 Jun 2020
Haicang port area	Parcel of container stacking yard	N/A	Landlord B	13,621	800,000 per year from 2015 to 2017; 900,000 per year from 2017 to 2020; 1,000,000 per year from 2020 to 2023	1 Feb 2015 – 31 Jan 2023
	Parcel of container stacking yard	N/A	Landlord C	12,817	From 2011 to 2015, no rental need to be paid, but had to pay the construction fee of the stacking yard, which was estimated to be 1,400,000.00; since 2016, the Company will have to pay rental of 456,029.28	1 Jul 2011 – 31 Dec 2025

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Properties with defective titles

As at the Latest Practicable Date, the landlord (the “**Head Landlord**”) of the parcel of container stacking yard occupying 12,817 sq.m. of Haicang port area (the “**Leased Property**”), who leased the Leased Property to Landlord C and allowed Landlord C to sublet it, has not obtained the land use right certificate for the Leased Property. Given that such Leased Property is adjacent to, and linked with, another parcel of container stacking yard that we leased during the Track Record Period in the Haicang port area which are being used by us simultaneously, our revenue derived from our Leased Property based on its occupying area for the three years ended 31 December 2016 amounted to approximately RMB9.8 million, RMB16.7 million and RMB10.6 million respectively, representing approximately 8.5%, 13.7% and 9.9% of our total revenue.

We started to operate a container stacking yard on the Leased Property in 2011. According to our Directors, the Leased Property is mainly used as part of our Group’s container stacking yard for Reusable Solid Waste in Haicang port area. As advised by our PRC Legal Advisers, they have made an enquiry to an officer (the “**Officer**”) of the Land and Minerals Management Department of Haicang Branch of Xiamen Municipal Bureau of Land Resources and Real Estate Management (廈門市國土資源與房產管理局海滄分局用地礦產管理科), a competent land authority in charge of investigation of land utilization in Haicang District. The Officer was directed and authorised to speak on behalf of the department by the director of such Bureau. Our PRC Legal Advisers were then informed that due to the existence of certain building(s) which was (were) erected on the Leased Property and should have been demolished when the land authority delivered the Leased Property to the Head Landlord, the Head Landlord was not able to carry out the procedures to obtain the land use rights certificate in respect of the Leased Property from the competent land authority. However, as advised by the PRC Legal Advisers, the Officer confirmed that the Head Landlord has the right to occupy and use the Leased Property for the reason that the Head Landlord has obtained approval from the Xiamen Municipal Government, signed the land granting contract with, and paid the land grant fee in respect of the Leased Property to, Haicang Branch of Xiamen Municipal Bureau of Land Resources and Real Estate Management. Further, our Directors confirm that the building(s) have already been demolished. Considering the foregoing, our PRC Legal Advisers are of the opinion that the Head Landlord is entitled to grant a lease in respect of the Leased Property and we are able to continue using the Leased Property during the lease period specified in our lease with Landlord C.

Although we consider that the possibility of being forced to relocate from the Leased Property is remote on the basis of the advice of our PRC Legal Advisers, we have formulated a contingency plan as below:

Relocation

Our Directors confirm that, in the event that we are required to relocate from the Leased Property, we would immediately seek an alternative location for our container stacking yard, in respect of which our Directors do not think there would be any obstacles as currently, there are a lot of empty sites located in Haicang port area. Our Directors further confirm that they have identified potential alternative neighbouring sites located in Haicang Port area. Our Directors are

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confident of locating an alternative neighbouring site of close proximity to the Leased Property within the Haicang port area, which will be readily available on similar terms. Whilst our Directors consider that there will not be a material change or impact on rental costs if we were required to relocate, our Directors believe there will be an increase in rental costs as compared to the current rental paid by our Group.

Our Directors confirm that we have never been requested to relocate from the Leased Property due to its defective title. In the event that we are required to relocate from the Leased Property, our Directors consider that the disruption to our Group’s operations and financial impact on our Group would be minimal, since we are currently leasing a piece of land adjacent to the Leased Property, which we also use as our container stacking yard for our import agency services for Reusable Solid Waste. During the relocation period, we may temporarily shift our operations to such adjacent piece of land. Hence, our Directors believe that our operations would not be adversely affected and our Directors do not expect any loss in revenue during the relocation period.

Based on our Company’s experience, it would take approximately one month to lease and to relocate our current container stacking yard located on the Leased Property to an alternate empty site within the Haicang port area. If we are required to relocate from the Leased Property, we estimate our one-off relocation costs to be approximately RMB150,000, which would directly increase our expenses in the relevant period, including the purchase of surveillance system, barrier gate system and office appliances. We estimate the costs to relocate our current container stacking yard located on the Leased Property to be approximately RMB100,000 to RMB200,000, including logistics expenses. In case we need to incur capital expenditure for the construction of the alternative container stacking yard, we expect to incur approximately RMB1,500,000, which in turn would allow us about two to three years of rent-free period according to our past experience. After the relocation is completed, according to the knowledge and experience of our Directors, it would take approximately three months to obtain approval from Customs before our alternative container stacking yard can be officially put into operation.

Our Directors consider that there will not be any loss in revenue as we have obtained a supplemental agreement with Landlord C dated 6 June 2016, pursuant to which Landlord C shall indemnify our Group in respect of any costs incurred resulting from our being forced to relocate. We have further obtained a written confirmation from Landlord C dated 26 January 2017 that it will continue to lease the parcel of container stacking yard to us during the lease period specified in our lease with Landlord C. In the unlikely event that our Company is required to relocate due to any change of laws, regulations and/or government policies, Landlord C will provide us with 4 months’ notice, so that we will have sufficient time to relocate our current container stacking yard to an alternate empty site. Landlord C will fully indemnify us against all loss in revenue if it is unable to provide us with the said 4 months’ notice. In addition, pursuant to the Deed of Indemnity entered into between our Controlling Shareholders and our Company, our Controlling Shareholders have agreed to, subject to the terms and conditions of the Deed of Indemnity, to indemnify our Group in respect of, among other matters, any costs incurred by our Group resulting from our being forced to relocate from the Leased Property. Further details of the Deed of Indemnity are set out in the section headed “Statutory and General Information — D. Other Information — 1. Tax indemnity

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and indemnity relating to Compliance Matters” in Appendix IV to this document. Considering the above, even if Landlord C is unable to provide us with sufficient compensation, our Directors believe that there will be no material adverse effect caused to the daily operation of our Group.

LICENCES AND PERMITS

Set out below are the details of the PRC licences/permits/approvals obtained by our Group:

<u>Issuing Authority</u>	<u>Licence/permit/approval</u>	<u>Date of grant</u>	<u>Expiry date of licence/permit/ approval</u>
中華人民共和國廈門海關 (Xiamen Customs District People’s Republic of China)	中華人民共和國廈門海關監管場所註冊登記證書 (廈關所字第110122號) (Registration Certificate for Customs Supervision and Control Locations of Xiamen District of the PRC (Xia Guan Suo Zi No. 110122))	28 April 2015	28 April 2018
廈門市海滄區運輸管理所 (Xiamen Haicang Transportation Management Bureau)	中華人民共和國道路運輸經營許可證)(閩交運管許可廈字第350205200706號) (Licence for Road Transport Operation of the PRC (Min Jiao Yun Guan Xu Ke Xia Zi No. 350205200706))	10 November 2014	9 November 2018
中華人民共和國廈門海關 (Xiamen Customs District People’s Republic of China)	中華人民共和國廈門海關監管場所註冊登記證書 (廈關所字第120137號) (Registration Certificate for Customs Supervision and Control Locations of Xiamen District of the PRC (Xia Guan Suo Zi No. 120137))	11 December 2015	11 December 2018
福建省交通運輸廳 (Fujian Communications Department)	國際海運輔助業經營資格登記證 ((閩)-MA00061) (Registration Certificate for Operation of Auxiliary Business Relating to International Maritime Transportation ((Min)-MA00061))	28 January 2016	27 January 2019

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HONOURS AND AWARDS

The table below sets out the major honours and awards that our Group received:

<u>Year of grant</u>	<u>Name of award</u>	<u>Receiving body</u>	<u>Awarding body</u>
January 2013	Contract-abiding and Credit-reliable Enterprise	Xiangxing Logistics	Xiamen Municipal Administration of Industry and Commerce
January 2013	Contract-abiding and Credit-reliable Enterprise	Xiangxing Terminal	Xiamen Municipal Administration of Industry and Commerce
January 2013	Integrity Unit	Xiangxing Terminal	Dongdu Station of Exit and Entry Frontier Inspection of the PRC
December 2014	Integrity Unit	Xiangxing Terminal	Dongdu Station of Exit and Entry Frontier Inspection of the PRC
January 2016	Small and medium enterprise with the most growth potential	Xiangxing Logistics	Federation of Industry of Fujian Province
May 2016	Contract-abiding and Credit-reliable Enterprise	Xiangxing Terminal	Market Supervision Commission of Xiamen Municipality
May 2016	Contract-abiding and Credit-reliable Enterprise	Xiangxing Logistics	Market Supervision Commission of Xiamen Municipality
November 2016	Integrity Unit	Xiangxing Terminal	Dongdu Station of Exit and Entry Frontier Inspection of the PRC

LEGAL PROCEEDINGS/LITIGATION

We may from time to time become a party to legal, arbitration or administrative proceedings arising in the ordinary course of our business. However, our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there were no litigation, arbitration or administrative proceedings existing, pending or threatened against our Group or any of our Directors, which could have a material and adverse effect on our Group’s financial condition or results of operations.

Our Controlling Shareholders have entered into the Deed of Indemnity in favour of our Company (for itself and as trustee of our subsidiaries) with regard to any costs, expenses and losses we may sustain and any claims, liabilities, penalties, fines and damages we may be subject to as a result of the litigations incidental to the disclosed non-compliance incidents. For details of the Deed of Indemnity, please refer to the paragraph headed “D. Other Information — 1. Tax Indemnity and indemnity relating to Compliance Matters” in Appendix IV to this document.

NON-COMPLIANCE

During the Track Record Period and up to Latest Practicable Date, our Group failed to comply with certain applicable laws and regulations (the “**Non-Compliance Incidents**”), a summary of which are set out in the table below:

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Summary of historic non-compliance incidents

Event of non-compliance	Name of subsidiary	Reason(s) for non-compliance	Director(s) or senior management involved in the non-compliance	Legal consequences and maximum potential penalty	Remedial action(s) taken and to be taken and current status as the Latest Practicable Date	Measures to prevent any future breaches and ensure ongoing compliance
<i>Provision of international maritime container freight station and container yard services in the absence of International Maritime Transportation Certificate⁽¹⁾</i>						
A foreign investment enterprise, including a Chinese-foreign equity joint venture, is required to obtain the International Maritime Transportation Certificate before engaging in the provision of international maritime container freight station and container stacking yard services. On 19 October 2015, Xiangxing Logistics was registered as a Chinese-foreign equity joint venture but it had not obtained such Certificate when it continued to engage in the provision of the aforesaid services until 28 January 2016.	Xiangxing Logistics	Our Directors confirm that this non-compliance was caused by the relevant authority's delay in handling our application for the International Maritime Transportation Certificate after the conversion of Xiangxing Logistics into a Chinese-foreign equity joint venture.	Manager of the general management department	As advised by our PRC Legal Advisers, the relevant applicable PRC laws and regulations do not expressly stipulate the corresponding consequences and/or any penalty.	We have obtained the International Maritime Transportation Certificate to engage in the provision of the international maritime container freight station and container yard services on 28 January 2016. Under 中華人民共和國行政處罰法 (the Law of the PRC on Administrative Penalty), where any administrative penalty needs to be imposed on citizens, legal persons or other organizations for their violations of the order of administration, it shall be expressly prescribed by laws, rules or regulations and then imposed by administrative organs in compliance with the relevant legal procedure.	Effective from March 2016, we have established a policy to maintain and update a licences register that keeps track of key status of the requisite licences such as their licensing conditions and expiry dates. The register facilitates relevant officers of our Group in handling the licensing matters and assists our chief executive officer in monitoring the overall licensing status.
					As the relevant applicable PRC laws and regulations did not stipulate any corresponding penalty, our PRC Legal Advisers advised us that the likelihood of penalty on us is remote.	Effective from April 2016, we have also retained a qualified PRC law firm in Xiamen as our legal consultant who will inform us of any major updates in the relevant PRC laws and regulations and provide advice, including the review of the licences register.
					For the purpose of reinforcing their view, our PRC Legal Advisers consulted 福建省港航管理局 (Fujian Port and Channel Administrative Bureau) (the “Bureau”), the competent authority for undertaking the examination and approval of waterway auxiliary operation in Fujian Province. Consistent with our PRC Legal Advisers' view, the Bureau confirmed verbally that it was less likely that we would be penalised as the relevant applicable PRC laws and regulations did not stipulate any corresponding penalty.	
					In accordance with the relevant applicable PRC laws and regulations, transportation authorities of the relevant local governments have the right to carry out the relevant supervision and administration of the auxiliary business operations related to international maritime transportation. Since the Bureau, under 福建省交通運輸廳 (Fujian Provincial Department of Transportation), is the provincial water transportation authority in Fujian Province, our PRC Legal Advisers are of the view that the Bureau is the competent authority.	

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Event of non-compliance	Name of subsidiary	Reason(s) for non-compliance	Director(s) or senior management involved in the non-compliance	Legal consequences and maximum potential penalty	Remedial action(s) taken and to be taken and current status as the Latest Practicable Date	Measures to prevent any future breaches and ensure ongoing compliance
<i>Failure to make full payment of social insurance contributions</i>						
We had not made in full certain kinds of the social insurance contributions using certain employees' actual income as required under PRC laws and regulations before March 2016.	Xiangxing Logistics & Xiangxing Terminal	Such non-compliance incidents were mainly caused by our designated general management staff's unintended and inadvertent oversight of the relevant PRC laws and regulation.	Manager of the general management department	Our PRC Legal Advisers advised that, according to the relevant PRC laws and regulations, for any outstanding social insurance contribution, the relevant authority may demand the relevant entity to pay the relevant social insurance, impose a surcharge at a daily rate of 0.2% or 0.05% on the outstanding amount from the date on which the payment is overdue, and/or impose a fine from one to three times the amount of overdue payment.	Our Directors confirm that we have made all the social insurance contributions in full in accordance with the relevant PRC laws and regulations since March 2016.	Effective from March 2016, we have established relevant policies in regulating and communicating the basis of social insurance contributions. We have also reviewed and revised the calculation of social insurance contribution. A monthly report prepared by general management department is subject to the review by our finance department which will check for accuracy of calculation and reconcile the calculated amount of the month with the actual payment made for social insurance contributions. The monthly report will also be submitted to our chief executive officer for his review.
Shortfall of the social insurance contributions by Xiangxing Logistics and Xiangxing Terminal during the two years ended 31 December 2015 and the two months ended 29 February 2016 amounted to RMB64,657.86 and RMB438,181.85 respectively.	Xiangxing Terminal	Such non-compliance incidents were mainly caused by our designated general management staff's unintended and inadvertent oversight of the relevant PRC laws and regulation.	Manager of the general management department	Our PRC Legal Advisers advised that, according to the relevant PRC laws and regulations, for any outstanding social insurance contribution, the relevant authority may demand the relevant entity to pay the relevant social insurance, impose a surcharge at a daily rate of 0.2% or 0.05% on the outstanding amount from the date on which the payment is overdue, and/or impose a fine from one to three times the amount of overdue payment.	We have also obtained confirmation from 廈門市海滄區人力資源和社會保障局 (Human Resources and Social Security Bureau of Haicang District, Xiamen City) dated 9 August 2016 that no administrative penalty has been imposed on us and the authority will not require us to repay the contribution shortfalls pertaining to the two years ended 31 December 2015 and the two months ended 29 February 2016 or impose surcharge on us.	Under PRC laws and regulations, the social security administrative authorities of local People's Governments at the county level and above shall be responsible for the administration of social security matters within their administrative region. Our PRC Legal Advisers are of the view that the Human Resources and Social Security Bureau of Haicang District, Xiamen, as the county level social security administrative authority of Haicang District, Xiamen, is the competent authority to issue such confirmation.

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Event of non-compliance	Name of subsidiary	Reason(s) for non-compliance	Director(s) or senior management involved in the non-compliance	Legal consequences and maximum potential penalty	Remedial action(s) taken and to be taken and current status as the Latest Practicable Date	Measures to prevent any future breaches and ensure ongoing compliance
					<p>Our Controlling Shareholders have also entered into a Deed of Indemnity in favour of our Group with regard to any possible claims, liabilities, penalties, fines and damages which we may be subject to as a result of such non-compliance incidents.</p> <p>Based on the above and as advised by our PRC Legal Advisers, we consider that we would not face any actual financial penalties/fines.</p>	<p>Our Directors believe this arrangement achieves a segregation of duties between our general management department and our finance department in ensuring the correct calculation and payment of contribution.</p> <p>Effective from April 2016, we have also retained a qualified PRC law firm in Xiamen as our legal consultant who will inform us of any major updates in the relevant PRC laws regulations and provide advice, including the review of social insurance contribution policy.</p>

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Event of non-compliance	Name of subsidiary	Reason(s) for non-compliance	Director(s) or senior management involved in the non-compliance	Legal consequences and maximum potential penalty	Remedial action(s) taken and to be taken and current status as the Latest Practicable Date	Measures to prevent any future breaches and ensure ongoing compliance
<i>Failure to make full payment of housing provident fund contributions</i>						
Prior to March 2016, there were instances when we did not make the required housing provident fund contributions for our urban employees under PRC laws and regulations. Shortfall of the housing provident fund contributions by Xiangxing Logistics and Xiangxing Terminal during the two years ended 31 December 2015 and the two months ended 29 February 2016 amounted to RMB191,141.32 and RMB535,018.06 respectively.	Xiangxing Logistics & Xiangxing Terminal	Such non-compliance incidents were mainly caused by our designated general management department staff's unintended and inadvertent oversight of the relevant PRC laws and regulation.	Manager of the general management department	Our PRC Legal Advisers advised that, according to the relevant PRC laws and regulations, with respect to the outstanding housing provident fund contributions, we may be demanded by the relevant authority to pay the outstanding amount within a prescribed time limit, failing which the relevant authority may apply to the court for enforcement of the unpaid amount.	Upon discovery of the non-compliance incident, we have made full contribution in respect of housing provident fund for all of our urban employees pertaining to the two years ended 31 December 2015 and the two months ended 29 February 2016. We have also obtained confirmation dated 10 August 2016 from 廈門市住房公積金管理中心 (Xiamen Housing Provident Fund Management Center) which confirmed that no administrative penalty would be imposed on us, we would not be held accountable.	Effective from March 2016, we have established relevant policies in regulating and communicating the basis of housing provident fund contributions. We have reviewed and revised the calculation of housing provident fund contribution. A monthly report prepared by the general management department is subject to review by our finance department which will check for the accuracy of calculation and reconcile the calculated amount of the month with the actual payment made for housing provident fund contributions. The monthly report will also be submitted to our chief executive officer for his review.
				In accordance with 廈門市住房公積金管理規定 (the Rules on Management of Housing Provident Fund of Xiamen Municipal), Xiamen Housing Provident Fund Management Center is responsible for managing and operating the housing provident fund of Xiamen. Our PRC Legal Advisers are of the view that the Xiamen Housing Provident Fund Management Center is the competent authority to issue such confirmation.		

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Event of non-compliance	Name of subsidiary	Reason(s) for non-compliance	Director(s) or senior management involved in the non-compliance	Legal consequences and maximum potential penalty	Remedial action(s) taken and to be taken and current status as the Latest Practicable Date	Measures to prevent any future breaches and ensure ongoing compliance
					<p>Our controlling shareholders have also entered into a Deed of Indemnity in favour of our Group with regard to any possible claims, liabilities, penalties, fines and damages which we may be subject to as a result of such non-compliance incidents.</p> <p>Based on the above and advised by our PRC Legal Advisers, we consider that we would not face any actual financial penalties/fines.</p>	<p>Our Directors believe this arrangement achieves a segregation of duties between our general management department and our finance department in ensuring the correct calculation and payment of contribution.</p> <p>Effective from April 2016, we have also retained a qualified PRC law firm in Xiamen as our legal consultant who will inform us of any major updates in the relevant PRC laws and regulations and provide advice, including the review of housing provident fund contribution policy.</p>

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Event of non-compliance	Name of subsidiary	Reason(s) for non-compliance	Director(s) or senior management involved in the non-compliance	Legal consequences and maximum potential penalty	Remedial action(s) taken and to be taken and current status as the Latest Practicable Date	Measures to prevent any future breaches and ensure ongoing compliance
<p><i>Provision of advances to Xiangxing Group and Minhaixing Engineering in the absence of:— (i) approval from the People’s Bank of China and (ii) 《金融機構法人許可證》(Financial Institution Legal Person Licence) or 《金融機構營業許可證》(Financial Institution Business Licence) under the 《貸款通則》(General Provisions of Loans)</i></p>						
<p>During the Track Record Period, we made several unsecured, interest-free, and repayable on demand advances to Xiangxing Group and Minhaixing Engineering in the absence of (i) approval from the People’s Bank of China and (ii) 《金融機構法人許可證》(Financial Institution Legal Person Licence) or 《金融機構營業許可證》(Financial Institution Business Licence) contrary to 《貸款通則》(General Provisions of Loans).</p>	<p>Xiangxing Logistics & Xiangxing Terminal</p>	<p>Such non-compliance incidents were caused by our staff’s unawareness of the relevant applicable legal requirements at the relevant time by recognising the advances as intra-group financial arrangement.</p>	<p>Manager of the finance department</p>	<p>Our PRC Legal Advisers advised that, according to the relevant PRC laws and regulations, the People’s Bank of China may impose a fine from one to five times of the income derived from the infringing activity and suppress the infringing activity.</p>	<p>Regarding the amount due from Xiangxing Group, our Directors confirm that all outstanding balance had been settled as at 31 December 2014.</p> <p>With respect to the amount due from Minhaixing Engineering, our Directors confirm that all outstanding balance had been settled as at 31 December 2015.</p> <p>Since our Group did not receive any interest from Xiangxing Group nor Minhaixing Engineering in respect of the advances, as advised by our PRC Legal Advisers, it is unlikely that our Group will be subject to any penalty under relevant PRC laws and regulations.</p>	<p>Effective from March 2016, we have updated our treasury policy and implemented a requirement that we will not make or accept advances to/from other corporations, including related parties which will violate any PRC laws or regulations. When financial assistance is required, our finance department will prepare the corresponding proposal which will be reviewed by our Chairman and chief executive officer before submitting the proposal to our Board for approval upon clearance with competent legal professionals.</p>
<p>During the year ended 31 December 2014, the maximum outstanding balance due from Xiangxing Group was RMB15,718,000. During the two years ended 31 December 2015, the maximum outstanding balance due from Minhaixing Engineering was RMB7,200,000</p>						

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Summary of historic non-compliance incidents

Event of non-compliance	Name of subsidiary	Reason(s) for non-compliance	Director(s) or senior management involved in the non-compliance	Legal consequences and maximum potential penalty	Remedial action(s) taken and to be taken and current status as the Latest Practicable Date	Measures to prevent any future breaches and ensure ongoing compliance
<i>Failure to set aside full amount of 法定公積金 (statutory reserve) before distributing dividends</i>						
During the Track Record Period, we had not set aside in full statutory reserve before distributing dividends as required under PRC laws and regulations. The shortfall of statutory reserve required to be set aside by Xiangxing Logistics and Xiangxing Terminal from their profits generated up to 30 June 2015 was RMB454,905.49 and RMB1,846,273.02, respectively.	Xiangxing Logistics & Xiangxing Terminal	Such non-compliance incidents were caused by our staff's unawareness of the relevant applicable legal requirements at the relevant time.	Manager of the finance department	Our PRC Legal Advisers advised that, according to the relevant PRC laws and regulations, the financial department of the people's government at the county level or above may demand the relevant entity to set aside the statutory reserve and impose a fine under RMB200,000	Upon discovery of the non-compliance incident, on 26 May, 2016, Xiangxing Terminal and Xiangxing Logistics entered into set-off agreements with their respective relevant shareholders whereupon the said shareholders have applied the available dividend receivables of RMB1,846,273.02 and RMB454,905.49 respectively for the period from 1 July, 2015 to 31 October, 2015 to be paid by Xiangxing Terminal and Xiangxing Logistics respectively to make up the equivalent amount of the shortfall in their respective statutory reserves without the said shareholders having been required to return to Xiangxing Terminal and Xiangxing Logistics respectively, the equivalent amount of their dividends previously paid to the said shareholders, being the subject matter of the said statutory reserve shortfall. Accordingly, by implementing such set-off arrangement, Xiangxing Terminal and Xiangxing Logistics have set aside the equivalent amount of their respective statutory reserves in full.	Effective from April 2016, our Company has established certain key procedures to ensure the statutory reserve will be made in accordance with the relevant PRC laws and regulations. Our Board will be responsible for approving the decision of dividend declaration and distribution of our subsidiaries. Such decisions will be communicated to our Company Secretary and Chief Executive Officer who will take the following measures to ensure related compliance objectives are met. Our Chief Executive Officer is also our Compliance Officer.
				As confirmed by our PRC Legal Advisers, the said set-off agreements are legally valid, effective and enforceable under the laws of the PRC, and the relevant amount of their statutory reserves have been set aside in full in accordance with the laws of the PRC. According to the confirmation dated 24 August 2016 and issued by 廈門市海滄區財政局 (Haicang District of Xiamen Municipal Bureau of Finance), confirming that there existed no penalty to be imposed on us, and as advised by our PRC Legal Advisers, we consider that our Group would not be fined. Our PRC Legal Advisers are of the view that the Haicang District of Xiamen Municipal Bureau of Finance, as the county level local financial department, is the competent authority to issue such confirmation.	1. Our Chief Executive Officer will officially issue a circular to the Finance Department detailing the information of proposed dividend declaration and distribution, such as proposed timing and amount as discussed by the Board. It is intended to provide the Finance Department an accurate basis of calculating corresponding statutory reserve. 2. Our Chief Executive Officer will further seek PRC legal advice on the statutory reserve calculated by the Finance Department to ensure it is made in accordance to the most updated requirements of relevant laws and regulations.	

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Event of non-compliance	Name of subsidiary	Reason(s) for non-compliance	Director(s) or senior management involved in the non-compliance	Legal consequences and maximum potential penalty	Remedial action(s) taken and to be taken and current status as the Latest Practicable Date	Measures to prevent any future breaches and ensure ongoing compliance
						<p>3. Our Company Secretary will be responsible for monitoring the reserve accounts and cash flow of all subsidiaries to ensure the overall provision of statutory reserve is completely made. Our Company Secretary will present the calculation of statutory reserve and related compliance implications to the Board.</p> <p>Effective from May 2016, our Company has also established and circulated a policy that clarifies and sets forth the basis of setting aside statutory reserve. The Company has also retained a qualified PRC law firm in Xiamen who will inform our Company of any updates in relevant PRC laws and regulations, including the review of our current basis and requirement of statutory reserve.</p>

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Event of non-compliance	Name of subsidiary	Reason(s) for non-compliance	Director(s) or senior management involved in the non-compliance	Legal consequences and maximum potential penalty	Remedial action(s) taken and to be taken and current status as the Latest Practicable Date	Measures to prevent any future breaches and ensure ongoing compliance
<i>Failure to pay in full the value-added tax</i>						
During the Track Record Period, we had not pay in full the value-added tax in respect of our container road freight forwarding service as required under PRC laws and regulations. The shortfall of the value-added tax payable by Xiangxing Logistics was RMB341,797.40.	Xiangxing Logistics	This non-compliance was caused by our designated accounting staff's unintended and inadvertent mistake of issuing of value-added tax invoice according to the tax rate applicable to import agency services when handling the income derived from both container road freight forwarding service and import agency services provided to the same customer.	Manager of the finance department	Our PRC Legal Advisers advised that, according to the relevant PRC laws and regulations, where a taxpayer underpays the tax payable, the tax authorities shall pursue the payment of the outstanding amount of tax and the surcharge thereon, and the taxpayer shall also be fined not less than 50% but not more than five times the outstanding amount of tax.	On 28 March 2016, we filed an inspection report with the Xiamen Municipal Office of the SAT and paid the outstanding value-added tax and the surcharge. On 8 August 2016, 廈門市海滄區國家稅務局 (Haicang District of Xiamen Municipal Office of the SAT) issued a 納稅證明 (Certificate of tax payment*) confirming that Xiangxing Logistics had complied with all relevant PRC national and local laws and regulations on taxation, and that there existed no penalties imposed, or to be imposed, on Xiangxing Logistics due to its tax-related violation.	Effective from January 2016, we have implemented a new measure in properly classifying and separately contracting the container road freight forwarding services and import and export agency services with the same customer. This measure forms the basis for our staff to apply the appropriate value-added tax rates to relevant services. Effective from March 2016, we have further established a policy in regulating and communicating the basis of value-added tax rates, inclusive of container road freight forwarding services and import and export agency services. We have also retained a qualified PRC law firm in Xiamen to provide legal advice on our daily operations and inform us of any updates in relevant PRC laws and regulations, including the review of our current basis of value-added tax rates.
				Under PRC laws and regulations, relevant local state tax bureaus shall be responsible for the collection of value-added tax. Our PRC Legal Advisers are of the view that the Haicang District of Xiamen Municipal Office of the SAT, as the value-added tax collection and management authority of the Haicang District, Xiamen, is the competent authority to issue such confirmation. Since all outstanding amount of value-added tax had been paid in full on 28 March 2016 and the Haicang District of Xiamen Municipal Office of the SAT had confirmed that there existed no penalties imposed, or to be imposed, on Xiangxing Logistics due to its tax-related violation, we consider that it is unlikely that our Group will be subject to any penalty under relevant PRC laws and regulations.		

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Indemnity given by our Controlling Shareholders

Our Controlling Shareholders, collectively as the indemnifiers, entered into the Deed of Indemnity, pursuant to which our Controlling Shareholders have agreed to, subject to the terms and conditions of the Deed of Indemnity, to indemnify our Group in respect of, among other matters, all losses and liabilities which may arise as a result of any non-compliance of our Group with the applicable laws, rules or regulations on or before the [REDACTED] and any costs incurred by our Group resulting from our being forced to relocate from the Leased Property. Further details of the Deed of Indemnity are set out in the section headed “Statutory and General Information — D. Other Information — 1. Tax indemnity and indemnity relating to Compliance Matters” in Appendix IV to this document.

INTERNAL CONTROL

In February 2016, we engaged BDO Financial Services Limited (“BDOFS”) as our internal control adviser to conduct an internal controls review over our corporate governance and major business cycles.

For preventing the recurrence of non-compliance incidents, the Company has designed and implemented certain enhanced measures which are presented in the summary of historic non-compliance incidents on page 173 to 181. In August 2016 and March 2017, we further engaged BDOFS to conduct additional reviews of our enhanced controls over our non-compliance incidents. Based on the Review, BDOFS is of the view that, in all material respects, the remediation status of internal controls implemented by the Company to prevent the recurrence of similar incidents was adequate and effective as at 31 December 2016.

The management of our Group acknowledges that it is obligated to comply with Appendix 15 “Corporate Governance Code and Corporate Governance Report” to the GEM Listing Rules upon [REDACTED]. Particularly, the Company will maintain an internal audit function which will continuously monitor the adequacy of internal controls over non-compliance incidents and report the result of review to the Audit Committee on a regular basis.

RISK MANAGEMENT AND CORPORATE GOVERNANCE

We have established a set of risk management policies and measures to identify, evaluate and manage risks arising from our operations. Details on risk categories identified by our management, internal and external reporting mechanism, remedial measures and contingency management have been codified in our policies and adopted by us.

For details of the major risks identified by our management, please refer to the section headed “Risk Factors — risks relating to business and operations of our Group” in this document.

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To improve and monitor the ongoing implementation of our risk management policies and corporate governance measures after the [REDACTED], we have adopted or will adopt, among other things, the following corporate governance and internal control measures:

- the establishment of an audit committee responsible for overseeing the financial records, internal control procedures and risk management systems of our Company;
- the appointment of Mr. Qiu, our executive Director and chief executive officer as our compliance officer, Ms. Wong Tuen Sau as our company secretary and Mr. Ho Kee Cheung, Mr. Cheng Siu Shan and Mr. Hu Hanpi as our independent non-executive Directors to ensure the compliance of our operation with the relevant laws and regulations. For their biographical details, please refer to the section headed “Directors, Senior Management and Staff” in this document;
- the engagement of an internal control adviser to review our internal controls designed and implemented for preventing the recurrence of non-compliance incidents;
- the engagement of external PRC legal advisers to (i) provide regular legal training to our management and staff; (ii) advise us on the relevant laws and regulations and the updates thereto that are applicable to our business; (iii) make recommendation on our operations, payment of social insurance contribution, and housing provident fund contribution in light of the relevant laws, regulations, and policies; and (iv) assist us in establishing and updating the internal control system to ensure we will not be in breach of any relevant PRC regulatory requirements or applicable laws and regulations, where necessary;
- the provision of directors’ training organised by our Hong Kong legal advisers on GEM Listing Rules and the Corporate Governance Code to ensure we will not be in breach of any relevant Hong Kong regulatory requirements or applicable laws and regulations, where necessary;
- the provision of directors’ training organised by our PRC Legal Advisers on our Group’s non-compliance incidents prior to the [REDACTED] and the relevant PRC laws and regulations that are applicable to our business to ensure we will not be in breach of any relevant PRC regulatory requirements or applicable laws and regulations; and
- the appointment of Central China International Capital Limited as our compliance adviser upon the [REDACTED] to advise us on compliance with the GEM Listing Rules.

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In view of (i) the nature and extent of these non-compliance incidents, (ii) the fact that all such non-compliance incidents as disclosed in this document had been rectified with remedial actions summarised in the table above, and (iii) the implementation of our enhanced internal control measures for strengthening our corporate governance in order to prevent such non-compliance incidents in the future, our Directors believe and our Sole Sponsor is satisfied that our enhanced internal control measures are sufficient and effective and that these non-compliance incidents, individually or in the aggregate, do not and will not (a) have any material financial or operational impact on our Group; (b) have an impact on the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules; or (c) have an impact on the suitability of the Company for **[REDACTED]** under Rule 11.06 of the GEM Listing Rules.