Dafeng Port Heshun Technology Company Limited
大豐港和順科技股份有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8310)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the 2019 annual results announcement dated 8 May 2020 (the "**Results Announcement**") and the 2019 annual report published on 14 May 2020 (the "**Annual Report**") of Dafeng Port Heshun Technology Company Limited (the "**Company**" and its subsidiaries, collectively referred to as the "**Group**").

Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Results Announcement. Further to the information disclosed in the Results Announcement and the Annual Report, the Company wishes to provide to the shareholders of the Company and the potential investors with the following supplementary information:

IMPAIRMENT LOSSES IN RESPECT OF THE YEAR ENDED 31 DECEMBER 2019

Background and reasons for the impairment losses

In 2019, the Company recognised:

(a) impairment losses of HK$223.8 million (2018: nil), HK$611.2 million (2018: nil) and HK$0.6 million (2018: nil) on goodwill, property, plant and equipment ("**PPE**") and right-of-use assets ("**ROU**") (2018: sea use right payment) in relation to the cash-generating unit ("**CGU**") of the Terminal Handling and Berthing Business, respectively; and

(b) net impairment losses of nil (2018: HK$14.8 million), HK$10.4 million (2018: HK$23.8 million) and reversal of impairment loss of HK$6.9 million (2018: impairment of HK$6.9 million) on goodwill, PPE and ROU (2018: prepaid lease payment) in relation to the CGU of the Petrochemical Products Storage Business, respectively.

As disclosed in the Results Announcement and the Annual Report:

— a major explosion occurred at a chemical plant in Jiangsu Province on 21 March 2019, and as a result, the Jiangsu Provincial Government has decided to slash the number of chemical production enterprises. The expected decrease in number of chemical production enterprises in Jiangsu Province would have significant adverse impact on the Terminal Handling and Berthing Business and the Petrochemical Products Storage Business on future operations and hence, future cashflows; and

— the Company, with assistance from an independent professional valuer, determined the 2019 recoverable amounts of the CGUs of the Terminal Handling and Berthing Business and the Petrochemical Products Storage Business based on fair value less costs of disposal (2018: based on value-in-use calculation).

Supplemental information

On 21 March 2019, a major explosion occurred at 江蘇省鹽城市響水陳家港鎮陳家港化工園區 (Chenjiagang Chemical Park in Xiangshui Chenjiagang Town, Yancheng City, Jiangsu Province). This accident happened at another chemical park which is not in the Dafeng Port area where the Group primarily conducts its business. Mostly of the time during the year, the Company was shocked by the news and awaiting for further development.

On or around 27 April 2019, the Directors learned through the public domain that the Jiangsu Provincial Government Office had issued the "Jiangsu Chemical Industry Remediation Improvement Proposal (Consultation Draft)" and the "Jiangsu Province Chemical Industry Safety and Environment Improvement and Modernization Plan" ("**Jiangsu Chemical Industry Plan**"). It was not until then the Company has realized that the explosion may trigger a reduction in the number of chemical production enterprises (i.e. the Group's potential customers) in Jiangsu Province. However, the relevant consultation draft had not been approved and the Jiangsu Chemical Industry Plan did not specify any figures or list of chemical plants to be shut down. Information was very unclear and numerous versions of rumours and speculations were wide-spreading in the industry. As a result, during the period from May 2019 to late September 2019, the Company adopted a passive approach while monitoring closely the subsequent developments in this regard.

When the Company published its 2019 interim results announcement on 8 August 2019, although the explosion had already affected the operation and performance of the Terminal Handling and Berthing Business and the Petrochemical Products Storage Business, the impact on the Group's business operation was not substantial. The government policies remained unclear, and the market sentiment has not significantly deteriorated. Therefore, the Company did not recognise any impairment loss at the material time. Instead, it was duly disclosed in the management discussion and analysis of the Group's performance in the 2019 interim results announcement that an accident had occurred in the abovementioned chemical park on 21 March 2019 which caused the closure or reorganization of many chemical companies, resulting in deteriorating business of the Group.

It was only until the end of September 2019, when the Jiangsu Provincial Chemical Industry Safety and Environmental Protection Improvement Leadership Group published the "Notice on Jiangsu Province Chemical Industry Safety and Environment Improvement and Modernization 2019 Working Goals" ("**Jiangsu Chemical Working Goals**") and that the rectification goals for the province's chemical production enterprises would be as follows: 1,431 enterprises to be closed, 267 counts of production suspension, 1,302 rectifications to be effected within a time limit, 77 enterprises to be relocated and 945 counts of improvement rectification. It was by then when the Company realized that the explosion accident would have a material long-term adverse effect on the Group's business due to the reduction in the number of chemical production enterprises and the tightened regulations imposed by the government in Jiangsu Province, which would make it more difficult for the Company to find potential customers to expand its business.

The Company issued the 2019 third quarterly results announcement on 11 November 2019 without recognising any impairment loss based on the following considerations at the material time: (i) none of the Company's customers were among the 579 chemical companies which were required to be immediately shut down according to the Jiangsu Chemical Working Goals; (ii) the actual financial impact on the operation and performance of the Group was not substantial as compared to what the Jiangsu Chemical Working Goals implied; and (iii) the revenue forecast of the Group for the final quarter of 2019 was much higher than the previous quarters and the aftermath of the explosion accident appeared to be under control (the cumulative revenue of the Terminal Handling and Berthing Business in the first three quarters of 2019 was HK$4.7 million, and the revenue of the fourth quarter alone was HK$2.4 million, whereas the cumulative revenue of the Petrochemical Products Storage Business in the first three quarters of 2019 was HK$5.3 million, and the revenue in the fourth quarter alone was HK$2.6 million).

The impairment losses were subsequently recognised in the Group's financial results for the year ended 31 December 2019 consistent with the past practice of the Group and in accordance with the relevant requirements of the Hong Kong Financial Reporting Standards. For the purpose of preparing the consolidated financial statements of the Group, the Company had, after the year end period, tested the goodwill and assets for impairment of the CGUs on an annual basis.

The Group engaged 江蘇仁禾中衡工程諮詢房地產估價有限公司 ("**RHZH**"), an independent professional qualified valuer, to conduct a valuation to determine the recoverable amount of the CGUs for each of the Terminal Handling and Berthing Business and the Petrochemical Products Storage Business for the year ended 31 December 2019 (the "**2019 Valuation**") and for the year ended 31 December 2018 (the "**2018 Valuation**").

Qualification of 仁禾中衡 (RHZH)

The reports issued by RHZH for the 2019 Valuation were jointly signed by two professional valuers of RHZH duly qualified by the Ministry of Finance of the People's Republic of China. RHZH belonged to the Jiangsu Renhe Zhongheng Consulting Group (the "**RHZH Group**"), which is an organization primarily providing different valuation and forensic accounting services including but not limited to: (i) business entity/equity valuation; (ii) intangible asset valuation; (iii) financial instrument valuation; and (iv) property, plant and machinery valuation. It was originally established as a public institution under the Yancheng Finance Bureau in 1992. It was subsequently restructured in 1999 to serve the private market as well.

RHZH has obtained the "工程諮詢建築甲級資格" (Engineering Consulting Construction Class A Qualification) issued by 國家發展和改革委員會 (National Development and Reform Commission). In addition, the RHZH Group is a leading unit of the China Institute of Certified Public Accountants, the China Construction Engineering Cost Association, the Jiangsu Province Engineering Cost Management Association, and a vice president unit of the Provincial Real Estate Appraisal and Brokerage Association.

Value of inputs and methodology adopted in assessing the impairment losses

The 2019 Valuation on the Terminal Handling and Berthing Business and the Petrochemical Products Storage Business was developed through the application of (i) fair value less costs of disposal and (ii) value-in-use calculations. The determination of whether assets of a CGU are impaired requires an estimation of the recoverable amount of the relevant CGU. The recoverable amount of the CGU is the higher of its fair value less costs of disposal and its value in use. Fair value less costs of disposal is the amount obtainable from the sale of the CGU in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss may arise. Due to (i) the explosion accident as mentioned earlier; (ii) the outbreak of COVID-19 and the consequential lock-down and business suspension in China; and (iii) for the Terminal Handling and Berthing Business, for prudence sake, the 2019 Valuation has adopted the Government defined fee rates (which was lower than market fee rates for the Group) as compared to the using of market fee rates in the 2018 Valuation, the five-year projection of future cash flows of the Group has been materially affect and as a result, the values of the CGUs arrived at based on value-in-use calculations in 2019 was less than the value derived from the fair value less cost of disposal method, which was consistently applied for both the 2018 Valuation and the 2019 Valuation.

VALUATION OF TERMINAL HANDLING AND BERTHING BUSINESS

Comparison of the 2019 Valuation against the 2018 Valuation

(A) Fair value less cost of disposal method

As at 31 December 2019

RMB'000

	Management account (before impairment)* A	Assessed value B	Audited account (after impairment) C	Difference D = B-A	Difference E = C-A
Current assets	302,873	339,835	330,916	36,962	28,043
Non-current assets:	704,360	159,469	173,777	(544,891)	(530,583)
Fixed assets —					
Petrochemical port	402,985	88,957	88,957	(314,028)	(314,028)
Others	298,294	67,964	82,945	(230,330)	(215,349)
Right-of-use assets	3,081	2,548	1,875	(533)	(1,206)
Current liabilities	773,466	870,187	861,234	96,721	87,768
Non-current liabilities	60,000	—	—	(60,000)	(60,000)
Net assets/(liabilities)	173,767	(370,883)	(356,541)	(544,650)	(530,308)

As at 31 December 2018

RMB'000

	Management account (before impairment)* A	Assessed value B	Audited account (after impairment) C	Difference D = B-A	Difference E = C-A
Current assets	392,577	428,672	421,381	36,095	28,804
Non-current assets:	720,889	739,805	739,832	18,916	18,943
Fixed assets —					
Petrochemical port	410,118	431,306	431,306	21,188	21,188
Others	307,612	305,477	305,522	(2,135)	(2,090)
Sea use right payment	3,159	2,564	2,564	(595)	(595)
Others	—	458	440	458	440
Current liabilities	761,821	798,324	888,411	36,503	126,590
Non-current liabilities	150,000	150,000	60,000	—	(90,000)
Net assets	201,645	220,153	212,802	18,508	11,157

* *Unaudited management account provided to RHZH for valuation purpose only.*

In the 2019 Valuation, as illustrated above, the material devaluation was in the category of fixed assets. In valuing fixed assets, RHZH assessed the replacement cost, adjusting it with a percentage of usability to represent the assets' actual condition and then applied an economic depreciation discount based on actual operation environment, if necessary. Subject to adjustment on each type of fixed assets, the general formula for determining market value of fixed assets is illustrated below:

Market value of fixed assets = (replacement cost × usability %) − economic depreciation

When determining the replacement cost, RHZH made use of the following formula:

Replacement cost = construction cost + professional fees + management fees + cost of capital

When determining the usability %, RHZH took into account the useful life and physical inspection ratings.

When determining the economic depreciation, RHZH took into account various economic factors that would lead to a less-than-maximum design capacity utilisation rate. The following formula was used:

$$\text{Economic depreciation} = \text{replacement cost} \times [1 - (\frac{\text{expected utilisation}}{\text{maximum design capacity}})]\text{\^{} economic indicator}$$

For illustration purpose, in the case of valuing the petrochemical port in 2019 Valuation, which is the largest fixed asset, the following figures were used:

Value of petrochemical port	= (	replacement cost (being RMB458.8 million)	×	usability % (being 92%)	) −	economic depreciation (being RMB335.0 million)	= RMB89.0 million

of which:

Replacement cost	=	construction cost (being RMB395.1 million)	+	professional fees (being RMB15.0 million)	+	cost of capital (being RMB48.7 million)	= 458.8 million

Usability % = remaining useful life (46 years out of 50 years) × inspection ratings (100% condition) = 92%

Economic depreciation = replacement cost (being RMB458.8 million) × (1 − (90/660)^0.65 = RMB335.0 million

Design capacity: 6.6 million tonnes per year

Expected capacity which will be utilised: 0.9 million tonnes per year

Economic indicator: 0.65 (usually in the range of 0.6–0.7)

For the valuation of other fixed assets including dykes, pipelines, dykes terminal and platforms, RHZH used similar approach and adopted similar values in such valuation. The fixed assets category in relation to the Terminal Handling and Berthing Business had devaluation of approximately RMB529.4 million comparing the audited accounts with the management accounts (before impairment), mainly attributable to the assessed value, which significantly decreased due to economic depreciation.

Economic depreciation is caused by external factors not related to the target asset and there is a separate evaluation process in determining economic depreciation. Generally speaking, economic depreciation is not invoked when the asset is being normally utilised without significant change in the external operation environment. It will only be triggered when the valuer is absolutely convinced that there will be a significant gap in the actual production capacity as compared with the original design capacity. During the 2018 assessment, RHZH did not invoke any economic deprecation as the available production capacity was expected to be basically the same as the original designed production capacity and the business unit can continue to use the assets normally according to the design purpose. However, economic depreciation was invoked in the 2019 Valuation as RHZH has taken into account (i) the explosion accident as mentioned earlier; (ii) the outbreak of COVID-19 and the consequential lock-down and business suspension in China; and (iii) the actual profit was significantly lower than the profit forecast. Based on the formula as illustrated above, the economic depreciation factor applied to this CGU was taken at 73% discount of the replacement cost.

RHZH applied a heavy economic depreciation in the 2019 Valuation whereas RHZH did not apply any for the 2018 Valuation as it was not considered necessary at the then material time. The economic depreciation was the major factor that has resulted in the significant difference between the valuation derived from the 2019 and 2018 fair value less cost of disposal method.

(B) Value-in-use method

The value-in-use approach estimates the future cash flows expected to arise from the Terminal Handling and Berthing Business as adjusted by a suitable weighted average cost of capital discount rate (“**WACC**”) to calculate their present value. The formula for calculating WACC is set out below:

$$WACC = \frac{E}{E+D} * R_E + \frac{D}{E+D} * R_D * (1-T)$$

Of which:

E = Equity
D = Debt
R_E = Cost of equity (R_E = risk free rate + Beta × Market risk premium + Q)
Q = Corporate specific quality factor
R_D = Cost of debt
T = Income tax rate

In the 2019 Valuation, according to the forecast model prepared by RHZH, the Terminal Handling and Berthing Business would not be generating any positive free cashflows for the forecast period. Thus, the value-in-use approach did not result in a positive value for the Terminal Handling and Berthing Business and RHZH therefore concluded that the business' value of the Terminal Handling and Berthing Business determined by this approach would be nil. In the 2018 Valuation, based on the position for cash flows for the forecasted period as projected at the time of the 2018 Valuation, the operational assets value was RMB893.7 million and the final value of the Terminal Handling and Berthing Business was RMB372.4 million.

Material factors considered by RHZH in the 2019 Valuation forecast include (i) the historical performance of the Terminal Handling and Berthing Business, the revenue of which in 2019 was only RMB6.2 million; (ii) the explosion incident in March 2019 and the consequential impact on the industry; and (iii) the COVID-19 outbreak in early 2020; and (iv) for prudence sake, the 2019 Valuation adopted the government defined fee rates (which was lower than market fee rates for the Group) as compared to the using of market fee rates in the 2018 valuation, the five-year projection of future cash flows of the Group has been materially affected.

The following table sets out the parameters used in the value-in-use approach:

	2018 Valuation (assuming market rates)	**2019 Valuation (assuming government defined fee rates)**
Fee rates for chemical products per 10,000 tons:		
• Acrylic	RMB95	**N/A**
• Benzene	RMB50	**RMB20**
• Propylene oxide	RMB60	**RMB15**
• Liquid alkaline	RMB35	**RMB17**
• Petrochemical	RMB35	**RMB11**
• Liquid ammonia	N/A	**RMB22**
Income tax rate	25.0%	**N/A**
Risk free rate	3.65%	**N/A**
Market risk premium	7.36%	**N/A**
Beta	1.06	**N/A**
Q	1.0%	**N/A**
Rate of return on equity	11.4%	**N/A**
Cost of debt	5.63%	**N/A**
Cost of equity	12.4%	**N/A**
WACC	10.4%	**N/A**

For the 2019 Valuation, government defined fee rates were used by RHZH as (i) the Group has been actually operating under government defined fee rates historically; and (ii) the original plan of the Group to switch to market fee rates (i.e. the time when conducting 2018 Valuation) was put on hold and unable to proceed due to the explosion incident and the COVID-19 outbreak in 2019. As a result of the fee rates' difference, the 2019 Valuation forecast model cannot generate positive free cashflows as compared with the 2018 Valuation. For the 2019 Valuation, the parameters for discounting cashflows are not considered necessary as the Terminal Handling and Berthing Business cannot generate positive free cashflows for discounting purpose.

Selection of method and the final reporting value

2019 Valuation

Both the fair value less cost of disposal method and the value-in-use method yield a negative resulting value for the Terminal Handling and Berthing Business. Hence, RHZH concluded that the Terminal Handling and Berthing Business had a value of nil as at 31 December 2019.

2018 Valuation

The fair value less cost of disposal method produced a valuation of RMB220.2 million and the value-in-use method produced a valuation of RMB372.4 million. RHZH concluded to adopt the value-in-use approach as it is more appropriate as such method indirectly takes into account the value of effective management and other intangible assets. The final value is reported as RMB372.4 million as at 31 December 2018.

VALUATION OF PETROCHEMICAL PRODUCTS STORAGE BUSINESS

Comparison of the 2019 Valuation against the 2018 Valuation

(A) Fair value less cost of disposal method

As at 31 December 2019

RMB'000

	Management account (before impairment)* A	Assessed value B	Audited account (after impairment) C	Difference D = B−A	Difference E = C-A
Current assets	7,129	17,974	17,074	10,845	9,945
Non-current assets:	178,923	175,067	162,177	(3,856)	(16,746)
Fixed assets	143,681	126,869	114,512	(16,812)	(29,169)
Right-of-use assets	35,242	47,716	36,042	12,474	800
Others	—	482	11,623	482	11,623
Current liabilities	168,873	213,732	42,188	44,859	(126,685)
Non-current liabilities	33,529	7,529	1,452	(26,000)	(32,077)
Net assets/(liabilities)	(16,350)	(28,220)	135,611	(11,870)	151,961

As at 31 December 2018

RMB'000

	Management account (before impairment)* A	Assessed value B	Audited account (after impairment) C	Difference D = B−A	Difference E = C-A
Current assets	1,315	5,409	5,693	4,094	4,378
Non-current assets:	161,088	151,102	145,081	(9,986)	(16,007)
Fixed assets	122,827	102,637	103,327	(20,190)	(19,500)
Prepaid lease payments	36,025	47,884	30,846	11,859	(5,179)
Others	2,236	581	10,908	(1,655)	8,672
Current liabilities	103,611	88,757	42,681	(14,854)	(60,930)
Non-current liabilities	61,451	61,451	38,300	—	(23,151)
Net assets/(liabilities)	(2,659)	6,303	69,793	8,962	72,452

* *Unaudited management account provided to RHZH for valuation purpose.*

In the 2019 Valuation, as illustrated above, the material devaluation was in the category of fixed assets. In valuing fixed assets, RHZH assessed the replacement cost, adjusting it with a percentage of usability to represent the assets' actual condition and then applied an economic depreciation discount based on actual operation environment, if necessary. Subject to adjustment on each type of fixed assets, the general formula for determining market value of fixed assets is illustrated below:

$$\text{Market value of fixed assets} = (\text{replacement cost} \times \text{usability \%}) - \text{economic depreciation}$$

When determining the replacement cost, RHZH made use of the following formula:

$$\text{Replacement cost} = \text{construction cost} + \text{professional fees} + \text{management fees} + \text{cost of capital}$$

When determining the usability %, RHZH took into account the useful life and physical inspection ratings.

When determining the economic depreciation, RHZH took into account various economic factors that would lead to a less-than-maximum design capacity utilisation rate. The following formula was used:

$$\text{Economic depreciation} = \text{replacement cost} \times [1 - (\frac{\text{expected utilisation}}{\text{maximum design capacity}})]\text{\^{} economic indicator}$$

For illustration, in the case of valuing the four 5,000 m^3 storage tanks in 2019, the following figures were used:

$$\begin{array}{c} \text{Value of} \\ \text{storage tanks} \end{array} = (\begin{array}{c} \text{replacement cost} \\ \text{(being RMB18.5 million)} \end{array} \times \begin{array}{c} \text{usability \%} \\ \text{(being 82\%)} \end{array}) - \begin{array}{c} \text{economic depreciation} \\ \text{(being RMB5.2 million)} \end{array} = \text{RMB9.6 million}$$

of which:

$$\text{Replacement cost} = \begin{array}{c} \text{construction cost} \\ \text{(being RMB18.0} \\ \text{million)} \end{array} + \begin{array}{c} \text{professional fees} \\ \text{(being RMB0.4} \\ \text{million)} \end{array} + \begin{array}{c} \text{cost of capital} \\ \text{(being RMB0.2} \\ \text{million)} \end{array} = \text{RMB18.5 million}$$

Usability % = remaining useful life (32 years out of 39 years) × inspection ratings (100% condition) = 82%

Economic depreciation = replacement cost (being RMB18.5 million) × (1 − (10.23/17.5)^0.65 = RMB5.2 million

Design capacity: 175,000 cubic metre

Expected capacity which will be utilised: 102,300 cubic metre

Economic indicator: 0.65 (usually in the range of 0.6–0.7)

For the other fixed assets, including mainly storage tanks of different sizes, fire services tanks and ancillary structures such as pipes and tubes and equipment systems, RHZH used similar approach and adopted similar values in such valuation. The fixed assets in relation to the Petrochemical Products Storage Business had devaluation of assessed value of RMB29.2 million comparing the audited accounts with the management accounts (before impairment), mainly attributable to the assessed value, which mildly decrease due to economic depreciation.

Due to (i) the explosion accident as mentioned earlier; and (ii) the outbreak of COVID-19 and the consequential lock-down and business suspension in China, RHZH applied a mild economic depreciation in 2019 whereas RHZH did not apply any for the 2018 Valuation as it was not considered necessary at the material time. Based on the formula as illustrated above, the economic depreciation factor applied for this CGU was taken at approximately 29% discount of the replacement cost. The magnitude of economic depreciation applied for this segment was less severe than the Terminal Handling and Berthing Business segment.

The economic depreciation was the major factor that has led to the significant difference between the 2019 and 2018 fair value less cost of disposal method.

(B) *Value-in-use method*

The value-in-use approach estimates the future cash flows expected to arise from the Petrochemical Products Storage Business as adjusted by a suitable discount rate (WACC) to calculate their present value. The formula of calculating WACC is set out below:

$$WACC = \frac{E}{E+D} * R_E + \frac{D}{E+D} * R_D * (1-T)$$

Of which:

E = Equity
D = Debt
R_E = Cost of Equity (R_E = risk free rate + Beta × Market risk premium + Q)
Q = Corporate specific quality factor
R_D = Cost of Debt
T = income tax rate

In the 2019 Valuation, according to the forecast model prepared by RHZH, the Petrochemical Products Storage Business would not be generating sufficient positive free cashflows for the forecast period to produce a positive operational assets value. Therefore, the value-in-use approach did not result in a positive value for the Petrochemical Storage Business and RHZH therefore concluded that the value of the Petrochemical Products Storage Business determined by this approach would be nil. In the 2018 Valuation, based on the positive cash flows for the forecasted period as projected at the time of the 2018 Valuation, the operational assets value was RMB133.3 million and the final value of the Petrochemical Products Storage Business was RMB21.0 million.

Material factors considered by RHZH in the 2019 Valuation forecast include (i) the historical performance of the Petrochemical Products Storage Business, revenue of which in 2019 was RMB7.6 million; (ii) the construction of 80,000 cubic metre of storage tanks had been completed in November 2019; and (iii) the remaining unpaid construction fees for the 80,000 cubic metre of storage tanks would be spread out and be paid during the period of 2020 to 2024.

The following table sets out the parameters used in the value-in-use approach:

	2018 Valuation	**2019 Valuation**
Income tax rate	25.0%	**25.0%**
Risk free rate	3.65%	**3.14%**
Market risk premium	7.36%	**5.99%**
Beta	1.1845	**1.2623**
Q	1.5%	**1.3%**
Cost of debt	7.38%	**5.54%**
Cost of equity	13.9%	**12.0%**
WACC	11.0%	**11.0%**

Selection of method and the final reporting value

2019 Valuation

Both the fair value less cost of disposal method and the value-in-use method both resulted in a negative resulting value for the Petrochemical Products Storage Business. Hence, RHZH concluded that the Petrochemical Product Storage business had a value of nil as at 31 December 2019.

2018 Valuation

The fair value less cost of disposal method produced a valuation of RMB6.3 million and the value-in-use method produced a valuation of RMB21.0 million. RHZH concluded to adopt the value-in-use approach as it was more appropriate as such method indirectly took into account the value of effective management and other intangible assets. The final value was reported as RMB21.0 million as at 31 December 2018.

Key assumptions used in the 2019 Valuation

Set out below are the key assumptions under the 2019 Valuation:

(a) There will be no material change in the existing political, legal, fiscal or economic conditions which might adversely affect the economy in general and the business of the CGUs.

(b) The business of the Group will be managed by responsible management and the business will continue without any going concern.

(c) There is an active market available where assets can be disposed of at arm's length transaction between knowledgeable and willing parties with comparable bargaining power.

(d) There is no material fluctuation on tax rates, exchange rates, macro policies. Inflation impacts are not accounted for in the valuation.

(e) In particular, for the Terminal Handling and Berthing Business, the 2019 Valuation adopted the Government defined fee rates as the Group's service charge for this segment and the valuation assumes this to continue. In addition, it was further assumed that the outbreak of COVID-19 would be under control by late March 2020.

Significant changes in the valuation method

The Company also wishes to clarify that it did actually adopt the same valuation methodology in the 2018 Valuation as that adopted by RHZH for the 2019 Valuation by preparing both the value-in-use and fair value less cost of disposal methods. However, in the Results Announcement and the Annual Report, the Company only described the 2018 Valuation as adopting "value-in-use calculations" instead of including references to the two methods, as the value determined by the value-in-use method was greater than that by using fair value less cost of disposal method.

As confirmed by the Directors, the methods and assumptions adopted for the 2019 Valuation and the 2018 Valuation did not have any material changes save for the economic depreciation being applied in the 2019 Valuation but not in the 2018 Valuation. This is due to the significant change in the business operating environment as described above.

In conclusion, the significant impairment losses recognised based on the 2019 Valuation were mainly attributable to the significant change in the business operating environment which had a lasting impact on the five-year projection of the Group's future cash flows. As previously announced, the major explosion at a chemical plant in Jiangsu Province in March 2019, the COVID-19 outbreak and the subsequent chain of events have adversely affected the industry operating environment.

By order of the Board
Dafeng Port Heshun Technology Company Limited
Tao Ying
Chairman

Hong Kong, 10 July 2020

As at the date of this announcement, the Board comprises the following members:

Executive Directors	*Non-executive Directors*	*Independent Non-executive Directors*
Mr. Tao Ying *(Chairman)*	Mr. Ji Longtao	Dr. Bian Zhaoxiang
Mr. Miao Zhibin	Mr. Yang Yue Xia	Mr. Lau Hon Kee
Mr. Chen Wenxiang		Mr. Yu Xugang
Ms. Leng Panpan		Mr. Zhang Fangmao

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

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company's website at www.dfport.com.hk.