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

If you have sold or transferred all your shares in Kerry Logistics Network Limited, you should at once hand this circular and the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Kerry Logistics
Network Limited

嘉里物流網絡有限公司

(Incorporated in the British Virgin Islands and continued into Bermuda
as an exempted company with limited liability)

Stock Code 636

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER

**(1) THE 2024 KLN LOGISTICS SERVICES FRAMEWORK AGREEMENT;
(2) THE 2024 SF LOGISTICS SERVICES FRAMEWORK AGREEMENT; AND
(3) THE 2024 KHL FRAMEWORK SERVICES AGREEMENT
AND
NOTICE OF SPECIAL GENERAL MEETING**

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



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 9 to 31 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 32 and 33 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 34 to 70 of this circular.

A notice convening the SGM via the e-Meeting System on Thursday, 12 September 2024 at 2:30 p.m. is set out on pages 77 to 79 of this circular.

A form of proxy for use at the SGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.kln.com).

Whether or not you are able to attend the meeting via the e-Meeting System, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, or submit it via the designated URL (<https://spot-emeeting.tricor.hk/#/636>) by using the log-in username and password provided on the notification letter sent by the Company, not less than 48 hours before the time appointed for holding the SGM, i.e. by no later than 2:30 p.m. on Tuesday, 10 September 2024. Completion and return of the form of proxy shall not preclude you from attending and voting via the e-Meeting System at the SGM or any adjourned meeting thereof should you so desire.

27 August 2024

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DEFINITIONS

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

"2021 KHL Framework Services Agreement"	the framework services agreement dated 25 March 2021 (as amended and supplemented by the supplemental agreement dated 30 April 2021) entered into between the Company and KHL to set out a framework for (i) the provision of the KLN Services by the Group to the Relevant KHL Group; and (ii) the provision of the KHL Leases and the KHL Services by the Relevant KHL Group to the Group
"2022 KLN Logistics Services Framework Agreement"	the framework agreement dated 29 July 2022 (as amended and supplemented by the supplemental agreement dated 28 October 2022) entered into between the Company and SFTS to set out a framework for the provision of the KLN Logistics Services by the Group to SFTS Group
"2022 SF Logistics Services Framework Agreement"	the framework agreement dated 28 June 2022 (as amended and supplemented by the supplemental agreement dated 28 October 2022) entered into between the Company and SFTS to set out a framework for the provision of the SF Logistics Services by SFTS Group to the Group
"2024 KHL Framework Services Agreement"	the framework services agreement dated 31 July 2024 entered into between the Company and KHL to set out a framework for (i) the provision of the KLN Services by the Group to the Relevant KHL Group; and (ii) the provision of the KHL Leases and the KHL Services by the Relevant KHL Group to the Group
"2024 KLN Logistics Services Framework Agreement"	the framework agreement dated 31 July 2024 entered into between the Company and SFTS to set out a framework for the provision of the KLN Logistics Services by the Group to SFTS Group
"2024 SF Logistics Services Framework Agreement"	the framework agreement dated 31 July 2024 entered into between the Company and SFTS to set out a framework for the provision of the SF Logistics Services by SFTS Group to the Group
"5M2024"	for the five months ended 31 May 2024
"Announcement"	the announcement of the Company dated 31 July 2024 in relation to, among other things, the Non-exempt CCT Agreements
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"close associate(s)"	has the meaning given to it under the Listing Rules

DEFINITIONS

“Company”	Kerry Logistics Network Limited, a company incorporated in the British Virgin Islands and continued into Bermuda to become an exempted company with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 636)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Convertible Securities”	the 3.30% perpetual convertible securities in the aggregate principal amount of HK\$780,000,000 issued by the Company
“Director(s)”	director(s) of the Company
“e-Meeting System”	electronic platform for the registered Shareholders, proxies and corporate representatives attending the SGM via internet
“Existing CCT Agreements”	collectively, the 2022 KLN Logistics Services Framework Agreement, the 2022 SF Logistics Services Framework Agreement, and the 2021 KHL Framework Services Agreement
“Flourish Harmony”	Flourish Harmony Holdings Company Limited, a wholly-owned subsidiary of SF Holding
“FY2019”	for the year ended 31 December 2019
“FY2022”	for the year ended 31 December 2022
“FY2023”	for the year ended 31 December 2023
“FY2024”	for the year ending 31 December 2024
“FY2025”	for the year ending 31 December 2025
“FY2026”	for the year ending 31 December 2026
“FY2027”	for the year ending 31 December 2027
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

"Independent Board Committee"	the independent committee of the Board comprising Dr CHEUNG Wai Man, Mr LAI Sau Cheong Simon, Mr TAN Chuen Yan Paul and Ms WONG Yu Pok Marina, being all the INEDs, established for the purpose of advising the Independent Shareholders in respect of the terms of the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps)
"Independent Financial Adviser" or "China Sunrise"	China Sunrise Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps)
"Independent Shareholders"	the Shareholders other than those who are required to abstain from voting on the resolutions at the SGM approving the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps)
"independent third party(ies)"	any entity or person who, to the best knowledge of our Directors, is independent of the Company and its connected persons
"INEDs"	the independent non-executive Directors of the Company
"Kerry TJ"	Kerry TJ Logistics Company Limited, incorporated under the laws of Taiwan and listed on Taiwan Stock Exchange (Stock Code: 2608)
"KGL"	Kerry Group Limited, one of the controlling shareholders of the Company
"KHL"	Kerry Holdings Limited, a wholly-owned subsidiary of KGL and one of the controlling shareholders of the Company
"KHL Group"	KHL and its subsidiaries
"KHL Leases"	lease of the Leased Properties

DEFINITIONS

"KHL Services"	(i) land transportation; (ii) other logistics services in and/or from Taiwan; (iii) freight services; (iv) freight agency services and other logistics services; and (v) warehousing services
"KLN Logistics Services"	(a) international freight forwarding services, including cross-border international cargo carriage services for SFTS Group's cargo and parcels and various ancillary services through the Group's global network; and (b) integrated logistics services, including storage, inventory management and other value-added services, trucking and distribution, returns management and various ancillary services mainly outside the Mainland, Hong Kong and Macau
"KLN Services"	(i) delivery and transportation services; (ii) local courier services; (iii) freight services; (iv) freight agency services; (v) insurance brokerage and related services; (vi) catering services and food and beverages trading; and (vii) services relating to management and operation of warehouse facilities (including building management, leasing and licensing management, warrant operations, IT support, human resources, administration and related services, and excluding certain warehouses management services to be provided pursuant to the relevant warehouses management agreements to be entered into by the relevant members of KHL Group and the Group)
"KLN Transaction(s)"	transaction(s) entered into and to be entered into between the Group and SFTS Group with respect to the KLN Logistics Services

DEFINITIONS

“KPL”	Kerry Properties Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 683) and a substantial shareholder of the Company
“Latest Practicable Date”	22 August 2024, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Leased Properties”	the premises of the Relevant KHL Group in Hong Kong leased or to be leased to the Group from time to time, which may include but are not limited to, office premises, staff quarter and warehouses
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Macau”	the Macao Special Administrative Region of the PRC
“Mainland”	the PRC and, for the purpose of this circular, shall exclude Hong Kong, Macau and Taiwan
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules
“Non-exempt CCT Agreements”	collectively, the 2024 KLN Logistics Services Framework Agreement, the 2024 SF Logistics Services Framework Agreement and the 2024 KHL Framework Services Agreement
“PRC”	the People’s Republic of China
“Proposed Annual Caps”	the Proposed KLN Annual Caps, the Proposed SF Annual Caps and the Proposed KHL Annual Caps
“Proposed KHL Annual Cap(s)”	the proposed annual cap(s) on the maximum aggregate amounts payable by the Group to the Relevant KHL Group, and amounts receivable by the Group from the Relevant KHL Group with respect to the transactions contemplated under the 2024 KHL Framework Services Agreement
“Proposed KLN Annual Cap(s)”	the proposed annual cap(s) on the maximum aggregate amounts payable by SFTS Group to the Group for the three years ending 31 December 2027 with respect to the transactions contemplated under the 2024 KLN Logistics Services Framework Agreement

DEFINITIONS

"Proposed SF Annual Cap(s)"	the proposed annual cap(s) on the maximum aggregate amounts payable by the Group to SFTS Group for the three years ending 31 December 2027 with respect to the transactions contemplated under the 2024 SF Logistics Services Framework Agreement
"Relevant KHL Group"	means KHL Group, but for the purposes of the 2024 KHL Framework Services Agreement, excludes KPL and its subsidiaries
"SF Holding"	S.F. Holding Co., Ltd., a joint stock company incorporated in the PRC with limited liability and the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 002352.SZ), and one of the controlling shareholders of the Company
"SF Holding HK"	SF Holding (HK) Limited, an indirect wholly-owned subsidiary of SF Holding
"SF Logistics Services"	(a) the carriage of cargoes by air flight operations through SFTS Group's flight network (comprising scheduled flights and charter flights) and various ancillary services; (b) freight forwarding services, including co-loading of cargoes; (c) express services of (i) collecting and obtaining customs clearance of cargoes and parcels at designated international arrival ports for, and (ii) sorting, distribution and delivery of such cargoes and parcels to, customers of the Group and/or their designated consignees; and (d) integrated logistics services, including storage, inventory management and other value-added services, trucking and distribution, returns management and various ancillary services, primarily within the Mainland, Hong Kong and Macau
"SF Transaction(s)"	transaction(s) entered into and to be entered into between the Group and SFTS Group with respect to the SF Logistics Services
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"SFTS"	Shenzhen S.F. Taisen Holding (Group) Co., Ltd.* (深圳順豐泰森控股(集團)有限公司), a company incorporated in the PRC with limited liability and a connected person of the Company
"SFTS Group"	SFTS and its subsidiaries

DEFINITIONS

"SGM"	the special general meeting of the Company to be held via the e-Meeting System on Thursday, 12 September 2024 at 2:30 p.m., or where the context so admits, any adjournment thereof
"Share(s)"	share(s) of nominal value of HK\$0.50 each of the Company, or, if there has been a subdivision, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary share capital of the Company
"Share Award Scheme"	share aware scheme of the Company
"Shareholder(s)"	holder(s) of any Share(s)
"Shenzhen Mingde"	Shenzhen Mingde Holding Development Co., Ltd., one of the controlling shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"%"	per cent.

* *For identification purpose only*

SPECIAL ARRANGEMENTS FOR THE SGM

All registered Shareholders will be able to join the SGM via the e-Meeting System. The e-Meeting System can be accessed from any location with access to the internet via smartphone, tablet device or computer.

Through the e-Meeting System, registered Shareholders will be able to view the live video broadcast and participate in voting and submit questions online. Login details and information will be included in our letters to registered Shareholders regarding the e-Meeting System which will be despatched on 27 August 2024.

HOW TO ATTEND AND VOTE

Shareholders who wish to attend the SGM and exercise their voting rights can do one of the following:

- (1) attend the SGM via the e-Meeting System which enables live streaming and interactive platform for submitting questions and voting online; or
- (2) appoint the chairman of the SGM or other person(s) as your proxy(ies) by providing their email address(es) for receiving the designated log-in username and password to attend and vote on your behalf via the e-Meeting System.

Your proxy's authority and instruction will be revoked if you attend and vote via the e-Meeting System at the SGM.

If you are a non-registered Shareholder, you may consult directly with your banks, brokers, custodians or Hong Kong Securities Clearing Company Limited (as the case may be) for necessary arrangement to attend and vote via the e-Meeting System at the SGM if you wish.

If you have any questions relating to the SGM, please contact the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, as follows:

Address: 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong

Email: is-enquiries@hk.tricorglobal.com

Telephone: (852) 2980 1333 during business hours from 9:00 a.m. to 6:00 p.m., Monday to Friday, excluding Hong Kong public holidays

LETTER FROM THE BOARD



Kerry Logistics
Network Limited
嘉里物流聯網有限公司

(Incorporated in the British Virgin Islands and continued into Bermuda
as an exempted company with limited liability)

Stock Code 636

Chairman, Non-executive Director:

Mr WANG Wei

Vice Chairman, Non-executive Director:

Mr KUOK Khoon Hua

Executive Directors:

Mr CHEUNG Ping Chuen Vicky (*Chief Executive Officer*)

Mr CHENG Chi Wai

Non-executive Directors:

Mr HO Chit

Ms OOI Bee Ti

Ms CHEN Keren

Independent Non-executive Directors:

Dr CHEUNG Wai Man

Mr LAI Sau Cheong Simon

Mr TAN Chuen Yan Paul

Ms WONG Yu Pok Marina

Registered Office:

Victoria Place, 5th Floor

31 Victoria Street

Hamilton HM 10

Bermuda

*Corporate Headquarters and
Principal Place of Business
in Hong Kong:*

16/F, Kerry Cargo Centre

55 Wing Kei Road

Kwai Chung

New Territories

Hong Kong

27 August 2024

To the Shareholders

Dear Sir or Madam

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER

- (1) THE 2024 KLN LOGISTICS SERVICES FRAMEWORK AGREEMENT;
 - (2) THE 2024 SF LOGISTICS SERVICES FRAMEWORK AGREEMENT; AND
 - (3) THE 2024 KHL FRAMEWORK SERVICES AGREEMENT
- AND
- ### NOTICE OF SPECIAL GENERAL MEETING

1. INTRODUCTION

Reference is made to the Announcement dated 31 July 2024, in relation to, among others, the Non-exempt CCT Agreements.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, *inter alia*, (i) further details of the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps); (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders advising on the terms of the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps); and (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders advising on the terms of the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps), and to give you the notice of the SGM.

2. 2024 KLN LOGISTICS SERVICES FRAMEWORK AGREEMENT

On 31 July 2024 (after trading hours), the Company and SFTS entered into the 2024 KLN Logistics Services Framework Agreement to set out a framework for the provision of the KLN Logistics Services by the Group to SFTS Group. The principal terms of the 2024 KLN Logistics Services Framework Agreement are set out below:

Date

31 July 2024

Parties

- (1) the Company; and
- (2) SFTS.

Term

The 2024 KLN Logistics Services Framework Agreement has a term commencing on 1 January 2025 and will expire on 31 December 2027, unless earlier terminated pursuant to its terms. The 2024 KLN Logistics Services Framework Agreement can be extended for a further term of three years with mutual agreement of the Company and SFTS, subject to the compliance with applicable Listing Rules requirements.

Subject Matter

Pursuant to the 2024 KLN Logistics Services Framework Agreement, the Group has agreed to provide to SFTS Group the KLN Logistics Services as set out below on normal commercial terms or better and on an arm's length basis, or on terms no less favourable than those made available by the Group or to SFTS Group to or from their respective independent third parties:

- (a) international freight forwarding services, including cross-border international cargo carriage services for SFTS Group's cargo and parcels and various ancillary services through the Group's global network; and
- (b) integrated logistics services, including storage, inventory management and other value-added services, trucking and distribution, returns management and various ancillary services mainly outside the Mainland, Hong Kong and Macau.

LETTER FROM THE BOARD

The Group and SFTS Group have entered into and will from time to time enter into individual air waybill(s), invoice(s), receipt(s), or other definitive agreement(s) with respect to the KLN Transactions. Each such agreement contains and will contain only provisions which are in all material respects consistent with the terms of the 2024 KLN Logistics Services Framework Agreement.

Condition Precedent

The 2024 KLN Logistics Services Framework Agreement shall be conditional upon the passing by the Independent Shareholders of an ordinary resolution to approve the 2024 KLN Logistics Services Framework Agreement and the transactions contemplated thereunder at the SGM.

Pricing policy

For each KLN Transaction, the Group shall be entitled to a service fee determined with reference to various factors (as applicable) including but not limited to: (i) weight, volume, value and type of cargo/parcel; (ii) type and availability of cargo/parcel/storage space required; (iii) prevailing cargo tariff and/or fees charged by independent third party carriers, local handling agents and/or service providers for similar services; (iv) cost of providing the KLN Logistics Services; and/or (v) contemporaneous quotations from at least two independent third party providers in respect of similar services or quotations provided by the Group to other independent third parties for similar services.

Payment terms

The Group and the SFTS Group may, from time to time enter into individual definitive agreements pursuant to the terms of the 2024 KLN Logistics Services Framework Agreement to determine the pricing and specific payment terms of the relevant transactions. The specific payment terms may vary based on several factors, mainly including freight or logistics mode, transaction volume, applicable market practice and industry norms. Generally, the services fees shall be payable by cheque payment or bank transfer, with credit period ranging from 30-60 days.

Historical transaction amounts and Proposed KLN Annual Caps

The table below sets out the (i) the historical actual transaction amounts of the KLN Logistics Services; (ii) the historical approved annual caps under the 2022 KLN Logistics Services Framework Agreement; and (iii) the respective utilisation rate of the historical approved annual caps, for each of the two years ended 31 December 2022 and 2023 and the five months ended 31 May 2024:

	Year ended 31 December		Five months ended
	2022	2023	31 May 2024
	(HK\$' million)		
Historical transaction amounts	311.0	301.3	595.0
Historical approved annual caps	531.0	2,340.0	2,931.0
			(for FY2024)
Utilisation rates	58.57%	12.88%	20.30%

LETTER FROM THE BOARD

As illustrated in the table above, the historical actual transaction amounts paid by SFTS Group to the Group for the provision of KLN Logistics Services for the two years ended 31 December 2022 and 2023, and the five months ended 31 May 2024 amounted to approximately HK\$311.0 million, HK\$301.3 million and HK\$595.0 million, respectively, representing a utilisation rate of approximately 58.57%, 12.88% and 20.30% respectively. Should the historical actual transaction amount of the KLN Logistics Services for 5M2024 be annualised, the aggregate fees to be received by the Group for the year ending 31 December 2024 with respect to the KLN Logistics Services are projected to be approximately HK\$1,623.9 million, which represent a utilisation rate of approximately 55% of the relevant historical approved annual cap.

The table below sets out the Proposed KLN Annual Caps:

	Year ending 31 December	
2025	2026	2027
	(HK\$)	
1,960.4 million	2,367.5 million	2,860.1 million

The Proposed KLN Annual Caps have been determined with reference to (i) the historical transaction amounts incurred by the parties; (ii) prevailing market rates charged by independent third parties for providing similar services; and (iii) inflation and expected growth of SFTS Group's demand for the KLN Logistics Services.

Despite a relatively low utilisation rate of approximately 12.9% of the historical annual cap for the year ended 31 December 2023, the aggregate fees to be received by the Group for the year ending 31 December 2024 with respect to the KLN Logistics Services are projected to be approximately HK\$1,623.9 million, which represent approximately 55% of the existing annual cap. The Board foresees that the actual transaction amounts with respect to the provision of KLN Logistics Services for the three years ending 31 December 2027 will continue to increase due to an expected rise in freight volume and demand for KLN Logistics Services from SFTS Group over time which is attributable to the expected growth of SFTS Group's international express and last-mile businesses, as well as the Group's positioning as SFTS Group's preferred service provider for KLN Logistics Services. In the continuing process of coordinating, reorganising and streamlining the logistics operations and resources among the two groups, SFTS Group has been and will be switching to the Group as a preferred service provider for the KLN Logistics Services wherever they consider KLN Logistics Services are competitive and the Group's core competencies.

The table below sets out a breakdown of the components of the Proposed KLN Annual Caps:

	Year ending 31 December		
	2025	2026	2027
	(HK\$' million)		
Amounts receivable by the Group from SFTS Group			
International freight forwarding services income – the Mainland outbound ⁽¹⁾	89	108	130
International freight forwarding services income – the Mainland inbound ⁽²⁾	41	49	59
Ground handling management services income ⁽³⁾	69	83	101
Express delivery services income ⁽⁴⁾	1,610	1,950	2,359
Miscellaneous logistics services income ⁽⁵⁾	129	156	189
Rental fee for Kerry Bangna Logistics Center ⁽⁶⁾	22	22	22
Total	1,960	2,368	2,860

LETTER FROM THE BOARD

Notes:

1. The annual cap for FY2025 is calculated based on (i) historical aggregate transaction amount of approximately HK\$31 million for the cargo flight services provided by the Group to the SFTS Group up to 5M2024; (ii) annualising the figure of approximately HK\$31 million as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% with an additional buffer rate of approximately 10%. An annual incremental rate of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual cap for FY2025 (i.e. approximately HK\$89 million) when setting the annual caps for FY2026 and FY2027 to anticipate any unexpected growth should they arise in such services between the Group and SFTS Group for FY2026 and FY2027 respectively. The Group has applied an annual increment rate of approximately 10% and a buffer rate of approximately 10% to the annual cap for unforeseeable circumstances such as (i) the international freight forwarding services cost for the Mainland outbound and air freight volume for the Mainland outbound is expected to grow by approximately 10% per annum during the period of the Proposed KLN Annual Caps after considering the historical growth trend for 2023 and 2024; (ii) an average inflation rate of Mainland and Hong Kong of approximately 1.8% for the past 5 years; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.
2. The annual cap for FY2025 is calculated based on (i) historical aggregate transaction amount of approximately HK\$14 million for the international freight forwarding services provided by the Group to SFTS Group up to 5M2024; (ii) annualising the figure of approximately HK\$14 million as mentioned in (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual cap for FY2025 (i.e. approximately HK\$41 million) when setting the annual caps for FY2026 and FY2027 to anticipate any unexpected growth should they arise in such services between the Group and SFTS Group for FY2026 and FY2027 respectively. The Group has applied an annual increment rate of approximately 10% and an additional buffer rate of approximately 10% have been taken into consideration in setting the annual cap with the intention to anticipate unforeseeable circumstances such as (i) the international freight forwarding services cost for the Mainland inbound and air freight volume is expected to grow by approximately 10% per annum during after considering the historical growth trend for 2023 and 2024; (ii) the average inflation rate of approximately 3.7% in the United States for the past 5 years; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.
3. The annual cap for FY2025 is calculated based on (i) the historical aggregate transaction amount of approximately HK\$24 million for ground handling cost paid by SFTS up to 5M2024; (ii) the annualising the figure of approximately HK\$24 million as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual cap for FY2025 (i.e. approximately HK\$69 million) when setting the annual caps for FY2026 and FY2027 to anticipate any unexpected growth in such services between the Group and SFTS Group for FY2026 and FY2027 respectively. The Group has applied an annual increment rate of approximately 10% and an additional buffer rate of approximately 10% would also be taken into consideration in setting the annual cap for unforeseeable circumstances such as (i) the annual increment rate, representing the expected growth rate of air freight volume of approximately 10% per annum after considering the historical growth trend for each of 2023 and 2024; (ii) the expected additional staff cost incurred by the Group to take up the service; (iii) the average inflation rate of the United States of approximately 3.7% for the past 5 years; and (iv) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.
4. The annual caps under the express delivery services income for FY2025 is calculated based on (i) the historical aggregate transaction amount with KEX Express (US) LLC. and KEX Express (Canada) Limited for 5M2024; (ii) annualising the figure as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of 10% would then be applied on the annual cap for FY2025 (i.e. approximately HK\$1,610 million) when setting the annual caps for FY2026 and FY2027 to anticipate any unexpected growth should they arise in such services between the Group and SFTS Group for FY2026 and FY2027 respectively. The Group has applied an annual increment rate of approximately 10% and an additional buffer rate of approximately 10% have been taken into consideration in setting the annual cap with the intention to anticipate unforeseeable circumstances such as (a) the seasonality effect during November and December (i.e. peak seasons for festive events) based on the previous experience; (b) any additional demand for related services, inflation and currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances; and (c) the historical aggregate transaction amount with KEX Express (US) LLC. and KEX Express (Canada) Limited was adopted as the basis for setting the annual cap on express delivery services income because these two entities are accounted for the total income generated from these services entirely, subsequent to the disposal of the express delivery services business in Asia Pacific and Europe to SF Holding in the third quarter of 2023.

LETTER FROM THE BOARD

5. The annual cap for FY2025 is calculated based on (i) the historical aggregate transaction amount of approximately HK\$44 million for miscellaneous logistics services provided by the Group to SFTS Group up to 5M2024; (ii) annualising the figure of approximately HK\$44 million as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual cap for FY2025 (i.e. HK\$129 million) when setting the annual caps FY2026 and FY2027 to anticipate any unexpected growth should they arise in such services between the Group and SFTS Group for FY2026 and FY2027 respectively. The Group applied an annual increment rate of approximately 10% and a buffer rate of approximately 10% to the annual cap for unforeseeable circumstances such as (i) a growth rate of approximately 10% with reference to the historical growth trend for 2023 and 2024; (ii) the average inflation rate in the Mainland and Hong Kong of approximately 1.8% for the past 5 years; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.
6. The annual caps under the rental fee are calculated based on the actual monthly rental fee as calculated based on the actual monthly rental fee of approximately HK\$1.8 million. To arrive at the proposed annual cap, the Group has annualised this actual monthly rental fee to a 12 months period, which amounted to approximately HK\$21.6 million.

3. 2024 SF LOGISTICS SERVICES FRAMEWORK AGREEMENT

On 31 July 2024 (after trading hours), the Company and SFTS entered into the 2024 SF Logistics Services Framework Agreement to set out a framework for the provision of the SF Logistics Services by SFTS Group to the Group. The principal terms of the 2024 SF Logistics Services Framework Agreement are set out below:

Date

31 July 2024

Parties

- (1) the Company; and
- (2) SFTS.

Term

The 2024 SF Logistics Services Framework Agreement has a term commencing on 1 January 2025 and will expire on 31 December 2027, unless earlier terminated pursuant to its terms. The 2024 SF Logistics Services Framework Agreement can be extended for a further term of three years with mutual agreement of the Company and SFTS, subject to the compliance with applicable Listing Rules requirements.

Subject Matter

Pursuant to the 2024 SF Logistics Services Framework Agreement, SFTS Group has agreed to provide to the Group the SF Logistics Services as set out below on normal commercial terms or better and on an arm's length basis, or on terms no less favourable than those made available by SFTS Group or to the Group to or from their respective independent third parties:

- (a) the carriage of cargoes by air flight operations through SFTS Group's flight network (comprising scheduled flights and charter flights) and various ancillary services;

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- (b) freight forwarding services, including co-loading of cargoes;
- (c) express services of (i) collecting and obtaining customs clearance of cargoes and parcels at designated international arrival ports for, and (ii) sorting, distribution and delivery of such cargoes and parcels to, customers of the Group and/or their designated consignees; and
- (d) integrated logistics services, including storage, inventory management and other value-added services, trucking and distribution, returns management and various ancillary services, primarily within the Mainland, Hong Kong and Macau.

The Group and SFTS Group have entered into and will from time to time enter into individual air waybill(s), invoice(s), receipt(s), or other definitive agreement(s) with respect to the SF Transactions. Each such agreement contains and will contain only provisions which are in all material respects consistent with the terms of the 2024 SF Logistics Services Framework Agreement.

Condition Precedent

The 2024 SF Logistics Services Framework Agreement shall be conditional upon the passing by the Independent Shareholders of the Company of an ordinary resolution to approve the 2024 SF Logistics Services Framework Agreement and the transactions contemplated thereunder at the SGM.

Pricing policy

For each SF Transaction, the Group shall pay a service fee to SFTS Group determined with reference to various factors (as applicable) including but not limited to: (i) the cargo freight tariff applicable to the relevant flight route as pre-determined by the parties on a quarterly basis with reference to prevailing freight rates charged by independent third party carriers for similar services; (ii) weight, volume, value and type of cargo/parcel; (iii) type and availability of cargo/parcel/storage space required; (iv) prevailing fees chargeable by independent third party local handling agents or service providers for similar services; (v) (in relation to charter flight service) billable flight time; and/or (vi) quotations obtained by the Group from at least two independent third parties.

Payment terms

The Group and the SFTS Group may, from time to time enter into individual definitive agreements pursuant to the terms of the 2024 SF Logistics Services Framework Agreement to determine the pricing and specific payment terms of the relevant transactions. The specific payment terms may vary based on several factors, mainly including freight or logistics mode, transaction volume, applicable market practice and industry norms. Generally, the services fees shall be payable by cheque payment or bank transfer, with credit period ranging from 30-60 days.

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Historical transaction amounts and Proposed SF Annual Caps

The table below sets out the (i) the historical actual transaction amounts of the SF Logistics Services; (ii) the historical approved annual caps under the 2022 SF Logistics Services Framework Agreement; and (iii) the respective utilisation rate of the historical approved annual caps, for each of the two years ended 31 December 2022 and 2023 and the five months ended 31 May 2024:

	Year ended 31 December		Five months ended
	2022	2023	31 May 2024
	(HK\$' million)		
Historical transaction amounts	797.0	911.7	234.2
Historical approved annual caps	1,068.0	4,189.0	5,844.0
			(for FY2024)
Percentage ratio of utilisation rate	74.63%	21.76%	4.01%

As illustrated in the table above, the historical actual transaction amounts paid by the Group to SFTS Group for the provision of SF Logistics Services for the two years ended 31 December 2022 and 2023, and the five months ended 31 May 2024 amounted to approximately HK\$797.0 million, HK\$911.7 million and HK\$234.2 million, respectively, representing a utilisation rate of approximately 74.63%, 21.76% and 4.01%, respectively. Should the historical actual transaction amount of the SF Logistics Services for 5M2024 be annualised, the aggregate fees to be paid by the Group for the year ending 31 December 2024 with respect to the SF Logistics Services are projected to be approximately HK\$562.1 million, which represent a utilisation rate of approximately 9.6% of the relevant historical approved annual cap.

The table below sets out the Proposed SF Annual Caps:

	Year ending 31 December		2027
	2025	2026	
		(HK\$)	
	793.4 million	960.0 million	1,161.6 million

The Proposed SF Annual Caps have been determined with reference to (i) the historical transaction amounts incurred by the parties; (ii) prevailing market rates and forecasted rates that may be charged by independent third parties for similar services; (iii) maximum available cargo/parcel/storage capacity; (iv) (in relation to sale of cargo space) existing flight routes and schedules; and (v) inflation and expected growth of the Group's demand for the SF Logistics Services.

The table below sets out a breakdown of the components of the Proposed SF Annual Caps:

	Year ending 31 December		2027
	2025	2026	
	(HK\$' million)		
Amounts payable by the Group to SFTS Group			
Scheduled flight services cost – the Mainland outbound ⁽¹⁾	514	622	752
Scheduled flight services cost – the Mainland inbound ⁽²⁾	10	12	15
Charter flight services cost ⁽³⁾	79	95	116
Express delivery services cost ⁽⁴⁾	115	140	169
Miscellaneous logistics services cost ⁽⁵⁾	75	91	110
Total	793	960	1,162

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Notes:

1. The annual cap for FY2025 is calculated based on (i) historical aggregate transaction amount of approximately HK\$177 million for the scheduled flight services provided by SFTS Group to the Group up to 5M2024; (ii) annualising the figure of approximately HK\$177 million as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual cap for FY2025 (i.e. approximately HK\$514 million) when setting the annual caps for FY2026 and FY2027 to anticipate any unexpected growth in such services between the Group and SFTS Group for FY2026 and FY2027, respectively. The Group applied an annual increment rate of approximately 10% and an additional buffer rate of approximately 10% would also be taken into consideration in setting the annual caps to anticipate any unforeseeable circumstances should they arise, such as (i) the scheduled flight services cost for the Mainland outbound is expected to grow by approximately 10% per annum during the period of the Proposed SF Annual caps after considering the historical growth trend for 2023 and 2024; (ii) an average inflation rate in Mainland and Hong Kong of approximately 1.8% for the past 5 years; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.
2. The annual cap for FY2025 is calculated based on (i) historical aggregate transaction amount of approximately HK\$3 million for the scheduled flight services provided by SFTS Group to the Group up to 5M2024; (ii) annualising the figure of approximately HK\$3 million as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual caps for FY2025 (i.e. approximately HK\$10 million) when setting the annual caps FY2026 and FY2027 to anticipate any unexpected growth in such services between the Group and SFTS Group for FY2026 and FY2027 respectively. The Group applied an annual increment rate of approximately 10% and an additional buffer rate of approximately 10% to the annual cap for unforeseeable circumstances such as (i) the scheduled flight services cost for the Mainland inbound were expected to grow by approximately 10% per annum during the period of the Proposed SF Annual Caps after considering the historical growth trend for 2023 and 2024; (ii) an average inflation rate in the United States of approximately 3.7% for the past 5 years, which was considered as relevant since the United States market is the second largest revenue contributor to the Group in terms of the geographical segment. With reference to the 2023 Annual Report of the Company, the United States market contributed approximately 26.9% of the Group's turnover in respect of the international freight forwarding services for FY2023; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.
3. The annual cap for FY2025 is calculated based on (i) historical aggregate transaction amount of approximately HK\$27 million for charter flights services up to 5M2024; (ii) annualising the figure of approximately HK\$27 million as mentioned in (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual caps for FY2025 (i.e. approximately HK\$79 million) when setting the annual caps FY2026 and FY2027 to anticipate any unexpected growth in such services between the Group and SFTS Group for FY2026 and FY2027 respectively. The Group applied an annual increment rate of 10% and an additional buffer rate of approximately 10% to the annual cap with the intention to anticipate any unforeseeable circumstances such as (i) the expected growth rate of the existing charter flights with SFTS is 10% after considering the historical growth trend for 2023 and 2024; (ii) an average inflation rate in Mainland and Hong Kong of approximately 1.8% for the past 5 years; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.
4. The annual cap for FY2025 is calculated based on (i) the historical aggregate transaction amount with KEX Express (US) LLC. and KEX Express (Canada) Limited up to 5M2024; (ii) annualising the figure as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual caps for FY2025 (i.e. HK\$115 million) when setting the annual caps FY2026 and FY2027 to anticipate any unexpected growth in such services between the Group and SFTS Group for FY2026 and FY2027 respectively. The Group applied an annual increment rate of approximately 10% and a buffer rate of approximately 10% to the annual cap for unforeseeable circumstances such as (i) the express delivery service costs were expected to grow by approximately 10% per annum during the period of the Proposed SF Annual Caps after considering the historical growth trend for 2023 and 2024; (ii) an average inflation rate of the Mainland and Hong Kong of approximately 1.8% was considered; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.
5. The annual cap for FY2025 is calculated based on (i) the historical aggregate transaction amount of approximately HK\$27 million for miscellaneous logistics services cost up to 5M2024; (ii) annualising the figure mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual caps for FY2025 (i.e.

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approximately HK\$75 million) when setting the annual caps FY2026 and FY2027 to anticipate any unexpected growth in such services between the Group and SFTS Group for FY2026 and FY2027 respectively. The Group applied an annual increment rate of approximately 10% and a buffer rate of approximately 10% to the annual cap to anticipate any unforeseeable circumstances such as (i) the growth rate of approximately 10% with reference to the historical growth trend for 2023 and 2024; (ii) the average inflation rate in the Mainland and Hong Kong of approximately 1.8% for the past 5 years; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.

4. LISTING RULES IMPLICATIONS OF THE 2024 KLN LOGISTICS SERVICES FRAMEWORK AGREEMENT AND THE 2024 SF LOGISTICS SERVICES FRAMEWORK AGREEMENT

SFTS is a wholly-owned subsidiary of SF Holding, which is a controlling shareholder of the Company. SFTS is therefore a connected person of the Company. As such, each of the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement and the transactions contemplated under such agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed KLN Annual Caps exceeds 5%, the 2024 KLN Logistics Services Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed SF Annual Caps exceeds 5%, the 2024 SF Logistics Services Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

5. REASONS FOR AND BENEFITS OF ENTERING INTO THE 2024 KLN LOGISTICS SERVICES FRAMEWORK AGREEMENT AND THE 2024 SF LOGISTICS SERVICES FRAMEWORK AGREEMENT

The Group is principally engaged in the integrated logistics and international freight forwarding businesses. Following the strategic alliance made between the Company and SF Holding since 2021, the Board is of the view that the Group's competitive position in the market will continue to be enhanced by creating synergies with SF Holding through extensive collaborations.

The entering into of the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement will continue to enable the Group and SFTS Group to coordinate and streamline their operations, reconfigure resources and refocus on the services where the Group and SFTS Group have the respective strengths and core competencies, thereby bringing efficiencies of scale to their business operations. By engaging the cargo flight services, express and last-mile fulfilment services, and ancillary logistics services of SFTS Group in the Mainland and, in tandem, providing to SFTS Group increasing international freight forwarding services and integrated logistics business mainly outside of the Mainland, Hong Kong and Macau, the Group is able to (i) leverage on SFTS Group's flight network, infrastructure and resources, thereby reducing administrative costs and allowing it to grow and further expand the scale and geographical coverage of its operations, and (ii) focus on its strategic plans and centre resources on its core business of international freight forwarding and integrated logistics, with an aim to enhancing its overall performance and prospects.

On the basis of the above, the Board considers it beneficial to the Company to enter into the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement, and the transactions contemplated thereunder.

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The Board (including the INEDs whose views are set forth in the "Letter from the Independent Board Committee" in this circular, after considering the advice of the Independent Financial Adviser, and excluding each of Mr WANG Wei, Mr HO Chit and Ms OOI Bee Ti who has abstained from voting on the relevant resolutions approving the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement and the transactions contemplated under such agreements (including the Proposed KLN Annual Caps and the Proposed SF Annual Caps)) is of the view that the entering into of the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement and the transactions contemplated under such agreements are in the ordinary and usual course of business of the Group, on an arm's length basis and on normal commercial terms which are fair and reasonable, and in the interests of the Company and the Shareholders as a whole, and that the Proposed KLN Annual Caps and the Proposed SF Annual Caps are fair and reasonable.

Mr WANG Wei, the chairman of the Board and a non-executive Director, is an executive director, chairman of the board of directors and general manager and controlling shareholder of SF Holding. Mr HO Chit, a non-executive Director, is an executive director, deputy general manager and chief financial officer of SF Holding and he is interested in 122,000 ordinary shares in SF Holding and options granted under the 2022 stock option incentive plan of SF Holding to subscribe for 366,000 ordinary shares in SF Holding (representing approximately 0.01% in the issued share capital of SF Holding). Ms OOI Bee Ti, a non-executive Director, is the head of treasury center of SF Holding and she is interested in 71,400 ordinary shares in SF Holding and options granted under the 2022 stock option incentive plan of SF Holding to subscribe for 204,000 ordinary shares in SF Holding (representing approximately 0.01% in the issued share capital of SF Holding). Each of Mr WANG Wei, Mr HO Chit and Ms OOI Bee Ti therefore abstained from voting on the relevant resolutions of the Board approving the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement and the transactions contemplated under such agreements (including the Proposed KLN Annual Caps and the Proposed SF Annual Caps). Save as disclosed above, none of the other Directors has a material interest in the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement, or was required to abstain from voting on the relevant resolutions of the Board.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, Mr WANG Wei is interested in 931,209,117 Shares indirectly held through SF Holding, which constituted approximately 51.52% of the total number of issued Shares, and SF Holding and its associates will abstain from voting on the resolutions in respect of the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement to be proposed at the SGM.

6. 2024 KHL FRAMEWORK SERVICES AGREEMENT

On 31 July 2024 (after trading hours), the Company and KHL entered into the 2024 KHL Framework Services Agreement to set out a framework for (i) the provision of the KLN Services by the Group to the Relevant KHL Group; and (ii) the provision of the KHL Leases and KHL Services by the Relevant KHL Group to the Group. The principal terms of the 2024 KHL Framework Services Agreement are set out below:

Date

31 July 2024

Parties

- (1) the Company; and
- (2) KHL.

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Term

The 2024 KHL Framework Services Agreement will commence on 16 September 2024, and will expire on 15 September 2027, unless terminated earlier pursuant to its terms. The 2024 KHL Framework Services Agreement can be extended for a further term of three years with the mutual written agreement of the Company and KHL, subject to the compliance with applicable Listing Rules requirements.

Subject Matter

Pursuant to the 2024 KHL Framework Services Agreement:

- (i) the Group agreed to provide in places outside Taiwan the KLN Services to the Relevant KHL Group on normal commercial terms and on an arm's length basis, or on terms no less favourable than those made available to the Relevant KHL Group or by the Group from or to their independent third parties, respectively;
- (ii) the Relevant KHL Group agreed to provide the KHL Leases to the Group on normal commercial terms and on an arm's length basis, or on terms no less favourable than those made available by the Relevant KHL Group or to the Group to or from their independent third parties, respectively; and
- (iii) the Relevant KHL Group agreed to provide the KHL Services in and from Taiwan to the Group on normal commercial terms and on an arm's length basis, or on terms no less favourable than those made available by the Relevant KHL Group or to the Group to or from their independent third parties, respectively.

Individual agreements have been and will from time to time and as required continue to be entered into between the Group and the Relevant KHL Group with respect to specific services covered by the 2024 KHL Framework Services Agreement. Each agreement will set out the specific services requested by the relevant party. These agreements shall only contain provisions which are in all material respects consistent with the guidelines and terms and conditions set out above.

Condition Precedent

The 2024 KHL Framework Services Agreement shall be conditional upon the passing by the Independent Shareholders of the Company of an ordinary resolution to approve the 2024 KHL Framework Services Agreement and the transactions contemplated thereunder at the SGM.

Pricing policies

Pursuant to the 2024 KHL Framework Services Agreement, the pricing of each of the transactions entered into under the 2024 KHL Framework Services Agreement shall be determined by the parties at the time of entry into the relevant agreements for such transactions with reference to the applicable market practice and value, with reference to any relevant rules and regulations being effective at the time.

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With respect to the KLN Services to be provided by the Group to the Relevant KHL Group:

- (i) in relation to logistics and freight services (that are, delivery, transportation, local courier, storage, freight, freight agency, catering services and food and beverages trading), the service fee/price shall be determined by the parties at the time of entry into the relevant subsequent agreements with reference to the weight and type of cargo, mode of shipment, freight rate of the carrier, type of storage space required and the prevailing market service fees charged by independent third party logistics and freight services providers at the relevant time for comparable services;
- (ii) in relation to insurance brokerage and related services, the service fee shall be determined by the parties at the time of entry into the relevant subsequent agreements with reference to the prevailing market insurance brokerage fees charged by independent third party insurance companies at the relevant time for comparable types of insurance; and
- (iii) in relation to services relating to management and operation of warehouse facilities (that is, building management, leasing and licensing management, warrant operations, IT support, human resources, administration and related services), the service fee shall be determined by the parties at the time of entry into the relevant subsequent agreements with reference to the type, size and location of the premises, the relevant party/customers' specific requirements and the prevailing market service fees charged by independent third party warehouse services providers at the relevant time for comparable services.

To ensure that the pricing in respect of the KLN Services are no less favourable than those made available to the Relevant KHL Group or by the Group from or to their respective independent third parties, the Group's finance team will, amongst other things, (i) identify, track and monitor the pricing schedules in respect of the transactions between the Group and independent third parties or the Company's connected persons, respectively; and (ii) communicate with the heads of departments or local business units on a periodic basis and review the terms and pricing policies of the continuing connected transactions to ensure these are conducted in accordance with the established procedures and internal control measures.

With respect to the KHL Leases, the rental shall be determined by the parties at the time of entry into the relevant subsequent agreements with reference to the prevailing market rent offered by independent third parties at the relevant time for comparable properties in the nearby area.

With respect to the KHL Services to be provided by the Relevant KHL Group to the Group:

- (i) in relation to transportation and freight services (that is, land transportation, freight and freight agency services, and other logistics services in and/or from Taiwan), the service fee shall be determined by the parties at the time of entry into the relevant subsequent agreements with reference to the weight and type of cargo, mode of shipment, freight rate of the carrier, type of storage space required and the prevailing market service fees charged by independent third party logistics and freight services providers at the relevant time for comparable services; and

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- (ii) in relation to warehousing services, the service fee shall be determined by the parties at the time of entry into the relevant subsequent agreements with reference to the type, size and location of the premises, the relevant party/customers' specific requirements and the prevailing market service fees charged by independent third party warehouse services providers at the relevant time for comparable services.

Payment terms

The Group and the Relevant KHL Group may, from time to time enter into individual agreements pursuant to the terms of the 2024 KHL Framework Services Agreement to determine the pricing and specific payment terms of the relevant transactions. The specific payment terms may vary based on several factors, mainly including freight or logistics mode, shipment value, customers' reputation, applicable market practice and industry norms. Generally, the services fees shall be payable by cheque payment or bank transfer, with credit period ranging from 45-60 days.

Historical transaction amounts and Proposed KHL Annual Caps

The table below sets out the (i) the historical transaction amounts of the KLN Services, KHL Leases and KHL Services; (ii) the historical approved annual caps under the 2021 KHL Framework Services Agreement; and (iii) the respective utilisation rate of the historical approved annual caps, for the period from 16 September 2021 to 31 December 2021, the two years ended 31 December 2022 and 2023, and the five months ended 31 May 2024:

	16 September 2021 to 31 December 2021	Year ended 31 December 2022	Year ended 31 December 2023	Five months ended 31 May 2024
Historical transaction amounts –				
Aggregated amounts paid by the Group	732.6	400.8	289.2	129.4
Historical approved annual caps	1,863.6	2,162.5	1,062.2	1,149.7
				(for the period from 1 January 2024 to 15 September 2024)
Percentage ratio of utilisation rate	39.3%	18.5%	27.2%	11.3%

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	16 September 2021 to 31 December 2021	Year ended 31 December 2022 2023 (HK\$' million)		Five months ended 31 May 2024
Historical transaction amounts –				
Aggregated amounts received by the				
Group	21.8	34.6	38.7	20.4
Historical approved annual caps	61.8	183.2	232.2	295.9
				(for the period from 1 January 2024 to 15 September 2024)
Percentage ratio of utilisation rate	35.3%	18.9%	16.7%	6.9%

As illustrated above, the historical actual transactions amount paid by the Group to the Relevant KHL Group for the provision of KHL Leases and KHL Services for the period from 16 September 2021 to 31 December 2021, the two years ended 31 December 2022 and 2023, and the five months ended 31 May 2024 amounted to approximately HK\$732.6 million, HK\$400.8 million, HK\$289.2 million and HK\$129.4 million, representing a utilisation rate of approximately 39.3%, 18.5%, 27.2% and 11.3% respectively. Should the historical actual transaction amount of KHL Leases and KHL Services for 5M2024 be annualised, the aggregate fees payable by the Group to the Relevant KHL Group for the period from 1 January 2024 to 15 September 2024 with respect to the provision of the KHL Leases and the KHL Services are projected to be approximately HK\$307 million, which represent approximately 27% of the relevant historical approved annual cap.

On the other hand, the historical actual transaction amount received by the Group from the Relevant KHL Group for the provision of KLN Services for the period from 16 September 2021 to 31 December 2021, the two years ended 31 December 2022 and 2023, and the five months ended 31 May 2024 amounted to approximately HK\$21.8 million, HK\$34.6 million, HK\$38.7 million and HK\$20.4 million, respectively, representing a utilisation rate of approximately 35.3%, 18.9%, 16.7% and 6.9% respectively. Should the historical actual transaction amount of the KLN Services for 5M2024 be annualised, the aggregate fees to be received by the Group from the Relevant KHL Group for the period from 1 January 2024 to 15 September 2024 with respect to the provision of the KLN Services are projected to be approximately HK\$49 million, which represent approximately 17% of the relevant historical approved annual cap.

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The table below sets out the Proposed KHL Annual Caps:

	16 September 2024 to 31 December 2024	Year ending 31 December 2025 (HK\$)	2026	1 January 2027 to 15 September 2027
Aggregated amounts payable by Group	1,019 million	1,018 million	1,054 million	890 million
Aggregated amounts receivable by Group	24 million	98 million	103 million	81 million

The Proposed KHL Annual Caps have been determined with reference to the fees typically charged by independent third party providers for similar services, the total value of the right-of-use assets involved in the leasing of the Leased Properties from the Relevant KHL Group to the Group, as well as factors including (i) historical, current and projected rental for the Leased Properties; (ii) the prevailing and projected market rates for rental and building management fees and fees for comparable properties in the nearby area; (iii) historical, current and projected management fees and fees for operation of warehouse facilities and warehousing services comparable to those to be provided; (iv) historical, current and projected market rates for insurance brokerages and related services for comparable insurance products comparable to those to be provided; (v) historical, current and projected rates on delivery, local courier and freight services comparable to those to be provided; and (vi) inflation and expected expansion and development of the Group's and the Relevant KHL Group' businesses.

The aggregate fees payable by the Group to the Relevant KHL Group for the period from 1 January 2024 to 15 September 2024 with respect to the provision of the KHL Leases and the KHL Services are projected to be approximately HK\$307 million, which represent approximately 27% of the existing annual cap. The Board foresees that the actual transaction amounts with respect to the provision of the KHL Leases and the KHL Services during the term of the 2024 KHL Framework Services Agreement will continue to increase primarily due to (i) an expected increase in the floor area to be leased by the Group from the Relevant KHL Group, in line with the development plans and expected expansion of the Group's businesses; (ii) a projected increment in rental and building management fees; and (iii) an expected increase in demand for KHL Services from the Group over time mainly attributable to the expected growth of the Group's freight forwarding business.

The aggregate fees to be received by the Group from the Relevant KHL Group for the period from 1 January 2024 to 15 September 2024 with respect to the provision of the KLN Services are projected to be approximately HK\$49 million, which represent approximately 17% of the existing annual cap. The Board foresees that the actual transaction amounts with respect to the provision of the KLN Services during the term of the 2024 KHL Framework Services Agreement will continue to increase primarily due to an expected rise in demand for KLN Services from the Relevant KHL Group which is attributable to the expected growth and expansion in the Relevant KHL Group' businesses.

LETTER FROM THE BOARD

The table below sets out a breakdown of the components of the Proposed KHL Annual Caps:

	16 September 2024 to 31 December 2024	Year ending 31 December 2025	2026	1 January 2027 to 15 September 2027
	(HK\$' million)			
Amounts payable by the Group to the Relevant KHL Group:				
Right-of-use assets and rental related expenses in relation to the lease of the Leased Properties (include but are not limited to, office premises, staff quarter and warehouses) to the Group ⁽¹⁾	921	608	624	551
Taiwan business ⁽²⁾	98	410	430	339
	1,019	1,018	1,054	890
Amounts receivable by the Group from the Relevant KHL Group:				
Taiwan business ⁽³⁾	15	60	63	50
Services income ⁽⁴⁾	9	38	40	31
	24	98	103	81

Notes:

- The estimated amount of the right-of-use assets is projected based on (i) historical rental for the Leased Properties for FY2022 and FY2023; (ii) an annual increment rate of approximately 5% in rental and building management fee; and (iii) an expected increase in the floor area to be leased by the Group from the Relevant KHL Group based on the future leasing plan of the management of the Company. The estimated amount of the annual cap is projected based on (a) the estimated market price for the warehouse of Kerry Cargo Centre Limited based on the historical monthly rental related fee; (b) an annual increment rate of approximately 5% in rental and building management fee, which amounted to (i) approximately HK\$20 million per month for the period of 16 September 2024 to 31 December 2024; (ii) approximately HK\$21 million per month for FY2025; (iii) approximately HK\$22.1 million per month for FY2026; and (iv) approximately HK\$23.2 million per month for the period of 1 January 2027 to 15 September 2027 respectively; and (c) an additional annual buffer rate of approximately 30% based on the future leasing plan of the management of the Company.
- The proposed annual caps for amounts payable by the Group to the Relevant KHL Group are projected based on (i) the historical service amount in and/or from Taiwan provided to the Group in FY2022 and FY2023; (ii) an annual increment rate of approximately 5%; and (iii) an additional buffer rate of approximately 30% in connection with any additional demand for related services, potential inflation and currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances. The Board expects that (i) the freight forwarding businesses are expected to grow in price and volume with an increment rate of approximately 15%, with approximately 5% variation due to the floor area from time to time, and (ii) as the historical average growth rate of the logistics and freight service revenue derived from Mainland of China (including Taiwan) in terms of geographical turnover amounted to approximately 17.6% per annum as recorded during the past 5 years from FY2019 to FY2023.
- The proposed annual caps for the amounts receivable by the Group from the Relevant KHL Group are projected based on (i) the estimated monthly service fee of approximately HK\$3.0 million with reference to the historical services amount related to services outside Taiwan provided by the Group to the Relevant KHL Group; (ii) an annual increment rate of approximately 5%; (iii) an additional buffer in connection with any additional demand for related services, potential inflation and currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.
- The proposed annual caps for the period from 16 September 2024 to 31 December 2024, FY2025, FY2026 and for the period from 1 January 2027 to 15 September 2027 were determined based on (i) aforesaid historical services income during the period from 16 September 2021 to the year ended 31 December 2023; and (ii) an annual increment rate of approximately 5%.

7. REASONS FOR AND BENEFITS OF ENTERING INTO THE 2024 KHL FRAMEWORK SERVICES AGREEMENT

The Group operates as a leading logistics service provider principally engaged in the integrated logistics and international freight forwarding businesses in Asia (excluding Taiwan). The Group has been providing logistics services, freight services and related services, such as insurance brokerage to the Relevant KHL Group in places outside Taiwan, and by continuing to provide its services to the Relevant KHL Group, the Group is able to further enhance its operational scale. In relation to the provision of services relating to management and operation of warehouse facilities, the Group can leverage on its existing set-up and resources to generate revenue. On the other hand, KHL Group has been providing, among other businesses, integrated logistics and international freight forwarding services in and from Taiwan, and, the Relevant KHL Group has been providing international freight forwarding agency and related services to the Group and its customers in and from Taiwan where the Group do not have a presence. In addition, the Group has setup and has been operating its businesses in and from the Leased Properties owned by the Relevant KHL Group, and may require to lease additional premises for its business operations due to the continuing growth in the Group's operations in Hong Kong.

The Board considers that on the basis of the above, and due to the long-term relationship between the Group and the Relevant KHL Group, as well as the fact that the Group has been renting the Leased Properties for its daily operations for a long period of time, it is beneficial to the Company to enter into the 2024 KHL Framework Services Agreement as these transactions will (i) facilitate the operation, ensure continuity and growth of the Company's business; and (ii) avoid unnecessary disruptions to the operations of the Group or administration costs and expenses which may otherwise be incurred on relocation to other leased properties.

The Board (including the INEDs who have formed the Independent Board Committee whose views are set forth in the "Letter from the Independent Board Committee" in this circular, after considering the advice of the Independent Financial Adviser, and excluding each of Mr KUOK Khoon Hua and Ms CHEN Keren who has abstained from voting on the relevant resolutions approving the 2024 KHL Framework Services Agreement and the transactions contemplated thereunder (including the Proposed KHL Annual Caps)) is of the view that the entering into of the 2024 KHL Framework Services Agreement and transactions contemplated thereunder are in the ordinary and usual course of business of the Group and are on an arm's length basis and on normal commercial terms which are fair and reasonable, and in the interests of the Company and the Shareholders as a whole, and that the Proposed KHL Annual Cap are fair and reasonable.

Mr KUOK Khoon Hua, the vice chairman and a non-executive Director, is the chairman and a director of KHL, and a director of KGL, and together with his associates hold more than 5% of the shares in KGL. Ms CHEN Keren, a non-executive Director, is the group co-general counsel, the company secretary, the director of corporate services and a shareholder of KGL. Each of Mr KUOK Khoon Hua and Ms CHEN Keren therefore abstained from voting on the relevant resolutions of the Board approving the 2024 KHL Framework Services Agreement and the transactions contemplated thereunder (including the Proposed KHL Annual Caps). Save as disclosed above, none of the other Directors has a material interest in the 2024 KHL Framework Services Agreement, or was required to abstain from voting on the relevant resolutions of the Board.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, Mr KUOK Khoon Hua is interested in 1,732,907 Shares, which constituted approximately 0.1% of the total number of issued Shares, and will abstain from voting on the resolutions in respect of the 2024 KHL Framework Services Agreement to be proposed at the SGM.

8. LISTING RULES IMPLICATIONS OF THE 2024 KHL FRAMEWORK SERVICES AGREEMENT

As KHL is a controlling shareholder of the Company, and therefore a connected person of the Company, the 2024 KHL Framework Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed KHL Annual Caps exceeds 5%, the 2024 KHL Framework Services Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

9. INFORMATION ON THE PARTIES

Information about the Group

The Group operates as a leading logistics service provider in Asia with a highly diversified business portfolio and global presence in 60 countries and territories. Headquartered in Hong Kong, the Group offers a broad range of supply chain solutions from integrated logistics, international freight forwarding (air, ocean, road, rail and multimodal), industrial project logistics, to cross-border e-commerce and infrastructure investment.

Information about SFTS and SF Holding

SFTS is a company incorporated in the PRC with limited liability, and is principally engaged in investments in industrial businesses, investment consulting and other information consulting, supply chain management, asset management, capital management and investment management. SFTS is a wholly-owned subsidiary of SF Holding, which is a leading global integrated logistics services provider. Among other businesses, SFTS Group operates a fleet of freight aircrafts and carries on the business of carriage of cargoes by air flight operations and provides international courier services to carry cargoes, parcels and goods into and out of the PRC.

Information about KHL

KHL is a company incorporated in Hong Kong and is a wholly owned subsidiary of KGL, a controlling shareholder of the Company. KHL is an investment holding company and is a controlling shareholder of KPL, Shangri-La Asia Limited and the Company (all of which are listed on the Main Board of the Stock Exchange).

10. INTERNAL CONTROL MEASURES

The Company has implemented internal control procedures for monitoring, reporting and ensuring that the Group conducts the transactions entered into or to be entered into under the respective Non-exempt CCT Agreements in accordance with the pricing policy and guidelines stated above, and in compliance with the Listing Rules.

LETTER FROM THE BOARD

Prior to agreeing with SFTS Group on:

- (i) the service fees payable in relation to the KLN Logistics Services, the Group will obtain and compare contemporaneous quotations from at least two independent third party providers in respect of similar services or quotations provided by the Group to other independent third parties for similar services. The service fees will be determined by the heads of local business units after taking into consideration such quotations. The entire process will be documented to facilitate the review by the Group's finance team; and
- (ii) in relation to the SF Logistics Services, (a) the cargo freight tariffs applicable to relevant flight routes at the beginning of each financial quarter, the Group will obtain and compare contemporaneous quotations from at least two independent third party carriers for similar services; (b) the rates chargeable for express delivery services at the beginning of each financial quarter, the Group will obtain and compare contemporaneous quotations from at least two independent third party service providers for similar services; and (c) the rates chargeable for integrated logistics services, the Group will obtain and compare contemporaneous quotations from at least two independent third party service providers for similar services. The service fees will be determined by the heads of local business units after taking into consideration such quotations. The entire process will be documented to facilitate the review by the Group's finance team.

Prior to agreeing with Relevant KHL Group on:

- (i) the service fees payable by the Group in relation to the KHL Services, (a) with respect to the Leased Properties, the Group will conduct researches and compare the prevailing market rent offered by at least two independent third parties for comparable properties in the nearby area; (b) in relation to transportation and freight services, the Group will obtain and compare contemporaneous quotations from at least two independent third party logistics and freight services providers for similar services; and (c) in relation to warehousing services, the Group will obtain and compare contemporaneous quotations from at least two independent third party warehouse services providers for similar services; and
- (ii) the service fees payable by the Relevant KHL Group in relation to the KLN Services, (a) in relation to logistics and freight services, the Group will gather information from business departments and finance team, and take into account the historical, current and projected rates charged by at least two other logistics companies providing similar services or compare contemporaneous quotations provided by the Group to other independent third parties for similar services, and will negotiate the terms which is on similar basis as with independent third party logistics and freight services providers for similar services; (b) in relation to insurance brokerage and related services, the Group will obtain and compare contemporaneous quotations from at least two independent third party insurance companies offering similar insurance products, compare their prices with the Company's prices, consider relevant market rates or compare contemporaneous quotations provided by the Group to other independent third parties for similar services, and will negotiate the terms which is on similar basis as with independent third party insurance companies for comparable types of insurance; and (c) in relation to services relating to management and operation of warehouse facilities, the Group will obtain and compare contemporaneous quotations in relation to management fees for operation of warehouse facilities from

LETTER FROM THE BOARD

at least two independent third party warehousing companies providing warehouse facilities of similar sizes and location or compare contemporaneous quotations provided by the Group to other independent third parties for similar services, and will negotiate the terms which is on similar basis as with independent third party warehouse services providers for similar services.

The Company's finance team will (i) monitor the continuing connected transactions by communicating regularly with the regional heads of the finance teams of the Group in respect of the terms and pricing policies of the continuing connected transactions, and collect monthly financial data together with underlying agreements for analysis and reporting; and (ii) review the actual transaction amounts incurred under the continuing connected transactions on a regular basis to ensure that these are conducted in accordance with established procedures and internal controls, to assess the effectiveness of such measures and to report to management where it expects that any of the relevant annual caps will soon be exceeded. If, based on monthly management accounts and management updates, adjustment(s) to the relevant annual cap(s) becomes necessary, or a material change to the terms of any of the framework agreements is required, the Company will re-comply with the relevant Listing Rules requirements.

The INEDs will conduct an annual review of the continuing connected transactions, and confirm the matters required under Rule 14A.55 of the Listing Rules in the Company's subsequent annual reports. Further, the Company will engage external auditors to conduct an annual review of its continuing connected transactions, and to report to the Board on matters required under Rule 14A.56 of the Listing Rules.

11. VOTING BY POLL

All the resolutions set out in the notice of the SGM would be decided by poll in accordance with the Listing Rules and the Company's bye-laws. The chairman of the SGM would explain the detailed procedures for conducting a poll at the commencement of the SGM.

The poll results will be published on the Company's website at www.kln.com and the Stock Exchange's website at www.hkexnews.hk after the conclusion of the SGM.

12. SGM

The SGM will be held via the e-Meeting System on Thursday, 12 September 2024 at 2:30 p.m., or where the context so admits, any adjournment thereof for considering and, if thought fit, approving the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps).

Notice of the SGM is set out on pages 77 to 79 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the meeting via the e-Meeting System, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, or submit it via the designated URL (<https://spot-emeeting.tricor.hk/#/636>) by using the log-in username and password provided on the notification letter sent by the Company, not less than 48 hours before the time appointed for holding the SGM, i.e. by no later than 2:30 p.m. on Tuesday, 10 September 2024. Completion and return of the form of proxy will not prevent you from attending and voting via the e-Meeting System at the SGM if you so wish.

LETTER FROM THE BOARD

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, (i) SF Holding and its associate(s) are interested in 931,209,117 Shares, which constituted approximately 51.52% of the total number of issued Shares; and (ii) KHL and its associate(s), together with Mr KUOK Khoon Hua are interested in 584,316,015 Shares, which constituted approximately 32.33% of the total number of issued Shares. Save for (i) SF Holding and its associate(s) who will abstain from voting on the resolutions in respect of the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement to be proposed at the SGM; and (ii) KHL and its associate(s), together with Mr KUOK Khoon Hua who will abstain from voting on the resolutions in respect of the 2024 KHL Framework Services Agreement to be proposed at the SGM, to the best knowledge of the Company having made all reasonable enquiries, no other Shareholder is materially interested in the respective Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps) and was required to abstain from voting at the SGM.

13. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors (namely, Dr CHEUNG Wai Man, Mr LAI Sau Cheong Simon, Mr TAN Chuen Yan Paul and Ms WONG Yu Pok Marina) has been formed to advise the Independent Shareholders, and China Sunrise has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders, in relation to the terms of the Non-exempt CCT Agreements, the transactions contemplated under such agreements and the Proposed Annual Caps.

14. RECOMMENDATION

Your attention is drawn to (i) the letter of advice from the Independent Board Committee to the Independent Shareholders advising on the terms of the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps) and (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders advising on the terms of the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps).

The Board (including the INEDs whose views are set forth in the “Letter from the Independent Board Committee” in this circular, after considering the advice of the Independent Financial Adviser, and excluding (i) each of Mr WANG Wei, Mr HO Chit and Ms OOI Bee Ti who has abstained from voting on the relevant resolutions approving the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement and the transactions contemplated under such agreements (including the Proposed KLN Annual Caps and the Proposed SF Annual Caps), and (ii) each of Mr KUOK Khoon Hua and Ms CHEN Keren who has abstained from voting on the relevant resolutions approving the 2024 KHL Framework Services Agreement and the transactions contemplated thereunder (including the Proposed KHL Annual Caps)) is of the view that the entering into of the Non-exempt CCT Agreements and the transactions contemplated under such agreements are in the ordinary and usual course of business of the Group, on normal commercial terms which are fair and reasonable, and in the interests of the Company and the Shareholders as a whole, and that the Proposed Annual Caps are fair and reasonable. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of all resolutions to be proposed at the SGM.

LETTER FROM THE BOARD

15. ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of
Kerry Logistics Network Limited
WANG Wei
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee to the Independent Shareholders in respect of the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps) for inclusion in this circular.



Kerry Logistics
Network Limited
嘉里物流聯網有限公司

(Incorporated in the British Virgin Islands and continued into Bermuda
as an exempted company with limited liability)

Stock Code 636

27 August 2024

To the Independent Shareholders

Dear Sir or Madam

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER

- (1) THE 2024 KLN LOGISTICS SERVICES FRAMEWORK AGREEMENT;**
- (2) THE 2024 SF LOGISTICS SERVICES FRAMEWORK AGREEMENT; AND**
- (3) THE 2024 KHL FRAMEWORK SERVICES AGREEMENT**

We refer to the circular issued by the Company to its Shareholders dated 27 August 2024 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to form an independent board committee to consider and advise you as to whether (i) the terms of the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps) are fair and reasonable, and on normal commercial terms, and (ii) the entering into of the Non-exempt CCT Agreements and the transactions contemplated under such agreements are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and as to voting. China Sunrise has been appointed to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board as set out on pages 9 to 31 of the Circular, and a letter of advice from the Independent Financial Adviser as set out on pages 34 to 70 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps), the advice and recommendation from the Independent Financial Adviser and the relevant information contained in the letter from the Board, we are of the opinion that (i) the terms of the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps) are fair and reasonable, and on normal commercial terms, and (ii) the entering into of the Non-exempt CCT Agreements and the transactions contemplated under such agreements are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of all the resolutions to be proposed at the SGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

CHEUNG Wai Man

LAI Sau Cheong Simon

TAN Chuen Yan Paul

WONG Yu Pok Marina

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set Out below is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt CCT Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps) for the purpose of inclusion in this circular.



CHINA SUNRISE CAPITAL LIMITED

Unit 4513, 45th Floor
The Center
99 Queen's Road Central
Hong Kong

27 August 2024

To: *The Independent Board Committee and the Independent Shareholders of Kerry Logistics Network Limited*

Dear Sirs or Madams,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER

- (1) THE 2024 KLN LOGISTICS SERVICES FRAMEWORK AGREEMENT;**
- (2) THE 2024 SF LOGISTICS SERVICES FRAMEWORK AGREEMENT; AND**
- (3) THE 2024 KHL FRAMEWORK SERVICES AGREEMENT**

INTRODUCTION

We refer to our appointment by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Non-exempt CCT Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps) (the **"Continuing Connected Transactions"**), details of which are set out in the letter from the Board (the **"Letter from the Board"**) contained in the **circular** of the Company to the Shareholders dated 27 August 2024 (the **"Circular"**), of which this letter (the **"Letter"**) forms part. Capitalised terms used in this Letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

As stated in the Letter from the Board, reference is made to (i) the announcements of the Company dated 28 June 2022, 29 July 2022, 28 October 2022 and the circular of the Company dated 18 November 2022 in relation to, amongst other things, the 2022 KLN Logistics Services Framework Agreement and the 2022 SF Logistics Services Framework Agreement which are due to expire on 31 December 2024; and (ii) the announcement of the Company dated 25 March 2021 and the circular of the Company dated 3 May 2021 in relation to, amongst other things, the 2021 KHL Framework Services Agreement which are due to expire on 3 October 2024 and 15 September 2024, respectively. Therefore, on 31 July 2024 (after trading hours), the Company and SFTS entered into (a) the 2024 KLN Logistics Services Framework Agreement, pursuant to which the Group has agreed to provide to SFTS Group the KLN Logistics Services on normal commercial terms or better and on an arm's length basis, or on terms no less favourable than those made available by the Group or to SFTS Group to or from their respective independent third parties. The 2024 KLN Logistics Services Framework Agreement has a term commencing on 1 January 2025 and will expire on 31 December 2027, unless earlier terminated pursuant to its terms. The 2024 KLN Logistics Services Framework

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Agreement can be extended for a further term of three years with mutual agreement of the Company and SFTS; and (b) the 2024 SF Logistics Services Framework Agreement, pursuant to which SFTS Group has agreed to provide to the Group the SF Logistics Services on normal commercial terms or better and on an arm's length basis, or on terms no less favourable than those made available by SFTS Group or to the Group to or from their respective independent third parties. The 2024 SF Logistics Services Framework Agreement has a term commencing on 1 January 2025 and will expire on 31 December 2027, unless earlier terminated pursuant to its terms. The 2024 SF Logistics Services Framework Agreement can be extended for a further term of three years with mutual agreement of the Company and SFTS.

In addition, on 31 July 2024 (after trading hours), the Company and KHL entered into the 2024 KHL Framework Services Agreement, pursuant to which (i) the Group agreed to provide in places outside Taiwan the KLN Services to the Relevant KHL Group on normal commercial terms and on an arm's length basis, or on terms no less favourable than made those available to the Relevant KHL Group or by the Group from or to independent third parties, respectively; (ii) the Relevant KHL Group agreed to provide the KHL Leases to the Group on normal commercial terms and on an arm's length basis, or on terms no less favourable than those made available by the Relevant KHL Group or to the Group to or from independent third parties, respectively; and (iii) the Relevant KHL Group agreed to provide the KHL Services in and from Taiwan to the Group on normal commercial terms and on an arm's length basis, or on terms no less favourable than those made available by the Relevant KHL Group or to the Group to or independent third parties, respectively. The 2024 KHL Framework Services Agreement will commence on 16 September 2024, and will expire on 15 September 2027, unless terminated earlier pursuant to its terms. The 2024 KHL Framework Services Agreement can be extended for a further term of three years with the mutual written agreement of the Company and KHL.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, SFTS is a wholly-owned subsidiary of SF Holding, which is a controlling shareholder of the Company. SFTS is therefore a connected person of the Company. As such, each of the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement and the transactions contemplated under such agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Furthermore, as KHL is a controlling shareholder of the Company, and therefore a connected person of the Company, the 2024 KHL Framework Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratio(s) in respect of (i) the Proposed KLN Annual Caps exceeds 5%; (ii) the Proposed SF Annual Caps exceeds 5%; and (iii) the Proposed KHL Annual Caps exceeds 5%, the respective transactions contemplated under the Non-exempt CCT Agreements (including the Proposed Annual Caps) are subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, (i) SF Holding and its associate(s) are interested in 931,209,117 Shares, which constituted approximately 51.52% of the total number of issued Shares; and (ii) KHL and its associate(s), together with Mr. KUOK Khoon Hua are interested in 584,316,015 Shares, which constituted approximately 32.33% of the total number of issued Shares. Save for (i) SF Holding and its associate(s) who will abstain from voting on the resolutions in respect of the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement to be proposed at the SGM; and (ii) KHL and its associate(s), together with Mr. KUOK Khoon Hua who will abstain from voting on the resolutions in respect of the 2024 KHL Framework Services Agreement to be proposed at the SGM, to the best knowledge of the Company having made all reasonable enquiries, no other Shareholder is materially interested in the respective Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps) and was required to abstain from voting at the SGM.

Mr. WANG Wei, the chairman of the Board and a non-executive Director, is an executive director, chairman of the board of directors and general manager and controlling shareholder of SF Holding. Mr. HO Chit, a non-executive Director, is an executive director, deputy general manager and chief financial officer of SF Holding and he is interested in 122,000 ordinary shares in SF Holding and options granted under the 2022 stock option incentive plan of SF Holding to subscribe for 366,000 ordinary shares in S.F. Holding (representing approximately 0.01% in the issued share capital of S.F. Holding). Ms. OOI Bee Ti, a non-executive Director, is the head of treasury center of SF Holding and she is interested in 71,400 ordinary shares in SF Holding and options granted under the 2022 stock option incentive plan of SF Holding to subscribe for 204,000 ordinary shares in SF Holding (representing approximately 0.01% in the issued share capital of SF Holding). Each of Mr. WANG Wei, Mr. HO Chit and Ms. OOI Bee Ti therefore abstained from voting on the relevant resolutions of the Board approving the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement and the transactions contemplated under such agreements (including the Proposed KLN Annual Caps and the Proposed SF Annual Caps). Save as disclosed above, none of the other Directors has a material interest in the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement, or was required to abstain from voting on the relevant resolutions of the Board. Mr. KUOK Khoon Hua, the vice chairman and a non-executive Director, is the chairman and a director of KHL, and a director of KGL, and together with his associates hold more than 5% of the shares in KGL. Ms CHEN Keren, a non-executive Director, is the group co-general counsel, the company secretary, the director of corporate services and a shareholder of KGL. Each of Mr. KUOK Khoon Hua and Ms. CHEN Keren therefore abstained from voting on the relevant resolutions of the Board approving the 2024 KHL Framework Services Agreement and the transactions contemplated thereunder (including the Proposed KHL Annual Caps). Save as disclosed above, none of the other Directors has a material interest in the 2024 KHL Framework Services Agreement, or was required to abstain from voting on the relevant resolutions of the Board.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, (i) Mr. WANG Wei is interested in 931,209,117 Shares indirectly held through SF Holding, which constituted approximately 51.52% of the total number of issued Shares, and SF Holding and its associates will abstain from voting on the resolutions in respect of the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement to be proposed at the SGM.; and (ii) Mr. KUOK Khoo Hua is interested in 1,732,907 Shares, which constituted approximately 0.1% of the total number of issued Shares, and will abstain from voting on the resolutions in respect of the 2024 KHL Framework Services Agreement to be proposed at the SGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Dr. CHEUNG Wai Man, Mr. LAI Sau Cheong Simon, Mr. TAN Chuen Yan Paul and Ms. WONG Yu Pok Marina, being all the INEDs, was established to consider the terms of the Non-exempt CCT Agreements and the transactions contemplated under such agreements (including the Proposed Annual Caps), and to advise the Independent Shareholders on whether such agreements are in the interests of the Company and the Shareholders as a whole and whether the terms of such agreements are on an arm's length basis and on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. None of them have any material interests in the proposed 2024 CCT Agreements.

We, China Sunrise Capital Limited ("**China Sunrise**"), have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee pursuant to the Rule 13.84 of the Listing Rules.

INDEPENDENCE OF CHINA SUNRISE

Save for this appointment as the Independent Financial Adviser to provide our independent advice on the Non-exempt CCT Agreements and the transactions contemplated thereunder, as at the Latest Practicable Date, China Sunrise did not have any other relationship or connection, financial or otherwise, with or interests in the Group, SF Holding, the SFTS Group, KHL, the Directors, chief executive or substantial Shareholders of the Company or other parties that could reasonably be regarded as relevant to our independence. During the past two years immediately prior to the Latest Practicable Date, save for the appointment as the Independent Financial Adviser in connection with the Non-exempt CCT Agreements and the transactions contemplated thereunder, there was no engagement between the Group and China Sunrise Capital.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we have received any fees or benefits from the Group, or the Directors, chief executive or substantial Shareholders of the Company, SF Holding, the SFTS Group, KHL or any of their respective associates, and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the Continuing Connected Transactions under Rule 13.84 of the Listing Rules.

BASIS OF OUR ADVICE

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the truth, accuracy and completeness of the statements, information, facts, representations and opinions contained or referred to in this Circular, provided and made to us by the Directors and the management of the Group (collectively, the “**Management**”), the Company, and its advisers. We have reviewed, amongst other things:

- (i) the 2024 KLN Logistics Services Framework Agreement;
- (ii) the 2024 SF Logistics Services Framework Agreement;
- (iii) the 2024 KHL Framework Services Agreement;
- (iv) the Company’s annual report for the financial year ended 31 December (“FY”) 2023 (the “**2023 Annual Report**”); and
- (v) other information, representations and opinions as contained or referred to in this Circular.

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this Circular or this Circular misleading. We have also sought and received confirmation from the Directors that no material information or facts have been omitted from the information and facts provided to us and the representations made and opinions expressed by them are not misleading or deceptive in any material respect. We have no reason to suspect that any material information or facts have been omitted or withheld nor to doubt the truth, accuracy or completeness of the information and facts contained in this Circular or provided to us, or the reasonableness of the opinions expressed by the Management, the Company, and its advisers, which have been provided to us.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for us to formulate our advice as set out in this Letter. We have assumed that all statements, information, facts, representations and opinions contained or referred to in this Circular and/or those provided to us by the Management, the Company and its advisers, for which they are solely and wholly responsible, have been reasonably made after due enquiries and careful consideration and are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were provided or made and will continue to be so in all material respect up to the date of the SGM.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of this Circular, save and except for this Letter.

We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the businesses, affairs, operations, financial position or future prospects of the Group.

Our advice is necessarily based on the prevailing financial, economic, market and other conditions and the information made available to us as at the Latest Practicable Date. Where information in this Letter has been extracted from published or otherwise publicly available sources, the sole responsibility of ours is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not used out of context.

This Letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the matters relating to the Continuing Connected Transactions. Except for its inclusion in this Circular, this Letter is not to be quoted or referred to, in whole or in part, nor shall this Letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion and recommendations in respect of the Continuing Connected Transactions to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

1. Information of the parties

The Group

The Group operates as a leading logistics service provider in Asia with a highly diversified business portfolio and global presence in 60 countries and territories. Headquartered in Hong Kong, the Group offers a broad range of supply chain solutions from integrated logistics, international freight forwarding (air, ocean, road, rail and multimodal), industrial project logistics, to cross-border e-commerce, last-mile fulfilment and infrastructure investment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 1: Highlights of the financial results of the Group

	Audited	
	FY2023	FY2022
	(HK\$'000)	(HK\$'000)
		(restated)
Continuing operations		
Revenue	47,407,559	82,329,565
– Integrated logistics	14,280,309	14,809,282
– International freight forwarding	33,127,250	67,520,283
Gross profit	4,901,156	8,774,371
Profit attributable to the Shareholders	791,165	3,579,191
– Continuing operations	1,209,818	3,959,459
– Discontinued operations ^(Note)	(418,653)	(380,268)

Source: 2023 Annual Report

Note: The Company announced on 29 December 2023 for a conditional declaration of special interim dividend by way of a distribution in species of all its shares held in Kerry Express (Thailand) Public Company Limited ("**Kerry Express Thailand**"), which constituted discontinued operations. The completion of the distribution took place on 26 March 2024. Upon completion of the distribution, the Company would no longer hold any shares of Kerry Express Thailand and Kerry Express Thailand would cease to be an indirect subsidiary of the Company.

FY2023 vs FY2022

During FY2023, the Group recorded revenue of approximately HK\$47,408 million, representing a decrease of approximately 42.4% from approximately HK\$82,330 million for FY2022. Such decrease in revenue was primarily attributable to the significant decline in revenue generated from the international freight forwarding segment from approximately HK\$67,520 million for FY2022, by approximately 50.9% as compared to approximately HK\$33,127 million for FY2023, which is mainly due to excess inventories, subdued purchasing power and stagnant export growth, particularly in Asia. Gross profit decreased by approximately 44.1% to approximately HK\$4,901 million for FY2023 from approximately HK\$8,774 million for FY2022 which is in line with the decline of revenue during the corresponding period.

The Group recorded profit attributable to the Shareholders from continuing operation of approximately HK\$1,210 million for FY2023, representing a decrease of approximately 69.4% from approximately HK\$3,959.5 million for FY2022. The significant decrease in profit attributable to the Shareholders from continuing operation was also mainly attributable to the diminish in international freight forwarding segment which recorded an approximate of 70.5% decrease in segment profit as compared to FY2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 2: Highlights of the financial positions of the Group

	Audited	
	As at 31 December	
	2023	2022
	(HK\$'000)	(HK\$'000)
		(restated)
Non-current assets	20,699,473	21,432,599
Current assets	21,421,442	23,901,474
Non-current liabilities	7,358,856	8,939,240
Current liabilities	14,654,800	15,145,128
Net asset value (" NAV ") attributable to the Shareholders	16,812,279	18,429,094

Source: 2023 Annual Report

As at 31 December 2023, the total assets of the Group amounted to approximately HK\$42,121 million, registering a moderate decrease of approximately 7.1% from approximately HK\$45,334 million as at 31 December 2022. Such decrease was mainly attributable to: (i) the decrease in accounts receivable, prepayments and deposits of approximately HK\$1,486 million or 11.1%; and (ii) the reduction in cash at bank and in hand of approximately HK\$2,719 million or 29.4%. On the other hand, the total liabilities of the Group amounted to approximately HK\$22,014 million as at 31 December 2023, recorded a moderate decrease of approximately 8.6% from approximately HK\$24,084 million as at 31 December 2022. Such decrease was mainly attributable to: (a) the drop in accounts payable, deposits received and accrued charges of approximately HK\$2,286 million or 21.4%; and (b) the decrease in long-term bank loans of approximately HK\$1,351 million or 20.5%.

Given the movements of the total assets and total liabilities of the Group highlighted above, the NAV attributable to the Shareholders decreased from approximately HK\$18,429 million as at 31 December 2022 to approximately HK\$16,812 million as at 31 December 2023, representing a mild decrease of approximately 8.8%.

SFTS

SFTS is a company incorporated in the PRC with limited liability, and is principally engaged in investments in industrial businesses, investment consulting and other information consulting, supply chain management, asset management, capital management and investment management. SFTS is a wholly-owned subsidiary of SF Holding, which is a leading global integrated logistics services provider. Among other businesses, SFTS Group operates a fleet of freight aircrafts and carries on the business of carriage of cargoes by air flight operations and provides international courier services to carry cargoes, parcels and goods into and out of the PRC.

KHL

KHL is a company incorporated in Hong Kong and is a wholly owned subsidiary of Kerry Group Limited, a controlling shareholder of the Company. KHL is an investment holding company and is a controlling shareholder of KPL, Shangri-La Asia Limited and the Company (all of which are listed on the Main Board of the Stock Exchange).

2. Industry outlook and prospects of the Group

The global economy remains remarkably resilient, with growth holding steady as inflation returns to target. According to the report titled "World Economic Outlook" ("**World Economic Outlook**") published by the International Monetary Fund ("**IMF**") in April 2024, economic activity was surprisingly resilient through the global disinflation of 2022 to 2023. As global inflation descended from its mid-2022 peak, economic activity grew steadily, defying warnings of stagflation and global recession. Growth in employment and incomes held steady, reflecting supportive demand developments, including greater than expected government spending and household consumption and a supply-side expansion amid, notably, an unanticipated boost to labor force participation. The unexpected economic resilience, despite significant central bank interest rate hikes aimed at restoring price stability, also reflects the ability of households in major advanced economies to draw on substantial savings accumulated during the COVID-19 pandemic ("**Pandemic**"). As stated in the World Economic Outlook, the annual percentage growth of the world's total gross domestic product ("**GDP**") was estimated to be approximately 3.2% during both 2024 and 2025 respectively and in particular, the growth of GDP of advanced economies and emerging and developing Asia was estimated to reach approximately 1.8% (2024: estimated to be approximately 1.7%) and approximately 4.9% (2024: estimated to be approximately 5.2%) respectively in 2025. Among the emerging and developing Asia, the Mainland recorded a GDP growth of approximately 4.1% in 2025 (2024: estimated to be approximately 4.6%). In respect of the advanced economies, United States was estimated to record a GDP of approximately 2.7% and 1.9% in 2024 and 2025 respectively. As a result, these major economies, being the key geographical area of the Group are expected to remain in a stable trend going forward. The IMF further forecasted the global inflation to decline steadily, from approximately 6.8% in 2023 to approximately 5.9% in 2024 and further down to approximately 4.5% in 2025, with advanced economies returning to their inflation targets sooner than emerging market and developing economies. Core inflation is generally projected to decline more gradually.

According to the report titled "Global Trade Update" published by the United Nations Conference on Trade and Development ("**UNCTAD**") in July 2024 (the "**UNCTAD Report**"). As stated in the UNCTAD Report, the current global trade trends have turned positive, with goods trade increasing by around 1% quarter over quarter in the first quarter of 2024. Services trade grew at approximately 1.5% quarter over quarter. The UNCTAD nowcast predicts a stronger positive trend for the second quarter of 2024, projecting an approximate 2% increase for the first half of 2024. The increase is expected to add around US\$250 billion to goods trade and about US\$100 billion to services trade in the first half of 2024 compared to the second half of 2023. The most relevant factors influencing global trade in 2024 include, among others: (i) positive economic growth but with significant disparities; (ii) increase demand for green energy products and artificial intelligence related computers; (iii) increase in subsidies and trade restrictive measures; (iv) strong demand for container shipping but subsiding for raw materials; (v) lengthening of supply chains; and (vi) prospects of interest rate cuts in the United States.

According to the 2023 Annual Report, the Company stated that for the global logistics industry, while growth stalled due to overstocking, weak demand and excess freight capacity, both freight rates and volume saw a slight rebound as the market continued to normalise gradually. Despite a tough market, new opportunities emerged amid changing consumer demands and the reshuffle of global supply chains. The Group was able to turn challenges with viable and cost-effective alternatives to keep their cargoes moving and delivered. The Group's overall performance in 2023 was in line with expectations and on par with global peers.

3. Reasons for and benefits of entering into the Non-exempt CCT Agreements

2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement

As stated in the Letter from the Board, the Group is principally engaged in the integrated logistics and international freight forwarding businesses. Following the strategic alliance made between the Company and SF Holding since 2021, the Board is of the view that the Group's competitive position in the market will continue to be enhanced by creating synergies with SF Holding through extensive collaborations. The entering into of the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement will continue to enable the Group and SFTS Group to coordinate and streamline their operations, reconfigure resources and refocus on the services where the Group and SFTS Group have the respective strengths and core competences, thereby bringing efficiencies of scale to their business operations. By engaging the cargo flight services, express and last-mile fulfilment services, and ancillary logistics services of SFTS Group in the Mainland and, in tandem, providing to SFTS Group increasing international freight forwarding services and integrated logistics business mainly outside of the Mainland, Hong Kong and Macau, the Group is able to (i) leverage on SFTS Group's flight network, infrastructure and resources, thereby reducing administrative costs and allowing it to grow and further expand the scale and geographical coverage of its operations; and (ii) focus on its strategic plans and centre resources on its core business of international freight forwarding and integrated logistics, with an aim to enhancing its overall performance and prospects.

2024 KHL Framework Services Agreement

As stated in the Letter from the Board, the Group operates as a leading logistics service provider principally engaged in the integrated logistics and international freight forwarding businesses in Asia (excluding Taiwan). The Group has been providing logistics services, freight services and related services, such as insurance brokerage to the Relevant KHL Group in places outside Taiwan, and by continuing to provide its services to the Relevant KHL Group, the Group is able to further enhance its operational scale. In relation to the provision of services relating to management and operation of warehouse facilities, the Group can leverage on its existing set-up and resources to generate revenue. On the other hand, KHL Group has been providing, among other businesses, integrated logistics and international freight forwarding services in and from Taiwan, and, the Relevant KHL Group has been providing international freight forwarding agency and related services to the Group and its customers in and from Taiwan where the Group do not have a presence. In addition, the Group has setup and has been operating its businesses in and from the Leased Premises owned by the Relevant KHL Group, and may require to lease additional premises for its business operations due to the continuing growth in the Group's operations in Hong Kong. The Board considers that on the basis of the above, and due to the long-term relationship between the Group and the Relevant KHL Group, as well as the fact that the Group has been renting the Leased Premises for its daily operations for a long period of time, it is beneficial to the Company to enter into the 2024 KHL Framework Services Agreement as these transactions will (i) facilitate the operation, ensure continuity and growth of the Company's business; and (ii) avoid unnecessary disruptions to the operations of the Group or administration costs and expenses which may otherwise be incurred on relocation to other leased properties.

Having considered that (i) the Continuing Connected Transactions are recurring in nature and similar transactions have been taking place in the past years in the ordinary and usual course of business of the Group; (ii) as stated in the section headed "2. Industry outlook and prospect of the Group", despite all the tough market condition

involved in the global logistics industry and new opportunities would emerge amid changing consumer demands and the reshuffle of global supply chains; (iii) the Group's internal control procedures to be discussed below under the section headed "6. Internal control procedures and review of the Continuing Connected Transactions"; and (iv) the continuing business integration with respect to the international freight forwarding businesses and international express delivery services between the Group and SFTS Group, the former of which will remain as the growth driver of the Group going forward, we are of the view that the entering into of the Non-exempt CCT Agreements are in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Non-exempt CCT Agreements

2024 KLN LOGISTICS SERVICES FRAMEWORK AGREEMENT

On 31 July 2024 (after trading hours), the Company and SFTS entered into the 2024 KLN Logistics Services Framework Agreement to set out a framework for the provision of the KLN Logistics Services by the Group to SFTS Group. The principal terms of the 2024 KLN Logistics Services Framework Agreement are set out below:

Date

31 July 2024

Parties

- (i) the Company; and
- (ii) SFTS.

Term

The 2024 KLN Logistics Services Framework Agreement has a term commencing on 1 January 2025 and will expire on 31 December 2027, unless earlier terminated pursuant to its terms. The 2024 KLN Logistics Services Framework Agreement can be extended for a further term of three years with mutual agreement of the Company and SFTS, subject to the compliance with applicable Listing Rules requirements.

Subject Matter

Pursuant to the 2024 KLN Logistics Services Framework Agreement, the Group has agreed to provide to SFTS Group the KLN Logistics Services as set out below on normal commercial terms or better and on an arm's length basis, or on terms no less favourable than those made available by the Group or to SFTS Group to or from their respective independent third parties:

- (a) international freight forwarding services, including cross-border international cargo carriage services for SFTS Group's cargo and parcels and various ancillary services through the Group's global network; and
- (b) integrated logistics services, including storage, inventory management and other value-added services, trucking and distribution, returns management and various ancillary services mainly outside the Mainland, Hong Kong and Macau.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group and SFTS Group have entered into and will from time to time enter into individual air waybill(s), invoice(s), receipt(s), or other definitive agreement(s) with respect to the KLN Transactions. Each such agreement contains and will contain only provisions which are in all material respects consistent with the terms of the 2024 KLN Logistics Services Framework Agreement.

Condition Precedent

The 2024 KLN Logistics Services Framework Agreement shall be conditional upon the passing by the Independent Shareholders of an ordinary resolution to approve the 2024 KLN Logistics Services Framework Agreement and the transactions contemplated thereunder at the SGM as may be required pursuant to Chapter 14A of the Listing Rules.

Pricing policy

For each KLN Transaction, the Group shall be entitled to a service fee determined with reference to various factors (as applicable) including but not limited to: (i) weight, volume, value and type of cargo/parcel; (ii) type and availability of cargo/parcel/storage space required; (iii) prevailing cargo tariff and/or fees charged by independent third party carriers, local handling agents and/or service providers for similar services; (iv) cost of providing the KLN Logistics Services; and/or (v) contemporaneous quotations from at least two independent third party providers in respect of similar services or quotations provided by the Group to other independent third parties for similar services.

Payment terms

The Group and the SFTS Group may, from time to time enter into individual definitive agreements pursuant to the terms of the 2024 KLN Logistics Services Framework Agreement to determine the pricing and specific payment terms of the relevant transactions. The specific payment terms may vary based on several factors, mainly including freight or logistics mode, transaction volume, applicable market practice and industry norms. Generally, the services fees shall be payable by cheque payment or bank transfer, with credit period ranging from 30-60 days.

2024 SF LOGISTICS SERVICES FRAMEWORK AGREEMENT

On 31 July 2024 (after trading hours), the Company and SFTS entered into the 2024 SF Logistics Services Framework Agreement to set out a framework for the provision of the SF Logistics Services by SFTS Group to the Group. The principal terms of the 2024 SF Logistics Services Framework Agreement are set out below:

Date

31 July 2024

Parties

- (i) the Company; and
- (ii) SFTS.

Term

The 2024 SF Logistics Services Framework Agreement has a term commencing on 1 January 2025 and will expire on 31 December 2027, unless earlier terminated pursuant to its terms. The 2024 SF Logistics Services Framework Agreement can be extended for a further term of three years with mutual agreement of the Company and SFTS, subject to the compliance with applicable Listing Rules requirements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subject Matter

Pursuant to the 2024 SF Logistics Services Framework Agreement, SFTS Group has agreed to provide to the Group the SF Logistics Services as set out below on normal commercial terms or better and on an arm's length basis, or on terms no less favourable than those made available by SFTS Group or to the Group to or from their respective independent third parties:

- (a) the carriage of cargoes by air flight operations through SFTS Group's flight network (comprising scheduled flights and charter flights) and various ancillary services;
- (b) freight forwarding services, including co-loading of cargoes;
- (c) express services of (i) collecting and obtaining customs clearance of cargoes and parcels at designated international arrival ports for, and (ii) sorting, distribution and delivery of such cargoes and parcels to, customers of the Group and/or their designated consignees; and
- (d) integrated logistics services, including storage, inventory management and other value-added services, trucking and distribution, returns management and various ancillary services, primarily within the Mainland, Hong Kong and Macau.

The Group and SFTS Group have entered into and will from time to time enter into individual air waybill(s), invoice(s), receipt(s), or other definitive agreement(s) with respect to the SF Transactions. Each such agreement contains and will contain only provisions which are in all material respects consistent with the terms of the 2024 SF Logistics Services Framework Agreement.

Condition Precedent

The 2024 SF Logistics Services Framework Agreement shall be conditional upon the passing by the Independent Shareholders of an ordinary resolution to approve the 2024 SF Logistics Services Framework Agreement and the transactions contemplated thereunder at the SGM as may be required pursuant to Chapter 14A of the Listing Rules.

Pricing policy

For each SF Transaction, the Group shall pay a service fee to SFTS Group determined with reference to various factors (as applicable) including but not limited to: (i) the cargo freight tariff applicable to the relevant flight route as pre-determined by the parties on a quarterly basis with reference to prevailing freight rates charged by independent third party carriers for similar services; (ii) weight, volume, value and type of cargo/parcel; (iii) type and availability of cargo/parcel/storage space required; (iv) prevailing fees chargeable by independent third party local handling agents or service providers for similar services; (v) (in relation to charter flight service) billable flight time; and/or (vi) quotations obtained by the Group from at least two independent third parties.

Payment terms

The Group and the SFTS Group may, from time to time enter into individual definitive agreements pursuant to the terms of the 2024 SF Logistics Services Framework Agreement to determine the pricing and specific payment terms of the relevant transactions. The specific payment terms may vary based on several factors, mainly including freight or logistics mode, transaction volume, applicable market practice and industry norms. Generally, the services fees shall be payable by cheque payment or bank transfer, with credit period ranging from 30-60 days.

2024 KHL FRAMEWORK SERVICES AGREEMENT

On 31 July 2024 (after trading hours), the Company and KHL entered into the 2024 KHL Framework Services Agreement to set out a framework for (i) the provision of the KLN Services by the Group to the Relevant KHL Group; and (ii) the provision of the KHL Leases and KHL Services by the Relevant KHL Group to the Group. The principal terms of the 2024 KHL Framework Services Agreement are set out below:

Date

31 July 2024

Parties

- (i) the Company; and
- (ii) KHL.

Term

The 2024 KHL Framework Services Agreement will commence on 16 September 2024, and will expire on 15 September 2027, unless terminated earlier pursuant to its terms. The 2024 KHL Framework Services Agreement can be extended for a further term of three years with the mutual written agreement of the Company and KHL, subject to the compliance with applicable Listing Rules requirements.

Subject Matter

Pursuant to the 2024 KHL Framework Services Agreement:

- (i) the Group agreed to provide in places outside Taiwan the KLN Services to the Relevant KHL Group on normal commercial terms and on an arm's length basis, or on terms no less favourable than those made available to the Relevant KHL Group or by the Group from or to independent third parties, respectively;
- (ii) the Relevant KHL Group agreed to provide the KHL Leases to the Group on normal commercial terms and on an arm's length basis, or on terms no less favourable than those made available by the Relevant KHL Group or to the Group to or from independent third parties, respectively; and
- (iii) the Relevant KHL Group agreed to provide the KHL Services in and from Taiwan to the Group on normal commercial terms and on an arm's length basis, or on terms no less favourable than those made available by the Relevant KHL Group or to the Group to or from independent third parties, respectively.

Individual agreements have been and will from time to time and as required continue to be entered into between the Group and the Relevant KHL Group with respect to specific services covered by the 2024 KHL Framework Services Agreement. Each agreement will set out the specific services requested by the relevant party. These agreements shall only contain provisions which are in all material respects consistent with the guidelines and terms and conditions set out above.

Condition Precedent

The 2024 KHL Framework Services Agreement shall be conditional upon the passing by the Independent Shareholders of an ordinary resolution to approve the 2024 KHL Framework Services Agreement and the transactions contemplated thereunder at the SGM as may be required pursuant to Chapter 14A of the Listing Rules.

Pricing policies

Pursuant to the 2024 KHL Framework Services Agreement, the pricing of each of the transactions entered into under the 2024 KHL Framework Services Agreement shall be determined by the parties at the time of entry into the relevant agreements for such transactions with reference to the applicable market practice and value, with reference to any relevant rules and regulations being effective at the time.

With respect to the KLN Services to be provided by the Group to the Relevant KHL Group:

- (i) in relation to logistics and freight services (that are, delivery, transportation, local courier, storage, freight, freight agency and catering services), the service fee shall be determined by the parties at the time of entry into the relevant subsequent agreements with reference to the weight and type of cargo, mode of shipment, freight rate of the carrier, type of storage space required and the prevailing market service fees charged by independent third party logistics and freight services providers at the relevant time for comparable services;
- (ii) in relation to insurance brokerage and related services, the service fee shall be determined by the parties at the time of entry into the relevant subsequent agreements with reference to the prevailing market insurance brokerage fees charged by independent third party insurance companies at the relevant time for comparable types of insurance; and
- (iii) in relation to services relating to management and operation of warehouse facilities (that is, building management, leasing and licensing management, warrant operations, IT support, human resources, administration and related services), the service fee shall be determined by the parties at the time of entry into the relevant subsequent agreements with reference to the type, size and location of the premises, the relevant party/customers' specific requirements and the prevailing market service fees charged by independent third party warehouse services providers at the relevant time for comparable services.

To ensure that the pricing in respect of the KLN Services are no less favourable than those made available the Relevant KHL Group or by the Group from or to their respective independent third parties, the Group's finance team will, amongst other things, (i) identify, track and monitor the pricing schedules in respect of the transactions between the Group and independent third parties or the Company's connected persons, respectively; and (ii) communicate with the heads of departments or local business units on a periodic basis and review the terms and pricing policies of the continuing connected transactions to ensure these are conducted in accordance with the established procedures and internal control measures.

With respect to the KHL Leases, the rental shall be determined by the parties at the time of entry into the relevant subsequent agreements with reference to the prevailing market rent offered by independent third parties at the relevant time for comparable properties in the nearby area.

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With respect to the KHL Services to be provided by the Relevant KHL Group to the Group:

- (i) in relation to transportation and freight services (that is, land transportation, freight and freight agency services, and other logistics services in and/or from Taiwan), the service fee shall be determined by the parties at the time of entry into the relevant subsequent agreements with reference to the weight and type of cargo, mode of shipment, freight rate of the carrier, type of storage space required and the prevailing market service fees charged by independent third party logistics and freight services providers at the relevant time for comparable services; and
- (ii) in relation to warehousing services, the service fee shall be determined by the parties at the time of entry into the relevant subsequent agreements with reference to the type, size and location of the premises, the relevant party/customers' specific requirements and the prevailing market service fees charged by independent third party warehouse services providers at the relevant time for comparable services.

Payment terms

The Group and the Relevant KHL Group may, from time to time enter into individual agreements pursuant to the terms of the 2024 KHL Framework Services Agreement to determine the pricing and specific payment terms of the relevant transactions. The specific payment terms may vary based on several factors, mainly including freight or logistics mode, shipment value, customers' reputation, applicable market practice and industry norms. Generally, the services fees shall be payable by cheque payment or bank transfer, with credit period ranging from 45-60 days.

Further details of the principal terms of the Non-exempt CCT Agreements, please refer to the section headed "2. 2024 KLN LOGISTICS SERVICES FRAMEWORK AGREEMENT", "3. 2024 SF LOGISTICS SERVICES FRAMEWORK AGREEMENT" and "6. 2024 KHL FRAMEWORK SERVICES AGREEMENT" in the Letter from the Board.

Review of the principal terms

Preliminary, we noted that the pricing policies and other terms of the Non-exempt CCT Agreements continue to follow those of (a) the 2022 KLN Logistics Services Framework Agreement; (b) the 2022 SF Logistics Services Framework Agreement; and (c) the 2021 KHL Framework Services Agreement. In order to assess the fairness and reasonableness of the pricing policies, we have performed the relevant review as set out in the section headed internal control procedures headed "10. INTERNAL CONTROL MEASURES" in the Letter from the Board. In respect of KLN Logistics Services, the Group will compare at least two independent third party customers in respect of similar services, or quotations from independent third party providers when the Group updates its fees table on a monthly or quarterly basis in respect of local delivery or pick up services. In respect of the SF Logistics Services, the Group will obtain contemporaneous quotations from at least two independent third party service providers in relation to the cargo freight tariffs, the express delivery service rates and integrated logistics service rates. In respect of the 2024 KHL Framework Services Agreement, the Group will obtain contemporaneous quotations from at least two independent third party service providers in relation to the similar services under the 2024 KHL Framework Services Agreement. The Company's finance team will review the actual transaction amounts incurred under the continuing connected transaction under the Non-exempt CCT Agreements on a regular basis to ensure that these are conducted in accordance with established procedures and internal controls, to assess the effectiveness of such measures and to ensure the pricing policies and annual caps are complied with. For our independent review working of the Group's internal control procedures carried out under the term of the Framework Agreements, please refer to section headed "6. Internal control procedures and review of the Continuing Connected Transactions".

Based on the above, we concur with the Management that the entering into of the Non-exempt CCT Agreements are in the ordinary and usual course of business of the Group, on normal commercial terms which are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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5. Proposed Annual Caps under the Non-exempt CCT Agreements

2024 KLN LOGISTICS SERVICES FRAMEWORK AGREEMENT

As set out in the Letter from the Board, the table below sets out: (i) the historical actual transaction amounts of the KLN Logistics Services for FY2022, FY2023 and five months ("5M") ended 31 May 2024; (ii) the approved annual caps for each of FY2022, FY2023 and FY2024 in respect of the KLN Logistics Services; and (iii) the respective utilisation rate of the annual caps for each of FY2022, FY2023 and FY2024 in respect of the KLN Logistics Services.

Table 3: The annual caps and the historical amounts of the KLN Logistics Services for FY2022, FY2023 and 5M2024

	FY2022 (HK\$' million)	FY2023 (HK\$' million)	FY2024 (HK\$' million)
Historical transaction amounts	311.0	301.3	595.0 (up to 5M2024)
Approved annual caps	531.0	2,340.0	2,931.0
Utilisation rates	58.57%	12.88%	20.30% (up to 5M2024)

As illustrated above, the historical actual transaction amount paid by SFTS Group to the Group for the provision of KLN Logistics Services amounted to approximately HK\$311.0 million, HK\$301.3 million and HK\$595.0 million for FY2022, FY2023 and 5M2024 respectively, registering a utilisation rate of approximately 58.57%, 12.88% and 20.30% respectively. Should the historical actual transaction amount of the KLN Logistics Services for 5M2024 be annualised, the projected transaction amount of the KLN Logistics Services for FY2024 would amount to approximately HK\$1,623.9 million, representing a utilisation rate of approximately 55%. As discussed with the Management, the low utilisation rate recorded for FY2023 is mainly attributable to (i) the excess inventories, subdued purchasing power and stagnant export growth, particularly in Asia; and (ii) the Group has disposed of its companies engaging in express delivery services in the Asia Pacific and Europe to SF Holding in the third quarter of 2023.

As stated in the Letter from the Board, the table below sets out the Proposed KLN Annual Caps in respect of the KLN Logistics Services for FY2025, FY2026 and FY2027.

Table 4: The Proposed KLN Annual Caps

	FY2025 (HK\$' million)	FY2026 (HK\$' million)	FY2027 (HK\$' million)
Proposed KLN Annual Caps	1,960.4	2,367.5	2,860.1

As stated in the Letter from the Board, the Proposed KLN Annual Caps have been determined with reference to (i) the historical transaction amounts incurred by the parties; (ii) prevailing market rate charged by independent third parties for providing similar services; and (iii) inflation and expected growth of SFTS Group's demand for the KLN Logistics Services.

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With reference to the Letter from the Board, despite a relatively low utilisation rate of approximately 12.9% of the historical annual cap for FY2023, the aggregate fees to be received by the Group for the year ending FY2024 with respect to the KLN Logistics Services are projected to be approximately HK\$1,623.9 million, which represent approximately 55% of the existing annual cap. The Board foresees that the actual transaction amounts with respect to the provision of KLN Logistics Services for the three years FY2027 continue to increase due to an expected rise in freight volume and demand for KLN Logistics Services from SFTS Group over time which is attributable to the expected growth of SFTS Group's international express and last-mile businesses, as well as the Group's positioning as SFTS Group's preferred service provider for KLN Logistics Services. In the continuing process of coordinating, reorganising and streamlining the logistics operations, and resources among the two groups, SFTS Group has been and will be switching to the Group as a preferred service provider for the KLN Logistics Services wherever they consider KLN Logistics Services are competitive and the Group's core competencies.

Basis and assessment on the Proposed KLN Annual Caps

In assessing the fairness and reasonableness of the Proposed KLN Annual Caps, we have discussed with the Management on the basis and underlying assumptions for the purpose of setting the Proposed KLN Annual Caps. We have also obtained and reviewed from the Management the computation worksheets for the Proposed Annual Caps in respect of the Continuing Connected Transactions including its relevant breakdown (the "**Caps Computation**"), set out below is a summary of breakdown based on the key components of the Proposed KLN Annual Caps.

Table 5: The components of the Proposed KLN Annual Caps for FY2025, FY2026 and FY2027

	FY2025 (HK\$' million)	FY2026 (HK\$' million)	FY2027 (HK\$' million)
Amounts receivable by the Group from SFTS Group			
International freight forwarding services income – the Mainland outbound	89	108	130
International freight forwarding services income – the Mainland inbound	41	49	59
Ground handling management services income	69	83	101
Express delivery services income	1,610	1,950	2,359
Miscellaneous logistics services income	129	156	189
Rental fee for Kerry Bangna Logistics Center	22	22	22
Total	1,960	2,368	2,860

(i) International freight forwarding services income (the Mainland outbound and inbound)

As advised by the Management, the amounts receivable by the Group from SFTS Group for the international freight forwarding services are mainly related to the carriage of cargoes by air flight operations for both the Mainland outbound and inbound to be provided to SFTS Group.

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In respect of the services of the Mainland outbound, the annual cap for FY2025 is calculated based on (i) historical aggregate transaction amount of approximately HK\$31 million for the cargo flight services provided by the Group to the SFTS Group up to 5M2024; (ii) annualising the figure of approximately HK\$31 million as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% with an additional buffer rate of approximately 10%. An annual incremental rate of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual cap for FY2025 (i.e. approximately HK\$89 million) when setting the annual caps for FY2026 and FY2027 to anticipate any unexpected growth should they arise in such services between the Group and SFTS Group for FY2026 and FY2027 respectively.

We were advised by Management that the Group has applied an annual increment rate of approximately 10% and a buffer rate of approximately 10% to the annual cap for unforeseeable circumstances such as (i) the international freight forwarding services cost for the Mainland outbound and air freight volume for the Mainland outbound is expected to grow by approximately 10% per annum during the period of the Proposed KLN Annual Caps after considering the historical growth trend for 2023 and 2024; (ii) an average inflation rate of Mainland and Hong Kong of approximately 1.8% for the past 5 years; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.

In respect of the air flight operations for the Mainland inbound, the annual cap for FY2025 is calculated based on (i) historical aggregate transaction amount of approximately HK\$14 million for the international freight forwarding services provided by the Group to SFTS Group up to 5M2024; (ii) annualising the figure of approximately HK\$14 million as mentioned in (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual cap for FY2025 (i.e. approximately HK\$41 million) when setting the annual caps for FY2026 and FY2027 to anticipate any unexpected growth should they arise in such services between the Group and SFTS Group for FY2026 and FY2027 respectively.

We were advised by Management that the Group has applied an annual increment rate of approximately 10% and an additional buffer rate of approximately 10% have been taken into consideration in setting the annual cap with the intention to anticipate unforeseeable circumstances such as (i) the international freight forwarding services cost for the Mainland inbound and air freight volume is expected to grow by approximately 10% per annum during after considering the historical growth trend for 2023 and 2024; (ii) the average inflation rate of approximately 3.7% in the United States for the past 5 years; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.

We understand from the Management that following the strategic alliance made between the Company and SF Holding since 2021, the Group's competitive position in the market will continue to be enhanced by creating synergies with SF Holding through extensive collaborations. Consequently, the Group is able to leverage on SFTS Group's extensive network, infrastructure and resources in the Mainland, thereby reducing administrative costs and allowing it to grow and further expand the scale and geographical coverage of its operations. Therefore, the transactions under international freight forwarding services for the Mainland inbound and outbound provided by the Group to SFTS Group will gradually increase. The Management has therefore applied an annual increment rate of approximately 10% to the proposed annual caps for FY2026 and FY2027 to reflect such strategic positioning.

(ii) Ground handling management services income

As advised by the Management, the Group has been acting as the agent for SFTS at overseas airports to engage, manage and oversee ground handling agents and charge SFTS on a cost-plus basis. In respect of the ground handling management services income, the proposed annual cap for FY2025 is calculated based on (i) the historical aggregate transaction amount of approximately HK\$24 million for ground handling cost paid by SFTS up to 5M2024; (ii) the annualising the figure of approximately HK\$24 million as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual cap for FY2025 (i.e. approximately HK\$69 million) when setting the annual caps for FY2026 and FY2027 to anticipate any unexpected growth in such services between the Group and SFTS Group for FY2026 and FY2027 respectively.

We were advised by Management that the Group has applied an annual increment rate of approximately 10% and an additional buffer rate of approximately 10% would also be taken into consideration in setting the annual cap for unforeseeable circumstances such as (i) the annual increment rate, representing the expected growth rate of air freight volume of approximately 10% per annum after considering the historical growth trend for each of 2023 and 2024; (ii) the expected additional staff cost incurred by the Group to take up the service; (iii) the average inflation rate of the United States of approximately 3.7% for the past 5 years; and (iv) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.

(iii) Express delivery services income

As advised by the Management, the express delivery services refer to the last mile delivery and local handling services. In respect to express delivery services income, the annual caps under the express delivery services income for FY2025 is calculated based on (i) the historical aggregate transaction amount with KEX Express (US) LLC. and KEX Express (Canada) Limited for 5M2024; (ii) annualising the figure as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of 10% would then be applied on the annual cap for FY2025 (i.e. approximately HK\$1,610 million) when setting the annual caps for FY2026 and FY2027 to anticipate any unexpected growth should they arise in such services between the Group and SFTS Group for FY2026 and FY2027 respectively.

We were advised by Management that the Group has applied an annual increment rate of approximately 10% and an additional buffer rate of approximately 10% have been taken into consideration in setting the annual cap with the intention to anticipate unforeseeable circumstances such as (a) the seasonality effect during November and December (i.e. peak seasons for festive events) based on the previous experience; (b) any additional demand for related services, inflation and currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances; and (c) the historical aggregate transaction amount with KEX Express (US) LLC. and KEX Express (Canada) Limited was adopted as the basis for setting the annual cap on express delivery services income because these two entities are accounted for the total income generated from these services entirely, subsequent to the disposal of the express delivery services business in Asia Pacific and Europe to SF Holding in the third quarter of 2023. We have then reviewed the Caps Computation of the express delivery services income for the Mainland outbound from SFTS for 5M2024.

(iv) Miscellaneous logistics services income

The miscellaneous logistic services refer to the integrated logistics services provided by Group to meet its daily operation and administrative purpose, including storage and inventory management. In respect to the miscellaneous logistics services income, the annual cap for FY2025 is calculated based on (i) the historical aggregate transaction amount of approximately HK\$44 million for miscellaneous logistics services provided by the Group to SFTS Group up to 5M2024; (ii) annualising the figure of approximately HK\$44 million as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual cap for FY2025 (i.e. HK\$129 million) when setting the annual caps FY2026 and FY2027 to anticipate any unexpected growth should they arise in such services between the Group and SFTS Group for FY2026 and FY2027 respectively.

We were advised by Management that the Group applied an annual increment rate of approximately 10% and a buffer rate of approximately 10% to the annual cap for unforeseeable circumstances such as (i) a growth rate of approximately 10% with reference to the historical growth trend for 2023 and 2024; (ii) the average inflation rate in the Mainland and Hong Kong of approximately 1.8% for the past 5 years; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.

(v) Rental fee for Kerry Bangna Logistics Center

The rental fee for Kerry Bangna Logistics Centre is attributable to the logistic centre located in Thailand, which is a newly added service scope pursuant to the 2024 KLN Logistics Services Framework. The annual caps under the rental fee are calculated based on the actual monthly rental fee as calculated based on the actual monthly rental fee of approximately HK\$1.8 million. To arrive at the proposed annual cap, the Group has annualised this actual monthly rental fee to a 12 months period, which amounted to approximately HK\$21.6 million. We have then reviewed the Caps Computation of the rental fee for the Kerry Bangna Logistics Centre for 5M2024.

Having considered the basis on which the Proposed KLN Annual Caps are determined as described above and the industry outlook as described under the section headed “2. Industry outlook and prospects of the Group” above, we are of the view that the Proposed KLN Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

2024 SF LOGISTICS SERVICES FRAMEWORK AGREEMENT

As set out in the Letter from the Board, the table below sets out: (i) the historical actual transaction amounts of the SF Logistics Services for FY2022, FY2023 and 5M2024; (ii) the approved annual caps for each of FY2022, FY2023 and FY2024 in respect of the SF Logistics Services; and (iii) the respective utilisation rate of the annual caps for each of FY2022, FY2023 and FY2024 in respect of the SF Logistics Services.

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Table 6: The annual caps and the historical amounts of the SF Logistics Services for FY2022, FY2023, and 5M2024

	FY2022 (HK\$' million)	FY2023 (HK\$' million)	FY2024 (HK\$' million)
Historical transaction amounts	797.0	911.7	234.2 (up to 5M2024)
Approved annual caps	1,068.0	4,189.0	5,844.0
Percentage ratio of utilisation rate	74.63%	21.76%	4.01% (up to 5M2024)

As illustrated above, the historical actual transaction amount paid by the Group to SFTS Group for the provision of SF Logistics Services amounted to approximately HK\$797.0 million, HK\$911.7 million and HK\$234.2 million for FY2022, FY2023 and 5M2024 respectively, representing a utilisation rate of approximately 74.63%, 21.76% and 4.01% respectively. Should the historical actual transaction amount of the SF Logistics Services for 5M2024 be annualised, the projected transaction amount of the SF Logistics Services for FY2024 would amount to approximately HK\$562.1 million, representing a utilisation rate of approximately 9.6%. As advised by the Management, the low utilisation rate recorded for FY2023 and FY2024 are mainly attributable to the excess inventories, subdued purchasing power and stagnant export growth, particularly in Asia.

Table 7: The Proposed SF Annual Caps

	FY2025 (HK\$' million)	FY2026 (HK\$' million)	FY2027 (HK\$' million)
Proposed SF Annual Caps	793.4	960.0	1,161.6

As stated in the Letter from the Board, the Proposed SF Annuals Caps in respect of SF Logistics Services are determined with reference to (i) the historical transaction amounts incurred by the parties; (ii) prevailing market rates and forecasted rates that may be charged by independent third parties for similar services; (iii) maximum available cargo/parcel/storage capacity; (iv) (in relation to sale of cargo space) existing flight routes and schedules; and (v) inflation and expected growth of the Group's demand for the SF Logistics Services.

Basis and Assessment on the Proposed SF Annual Caps

In assessing the fairness and reasonableness of the Proposed SF Annual Caps, we have discussed with the Management on the basis and underlying assumptions for the purpose of setting the Proposed SF Annual Caps. We have also obtained and reviewed the Caps Computation, which is mainly based on the components of the Proposed SF Annual Caps as set out in the table below.

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Table 8: The components of the Proposed SF Annual Caps for FY2025, FY2026 and FY2027

	FY2025 (HK\$'million)	FY2026 (HK\$'million)	FY2027 (HK\$'million)
Amounts payable by the Group to SFTS Group			
Scheduled flight services cost – the Mainland outbound	514	622	752
Scheduled flight services cost – the Mainland inbound	10	12	15
Charter flight services cost	79	95	116
Express delivery services cost	115	140	169
Miscellaneous logistics services cost	75	91	110
Total	793	960	1,162

(i) Scheduled flight services cost (the Mainland outbound and inbound)

As advised by the Management, the amounts payable by the Group to SFTS Group for the scheduled flight services are mainly related to the carriage of cargoes by air flight operations for both the Mainland outbound and inbound to be provided to the Group.

In respect of the services of the air flight operations for the Mainland outbound, the annual cap for FY2025 is calculated based on (i) historical aggregate transaction amount of approximately HK\$177 million for the scheduled flight services provided by SFTS Group to the Group up to 5M2024; (ii) annualising the figure of approximately HK\$177 million as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual cap for FY2025 (i.e. approximately HK\$514 million) when setting the annual caps for FY2026 and FY2027 to anticipate any unexpected growth in such services between the Group and SFTS Group for FY2026 and FY2027, respectively.

We were advised by Management that the Group applied an annual increment rate of approximately 10% and an additional buffer rate of approximately 10% would also be taken into consideration in setting the annual caps to anticipate any unforeseeable circumstances should they arise, such as (i) the scheduled flight services cost for the Mainland outbound is expected to grow by approximately 10% per annum during the period of the proposed SF Annual caps after considering the historical growth trend for 2023 and 2024; (ii) an average inflation rate in Mainland and Hong Kong of approximately 1.8% for the past 5 years; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.

In respect to the air flight operations for the Mainland inbound, the annual cap for FY2025 is calculated based on (i) historical aggregate transaction amount of approximately HK\$3 million for the scheduled flight services provided by SFTS Group to the Group up to 5M2024; (ii) annualising the figure of approximately HK\$3 million as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual caps for FY2025 (i.e. approximately HK\$10 million) when setting the annual caps FY2026 and FY2027 to anticipate any unexpected growth in such services between the Group and SFTS Group for FY2026 and FY2027 respectively.

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We were advised by Management that the Group applied an annual increment rate of approximately 10% and an additional buffer rate of approximately 10% to the annual cap for unforeseeable circumstances such as (i) the scheduled flight services cost for the Mainland inbound were expected to grow by approximately 10% per annum during the period of the Proposed SF Annual Caps after considering the historical growth trend for 2023 and 2024; (ii) an average inflation rate in the United States of approximately 3.7% for the past 5 years, which was considered as relevant since the United States market is the second largest revenue contributor to the Group in terms of the geographical segment. With reference to the 2023 Annual Report, the United States market contributed approximately 26.9% of the Group's turnover in respect of the international freight forwarding services for FY2023; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.

(ii) Charter flight services cost

As advised by the Management, the charter flight services comprise existing charter flights with SFTS Group and charter flights to be procured from SFTS Group.

In respect to the charter flights services cost, the annual cap for FY2025 is calculated based on (i) historical aggregate transaction amount of approximately HK\$27 million for charter flights services up to 5M2024; (ii) annualising the figure of approximately HK\$27 million as mentioned in (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual caps for FY2025 (i.e. approximately HK\$79 million) when setting the annual caps FY2026 and FY2027 to anticipate any unexpected growth in such services between the Group and SFTS Group for FY2026 and FY2027 respectively.

We were advised by Management that the Group applied an annual increment rate of 10% and an additional buffer rate of approximately 10% to the annual cap with the intention to anticipate any unforeseeable circumstances such as (i) the expected growth rate of the existing charter flights with SFTS is 10% after considering the historical growth trend for 2023 and 2024; (ii) an average inflation rate in Mainland and Hong Kong of approximately 1.8% for the past 5 years; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.

(iii) Express delivery services cost

As advised by the Management, the express delivery services refer to the last mile delivery and local handling services.

In respect to the express delivery services cost, the annual cap for FY2025 is calculated based on (i) the historical aggregate transaction amount with KEX Express (US) LLC. and KEX Express (Canada) Limited up to 5M2024; (ii) annualising the figure as mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual caps for FY2025 (i.e. HK\$115 million) when setting the annual caps FY2026 and FY2027 to anticipate any unexpected growth in such services between the Group and SFTS Group for FY2026 and FY2027 respectively.

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We were advised by Management that the Group applied an annual increment rate of approximately 10% and a buffer rate of approximately 10% to the annual cap for unforeseeable circumstances such as (i) the express delivery service costs were expected to grow by approximately 10% per annum during the period of the Proposed SF Annual Caps after considering the historical growth trend for 2023 and 2024; (ii) an average inflation rate of the Mainland and Hong Kong of approximately 1.8% was considered; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.

(iv) Miscellaneous logistics services cost

The miscellaneous logistics services refer to the integrated logistics services provided by SFTS Group to meet its daily operation and administrative purpose with the Mainland, including storage and inventory management.

In respect to the miscellaneous logistics services cost, the annual cap for FY2025 is calculated based on (i) the historical aggregate transaction amount of approximately HK\$27 million for miscellaneous logistics services cost up to 5M2024; (ii) annualising the figure mentioned in point (i) above; and (iii) an annual increment rate of approximately 10% and an additional buffer rate of approximately 10%. An annual incremental of approximately 10% and an additional buffer rate of approximately 10% would then be applied on the annual caps for FY2025 (i.e. approximately HK\$75 million) when setting the annual caps FY2026 and FY2027 to anticipate any unexpected growth in such services between the Group and SFTS Group for FY2026 and FY2027 respectively.

We were advised by Management that the Group applied an annual increment rate of approximately 10% and a buffer rate of approximately 10% to the annual cap to anticipate any unforeseeable circumstances such as (i) the growth rate of approximately 10% with reference to the historical growth trend for 2023 and 2024; (ii) the average inflation rate in the Mainland and Hong Kong of approximately 1.8% for the past 5 years; and (iii) any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances.

To assess its fairness and reasonableness in determining the increment rate and buffer rate, we have conducted desktop research on the potential synergy effect arising from the strategic alliance with SF Holding. With reference to the annual reports of SF Holding for FY2021, FY2022 and FY2023, the air freight volume of SF Holding has increased from approximately 1.92 million tonnes in FY2021 to approximately 2.10 million tonnes in FY2023, representing a growth rate of approximately 9.4%. We believe that both companies will benefit from a positive synergy effect resulting from the strategic alliance entered into between the Company and SFTS. As such, we consider the increment rate of approximately 10% and buffer rate of approximately 10% are commercially justifiable.

Having considered the bases on which the Proposed SF Annual Caps are determined as described above and the industry outlook as described under section headed “2. Industry outlook and prospects of the Group”, we are of the view that the Proposed SF Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

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2024 KHL FRAMEWORK SERVICES AGREEMENT

As set out in the Letter from the Board, the table below sets out: (i) the historical transaction amount of the KLN Services, KHL Leases and KHL Services for the period from 16 September 2021 to 31 December 2021, FY2022, FY2023 and 5M2024; (ii) the approved annual caps for each of the period from 16 September 2021 to 31 December 2021, FY2022, FY2023 and for the period from 1 January 2024 to 15 September 2024 in respect of the KLN Services, KHL Leases and KHL Services; and (iii) the respective utilisation rate of the annual caps for each of the period from 16 September 2021 to 31 December 2021, FY2022, FY2023 and 5M2024 in respect of the KLN Services, KHL Leases and KHL Services.

Table 9: The annual caps and the historical amounts of the KLN Services, KHL Leases and KHL Services for the period from 16 September 2021 to 31 December 2021, FY2022, FY2023, and 5M2024

	The period from 16 September 2021 to 31 December 2021 (HK\$' million)	FY2022 (HK\$' million)	FY2023 (HK\$' million)	5M2024 (HK\$' million)
Historical transaction amounts – Aggregated amounts paid by the Group	732.6	400.8	289.2	129.4 (up to 5M2024) 1,149.7 (for the period from 1 January 2024 to 15 September 2024)
Approved annual caps	1,863.6	2,162.5	1,062.2	11.3%
Percentage ratio of utilisation rate	39.3%	18.5%	27.2%	(up to 5M2024)
Historical transaction amounts – Aggregated amounts received by the Group	21.8	34.6	38.7	20.4 (up to 5M2024) 295.9 (for the period from 1 January 2024 to 15 September 2024)
Approved annual caps	61.8	183.2	232.2	6.9%
Percentage ratio of utilisation rate	35.3%	18.9%	16.7%	(up to 5M2024)

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As illustrated above, the historical actual transaction amount paid by the Group to the Relevant KHL Group for the provision of KHL Leases and KHL Services amounted to approximately HK\$732.6 million, HK\$400.8 million, HK\$289.2 million and HK\$129.4 million for the period from 16 September 2021 to 31 December 2021, FY2022, FY2023 and 5M2024 respectively, registering a utilisation rate of approximately 39.3%, 18.5%, 27.2% and 11.3% respectively. Should the historical actual transaction amount of the KHL Leases and KHL Services for 5M2024 be annualised, the projected transaction amount of the KLN Services, KHL Leases and KHL Services would amount to approximately HK\$307 million, representing a utilisation rate of approximately 27.0%.

On the other hand, the historical actual transaction amount received by the Group from the Relevant KHL Group for the provision of KLN Services amounted to approximately HK\$21.8 million, HK\$34.6 million, HK\$38.7 million and HK\$20.4 million for the period from 16 September 2021 to 31 December 2021, FY2022, FY2023 and 5M2024 respectively, registering a utilisation rate of approximately 35.3%, 18.9%, 16.7% and 6.9% respectively. Should the historical actual transaction amount of the KLN Services, KHL Leases and KHL Services for 5M2024 be annualised, the projected transaction amount of the KLN Services would amount to approximately HK\$49 million, representing a utilisation rate of approximately 17%.

As discussed with the Management, the respective low utilisation rate for both FY2022 and FY2023 was mainly attributable to the global decrease in product demand and purchase orders, which was driven by consumers shifting their spending away from goods and towards services as the Pandemic transitioned into an endemic phase. This global trend has also led to a significant drop in demand for orders from Taiwan.

As stated in the Letter from the Board, the table below sets out the Proposed KHL Annual Caps in respect of the KLN Services, KHL Leases and KHL Services for FY2025, FY2026 and for the period from 1 January 2027 to 15 September 2027.

Table 10: The Proposed KHL Annual Caps for FY2025, FY2026 and for the for the period from 1 January 2027 to 15 September 2027

	From 16 September 2024 to 31 December 2024 (HK\$' million)	FY2025 (HK\$' million)	FY2026 (HK\$' million)	From 1 January 2027 to 15 September 2027 (HK\$' million)
Proposed KHL Annual Caps – Aggregated amounts paid by the Group	1,019.0	1,018.0	1,054.0	890.0
Proposed KHL Annual Caps – Aggregated amounts received by the Group	24.0	98.0	103.0	81.0

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, the Proposed KHL Annual Caps have been determined with reference to the fees typically charged by independent third party providers for similar services, the total value of the right-of-use assets involved in the leasing of the Leased Properties from the Relevant KHL Group to the Group, as well as factors including (i) historical, current and projected rental for the Leased Properties; (ii) the prevailing and projected market rates for rental and building management fees and fees for comparable properties in the nearby area; (iii) historical, current and projected management fees and fees for operation of warehouse facilities and warehousing services comparable to those to be provided; (iv) historical, current and projected market rates for insurance brokerages and related services for comparable insurance products comparable to those to be provided; (v) historical, current and projected rates on delivery, local courier and freight services comparable to those to be provided; and (vi) inflation and expected expansion and development of the Group's and the Relevant KHL Group's businesses.

The aggregate fees payable by the Group to the Relevant KHL Group for the period from 1 January 2024 to 15 September 2024 with respect to the provision of the KHL Leases and the KHL Services are projected to be approximately HK\$307 million, which represent approximately 27% of the existing annual cap. The Board foresees that the actual transaction amounts with respect to the provision of the KHL Leases and the KHL Services during the term of the 2024 KHL Framework Services Agreement will continue to increase primarily due to (i) an expected increase in the floor area to be leased by the Group from the Relevant KHL Group, in line with the development plans and expected expansion of the Group's businesses; (ii) a projected increment in rental and building management fees; and (iii) an expected increase in demand for KHL Services from the Group over mainly attributable to the expected growth of the Group's freight forwarding business.

The aggregate fees to be received by the Group from the Relevant KHL Group for the period from 1 January 2024 to 15 September 2024 with respect to the provision of the KLN Services are projected to be approximately HK\$49 million, which represent approximately 17% of the existing annual cap. The Board foresees that the actual transaction amounts with respect to the provision of the KLN Services during the term of the 2024 KHL Framework Services Agreement will continue to increase primarily due to an expected rise in demand for KLN Services from the Relevant KHL Group which is attributable to the expected growth and expansion in the Relevant KHL Group's businesses.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Basis and Assessment on the Proposed Annual Caps

In assessing the fairness and reasonableness of the Proposed KHL Annual Caps, we have discussed with the Management on the basis and underlying assumptions for the purpose of setting the Proposed KHL Annual Caps. We have also obtained and reviewed the Caps Computation, which is mainly based on the components of the Proposed KHL Annual Caps as set out in the table below.

Table 11: The components of the Proposed KHL Annual Caps for FY2024, FY2025, FY2026 and FY2027

	FY2024 (Note 1) (HK\$' million)	FY2025 (HK\$' million)	FY2026 (HK\$' million)	FY2027 (Note 2) (HK\$' million)
Amounts payable by the Group to the Relevant KHL Group:				
Right-of-use assets and rental related expenses in relation to the lease of the Leased Properties (include but are not limited to, office premises, staff quarter and warehouses) to the Group	921	608	624	551
Taiwan business	98	410	430	339
	1,019	1,018	1,054	890
Amounts receivable by the Group from the Relevant KHL Group:				
Taiwan business	15	60	63	50
Services income	9	38	40	31
	24	98	103	81

Notes:

1. The cap amounts for FY2024 only cover the period from 16 September 2024 to 31 December 2024.
2. The cap amounts for FY2027 only cover the period from 1 January 2027 to 15 September 2027.

(i) Right-of-use assets and rental related expenses in relation to the lease of the Leased Properties to the Group

As advised by the Management, the estimated amount of right-of-use assets of the Leased Properties mainly represents the net present value of all the future rental expenses of the lease payable by the Group and will have an initial term of three years. In accordance with the Group's accounting policies, the amount of the right-of-use assets of the Leased Properties will be calculated based on the maximum amount of right-of-use assets as contemplated under the leases agreements entered into between the Group and Relevant KHL Group and a discount rate across the three-year period will be recognised at the beginning of such period.

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The estimated amount of the right-of-use assets in relation to the Leased Properties is approximately HK\$843 million for the period of 16 September 2024 to 31 December 2024, and approximately HK\$280 million for FY2025, FY2026 and the period of 1 January 2027 to 15 September 2027 respectively. We were advised by Management that the estimated amount of the right-of-use assets is projected based on (i) historical rental for the Leased Properties for FY2022 and FY2023; (ii) an annual increment rate of approximately 5% in rental and building management fee; and (iii) an expected increase in the floor area to be leased by the Group from the Relevant KHL Group based on the future leasing plan of the Management. In this respect, we have (i) obtained and reviewed the computation worksheet of the corresponding right-of-use assets; (ii) obtained and reviewed the monthly rental fee of the Leased Properties; and (iii) held discussion with the Management in connection with the future leasing plan of the Company which is in line with the development plans and expected expansion of the Group's businesses.

In addition, the estimated amount of the remaining balance of the annual caps are approximately HK\$78 million for the period of 16 September 2024 to 31 December 2024, approximately HK\$328 million, HK\$344 million and HK\$271 million for FY2025, FY2026 and the period of 1 January 2027 to 15 September 2027 respectively. We were advised by Management that the estimated amount is projected based on (a) the estimated market price for the warehouse of Kerry Cargo Centre Limited based on the historical monthly rental related fee; (b) an annual increment rate of approximately 5% in rental and building management fee, which amounted to (i) approximately HK\$20 million per month for the period of 16 September 2024 to 31 December 2024; (ii) approximately HK\$21 million per month for FY2025; (iii) approximately HK\$22.1 million per month for FY2026; and (iv) approximately HK\$23.2 million per month for the period of 1 January 2027 to 15 September 2027 respectively; and (c) an additional annual buffer rate of approximately 30% based on the future leasing plan of the Management. We have reviewed the historical monthly rental fee for FY2022 and FY2023 and noted that it is amounted to approximately HK\$17.3 million.

(ii) Taiwan business – Amounts payable by the Group to the Relevant KHL Group

As advised by the Management, the amounts payable by the Group to the Relevant KHL Group for the business in Taiwan are mainly related to the services in and/or from Taiwan to be provided to the Group, including (i) land transportation, other logistics services; and (ii) freight services, freight agency services and other logistics services.

In addition, the proposed annual caps for amounts payable by the Group to the Relevant KHL Group are projected based on (i) the historical service amount in and/or from Taiwan to be provided to the Group in FY2022 and FY2023; (ii) an annual increment rate of approximately 5%; and (iii) an additional buffer rate of approximately 30% in connection with any additional demand for related services, potential inflation and currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances. We have advised by the management that (i) the freight forwarding businesses are expected to grow in price and volume with an increment rate of approximately 15%, with approximately 5% variation due to the floor area from time to time, and (ii) as the historical average growth rate of the logistics and freight service revenue derived from Mainland of China (including Taiwan) in terms of geographical turnover amounted to approximately 17.6% per annum as recorded during the past 5 years from FY2019 to FY2023. We consider the additional buffer rate of approximately 30% is justifiable.

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(iii) Taiwan business – Amounts receivable by the Group from the Relevant KHL Group

As advised by the Management, the amounts receivable by the Group from the Relevant KHL Group for the Taiwan business are mainly related to services outside Taiwan including delivery and transportation services, local courier services, freight services, freight agency services, insurance brokerage and related services, catering services, food and beverage, trading and services relating to management and operation of warehouse facilities to be provided by the Group.

Based on the Caps Computation, the proposed annual caps for the amounts receivable by the Group from the Relevant KHL Group are projected based on (i) the estimated monthly service fee of approximately HK\$3.0 million with reference to the historical services amount related to services outside Taiwan provided by the Group to the Relevant KHL Group; (ii) an annual increment rate of approximately 5%; (iii) an additional buffer in connection with any additional demand for related services, potential inflation and currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances. As discussed with the Management, such services were estimated to grow throughout the term of the 2024 KHL Framework Services Agreement after considering the historical growth rate of as recorded for the past 5 years.

(iv) Services income

Based on the Caps Computation, similar to the amount receivable by the Group from the Relevant KHL Group for the Taiwan business, the services income is related to the logistics services provided by the Group to the Relevant KHL Group other than the Taiwan companies. Such services have been rendered by the Group in the past and we noted from the Caps Computation that such services income ranged from approximately HK\$14 million to approximately HK\$21 million per annum during the period from FY2016 to FY2023. We have reviewed the breakdown of the historical services income related to the logistics services and noted that (i) the proposed annual caps for FY2024, FY2025, FY2026 and FY2027 were determined based on aforesaid historical services income during the period from FY2021 to FY2023; and (ii) an annual increment rate of approximately 5%.

All in all, we noted that the utilisation rates of the KLN Services, KHL Leases and KHL Services recorded for FY2022, FY2023 and FY2024 were relatively low mainly due to the negative growth of revenue generated from Mainland of China (including Taiwan), which registered a significant year-on-year decline of approximately 10.5% and 30.6% for FY2022 and FY2023 respectively. Nevertheless, based on our discussion with the Management, it is the proposed target of the Management to restore the strong performance executed by the Group during the period for FY2020 and FY2021, which achieved a year-on-year growth rate in revenue derived from the Mainland of China (including Taiwan) of approximately 57.6% and 54.0% respectively.

Having considered the bases on which the KHL Annual Caps are determined as described above, we are of the view that the KHL Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

6. Internal control procedures and review of the Continuing Connected Transactions

As set out in the Letter from the Board, the Company has implemented internal control procedures for monitoring, reporting and ensuring that the Group conducts the transactions entered into or to be entered into under the respective 2024 CCT Agreements (including the Non-exempt CCT Agreements) in accordance with the pricing policy and guidelines stated under the section headed “2. 2024 KLN LOGISTICS SERVICES FRAMEWORK AGREEMENT”, “3. 2024 SF LOGISTICS SERVICES FRAMEWORK AGREEMENT” and “6. 2024 KHL FRAMEWORK SERVICES AGREEMENT” in the Letter from the Board, and in compliance with the Listing Rules.

Prior to agreeing with SFTS Group on:

- (i) the service fees payable in relation to the KLN Logistics Services, the Group will obtain and compare contemporaneous quotations from at least two independent third party providers in respect of similar services or quotations provided by the Group to other independent third parties for similar services. The service fees will be determined by the heads of local business units after taking into consideration such quotations. The entire process will be documented to facilitate the review by the Group’s finance team; and
- (ii) in relation to the SF Logistics Services, (a) the cargo freight tariffs applicable to relevant flight routes at the beginning of each financial quarter, the Group will obtain and compare contemporaneous quotations from at least two independent third party carriers for similar services; (b) the rates chargeable for express delivery services at the beginning of each financial quarter, the Group will obtain and compare contemporaneous quotations from at least two independent third party service providers for similar services; and (c) the rates chargeable for integrated logistics services, the Group will obtain and compare contemporaneous quotations from at least two independent third party service providers for similar services.

Prior to agreeing with Relevant KHL Group on:

- (i) the service fees payable by the Group in relation to the KHL Services, (a) with respect to the Leased Properties, the Group will conduct researches and compare the prevailing market rent offered by at least two independent third parties for comparable properties in the nearby area; (b) in relation to transportation and freight services, the Group will obtain and compare contemporaneous quotations from at least two independent third party logistics and freight services providers for similar services; and (c) in relation to warehousing services, the Group will obtain and compare contemporaneous quotations from at least two independent third party warehouse services providers for similar services; and
- (ii) the service fees payable by the Relevant KHL Group in relation to the KLN Services, (a) in relation to logistics and freight services, the Group gather information from business departments and finance team, and take into account the historical, current and projected rates charged by at least two other logistics companies providing similar services or compare contemporaneous quotations provided by the Group to other independent third parties for similar services, and will negotiate the terms which is on similar basis as with independent third party logistics and freight services providers for similar services; (b) in relation to insurance brokerage and related services, the Group obtain and compare

contemporaneous quotations from at least two independent third party insurance companies offering similar insurance products, compare their prices with the Company's prices, consider relevant market rates or compare contemporaneous quotations provided by the Group to other independent third parties for similar services, and will negotiate the terms which is on similar basis as with independent third party insurance companies for comparable types of insurance; and (c) in relation to services relating to management and operation of warehouse facilities, the Group will obtain and compare contemporaneous quotation in relation to management fees for operation of warehouse facilities from at least two independent third party warehousing companies providing warehouse facilities of similar size and location or compare contemporaneous quotations provided by the Group to other independent third parties for similar services, and negotiate the terms which is on similar basis as with independent third party warehouse services providers for similar services.

The Company's finance team will (i) monitor the continuing connected transactions by communicating regularly with the regional heads of the finance teams of the Group in respect of the terms and pricing policies of the continuing connected transactions, and collect monthly financial data together with underlying agreements for analysis and reporting; and (ii) review the actual transaction amounts incurred under the continuing connected transactions on a regular basis to ensure that these are conducted in accordance with established procedures and internal controls, to assess the effectiveness of such measures and to report to management where it expects that any of the relevant annual caps will soon be exceeded. If, based on monthly management accounts and management updates, adjustment(s) to the relevant annual cap(s) becomes necessary, or a material change to the terms of any of the framework agreements is required, the Company will re-comply with the relevant Listing Rules requirements.

The INEDs will conduct an annual review of the continuing connected transactions, and confirm the matters required under Rule 14A.55 of the Listing Rules in the Company's subsequent annual reports. Further, the Company will engage external auditors to conduct an annual review of its continuing connected transactions, and to report to the Board on matters required under Rule 14A.56 of the Listing Rules.

Regarding the effectiveness of the aforementioned internal control procedures to safeguard the Continuing Connected Transactions, we noted that before entering into of the Continuing Connected Transactions, the Group will obtain the quotations from at least two independent third party suppliers/customers in respect of similar services, we have obtained and reviewed two sets of the correspondence email record for each Continuing Connected Transactions undertaken during FY2023 and FY2024 (the "**Review Period**").

2024 KLN Logistics Services Framework Agreement

We have obtained and reviewed two sets of the correspondence record dated 23 July 2024 and 1 July 2024 regarding the quotations provided to the independent third party customers and SFTS Group in respect of the international freight forwarding services, as well as the service fees table in respect of the local delivery or pick up services of the international express delivery and customs clearance services which was update on a monthly or quarterly basis by the Company. The samples under review were selected on a random basis which covered the international freight forwarding services, express delivery services and integrated logistics services conducted between the Group and SFTS Group during the Review Period and the samples conducted between the Group and the independent third party customers were in close proximity in time of those conducted between the Group and SFTS Group for comparison purpose, we consider the samples are adequate and representative. According to the samples

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collected, we noted that each agreement we reviewed when appropriate, by the responsible relevant personnel and finance team of the Company before the individual agreement was entered into. During the course of our review, we noted that (a) the charges for international freight forwarding services and integrated logistics services were no less favourable to the Group than those offered by the Group to independent third party customers.; (b) other principal terms of the agreements including settlement, termination and payment terms offered by the Group to independent third party customers are generally in line with those offered to SFTS Group; and (c) in line with the Group's pricing policy as set out in the section headed "2. 2024 KLN LOGISTICS SERVICES FRAMEWORK AGREEMENT" as set out in the Letter from the Board. In view of the above, we noted that the terms offered by the Group to SFTS Group are no less favourable than those made available by the Group to the independent third party customers.

2024 SF Logistics Services Framework Agreement

We have obtained and reviewed two sets of the correspondence record dated 23 July 2024 and 1 August 2023 regarding the quotations provided to the independent third party carriers in respect of the cargo freight tariffs, express delivery service rates charged and the integrated logistics rates charged for similar services. The samples under review were selected on a random basis which covered the scheduled flight services cost (both Mainland outbound and inbound) and the express delivery services conducted between the Group and SFTS Group during the Review Period and the samples conducted between the Group and independent third party suppliers were in close proximity in time of those conducted between the Group and SFTS Group for comparison purpose, we consider the samples are adequate and representative. According to the samples collected, we noted that each agreement we reviewed when appropriate, by the responsible relevant personnel and finance team of the Company before the individual agreement was entered into. During the course of our review, we noted that (a) the cargo freight tariffs, express delivery services rates and the integrated logistics rates charged were no less favourable to the Group than those offered to the Group by independent third party suppliers; (b) other principal terms of the agreement including settlement, termination and payment terms offered to the Group by the independent third party suppliers are generally in line with those offered by SFTS Group; and (c) in line with the Group's pricing policy as set out in the section headed "3. 2024 SF LOGISTICS SERVICES FRAMEWORK AGREEMENT" as set out in the Letter from the Board. In view of the above, we noted that the terms offered to the Group by SFTS Group are no less favourable than those made available to the Group by the independent third party carriers or service providers.

2024 KHL Framework Services Agreement

We have obtained and reviewed (i) two sets of the correspondence record dated 9 June 2023 and 5 April 2023 including the quotations provided by the Group to the independent third party service providers and to compare against the quotations provided by the Group to KHL in respect of the logistics and freight services; (ii) two sets of the correspondence record dated 13 May 2024 and 13 June 2024 including the quotations provided by the independent third party service providers to the Group and to compare against the quotations provided by KHL to the Group in connection with the transportation and freight services; and (iii) two sets of sample quotations during 2024 for the right-of-use assets and rental related expenses in relation to the lease of the Leased Properties to be leased by the Relevant KHL Group to the Group, we noted that, the Company has obtained the sample quotations provided by the independent third party to the Group so as to compare two comparable properties in the nearby area against the monthly rental fee charged by the Relevant KHL Group to the Group, as contemplated under the 2024 KHL Framework Services Agreement. We further noted that in relation to (a) logistics and freight services (that are, delivery, transportation, local courier, freight, freight agency, catering services, food and beverage trading) provided

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by the Group to KHL, the Company has compared the prevailing market services fees charged by two or three independent third party logistics and freight services providers at the relevant time before fixing the final fee with the customer (including the Relevant KHL Group); (b) insurance brokerage and related services provided by the Group to KHL, the Company has compared the prevailing market services fees charged by two or three independent third party insurance brokerage services providers at the relevant time before fixing the final brokerage fee with the customer (including the Relevant KHL Group); (c) services relating to management and operation of warehouse facilities (that is, building management, leasing and licensing management, warrant operations, IT support, human resources, administration and related services) provided by the Group to KHL, the Company has compared the prevailing market service fees charged by two or three independent third party warehouse services providers at the relevant time before fixing the final service fee with the Relevant KHL Group; (d) right-of-use assets and rental related expenses in relation to the lease of the Leased Properties to be leased by KHL to the Group, the Company has made reference to the prevailing market rent offered by independent third parties at the relevant time for comparable properties in the nearby area. The Group has also obtained quotes from independent third party property agents in respect of two or three comparable properties in the nearby area; (e) transportation and freight services (that is, land transportation, freight and freight agency services, and other logistics services in and/or from Taiwan) provided by KHL to the Group, the Group has customarily obtained quotes from two or three third party logistics and freight services providers, in addition to the quote from KHL, before determining which supplier to provide the relevant service; and (f) warehousing services provided by KHL to the Group, the Group has obtained quotes from independent third party property agents in respect of two or three comparable properties in the nearby area, and such quotes would include details of warehousing services, including any relevant service fees.

The samples under review were selected on a random basis which covered (i) the logistics and freight services and integrated logistics services and services relating to management and operation of warehouse facilities conducted between the Group and the Relevant KHL Group; and (ii) transportation and freight services and warehousing services during the Review Period and the samples conducted between the Group and independent third party customers or suppliers were in close proximity in time of those conducted between the Group and the Relevant KHL Group for comparison purpose, we consider the samples are adequate and representative. According to the samples collected, we noted that each agreement we reviewed when appropriate, by the responsible relevant personnel and finance team of the Company before the individual agreement was entered into. During the course of our review, we noted that (a) the relevant services fee was no less favourable to the Group than those offered by/to the Group to/from independent third party customers/suppliers; (b) other principal terms of the agreement including settlement, termination and payment terms offered by/to the Group to/by independent third party customers/suppliers respectively, are generally in line with those offered by the Relevant KHL Group; and (c) in line with the Group's pricing policy as set out in the section headed "6. 2024 KHL FRAMEWORK SERVICES AGREEMENT" as set out in the Letter from the Board. In addition, in regards to the Leased Properties to be leased by the Relevant KHL Group to the Group, we have obtained and reviewed the sample quotations provided by the independent third party to the Group to compare two comparable properties in the nearby area against the monthly rental fee charged by the Relevant KHL Group to the Group. In view of the above, we noted that the terms offered by/to the Group to/by the Relevant KHL Group are no less favourable than those made available by/to the Group to/by the independent third party customers/suppliers.

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Review by the external auditors and the independent non-executive Directors

Save as the due diligence workdone we conducted as abovementioned, in addition, pursuant to Rule 14A.56 of the Listing Rules, the Company must engage its external auditors to review the continuing connected transactions annually to check and confirm, among others, whether the pricing terms have been adhered to and whether the relevant caps have been exceeded. With reference to the 2023 Annual Report and the independent auditor's assurance report on continuing connected transactions which we obtained from the Company, the Company had engaged PricewaterhouseCoopers the independent auditors of the Company (the "**Auditors**") to report on the continuing connected transactions in relation to the 2022 KLN Logistics Services Framework Agreement, the 2022 SF Logistics Services Framework Agreement and the 2021 KHL Framework Services Agreement (the "**Historical Transactions**") in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. We have obtained and reviewed the reports issued by the Auditors for FY2023 and note that the Auditors have concluded that nothing had come to their attention that caused them to believe that:

- (i) the Historical Transactions have not been approved by the Board;
- (ii) for transactions involving the provision of goods or services by the Group, the Historical Transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- (iii) the Historical Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing the Historical Transactions; and
- (iv) the Historical Transactions have exceeded the relevant cap amounts during FY2023.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors must review annually the continuing connected transactions and confirm in the Company's annual report whether the continuing connected transactions have been entered into: (a) in the ordinary and usual course of business; (b) on normal commercial terms or better; and (c) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole. We note the independent non-executive Directors have issued such confirmation in respect of the Historical Transactions in the 2023 Annual Report.

Based on the above, we consider that the Company has effective internal control procedures in place to monitor the pricing policies and of the Continuing Connected Transactions are fair, reasonable and on normal commercial term and the implementation of the above internal control procedures can ensure that the pricing terms of the Continuing Connected Transactions can be on normal commercial terms, fair and reasonable, and in particular, on terms that are no less favourable to the Group than those offered to the independent third party and that the Continuing Connected Transactions can be conducted as agreed in the 2024 KLN Logistics Services Framework Agreement, the 2024 SF Logistics Services Framework Agreement and the 2024 KHL Framework Services Agreement and in compliance with Chapter 14A of the Listing Rules.

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OPINION AND RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that (i) the entering into of the Non-exempt CCT Agreements and the transactions contemplated thereunder is in the ordinary and usual course of business of the Group; (ii) the terms of the Non-Exempt CCT Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions approving the Non-exempt CCT Agreements and the transactions contemplated thereunder (including the Proposed Annual Caps) at the SGM.

Yours faithfully,
for and on behalf of
CHINA SUNRISE CAPITAL LIMITED
Lenny Li
Executive Director

Mr. Lenny Li is a licensed person registered with the SFC and a responsible officer of China Sunrise Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO who has over 18 years of experience in corporate finance industry in Hong Kong.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(i) The Company

	Shares in the Company					Approximate percentage of issued share capital ⁽¹⁾
	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests	Total interests	
Directors						
WANG Wei ⁽²⁾	–	–	972,698,478	–	972,698,478	53.82%
KUOK Khoon Hua ⁽³⁾	600,428	–	–	1,132,479	1,732,907	0.10%
CHEUNG Ping Chuen Vicky ⁽⁴⁾	3,983,178	–	–	–	3,983,178	0.22%
CHENG Chi Wai ⁽⁵⁾	1,167,303	–	–	–	1,167,303	0.06%
WONG Yu Pok Marina ⁽⁶⁾	20,796	–	–	–	20,796	< 0.01%

Notes:

- (1) Based on 1,807,429,342 Shares in issue as at the Latest Practicable Date.
- (2) Mr Wang is interested in 972,698,478 Shares held through his controlled corporations, which includes the 41,489,361 Convertible Securities Mr Wang is deemed to be interested in pursuant to the disclosure requirements under the SFO.
- (3) Mr Kuok is interested in (i) 600,428 Shares as beneficial owner; and (ii) 1,132,479 Shares held through discretionary trusts of which Mr Kuok is a discretionary beneficiary.

- (4) Mr Cheung is interested in (i) 3,699,806 Shares as beneficial owner; and (ii) award granted under the Share Award Scheme conferring the conditional right upon vesting in the form of 283,372 Shares.
- (5) Mr Cheng is interested in (i) 869,797 Shares as beneficial owner; and (ii) award granted under the Share Award Scheme conferring the conditional right upon vesting in the form of 297,506 Shares.
- (6) Ms Wong is interested in 20,796 Shares as beneficial owner.

(II) Associated Corporations

Shenzhen Mingde Holding Development Co., Ltd.

	Registered capital of Shenzhen Mingde					Approximate percentage of registered capital ⁽¹⁾
	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests	Total interests	
Director						
WANG Wei ⁽²⁾	RMB113,286,600	–	–	–	RMB113,286,600	99.90%

Notes:

- (1) Based on a total registered capital of Shenzhen Mingde of RMB113,400,000 as at the Latest Practicable Date.
- (2) Mr Wang is interested in registered capital of Shenzhen Mingde in the amount of RMB113,286,600 as beneficial owner.

S.F. Holding Co., Ltd.

	Ordinary shares in SF Holding					Approximate percentage of issued share capital ⁽¹⁾
	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests	Total interests	
Directors						
HO Chit ⁽²⁾	488,000	–	–	–	488,000	0.01%
OOI Bee Ti ⁽³⁾	275,400	–	–	–	275,400	0.01%

Notes:

- (1) Based on 4,815,911,220 ordinary shares in SF Holding in issue as at the Latest Practicable Date.
- (2) Mr Ho is interested in (i) 122,000 ordinary shares in SF Holding as beneficial owner; and (ii) options granted under the 2022 stock option incentive plan of SF Holding to subscribe for 366,000 ordinary shares in SF Holding.
- (3) Ms Ooi is interested in (i) 71,400 ordinary shares in SF Holding as beneficial owner; and (ii) options granted under the 2022 stock option incentive plan of SF Holding to subscribe for 204,000 ordinary shares in SF Holding.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had registered an interest or a short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial shareholders who have an interest and/or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as it is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (other than a Director or the chief executive of the Company) had, or were deemed or taken to have, an interest or a short position in the Shares and underlying Shares, which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity/nature of interest	Number of Shares	Approximate percentage of shareholding in the total issued share capital ⁽¹⁾
WANG Wei	Interest of controlled corporations	972,698,478 ⁽⁷⁾	53.82%
Shenzhen Mingde Holding Development Co., Ltd. ⁽²⁾	Interest of controlled corporations	972,698,478 ⁽⁷⁾	53.82%
S.F. Holding Co., Ltd. ⁽³⁾	Interest of controlled corporations	972,698,478 ⁽⁷⁾	53.82%
Kerry Group Limited ⁽⁴⁾	Interest of controlled corporations	595,928,608 ⁽⁸⁾	32.97%
Kerry Holdings Limited ⁽⁵⁾	Interest of controlled corporations	572,100,979 ⁽⁸⁾	31.65%
Kerry Properties Limited ⁽⁶⁾	Beneficial owner	376,702,721 ⁽⁸⁾	20.84%

Notes:

(1) Based on 1,807,429,342 Shares in issue as at the Latest Practicable Date.

(2) Mr WANG Wei is the executive director of Shenzhen Mingde.

(3) Mr WANG Wei is an executive director, the chairman of the board of directors and the general manager of SF Holding. Mr HO Chit is an executive director, a deputy general manager and the chief financial officer of SF Holding. Ms OOI Bee Ti is the head of treasury center of SF Holding.

(4) Mr KUOK Khoon Hua is a director of KGL. Ms CHEN Keren is the group co-general counsel, the company secretary and the director of corporate services of KGL.

(5) Mr KUOK Khoon Hua is the chairman and a director of KHL.

- (6) Mr KUOK Khoon Hua is the chairman, the chief executive officer and an executive director of KPL.
- (7) Flourish Harmony is interested in 931,209,117 Shares as beneficial owner. SF Holding HK is interested in 41,489,361 Convertible Securities as beneficial owner. Each of Flourish Harmony and SF Holding HK is wholly owned by SF Holding. SF Holding is a subsidiary of Shenzhen Mingde which is in turn controlled by Mr WANG Wei. Accordingly, SF Holding, Shenzhen Mingde and Mr WANG Wei are deemed to be interested in the interest held by Flourish Harmony and SF Holding HK in the Company pursuant to the disclosure requirements under the SFO.
- (8) KPL is a subsidiary of KHL. KHL is a wholly-owned subsidiary of KGL. Accordingly, KHL is deemed to be interested in the interest held by KPL in the Company and KGL is deemed to be interested in the interest held by each of KHL and KPL in the Company pursuant to the disclosure requirements under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any person who had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or an employee of a company which had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

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

4. COMPETING INTERESTS

Mr WANG Wei, the chairman of the Board and a non-executive Director, is an executive director, the chairman of the board of directors, the general manager and the controlling shareholder of SF Holding. Mr HO Chit, a non-executive Director, is an executive director, a deputy general manager and the chief financial officer of SF Holding. Ms OOI Bee Ti, a non-executive Director, is the head of treasury center of SF Holding. SF Holding is primarily engaged in the provision of integrated logistics services.

Mr KUOK Khoon Hua, the vice chairman of the Board and a non-executive Director, is the chairman and a director of KHL as well as a director of KGL. Ms CHEN Keren, a non-executive Director, is the group co-general counsel, the company secretary and the director of corporate services of KGL. KGL wholly owns KHL which, in turn, is the controlling shareholder of Kerry TJ. Kerry TJ is primarily engaged in the provision of less-than-truck-load transport, container transportation, warehousing and refrigeration delivery and supply chain integration logistics services in Taiwan.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective close associates was interested in any business, apart from the Group's business, that competes or is likely to compete, either directly or indirectly, with the Group's business.

5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, save as disclosed in the sections headed "Events After The Year Ended 31 December 2023", "Significant Acquisition/Disposal and Discloseable and Connected Transactions" and "Continuing Connected Transactions" in the Company's annual report for the year ended 31 December 2023 on pages 73, 80 to 87, the Announcement and this circular, none of the Directors or entities connected with the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant in relation to the Group's business.

As at the Latest Practicable Date, save as disclosed in the Announcement and this circular, none of the Directors had any interest, directly or indirectly, in any assets which had been, since 31 December 2023 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

6. LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors pending or threatened by or against any member of the Group.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions contained in and referred to in this circular:

Name	Qualification
China Sunrise Capital Limited	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The Independent Financial Adviser has given and has not withdrawn its consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the Independent Financial Adviser had no shareholding in any member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the Independent Financial Adviser had no interest, directly or indirectly, in any assets which had been, since 31 December 2023 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

The letter from the Independent Financial Adviser is set out on pages 34 to 70 of this circular and is given for incorporation in this circular.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. MISCELLANEOUS

- (a) The Company's registered office is at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda. The Company's principal place of business in Hong Kong is at 16/F, Kerry Cargo Centre, 55 Wing Kei Road, Kwai Chung, New Territories, Hong Kong.
- (b) The Company's company secretary is Ms LEE Pui Nee. Ms Lee is a Chartered Secretary, a Chartered Governance Professional, an Associate of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries & Administrators) and an Associate of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries).
- (c) The Company's Hong Kong branch share registrar and transfer office is Tricor Investor Services Limited, whose business address is at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (d) The English texts of this circular and the accompanying proxy form shall prevail over the Chinese texts.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the Company's website at www.kln.com and the Stock Exchange's website at www.hkexnews.hk from the date of this circular and up to and including the date which is 14 days from the date of this circular:

- (a) the 2024 KLN Logistics Services Framework Agreement;
- (b) the 2024 SF Logistics Services Framework Agreement;
- (c) the 2024 KHL Framework Services Agreement;
- (d) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in pages 32 and 33 of this circular;
- (e) the letter from the Independent Financial Adviser dated 27 August 2024, the text of which is set out in pages 34 to 70 of this circular; and
- (f) the written consent from the Independent Financial Adviser dated 27 August 2024 referred to in the paragraph headed "7. Expert and Consent" in this appendix.

NOTICE OF SGM



Kerry Logistics
Network Limited
嘉里物流聯網有限公司

(Incorporated in the British Virgin Islands and continued into Bermuda
as an exempted company with limited liability)

Stock Code 636

NOTICE IS HEREBY GIVEN THAT the special general meeting (the “**SGM**”) of Kerry Logistics Network Limited (the “**Company**”) will be held via the e-Meeting System on Thursday, 12 September 2024 at 2:30 p.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions with or without amendments. Unless otherwise defined, capitalised terms used in this notice shall have the same meanings as defined in the circular of the Company dated 27 August 2024 of which this notice forms part.

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the 2024 KLN Logistics Services Framework Agreement and the transactions contemplated under such agreement be and are hereby confirmed, approved and ratified;
- (b) the Proposed KLN Annual Caps be and are hereby approved; and
- (c) any one Director (or one Director and the Company’s company secretary or any two Directors, in the case of execution of documents under seal) be and is/are hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with the implementation of and giving effect to, the 2024 KLN Logistics Services Framework Agreement and the transactions contemplated under such agreement.”

2. “**THAT:**

- (a) the 2024 SF Logistics Services Framework Agreement and the transactions contemplated under such agreement be and are hereby confirmed, approved and ratified;
- (b) the Proposed SF Annual Caps be and are hereby approved; and
- (c) any one Director (or one Director and the Company’s company secretary or any two Directors, in the case of execution of documents under seal) be and is/are hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with the implementation of and giving effect to, the 2024 SF Logistics Services Framework Agreement and the transactions contemplated under such agreement.”

NOTICE OF SGM

3. "THAT:

- (a) the 2024 KHL Framework Services Agreement and the transactions contemplated under such agreement be and are hereby confirmed, approved and ratified;
- (b) the Proposed KHL Annual Caps be and are hereby approved; and
- (c) any one Director (or one Director and the Company's company secretary or any two Directors, in the case of execution of documents under seal) be and is/are hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with the implementation of and giving effect to, the 2024 KHL Framework Services Agreement and the transactions contemplated under such agreement."

By Order of the Board
LEE Pui Nee
Company Secretary

Hong Kong, 27 August 2024

Corporate Headquarters and

Principal Place of Business in Hong Kong:

16/F, Kerry Cargo Centre

55 Wing Kei Road

Kwai Chung

New Territories

Hong Kong

NOTICE OF SGM

Notes:

1. Registered Shareholders are requested to provide a valid email address of himself/herself or his/her proxy (except for the appointment of the chairman of the SGM) for the proxy to receive the log-in username and password to participate online in the e-Meeting System.
2. All registered Shareholders will be able to join the SGM via the e-Meeting System. The e-Meeting System can be accessed from any location with access to the internet via smartphone, tablet device or computer. All non-registered Shareholders may consult directly with their banks, brokers, custodians or Hong Kong Securities Clearing Company Limited (as the case may be) for necessary arrangement to attend and vote via the e-Meeting System at the SGM if they wish.
3. Every member entitled to attend and vote via the e-Meeting System at the SGM (or at any adjournment thereof) is entitled to appoint up to two individuals as his proxies. A proxy need not be a member of the Company. The number of proxies appointed by a clearing house (or its nominee) is not subject to the aforesaid limitation.
4. Where there are joint holders of any share, only ONE PAIR of log-in username and password for the e-Meeting System will be provided to the joint holders. Any one of such joint holders may attend or vote in respect of such share(s) as if he/she was solely entitled thereto.
5. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of that power or authority), must be deposited at the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, or submitted via the designated URL (<https://spot-emeeting.tricor.hk/#/636>) by using the log-in username and password provided on the notification letter sent by the Company, not less than 48 hours before the time appointed for the holding of the SGM, i.e. by no later than 2:30 p.m. on Tuesday, 10 September 2024. Completion and return of the form of proxy will not preclude a member from attending the SGM and voting via the e-Meeting System if he/she so wishes.
6. The registers of members of the Company will be closed from Wednesday, 11 September 2024 to Thursday, 12 September 2024, during which period no transfer of shares will be effected. In order to be entitled to attend and vote via the e-Meeting System at the SGM, all transfers accompanied by the relevant share certificates must be lodged for registration with Tricor Investor Services Limited at the above address before 4:30 p.m. on Tuesday, 10 September 2024.
7. All the resolutions set out in this notice shall be decided by poll.
8. If Typhoon Signal No. 8 or above is expected to be hoisted or a Black Rainstorm Warning Signal is expected to be in force any time after 9:00 a.m. on the date of the SGM, then the SGM will be postponed and the Shareholders will be informed of the date, time and venue of the rescheduled meeting by a supplementary notice posted on the Company's website at www.kln.com and The Stock Exchange of Hong Kong Limited's website at www.hkexnews.hk.
9. The SGM will be held as scheduled when an Amber or Red Rainstorm Warning Signal is in force.