FRONTPAGE 富比
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16 December 2024

To the Independent Board Committee and the Independent Shareholders of
Chu Kong Shipping Enterprises (Group) Company Limited

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps, which constitute non-exempt continuing connected transactions for the Company. Details of the terms of the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps are set out in the letter from the Board (the "**Board Letter**") contained in the circular of the Company dated 16 December 2024 and issued to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular, unless the context otherwise requires.

References are made to the announcement of the Company dated 30 November 2021 and the circular of the Company dated 5 January 2022. The Group has been carrying on certain continuing connected transactions from time to time pursuant to the existing master agreements entered into between the Company and GDPS dated 30 November 2021, which expires on 31 December 2024. It is expected that the Group will continue to enter into transactions of a similar nature to those existing master agreements.

On 25 November 2024, the Company and GDPS entered into the New Master Agreements to govern the Continuing Connected Transactions between the Group and the GDPS Group for the period from 1 January 2025 to 31 December 2027.

As GDPS indirectly holds approximately 71% of the total issued share capital of the Company as at the date of this Circular, GDPS is a connected person of the Company under the Listing Rules and the transactions contemplated under the New Master Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable Percentage Ratios relating to the Proposed Annual Caps for the transactions contemplated under the Non-Exempt Continuing Connected Transactions and the respective annual caps are higher than 5% and over HK$10,000,000 on an annual basis, the Non-Exempt Continuing Connected Transactions and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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Mr. Liu Guanghui, Mr. Zhou Jun, being the executive Directors and Ms. Zhong Yan, being the non-executive Director, as at the Latest Practicable Date, are also the directors of Chu Kong Shipping Enterprises (Holdings) Company Limited. Mr. Liu Wuwei, being the executive Director as at the Latest Practicable Date, is also the director of GDPS Group. Each of Mr. Liu Guanghui, Mr. Zhou Jun, Mr. Liu Wuwei and Ms. Zhong Yan, is being regarded as having a material interest in the transactions contemplated under the New Master Agreements and have abstained from voting on the board resolution approving the New Master Agreements.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Chan Kay-cheung, Ms. Yau Lai Man, Hon. Rock Chen Chung-nin and Mr. Tang Yi Hoi, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps. Our role as Independent Financial Adviser is to give our opinion and recommendation as to whether the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and whether the Independent Shareholders should vote in favour of the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have considered, among other things, (i) the existing master agreements; (ii) the New Master Agreements; (iii) the 2023 annual report of the Company; (iv) the 2024 interim report of the Company; and (v) other information as set out in the Circular.

We have also relied on all relevant information, opinions and facts supplied and represented by the Company, the Directors and the management of the Company. We have assumed that all such information, opinions, facts and representations provided to us or contained or referred to in the Circular, for which the Company is fully responsible, were true and accurate in all respects as at the date hereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, and the Company has confirmed that no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out independent verification of the information provided by the Directors and the representatives of the Company, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of the Group and any of their respective subsidiaries and associates.

OUR INDEPENDENCE

We are not connected with the Directors, chief executive and substantial Shareholders of the Company, Chu Kong Shipping Enterprises (Holdings) Company Limited, GDPS Group or any of their respective subsidiaries or associates and do not have any shareholding, direct or indirect, in any member of the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Company as at the Latest Practicable Date. There is no arrangement exists whereby we will receive any benefits from the Company or the Directors, chief executive and substantial Shareholders of the Company, Chu Kong Shipping Enterprises (Holdings) Company Limited, GDPS Group or any of their respective subsidiaries or associates for our services to the Company in connection with this appointment aside from our professional fees. Therefore, we consider ourselves eligible to act as the Independent Financial Adviser to the Company under the requirements of the Listing Rules.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps, we have taken into consideration the following principal factors and reasons:

1. Background

Information in relation to the Group

The Group is mainly engaged in the operation and management of river trade cargo terminals in mainland China and Hong Kong; cargo transportation, warehousing and storage business; provision of management and other related services to high-speed waterway passenger transportation in Guangdong, Hong Kong and Macao; provision of ferry services in Hong Kong; and provision of diesel and lubricants for passenger ferries and cargo vessels in Hong Kong.

According to the 2023 annual report of the Company, the Group recorded a consolidated revenue of approximately HK$2,553,835,000 (2022: approximately HK$2,899,545,000), representing a decrease of 11.9% as compared with the previous year. Profit attributable to the Shareholders of the Company amounted to approximately HK$114,069,000 (2022: approximately HK$93,490,000), representing an increase of 22.0% as compared with the corresponding period. The increase in the profit attributable to the Shareholders of the Company is primary attributable to the increase in gross profit and shares of profits less losses of joint ventures and associates, partially offset by the decrease in other income for the year ended 31 December 2023.

The following table below sets forth the breakdown of the revenue of the Group for the years ended 31 December 2022 and 2023 according to business segment:

	Year ended 31 December		
	2022	2023	Year-on-year
Business segment	*(HK$'000)*	*(HK$'000)*	*(%)*
Cargo transportation	2,008,334	1,424,817	-29.1%
Cargo handling and storage	469,920	411,306	-12.5%
Passenger transportation	263,193	341,668	29.8%
Fuel supply	134,306	351,464	161.7%
Corporate and other businesses	23,792	24,580	3.3%
Total	**2,899,545**	**2,553,835**	**-11.9%**

Information in relation to the GDPS Group

GDPS Group is principally engaged in (i) the tourist and tourist related industries; (ii) the transportation of passengers and cargoes in the Pearl River Delta Region; and (iii) the leasing of properties.

2. Master Fuel Supply Agreement

(i) Principal terms of the Master Fuel Supply Agreement

Date of the agreement:	25 November 2024
Tenure of the agreement:	From 1 January 2025 to 31 December 2027
Provider of fuel supply:	The Group
Recipient of fuel supply:	GDPS Group
Subject matter:	Pursuant to the Master Fuel Supply Agreement, the Group agrees to supply diesel and lubricants to the passenger ferries and cargo vessels owned, chartered, operated or acted as agent by the GDPS Group at the request of any member of the GDPS Group from time to time in accordance with the terms and conditions of the relevant fuel supply agreements to be entered into between members of the Group and members of the GDPS Group.

The diesel and lubricants are standard products manufactured and sold to the Group by major oil companies. The Group would retrieve the diesel from the location specified by the oil companies and the lubricants will be delivered to the Group's oil tankers once the Group have placed an order with them. In terms of provision of diesel to our customers, the customers would make arrangements to purchase the diesel either via the Group's oil tankers or at terminal docks. As for provision of lubricants, the Group will supply to the customers via the Group's oil tankers.

Payment terms: The GDPS Group shall settle the purchase price of diesel and lubricants in arrears on a monthly basis to the Group within 30 days after the balance has been confirmed between both parties.

(ii) Reasons and benefits for the Master Fuel Supply Agreement

As advised by the management of the Company, the Group has been supplying fuel to the GDPS Group for many years. As a result of the Group's long term business relationship with GDPS Group, the Group is familiar with the needs of GDPS Group and is able to accommodate GDPS Group's needs. The Directors consider that the proposed annual cap for the Master Fuel Supply Agreement will bring stable income and profit to the Group. In addition, counterparty risk is also lower in light of the long-established and close working relationship between the Group and GDPS Group, as compared if the Group was to sell the same amount of diesel and lubricants to Independent Third Parties.

Having considered the above reasons, we are of the view that the reasons for the Master Fuel Supply Agreement is on normal commercial terms and in the ordinary and usual course of business of the Company, fair and reasonable so far as the Independent Shareholders are concerned, and in the interest of the Company and the Shareholders as a whole.

(iii) Pricing basis

As regards to the provision of diesel, depending on the term of supply and the size of customers, the pricing policy of the Group is briefly described as follows:

(a) for customers who procure from the Group on a regular basis and billed on a monthly basis, the aggregate sum of (i) the monthly average spot price for diesel provided by diesel suppliers in their quotations on a monthly basis based on the Singapore spot market price, being one of the major oil reference price for Asia; (ii) the warehouse and transportation fees charged by the diesel supplier(s) and incurred by the Group, which are passed down to the customers; and (iii) a standard operational handling fees based on the location of where the diesel is provided taking into account the operational costs of each location; or

(b) for customers who procure from the Group on an ad-hoc basis and billed as and when they procure the diesel, which is based on diesel spot price provided by diesel suppliers in their quotations based on the Singapore spot market price, being one of the major oil reference price for Asia, on the date preceding the supply of diesel, and the selling price of diesel as quoted by one of the largest diesel suppliers in Hong Kong.

With respect to diesel pricing policy (a), the Group's business operation department will prepare a monthly price formulation schedule of all regular customers to determine the final pricing of the customers which will need to be approved by the business operation manager. Since the GDPS Group has been a regular customer of the Group, the Group charges at a price determined based on pricing policy (a). For pricing policy (b), the price of diesel will be determined daily by the business operation department prior to the start of operation and one price will be charged throughout the day.

The Group formulates a standard price to customers based on the pricing factors disclosed above. The diesel price charged to the GDPS Group will be no lower than the standard price. Independent Third Parties are also charged at the standard price or a more competitive price when contracts are tendered from Independent Third Parties.

As regards to the provision of lubricants which are standard products manufactured and sold by major oil companies, the Group will charge on the basis of cost plus a markup of approximately 5% to 10% that would be below the recommended retail pricing of the lubricants as suggested by the manufacturer in order to remain competitive when compared to other brands of lubricants available in the market. The Group will determine the markup for the price of lubricants after making references to the selling price of similar products from various public sources such as competitors' websites. The price list will be reviewed by the Group's business operation department if there are any changes in the price of the lubricants when obtained from the suppliers and any changes will need to be approved by the business operation manager. The lubricants are sold at the same price for all customers.

The price of the diesel and lubricants offered by the Group to the GDPS Group will be on terms no more favourable than the terms available to the Independent Third Parties. Both diesel and lubricants are supplied by the Group to the GDPS Group on substantially the same terms as they are supplied to other independent customers of the Group which would be determined with reference to the purchased quantity of diesel and lubricants, the volume delivered, the frequency of delivery, the payment terms and the tender terms determined following the tender process and relationship with the customers.

In order to assess the fairness and reasonableness of the pricing basis of Master Fuel Supply Agreement, we have obtained and reviewed 3 random sample copies for each of diesel and lubricant of relevant invoices per year in respect of the historical transactions between the Group and the GDPS Group under the Existing Master Fuel Supply Agreement and compare them to invoices of similar products and dates issued by the Group to other Independent Third Parties during the tenure of the Existing Master Fuel Supply for each of the two years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024. We are of the view that 3 random samples from each year sufficiently spread out over each year when diesel prices have varied over time is representative and sufficient for our assessment purposes and therefore is fair and reasonable to use such sample size. Based on our review of the invoices, we noted that the prices of diesel and lubricants sold by the Group to the GDPS Group were no more favourable than standard prices paid by Independent Third

Parties, and were hence in line with the pricing basis under the Existing Master Fuel Supply Agreement. Based on our discussion with the management and the samples that we have reviewed, the warehouse and transportation fees charged by the diesel supplier(s) were passed on to customers and additional standard operational handling fees were charged according to the location of the refueling. In terms of provision of lubricants, the prices paid by their customers are the same for both GDPS Group and Independent Third Parties depending on the type of lubricants needed by the customers. We also noted that the pricing and payment terms under the Existing Master Fuel Supply Agreement are no more favourable to the GDPS Group than those under the aforesaid sample relevant invoices issued to other Independent Third Parties. Therefore, we are of the view that the pricing basis for the Master Fuel Supply Agreement is on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable insofar as the Independent Shareholders are concerned, and in the interest of the Company and Shareholders as a whole.

(iv) Annual Cap and basis of determination

A summary of the Master Fuel Supply Agreement under the Non-Exempt Continuing Connected Transactions, which include (i) the historical annual caps for the three years ending 31 December 2024; (ii) the historical transaction amounts for the two years ended 31 December 2023 and the nine months ended 30 September 2024; and (iii) the Proposed Annual Caps are set out in the table below:

	For the year ended/ending 31 December					
	2022	**2023**	**2024**	**2025**	**2026**	**2027**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Annual caps	182,000	184,000	185,000	75,100	76,700	77,000
Historical transaction amount	17,016	73,093	46,140 (January to September)	N/A	N/A	N/A

In determining the Proposed Annual Caps, the Directors have taken into consideration the following factors in determining the annual caps for the three years ending 31 December 2027:

(i) the historical transactions of the Existing Master Fuel Supply Agreement for each of the two years ended 31 December 2022 and 2023 and for the nine months ended 30 September 2024; and

(ii) the change in the selling price of diesel in respect of the Master Fuel Supply Agreement.

To arrive at our view of the Proposed Annual Caps for the Master Fuel Supply Agreement for the three years ending 31 December 2027, we have considered the following factors:

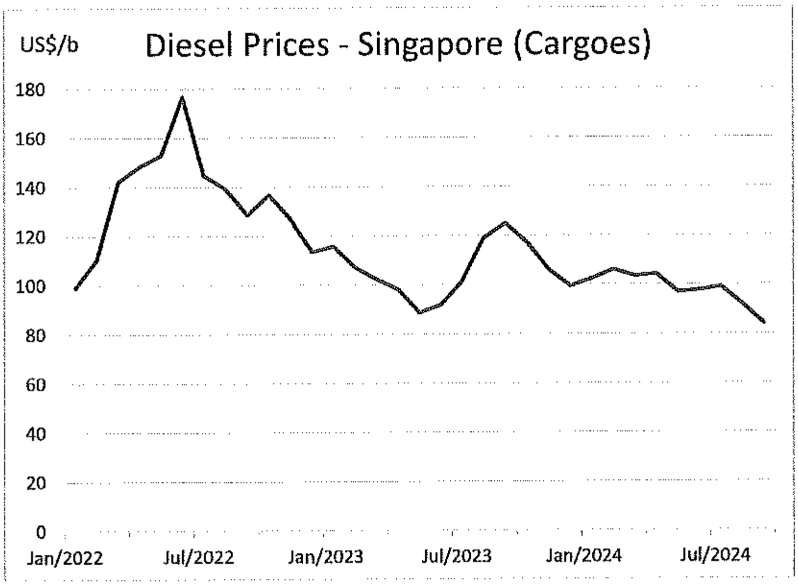
Historical transaction amount

For illustration purpose, the historical and expected transaction amount for the Existing Master Fuel Supply Agreement would be approximately HK$17.0 million, HK$73.1 million and HK$61.5 million for the year ended 31 December 2022, 2023 and 2024 respectively, if we annualised the historical amount for the remaining period of the 9 months ended 30 September 2024. The demand in year 2022 remained at a low level as the cross border tourist passengers who have been severely affected by the COVID-19 epidemic. Upon the gradual opening of the border between Hong Kong and mainland China, the situation has begun to normalize in 2023. The management considered the demand under the Existing Master Fuel Supply Agreement for the year ended 31 December 2023 and the nine months ended 30 September 2024 were relatively stable, and the decrease in the expected transaction amounts under the Master Fuel Supply Agreement for the year ending 31 December 2024 was mainly attributable to the decrease in the diesel price. In September 2024, the diesel price was lower than that in 2023 for over 20%.

To assess the reasonableness of the annual caps, we have discussed with the management on the basis adopted on determining the annual caps. We noted that the management expected the demand of diesel and lubricants to GPDS Group will remain relatively stable during 2025 to 2027. In arriving the Proposed Annual Caps, the Company expected that the demand of diesel and lubricants under the Master Fuel Supply Agreement for 2025 would be approximately HK$68.5 million, which roughly equals to the average annual sales under the Existing Master Fuel Supply Agreement for the year ended 31 December 2023 and the nine months ended 30 September 2024. The Company also included a slight increment of approximately 2% for the sales under the Master Fuel Supply Agreement for 2026 and 2027 as organic growth. Having considered that (i) the cross border function between Hong Kong and mainland China have been severely affected by the COVID-19 epidemic in 2022 and the border between Hong Kong and mainland China has gradually opened and the situation has begun to normalize in 2023; (ii) the expected demand adopted in determining the annual caps for the years ended 31 December 2025, 2026 and 2027 were mainly based on the average of actual historical and expected sales during 2023 and 2024, which considered to be relatively stable, we concur with the management that the expected demand adopted in determining the annual caps, are prudent and reasonable.

Diesel prices

As advised by the Company, the transaction amount under the Existing Master Fuel Supply Agreement is mainly affected by the fluctuation in fuel price, in particular the price of diesel. Therefore, in arriving at our view on the GDPS Group's future demands for fuel and lubricants for the next three years to 31 December 2027, we have considered the historical fluctuations in diesel price from January 2022 to September 2024.



***Sources:** Monthly Oil Market Reports of the Organization of the Petroleum Exporting Countries (https://www.opec.org/opec_web/en/publications/338.htm)*

Based on the data reported by the Organization of the Petroleum Exporting Countries, an intergovernmental organization of twelve oil-exporting developing nations, cargoes diesel pricing as quoted in Singapore (which is a major oil trading hub in Asia with its futures contracts traded on the Chicago Mercantile Exchange) reached a high of approximately US$180 per barrel in June 2022. Subsequently, the prices retreated below US$100 per barrel in 2024.

It was also noted that the intra year fluctuations of diesel price may be up to 20% for 2023 and 2024. Assuming there is no significant change in the supply of fuel oil, we do foresee demand for diesel may continue to fluctuate over the next few years due to the uncertainties arise from the changing in global economy or trade condition.

In addition to the expected demand under the Master Fuel Supply Agreement for the three years ending 31 December 2027 as discussed above, the Company further included an overall buffer of 10% in determining the annual caps to cope with any unforeseeable demand under the Master Fuel Supply Agreement or increase in the diesel price. As a result, the Proposed Annual Caps for the year ending 31 December 2025, 2026 and 2027 would be approximately HK$75.1 million, HK$76.7 million and

HK$77.0 million. Having considered that (i) the expected demand adopted in determining the annual caps are prudent and reasonable as discussed above; and (ii) the buffer applied is about half of the intra-year fluctuation in diesel price and therefore prudent and reasonable, we are of the view that the Proposed Annual Caps based on this are fair and reasonable.

As the Master Fuel Supply Agreement is revenue in nature, if would be in the interest of the Company to have sufficient annual caps to continue trading diesel with the GDPS Group even when the price rises. Therefore, we are of the view that the 3 years annual caps of the Master Fuel Supply Agreement are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interest of the Company and Shareholders as a whole.

3. Internal Control Measures

In order to ensure that (i) the terms offered in the Non-Exempt Continuing Connected Transactions are no more favourable than those terms offered to Independent Third Parties or not less favourable to the Group than those offered by Independent Third Parties; and (ii) the Proposed Annual Caps are not exceeded, the Company implemented the following procedures supervising the Non-Exempt Continuing Connected Transactions into the internal control system:

(i) policies relating to Measures for Management of Connected Transactions (including continuing connected transactions) has been issued to ensure the proper control and management of connected transactions in the Group;

(ii) the Company will supervise the Non-Exempt Continuing Connected Transactions pursuant to its internal control manual and procedures;

(iii) the internal audit department of the Company will periodically review (at least on an annual basis) and inspect the process of the Non-Exempt Continuing Connected Transactions under the New Master Agreement;

(iv) the finance department of the Company will collect statistics and report to management quarterly the transaction amount of the Non-Exempt Continuing Connected Transactions to ensure the respective annual caps approved by the Board or the Independent Shareholders are not exceeded. If 80% of the relevant annual cap has been utilised, the finance department would alert the management, and the management shall determine whether the remaining unused annual cap is still sufficient, and whether that the Group should strictly control the transaction amount to keep within the relevant annual cap or that a revision of the respective annual cap is required;

(v) the auditor of the Company will review the statistics of the Non-Exempt Continuing Connected Transactions on an annual basis in compliance with the annual reporting and review requirements under the Listing Rules; and

(vi) the independent non-executive Directors will perform an annual review on the Non-Exempt Continuing Connected Transactions pursuant to Rule 14A.55 of the Listing Rules.

In relation to the invoicing of diesel and lubricants to the customers, the finance department will check the invoices against the monthly price formulation schedule and the price list before sending the final invoice to the customers to ensure the price charged to the customers is in accordance to the approved price formulation schedule and price list.

As discussed with the management, by implementing the above procedures, the Directors consider that the Company has established sufficient internal control measures to ensure that the Non-Exempt Continuing Connected Transactions and their Proposed Annual Caps are in the ordinary and usual course of business of the Group and on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Based on the 2022 and 2023 annual reports of the Company, we noted that the auditor has issued unqualified letters containing the findings and conclusions in respect of the continuing connected transactions of the Company in accordance with Chapter 14A.56 of the Listing Rules.

We have discussed with the management of the Company to understand the abovementioned internal control procedures and have also obtained and reviewed the corporate governance structure and internal control procedures and policies. We have also obtained and reviewed the quarterly statistics of the Non-Exempt Continuing Connected Transactions and the 2022 internal audit department annual review report, which were presented to the management of the Company. In particular, we noted from the review report that the internal audit department satisfied with the internal control in relation to the continuing connected transactions of the Company. Therefore, we are of the view that the above internal control measures are well established and proper measures are implemented to ensure that the relevant Proposed Annual Caps under the respective agreements will not be exceeded.

We have also reviewed the monthly price formulation schedule provided by the Company to determine if there was sufficient control procedures performed when determining the diesel pricing. According to the schedule of customer pricing we have reviewed, we noted that the formulation of price offered to vessel operators of the GDPS Group and Independent Third Parties were listed out in detail to ensure they used the standard price. The aforesaid document was prepared by the business operation department and approved/signed by the business operation manager before it comes into effect to determine the monthly invoice amount of the customers. Hence, we are of the view that there is sufficient internal control on the pricing policy to ensure the terms offered to the GDPS Group are no more favourable than the terms available to Independent Third Parties.

Based on the above reasons, we are of the view that proper internal control procedures are in place to monitor the pricing and the transaction contemplated under the Non-Exempt Continuing Connected Transactions and their Proposed Annual Caps and such procedures are in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interest of the Company and Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we are of the view that the Master Fuel Supply Agreement of the Non-Exempt Continuing Connected Transactions and the Proposed Annual Caps are in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we would recommend that the Independent Board Committee advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the upcoming General Meeting to approve the Non-Exempt Continuing Connected Transactions and their Proposed Annual Caps.

Yours faithfully,
For and on behalf of
Frontpage Capital Limited

Wu Man Kit
Director

Note: Mr. Wu Man Kit is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Frontpage Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over 10 years of experience in corporate finance.