



6 May 2025

To: *The Independent Board Committee and the Independent Shareholders of KLN Logistics Group Limited*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
REVISION OF ANNUAL CAPS UNDER
(1) THE 2024 KLN LOGISTICS SERVICES FRAMEWORK AGREEMENT; AND
(2) THE 2024 SF LOGISTICS SERVICES FRAMEWORK AGREEMENT**

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the revision of annual caps under the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement (the "**Revision of Annual Caps**"), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 6 May 2025 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 31 July 2024 (after trading hours), the Company and SFTS entered into the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement. As stated in the Letter from the Board, based on the Group's historical transaction amounts in the second half of 2024, the unaudited management accounts of the Company and operational data for the two months ended 28 February 2025, it has come to the attention of the Board that the actual transaction amounts contemplated under the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement may exceed the Existing KLN Annual Caps and Existing SF Annual Caps, respectively.

In view of the expected growth in demand from the Group and SFTS Group (as applicable) of the relevant services and the actual transaction amounts incurred or made to date under the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement, the Board anticipates that the Existing KLN Annual Caps and Existing SF Annual Caps for the financial years ending 31 December 2025, 2026 and 2027 will not be sufficient to meet the expected transaction amounts under the respective agreements. The Revised KLN Annual Caps and the Revised SF Annual Caps would enable the Group and SFTS Group to continue and expand their cooperation and utilisation of their respective resources, services and strengths, thereby bring efficiencies of scale to their business operations. Accordingly, the Board proposes and considers it beneficial for the Company to increase the annual caps to the Revised Annual Caps.

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 (the “**Continuing Connected Transactions**”) 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 Revised KLN Annual Caps exceeds 5%, the revision of the annual caps under the 2024 KLN Logistics Services Framework Agreement is 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 Revised SF Annual Caps exceeds 5%, the revision of the annual caps under the 2024 SF Logistics Services Framework Agreement is subject to the reporting, announcement, circular, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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, an 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 (A Shares) in SF Holding and options granted under the 2022 stock option incentive plan of SF Holding to subscribe for 366,000 ordinary shares (A Shares) in SF Holding (representing approximately 0.01% in the issued share capital (A Shares) 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 (A Shares) in SF Holding and options granted under the 2022 stock option incentive plan of SF Holding to subscribe for 204,000 ordinary shares (A Shares) in SF Holding (representing approximately 0.01% in the issued share capital (A Shares) 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 revision of annual caps under the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement and the transactions contemplated under such agreements (including the Revised KLN Annual Caps and the Revised SF Annual Caps). Save as disclosed above, none of the other Directors has a material interest in the Revised KLN Annual Caps and the Revised SF Annual Caps, 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, (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) the trustee of the Share Award Scheme held 5,432,733 Shares (including 131,728 unvested Shares awarded under the Share Award Scheme) (the "Trustee"). Save for SF Holding and its associate(s) who will abstain from voting on the resolutions in respect of the Revised KLN Annual Caps and the Revised SF Annual Caps 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 Revised KLN Annual Caps and the Revised SF Annual Caps and the transactions contemplated thereunder and is required to abstain from voting at the SGM. The Trustee is required to and will abstain from voting at the SGM pursuant to Rule 17.05A of the Listing Rules.

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 and to advise the Independent Shareholders on the revision of the annual caps under the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement and the transactions contemplated under such agreements, as well as the adoption of the Revised KLN Annual Caps and the Revised SF Annual Caps. We, Ignite Capital, have been appointed by the Company as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Group, SF Holding, SFTS, SFTS Group, 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 two years immediately prior to this letter, we have not: (i) acted in the capacity as a financial adviser or as an independent financial adviser to the Company; (ii) provided any services to the Company; or (iii) had any relationship with the Company. Apart from normal independent financial advisory fees paid or payable (as the case may be) to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Group, SF Holding, SFTS, the Directors, chief executive or substantial Shareholders of the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

- (i) the 2024 Circular;
- (ii) the 2024 KLN Logistics Services Framework Agreement;
- (iii) the 2024 SF Logistics Services Framework Agreement;
- (iv) the announcement of the Company dated 28 March 2025 in relation to the results for the year ended 31 December 2024 of the Group (the "2024 Results Announcement"); and
- (v) other information as set out in the Circular.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Group (collectively, the "**Management**"). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the SGM.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the revision of the annual caps under the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement and the transactions contemplated under such agreements, as well as the adoption of the Revised KLN Annual Caps and the Revised SF Annual Caps, and except for its inclusion in the Circular, 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 AND REASONS CONSIDERED

In arriving at our opinion in respect of the Revision of Annual Caps, we have taken into consideration the following principal factors and reasons:

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 59 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.

Table 1: Highlights of the financial results of the Group

	Audited	
	FY2024	FY2023
	(HK\$'000)	(HK\$'000)
Revenue	58,274,404	47,407,559
Gross profit	5,647,072	4,901,156
Profit/(loss) attributable to the Shareholders	1,541,524	791,165
– Continuing operations	1,320,290	1,209,818
– Discontinued operations ^{Note}	221,234	(418,653)

Source: 2024 Results Announcement

Note: For details of the discontinued operations, please refer to the annual reports of the Company and the 2024 Results Announcement.

During FY2024, the Group recorded revenue of approximately HK\$58,274.4 million, representing an increase of approximately 22.9% from approximately HK\$47,407.6 million for FY2023. As disclosed in the 2024 Results Announcement, such growth in the revenue of the Group was mainly contributed by the growth in the international freight forwarding business in the key markets including the Mainland of China, the United States, Hong Kong and the rest of Asia. Gross profit of the Group increased by approximately 15.2% to approximately HK\$5,647.1 million for FY2024 from approximately HK\$4,901.2 million for FY2023. The Group recorded profit attributable to the Shareholders from continuing operation of approximately HK\$1,320.3 million, representing a growth rate of approximately 9.1% from approximately HK\$1,209.8 million in FY2023. The increase in profit attributable to the Shareholders from continuing operation was also mainly attributable to the outperformance in the international freight forwarding segment which recorded a segment profit of approximately HK\$1,950.6 million in FY2024, representing a growth rate of approximately 39.3% as compared to FY2023. Such outperformance was supported by the growth in key market including the Mainland of China, the US, Hong Kong and the rest of Asia.

Table 2: Highlights of the financial positions of the Group

	Audited	
	As at 31 December	
	2024	2023
	(HK\$'000)	(HK\$'000)
Non-current assets	20,417,237	20,699,473
Current assets	22,285,248	21,421,442
Non-current liabilities	8,103,658	7,358,856
Current liabilities	15,519,696	14,654,800
The equity attributable to the Shareholders	16,755,754	17,586,380

Source: 2024 Results Announcement

As at 31 December 2024, the total assets of the Group amounted to approximately HK\$42,702.5 million, registering a slight increase of approximately 1.4% from approximately HK\$42,120.9 million as at 31 December 2023. Such increase was mainly attributable to: (i) the increase in accounts receivable, prepayments and deposits of approximately HK\$2,664.2 million; (ii) the increase in amounts due from fellow subsidiaries of approximately HK\$411.9 million; (iii) the decrease in assets classified as held for distribution of approximately 2,070.7 million; and (iv) the decrease in financial assets at fair value through other comprehensive income of approximately HK\$161.4 million. On the other hand, the total liabilities of the Group amounted to approximately HK\$23,623.3 million as at 31 December 2024, recorded a moderate increase of approximately 7.3% from approximately HK\$22,013.6 million as at 31 December 2023. Such increase was mainly attributable to: (i) the increase in accounts payable, deposits received and accrued charges of approximately HK\$2,412.4 million; (ii) the increase in bank loans of approximately HK\$322.8 million; (iii) increase in lease liabilities of approximately HK\$249.8 million; and (iv) the decrease in the liabilities associated with assets classified as held for distribution of approximately HK\$1,471.6 million.

Given the movements of the total assets and total liabilities of the Group highlighted above, the equity attributable to the Shareholders decreased from approximately HK\$17,586.4 million as at 31 December 2023 to approximately HK\$16,755.8 million as at 31 December 2024, representing a decrease of approximately 4.7%.

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.

2. Industry outlook and prospects of the Group

The global economy is holding steady in 2024, although the degree of grip varies widely across countries. According to the report titled "World Economic Outlook" (the "World Economic Outlook") published by the International Monetary Fund ("IMF") in October 2024¹ and January 2025², the past few years have put the resilience of the global economy to the test. A once-in-a-century pandemic, eruption of geopolitical conflicts, and extreme weather events have disrupted supply chains, caused energy and food crises. The global economy has demonstrated resilience overall, but this masks uneven performance across regions and lingering fragilities. Since the beginning of 2024, signs have emerged that cyclical imbalances are being gradually resorbed, with economic activity in major economies better aligned with their potential. These developments may have helped bring inflation rates across countries closer together, but the momentum in global disinflation appears to have slowed in the first half of 2024. With inflation approaching central bank targets and governments striving to manage debt dynamics, the policy mix is expected to shift from monetary to fiscal tightening as monetary policy rates are brought down, closer to their natural levels. 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 3.3% in 2025. Growth of GDP of advanced economies and emerging and developing Asia was estimated to reach approximately 1.9% and approximately 5.0% in 2025, respectively. Among the emerging and developing Asia, the Mainland of China was estimated to record a GDP growth of approximately 4.6% in 2025. In respect of the advanced economies, United States was estimated to record a GDP of approximately 2.1% in 2025. As a result, these major economies, being the key business geographical area of the Group are expected to remain in a stable trend going forward.

According to the report titled "Global Trade Outlook and Statistics" published by the World Trade Organization ("WTO") in October 2024³, global merchandise trade turned upwards in the first half of 2024 with a 2.3% year-on-year increase, which is expected be followed by further moderate expansion in the rest of the year and in 2025. The rebound in 2024 comes on the heels of a slump in 2023 driven by high inflation and rising interest rates. WTO economists anticipated that the volume of world merchandise trade will increase by 2.7% in 2024 and 3.0% in 2025. However, it should be noted that significant downside risks remain, including regional conflicts, geopolitical tensions and policy uncertainty.

¹ <https://www.imf.org/en/Publications/WEO/Issues/2024/10/22/world-economic-outlook-october-2024>

² <https://www.imf.org/en/Publications/WEO/Issues/2025/01/17/world-economic-outlook-update-january-2025>

³ https://www.wto.org/english/res_e/booksp_e/stat_10oct24_e.pdf

We note that, on 5 April 2025, the United States announced a significant update on its tariff policy (the “**US Tariff Policy**”), which included a 10% baseline on imports to the United States with a separate set of reciprocal tariffs on many nations worldwide, such as European Nation, China, Vietnam and etc. It is expected that the US Tariff will impose significant uncertainty on, among other things, the global supply chain, trade and inflation. On 16 April 2025, WTO published an updated “Global Trade Outlook and Statistics” report⁴, WTO stated that the outlook for global trade has deteriorated sharply due to a surge in tariffs and trade policy uncertainty. Based on measures in place as of 14 April 2025, including the suspension of “reciprocal tariffs” by the United States, the volume of world merchandise trade is now expected to decline by 0.2% in 2025 before posting a modest recovery of 2.5% in 2026. On the other hand, IMF published an updated World Economic Outlook report⁵ on 22 April 2025, which stated that the swift escalation of trade tensions and extremely high levels of policy uncertainty are expected to have a significant impact on global economic activity. IMF revised the estimated annual percentage growth of the world’s GDP to approximately 2.8% in 2025, whilst the estimated GDP growth of the Mainland of China and United States in 2025 were being revised to approximately 4.0% and 1.8%, respectively.

Overall, the recently announced US Tariff Policy will impose significant uncertainty on the global trade. In the meantime, modest recovery in the global trade is expected in the longer term.

3. Reasons for and benefits for Revision of the Annual Caps

As stated in the Letter from the Board, based on the Group’s historical transaction amounts in the second half of 2024, the unaudited management accounts of the Company and operational data for the two months ended 28 February 2025 (the “**Historical Transaction Amounts**”), it has come to the attention of the Board that the actual transaction amounts contemplated under the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement may exceed the Existing KLN Annual Caps and Existing SF Annual Caps, respectively. As advised by the Management, following the strategic alliance made between the Company and SF Holding since 2021, the Group and SFTS Group have been coordinating and streamlining their operations, reconfiguring resources and refocusing 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. The increase in the Historical Transaction Amounts was mainly attributable to, amongst other factors, the significant boost in inter-group business volumes in the second half of 2024 due to the enhanced business collaboration and integration between the Company and SFTS Group. For details of the enhanced business collaboration and integration between the Company and SFTS Group, please refer to the sections headed “Existing KLN Annual Cap and historical transaction amounts” and “Existing SF Annual Cap and historical transaction amounts”. The Management expects the collaboration and integration between the Company and SFTS Group will continue and be more extensive.

In view of the expected growth in demand from the Group and SFTS Group (as applicable) of the relevant services and the actual transaction amounts incurred or made to date under the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement, the Board anticipates that the Existing KLN Annual Caps and Existing SF Annual Caps for the financial years ending 31 December 2025, 2026 and 2027 will not be sufficient to meet the expected transaction amounts under the respective agreements. The Revised KLN Annual Caps and the Revised SF Annual Caps would enable the Group and SFTS Group to continue and expand

⁴ https://www.wto.org/english/res_e/publications_e/trade_outlook25_e.htm

⁵ <https://www.imf.org/en/Publications/WEO/Issues/2025/04/22/world-economic-outlook-april-2025>

their cooperation and utilisation of their respective resources, services and strengths, thereby bring efficiencies of scale to their business operations and further enhancing the business collaboration between the Company and SFTS Group.

Having considered that (i) as discussed in the above section headed "2. Industry outlook and prospects of the Group", modest recovery in the global trade is expected in the longer term; (ii) the promising financial results of the Group for 2024 as illustrated in the above section headed "1. Information of the Parties – The Group"; (iii) the collaboration and integration between the Company and SFTS Group is expected to continue and be more extensive; (iv) the Revision of Annual Caps would enable the Group and SFTS Group to continue and expand their cooperation and utilisation of their respective resources, services and strengths; and (v) despite the recently announced US Tariff will impose significant uncertainty on the global trade, it is reasonable to the revise the Existing Annual Caps so as to enable the Group to realize the potential growth in the Continued Connected Transactions if achieved, we are of the view that the Revision of Annual Caps is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement

As stated in the Letter from the Board, save for the Revision of Annual Caps, all the terms of the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement, including the pricing policies and principal payment terms, and the internal control measures, remain unchanged. Please refer to the Letter from the Board for details of the terms of the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement.

5. Proposed Revised KLN Annual Caps

Existing KLN Annual Caps and historical transaction amounts

As set out in the Letter from the Board, the table below sets out the (i) the historical actual transaction amounts paid by SFTS Group to the Group for the provision of KLN Logistics Services (the "KLN Transaction Amounts") based on the audited accounts of the Company; (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 three years ended 31 December 2024:

Table 3: The KLN Annual Caps and the KLN Transaction Amounts FY2022, FY2023 and FY2024

	FY2022	FY2023 (HK\$' million)	FY2024
Historical transaction amounts	311.0	301.3	1,858.2
Historical approved annual caps	531.0	2,340.0	2,931.0
Utilisation rates	58.6%	12.9%	63.4%

As illustrated above, the KLN Transaction Amounts amounted to approximately HK\$311.0 million, HK\$301.3 million and HK\$1,858.2 million for FY2022, FY2023 and FY2024, representing utilisation rates of approximately 58.6%, 12.9% and 63.4% respectively. We understand from the Management that the low utilisation rate recorded for FY2023 was 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 disclosed in the Letter from the Board and based on our discussion with the Management, the rebound in utilisation rate for FY2024 was mainly attributable to the substantial increase in the KLN Transaction Amounts in the second half of FY2024, which was primarily due to the overall growth of the freight market, as well as the significant increase in inter-group business volumes as a result of the enhanced business integration between the Company and SFTS Group. We understand that such enhanced business integration between the Company and SFTS (the “**KLN Enhanced Business Integration**”) includes, among other areas, (i) provision of the last mile delivery services for outbound cargos from Mainland of China to the United States for SFTS Group; (ii) volume of the ground handling management services provided by the Group to SFTS Group expanded significantly in the second half of 2024, which ascribed to, among other factors, soaring service demand in the newly cooperated Ezhou Huahu Airport and in the Asian countries (such as India); and (iii) provision of freight forwarding and logistics services to certain of the customers of SFTS Group in Mainland of China. In addition, continuous expansion of SFTS Group’s businesses in the second half of 2024 also contributed to the increase in demand for KLN Logistics Services, thereby raising the transaction volume, reflecting the successful synergy between the Company and SFTS Group in capturing market opportunities and meeting increased logistical needs. According to the interim report for the six months ended 30 June 2024 and annual report for the year ended 31 December 2024 published by SF Holding, in the second half of 2024, SF Holding achieved a revenue growth of approximately 11.6% as compared to the first half of 2024.

As disclosed in the Letter from the Board, despite the moderate utilisation rate of approximately 63.4% for FY2024, the aggregate fees to be received by the Group for the year ending 31 December 2025 with respect to the KLN Logistics Services are projected to be approximately HK\$2,395.7 million (the “**KLN Projection**”), which represents an utilization rate of approximately 122.2% of the Existing KLN Annual Cap for FY2025. As advised by the Management, the KLN Projection was calculated based on (i) the KLN Transaction Amounts for the two months ended 28 February 2025; and (ii) estimation of the KLN Transaction Amounts for the ten months ending 31 December 2025 deriving from the KLN Transaction Amounts for the second half of FY2024 on a pro-rata basis and an annual incremental rate of approximately 10% (the “**Annual Incremental Rate**”). The Board foresees that the actual transaction amounts with respect to the KLN Logistics Services for the two years ending 31 December 2027 will continue to increase due to increasing trend in the transaction volume and demand from SFTS Group for KLN Logistics Services over time.

The Revised KLN Annual Caps

The table below sets out the Revised KLN Annual Caps:

Table 4: The Revised KLN Annual Caps

	FY2025	FY2026 (HK\$' million)	FY2027
Revised KLN Annual Caps	2,718.0	3,288.7	3,979.4

The Revised KLN Annual Caps have been determined with reference to (i) the historical transaction amounts incurred by the parties, including in the second half of 2024 and the transaction amounts for the two months ended 28 February 2025; (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.

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

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

	FY2025	FY2026 (HK\$' million)	FY2027
Amounts receivable by the Group from SFTS Group			
International freight forwarding services income –			
the Mainland outbound	250.2	302.8	366.4
International freight forwarding services income –			
the Mainland inbound	252.7	305.7	369.9
Ground handling management services income	147.4	178.3	215.8
Express delivery services income	1,913.8	2,315.7	2,801.9
Miscellaneous logistics services income	153.9	186.2	225.4
Total	2,718.0	3,288.7	3,979.4

Based on our review on the KLN Caps Computation, we noted that each of the key components of the Revised KLN Annual Caps for FY2025 were derived by (i) annualizing the corresponding KLN Transaction Amounts of each of the key components for the second half of FY2024; (ii) the Annual Incremental Rate; and (iii) an annual buffer rate of approximately 10% (the "Annual Buffer Rate"). The Annual Incremental Rate and the Annual Buffer Rate would then be applied on the Revised KLN Annual Caps for FY2025 (i.e. approximately HK\$2,718.0 million) and FY2026 (i.e. approximately HK\$3,288.7 million), respectively, 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 such years.

We were advised by the Management, when formulating the Annual Increment Rate, they have considered factors such as (i) the anticipated increasing trend in the transaction volume and expected growth in demand for KLN Logistics Services for the three years ending 31 December 2027, in view of the increase in the KLN Transaction Amounts for the second half of FY2024 of over 50% as compared to the first half of FY2024, which was mainly attributable to the KLN Enhanced Business Integration; (ii) the collaboration and integration between the Company and SFTS Group, including the KLN Enhanced Business Integration, is expected to continue and be more extensive in the three years ending 31 December 2027; (iii) the freight forwarding services cost, air freight volume and express delivery services are expected to grow by approximately 10% per annum in the three years ending 31 December 2027 after considering the historical growth trend for FY2024; and (iv) growth in the revenue of the SF Holding of approximately 11.6% in the second half of FY2024 as compared to the first half of FY2024. It is further understood that the Annual Buffer Rate was set to cope with any unforeseeable circumstances such as any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances. Based on the above, we are of the view that the Annual Incremental Rate and the Annual Buffer Rate is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

As discussed under the section headed "2. Industry outlook and prospects of the Group", although the recently announced US Tariff Policy will impose significant uncertainty on the global trade, modest recovery in the global trade is expected in the longer term. Having considered the above, in particular the substantial growth in the KLN Transaction Amounts recorded in the second half of FY2024, we are of the view that it is in the interests of the Group to set a reasonable level of proposed annual caps for the 2024 KLN Logistics Services Framework Agreement so as to accommodate potential growth in the provision of the relevant services by the Group and the transactions contemplated thereunder.

In light of the above, we are of the view that the Revised KLN Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

Nevertheless, Independent Shareholders should note that the annual caps relate to future events and was determined by the Management based on assumption including the current estimate of the demand of the Continuing Connected Transactions. It does not represent a forecast of turnover to be generated from the transactions contemplated under the 2024 KLN Logistics Services Framework Agreement. Consequently, we express no opinion as to how closely the actual transactions amounts in comparison to the annual caps.

6. Proposed Revised SF Annual Caps

Existing SF Annual Caps and historical transaction amounts

As set out in the Letter from the Board, the table below sets out (i) the historical actual transaction amounts paid by the Group to SFTS Group for the provision of SF Logistics Services (the "SF Transaction Amounts") based on the audited accounts of the Company; (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 three years ended 31 December 2024:

Table 6: The Existing Annual Caps and the SF Transaction amounts for FY2022, FY2023, and FY2024

	Year ended 31 December		
	2022	2023	2024
	(HK\$' million)		
Historical transaction amounts	797.0	911.7	1,201.6
Historical approved annual caps	1,068.0	4,189.0	5,844.0
Utilisation rates	74.6%	21.8%	20.6%

As illustrated above, the SF Transaction Amounts amounted to approximately HK\$797.0 million, HK\$911.7 million and HK\$1,201.6 million for FY2022, FY2023 and FY2024, representing utilisation rates of approximately 74.6%, 21.8% and 20.6% respectively. We understand from the Management that the low utilisation rate recorded for FY2023 and FY2024 was mainly attributable to the business integration between the Group and SFTS Group was still in progress and drop in the overall freight volume and rates during the post-pandemic period. Despite the low utilisation rate in FY2024, as stated in the Letter from the Board, the SF Transaction Amounts increased substantially in the second half of 2024, which was driven by several factors, including the increase in the number of flights and routes operated by SF Airlines Company Limited, as well as the increase in the prevailing market freight rates. These factors, collectively contributed to a significant increase in transaction volume within the freight forwarding sector. Additionally, there was a notable boost in the inter-group business volumes during the second half of 2024 as a result of the enhanced business collaboration between the Company and SFTS Group, particularly in the Mainland of China. As advised by the Management, the Company is increasingly leveraging on SFTS Group's well-established infrastructure network in the Mainland of China, which has significantly boosted the transaction volumes of the express delivery services and integrated logistics services provided by SFTS Group.

As disclosed in the Letter from the Board, the aggregate fees to be paid by the Group for the year ending 31 December 2025 with respect to the SF Logistics Services are projected to be approximately HK\$1,746.5 million (the "SF Projection"), which represents a utilisation rate of approximately 220.1% of the Existing SF Annual Cap for FY2025. As advised by the Management, the SF Projection was calculated based on (i) the SF Transaction Amounts for the two months ended 28 February 2025; and (ii) estimation of the SF Transaction Amounts for the ten months ending 31 December 2025 deriving from the SF Transaction Amounts for the second half of FY2024 on a pro-rata basis and the Annual Incremental Rate. In light of the increasing trend in the transaction volume and the expected growth in demand from the Group for SF Logistics Services over time, the Board foresees that the actual transaction amounts with respect to the SF Logistics Services for the two years ending 31 December 2027 will continue to increase and the Existing SF Annual Caps will not be sufficient to meet the expected transaction amounts under the 2024 SF Logistics Services Framework Agreement.

The Revised SF Annual Caps

The table below sets out the Revised SF Annual Caps:

Table 7: The Revised SF Annual Caps

	FY2025	FY2026 (HK\$' million)	FY2027
Revised SF Annual Caps	1,981.5	2,397.6	2,901.1

The Revised SF Annual Caps have been determined with reference to (i) the historical transaction amounts incurred by the parties, including the transaction amounts for the two months ended 28 February 2025; (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.

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

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

	FY2025	FY2026 (HK\$' million)	FY2027
Amounts payable by the Group to SFTS Group			
Scheduled flight services cost – the Mainland outbound	818.0	989.7	1,197.5
Scheduled flight services cost – the Mainland inbound	58.3	70.6	85.4
Charter flight services cost	359.1	434.5	525.8
Express delivery services cost	385.3	466.2	564.1
Miscellaneous logistics services cost	360.8	436.6	528.3
Total	1,981.5	2,397.6	2,901.1

Based on our review on the SF Caps Computation, we noted that each of the key components of the Revised SF Annual Caps for FY2025 were derived by (i) annualizing the corresponding SF Transaction Amounts of each of the key components for the second half of FY2024; (ii) the Annual Incremental Rate; and (iii) the Annual Buffer Rate. The Annual Incremental Rate and the Annual Buffer Rate would then be applied on the Revised SF Annual Caps for FY2025 (i.e. approximately HK\$1,981.5 million) and FY2026 (i.e. approximately HK\$2,397.6 million), respectively, 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 such years.

We were advised by the Management, when formulating the Annual Increment, they have considered factors such as (i) the anticipated increasing trend in the transaction volume and expected growth in demand for SF Logistics Services for the three years ending 31 December 2027, in view of the increase in the SF Transaction Amounts for the second half of FY2024 of over 100% as compared to the first half of FY2024; (ii) the collaboration and integration between the Company and SFTS Group is expected to continue and be more extensive in the three years ending 31 December 2027, including, among other things, (a) the potential increase in the procurement of freight services provided by SFTS Group as SF Airline Company Limited has been operating increasing number of flights and routes; and (b) broadening the usage of the well-established express delivery services and integrated logistics services provided by SFTS Group in the Mainland of China; (iii) flight service and express delivery service costs are expected to grow by approximately 10% per annum in the three years ending December 2027 after considering the historical growth trend for FY2023 and FY2024; and (iv) growth in the revenue of the Group of approximately 23% for FY2024. It is further understood that the Annual Buffer Rate was set to cope with any unforeseeable circumstances such as any additional demand for related services, currency fluctuations and any potential increase in market price of the relevant services and other unforeseeable circumstances. Based on the above, we are of the view that the Annual Incremental Rate and the Annual Buffer Rate is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

As discussed under the section headed "2. Industry outlook and prospects of the Group", although the recently announced US Tariff Policy will impose significant uncertainty on the global trade, modest recovery in the global trade is expected in the longer term. Having considered the above, in particular the substantial growth in the SF Transaction Amounts recorded in the second half of FY2024, we are of the view that it is in the interests of the Group to set a reasonable level of proposed annual caps for the 2024 SF Logistics Services Framework Agreement so as to accommodate the increasing demand for the procurement of the relevant services by the Group, which are crucial to the business development and expansion of the Group and the strategic collaboration with SFTS Group.

In light of the above, we are of the view that the Revised SF Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

7. Internal control procedures

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 or to be entered into under the 2024 KLN Logistics Services Framework Agreement and the 2024 SF Logistics Services Framework Agreement (the "Continuing Connected Transactions") in accordance with the pricing policy and guidelines stated above, 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. 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.

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 the period of April 2024 to March 2025 (the "Review Period").

2024 KLN Logistics Services Framework Agreement

We have obtained and reviewed two sets of the correspondence record dated 28 June 2024 and 25 February 2025 regarding the quotations provided to the independent third-party customers and SFTS Group in respect of the international freight forwarding services and ground handling management services which was updated 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 and ground handling management 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 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 (i) the charges for international freight forwarding services and ground handling management services were no less favourable to the Group than those offered by the Group to independent third-party customers.; and; (ii) 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 more 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 4 September 2024 and 25 March 2025 regarding the quotations provided to the independent third-party carriers in respect of the cargo freight tariffs and the integrated logistics 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 integrated logistics services provided by 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 (i) the cargo freight tariffs and the integrated logistics rates charged were no less favourable to the Group than those offered to the Group by independent third-party suppliers; and (ii) 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.

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we are of the view that the Revision of Annual Caps, as well as the adoption of the Revised KLN Annual Caps and the Revised SF Annual Caps, is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and is 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 advise the Independent Shareholders, and recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution in this regard.

Yours faithfully,
For and on behalf of
Ignite Capital (Asia Pacific) Limited


Li Lan
Managing Director


Tin Ming Kit
Director

Mr. Li Lan is a Managing Director of Ignite Capital and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Li has over 18 years of corporate finance experience in Hong Kong and has participated in and completed various financial advisory and independent financial advisory transactions.

Mr. Tin Ming Kit is a Director of Ignite Capital and is licensed under the SFO as a licensed person to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Tin has over 18 years of investment banking and corporate finance experience in Hong Kong and has participated in and completed various initial public offerings, corporate financial advisory and independent financial advisory transactions.