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A & S GROUP (HOLDINGS) LIMITED

亞洲實業集團(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1737)

**MAJOR TRANSACTIONS IN RELATION TO
RENEWAL OF THE EXISTING WAREHOUSE TENANCY AGREEMENTS**

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

A letter from the Board is set out on pages 4 to 10 of this circular.

The transactions being the subject matter of this circular have been approved by written shareholder’s approval pursuant to the Listing Rules and this circular is being despatched to the Shareholders for information only.

References to time and dates in this circular are to Hong Kong time and dates.

12 August 2022

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DEFINITIONS

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

“A & S (HK) Logistics Limited” or “Tenant”	A & S (HK) Logistics Limited (亞洲實業(香港)物流有限公司), a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“Announcement”	the announcement of the Company dated 8 July 2022 in relation to the renewal of the Existing Warehouse Tenancy Agreements
“associate(s)”	has the meaning as ascribed to it under the Listing Rules
“Board”	board of Directors
“Company”	A & S Group (Holdings) Limited (亞洲實業集團(控股)有限公司), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange since 14 March 2018
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Dynamic Victor”	Dynamic Victor Limited, which is owned as to 65% by Mr. Law Kwok Leung Alex, an executive Director and 35% by Mr. Law Kwok Ho Simon, an executive Director
“Existing Warehouse Tenancy Agreements”	the existing tenancy agreements dated 18 March 2019, 20 July 2020 and 20 July 2020 entered into between A & S (HK) Logistics Limited and the Landlord in respect of Warehouse A, Warehouse B and Warehouse C, respectively
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is/are not connected persons of the Company and is/are third party independent of the Company and its connected persons in accordance with the Listing Rules
“Landlord”	Airport Freight Forwarding Centre Company Limited, a company incorporated in Hong Kong with limited liability on 2 June 1994, a subsidiary of Sun Hung Kai Properties Limited, whose shares are listed on the Main Board of the Stock Exchange (stock code: 16), an Independent Third Party
“Latest Practicable Date”	9 August 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offer Letters”	the offer letters issued by A & S (HK) Logistics Limited as tenant to the Landlord on 30 June 2022 and accepted by the Landlord on 8 July 2022 in respect of the renewal of the Existing Warehouse Tenancy Agreements
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“PRC”	the People’s Republic of China

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of par value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stamp duty”	the stamp duty shall be borne equally by the Landlord and the Tenant
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the leasing of the Warehouses by the Tenant under the term set out in the Offer Letters
“Warehouses”	Warehouse A, Warehouse B and Warehouse C
“Warehouse A”	Units 1, 2, 3, 5, 6 and 7 and the Mezzanine Floor thereof on Ground Floor and Units 8, 9, 10, 11, 50, 51, 52 and 53 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong
“Warehouse B”	Unit 32 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong
“Warehouse C”	Units 41 and 42 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong
“Warehouse Tenancy Agreements”	the warehouse tenancy agreements to be entered into between the Tenant and the Landlord in respect of the standard form set by the Landlord pursuant to the Offer Letters
“%”	per cent

LETTER FROM THE BOARD



A & S GROUP (HOLDINGS) LIMITED

亞洲實業集團(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1737)

Executive Directors:

Mr. Law Kwok Leung Alex (*Chairman*)
Mr. Law Kwok Ho Simon
Mr. Chiu Tat Ting Albert (*Chief Executive Officer*)

Independent Non-executive Directors:

Mr. Ho Chun Chung Patrick
Mr. Iu Tak Meng Teddy
Mr. Kwan Ngai Kit

Registered Office:

Windward 3
Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

Head Office and Principal

Place of Business:
Room 11, 14th Floor
Tower 2
Ever Gain Plaza
88 Container Port Road
Kwai Chung
New Territories
Hong Kong

12 August 2022

To the Shareholders,

Dear Sir/Madam,

MAJOR TRANSACTIONS IN RELATION TO RENEWAL OF THE EXISTING WAREHOUSE TENANCY AGREEMENTS

INTRODUCTION

The Board is pleased to announce that the Tenant, being an indirect wholly-owned subsidiary of the Company, as tenant and the Landlord as landlord entered into the Offer Letters in respect of the Warehouse A for a renewal term of two years commencing from 1 July 2022 to 30 June 2024 (both dates inclusive) and the Warehouse B and Warehouse C for a renewal term of one year eleven months seventeen days commencing from 15 July 2022 and expiring on 30 June 2024 (both dates inclusive).

Pursuant to HKFRS 16, the Company recognises the value of the right-of-use assets on its consolidated statement of financial position in connection with the lease of the Warehouses under the Offer Letters. Therefore, the entering into of the Offer Letters and the transactions contemplated thereunder will be regarded as an acquisition of asset by the Group under the Listing Rules. The Directors consider that since the Offer Letters were

LETTER FROM THE BOARD

entered into by the Tenant with the same Landlord within 12 months, the transaction contemplated under the Offer Letters shall be aggregated under Rule 14.22 of the Listing Rules. The unaudited value of right-of-use asset recognised by the Company under the Offer Letters amounted to approximately HK\$77.2 million in aggregate.

The purpose of this circular is to provide you with, among other things, (i) details of the Offer Letters; and (ii) other information required under the Listing Rules.

THE OFFER LETTERS

The principal terms of the Offer Letters are identical except the details of the Warehouses and the considerations involved and the principal terms of the Offer Letters are set out as follows:

Date: 30 June 2022

Parties:

- (1) Airport Freight Forwarding Centre Company Limited as landlord; and
- (2) A & S (HK) Logistics Limited, an indirect wholly-owned subsidiary of the Company as tenant

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Landlord and its ultimate beneficial owners are Independent Third Parties as at the Latest Practicable Date

Warehouses:

Location of Warehouse A: Units 1, 2, 3, 5, 6 and 7 and the Mezzanine Floor thereof on the Ground Floor and Units 8, 9, 10, 11, 50, 51, 52 and 53 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong

Location of Warehouse B: Unit 32 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong

Location of Warehouse C: Units 41 and 42 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong

LETTER FROM THE BOARD

Term: Warehouse A: two years commencing from 1 July 2022 and expiring on 30 June 2024 (both dates inclusive)

Warehouse B and Warehouse C: one year eleven months seventeen days commencing from 15 July 2022 and expiring on 30 June 2024 (both dates inclusive)

Rent: Warehouse A: HK\$2,890,809 per month payable in advance on the first day of each calendar month, exclusive of management charges and government rates and government rent

Warehouse B: HK\$110,754 per month payable in advance on the first day of each calendar month, exclusive of management charges and government rates and government rent

Warehouse C: HK\$214,470 per month payable in advance on the first day of each calendar month, exclusive of management charges and government rates and government rent

The rent was determined after arm's length negotiations between the parties with reference to the prevailing market rent for other warehouses in the same building leased to tenants other than the Group.

Having considered that the unit rents of the Warehouses under the Offer Letter are better or equal to the prevailing market rent of other warehouses in the same building, the Directors consider that the rents of the Warehouses are fair and reasonable.

Rent free period: The Tenant shall be entitled to rent-free period as follow:

Warehouse A: From 1 July 2022 to 14 July 2022

Warehouse B: From 15 July 2022 to 28 July 2022

Warehouse C: From 15 July 2022 to 28 July 2022

LETTER FROM THE BOARD

- Rental deposit:
- Warehouse A: approximately HK\$9,616,107, equivalent to the aggregate of three months of monthly rental and monthly management charges (of which HK\$3,205,369 by cash and the balance HK\$6,410,738 settled by bank guarantee)
- Warehouse B: approximately HK\$369,180, equivalent to the aggregate of three months of monthly rental and monthly management charges (of which HK\$123,060 by cash and the balance HK\$246,120 settled by bank guarantee)
- Warehouse C: approximately HK\$714,900, equivalent to the aggregate of three months of monthly rental and monthly management charges (of which HK\$238,300 by cash and the balance HK\$476,600 settled by bank guarantee).
- The cash deposits will be transferred and applied towards payment of deposit upon the renewal of the Warehouse Tenancy Agreements and refunded at the end of the leasing of the Warehouses. The rental deposit was determined after arm's length negotiations between the parties with reference to the prevailing market rate for comparable warehouses of other landlords.
- Management charges:
- Warehouse A: currently fixed at HK\$314,560 per month and subject to review from time to time
- Warehouse B: currently fixed at HK\$12,306 per month and subject to review from time to time
- Warehouse C: currently fixed at HK\$23,830 per month and subject to review from time to time
- Use of premises:
- The Tenant shall use the Warehouses for the purpose of cargo handling services and other services being provided and/or facilitating the provision thereof. The Group intends to use the Warehouses as logistics center and office premises
- Stamp duty:
- The stamp duty shall be borne equally by the Landlord and the Tenant

The payment of the monthly rent, the rental deposit and the stamp duty will be funded by the internal resources of the Group.

LETTER FROM THE BOARD

EFFECT OF THE OFFER LETTERS ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

The unaudited value of the right-of-use asset recognised by the Company amounted to approximately HK\$77.2 million in aggregate which is initially measured as the amount of the lease liability plus adjustments for the estimate of costs of restoring the underlying asset to the condition required under the Warehouse Tenancy Agreements of approximately HK\$3.7 million. Discount rate of 2.90% for Warehouse A and 2.89% for Warehouse B and Warehouse C are applied to compute the lease liabilities, which is the present value of aggregate lease payments under the Offer Letters. The Group will depreciate the right-of-use assets over the estimated useful life of 24 months for Warehouse A and 23 months for Warehouse B and Warehouse C on a straight-line basis and a monthly depreciation amounting to approximately HK\$3.2 million will be charged to the consolidated statement of profit or loss and other comprehensive income. The lease liabilities are unsecured and the unaudited value of the lease liabilities amounting to approximately HK\$73.5 million will be recognised by the Group in the consolidated statement of financial position and will decrease upon the settlement of lease payments to the landlord accordingly. Interest expenses on the lease liabilities will be recognised at the rate of 2.90% per annum for Warehouse A and 2.89% per annum for Warehouse B and Warehouse C. After the commencement date of the lease, the lease liabilities are adjusted by interest accretion and lease payments.

Having considered that the lease liabilities were assessed by an independent professional valuer in accordance with HKFRS 16, the Directors consider that the valuation of right-of-use assets and the lease liabilities is fair and reasonable, on the normal commercial terms and in the interest of the Company and its Shareholders as a whole.

INFORMATION OF THE PARTIES

The Company is an investment holding company. The Group is principally engaged in the provision of air freight forwarding ground handling services and air cargo terminal operating services in Hong Kong.

A & S (HK) Logistics Limited is a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company. A & S (HK) Logistics Limited is principally engaged in the provision of air freight forwarding ground handling services and air cargo terminal operating services in Hong Kong.

Airport Freight Forwarding Centre Company Limited, a company incorporated in Hong Kong with limited liability on 2 June 1994, a subsidiary of Sun Hung Kai Properties Limited, whose shares are listed on the Main Board of the Stock Exchange (stock code: 16). Its group is principally engaged in property development for sale and property investment for rental purpose. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Landlord and its ultimate beneficial owners are Independent Third Parties.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE RENEWAL OF THE EXISTING WAREHOUSE TENANCY AGREEMENTS

The Group is currently leasing the Warehouses and the lease in respect of Warehouse A was expired on 30 June 2022 and the leases in respect of the Warehouse B and Warehouse C were expired on 14 July 2022. In evaluating the leases, the Directors consider that (i) the Group has been using part of the Warehouses as its logistics centre and office space for over six years for Warehouse A and two years for Warehouse B and Warehouse C; and (ii) the terms of the Offer Letters were determined after arm's length negotiations between the Landlord and the Tenant with reference to the prevailing market price of comparable premises in the vicinity of the Warehouses.

The renewal of the Warehouse Tenancy Agreements is necessary for continuing the business operation of the Group and is in the ordinary and usual course of business of the Group. In addition, the Directors consider that it is beneficial for and of administrative convenience to the Group to continue to lease the Warehouses from the Landlord by saving any unnecessary relocation and administration costs.

The Board considers that the terms and conditions of the Offer Letters and the Transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to HKFRS 16, the Company recognises the value of the right-of-use assets on its consolidated statement of financial position in connection with the lease of the Premises under the Offer Letters. Therefore, the entering into of the Offer Letters and the Transactions contemplated thereunder will be regarded as an acquisition of asset by the Group under the Listing Rules. The Directors consider that since all the Offer Letters were entered into by the Tenant with the same Landlord within 12 months, the transaction contemplated under the Offer Letters shall be aggregated under Rule 14.22 of the Listing Rules. The unaudited value of right-of-use asset recognised by the Company under the Offer Letters amounted to approximately HK\$77.2 million.

As the applicable percentage ratios as defined under the Listing Rules in respect of the acquisition of right-of-use asset recognised by the Group pursuant to HKFRS 16 under the Offer Letters is 25% or more but is less than 100% when aggregated, the entering into of the Offer Letters constitutes a major transaction for the Company and is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

The Company has obtained written approval in accordance with Rule 14.44 of the Listing Rules from Dynamic Victor, which is beneficially interested in an aggregate of 750,000,000 Shares, representing approximately 75.0% of the entire issued capital of the Company as at the Latest Practicable Date. On the basis that (i) no Shareholder is required to abstain from voting if the Company were to convene none of the Shareholders has a material interest in the Offer Letters and the transaction contemplated thereunder and as such, a general meeting for the approval of the transaction contemplated under the Offer Letters; and (ii) the written approval of Dynamic Victor for the transactions contemplated under the Offer Letters has been obtained, no general meeting will be convened for the purpose of approving the transactions contemplated under the Offer Letters as permitted under Rule 14.44 of the Listing Rules.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Offer Letters are on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Although a general meeting will not be convened by the Company to approve the Offer Letters and the transactions contemplated therein, if such a general meeting were to be convened by the Company, the Board would recommend the Shareholders to vote in favour of the resolutions to approve, confirm and ratify the Offer Letters and the Transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

By order of the Board
A & S Group (Holdings) Limited
Law Kwok Leung Alex
Chairman and Executive Director

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the years ended 31 March 2020, 2021, 2022 is disclosed in the following documents which are published on both the websites of the Stock Exchange and the Company. Please refer to the hyperlinks as stated below:

- annual report of the Company for the year ended 31 March 2022
<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0722/2022072200593.pdf>
- annual report of the Company for the year ended 31 March 2021
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0720/2021072000341.pdf>
- annual report of the Company for the year ended 31 March 2020
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0723/2020072300498.pdf>

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 June 2022, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the details of the Group's indebtedness are as follows:

Bank guarantees

As at 30 June 2022, the Group had aggregate outstanding bank guarantees of approximately HK\$6.8 million, of which approximately HK\$3.0 million is secured by pledged bank deposits and approximately HK\$3.8 million is unsecured.

Bank borrowings

As at 30 June 2022, the Group did not have any outstanding bank borrowings.

Lease liabilities

As at 30 June 2022, the Group had unsecured and unguaranteed lease liabilities with outstanding carrying amount of approximately HK\$23.1 million.

Amounts due to non-controlling interests

As at 30 June 2022, the Group did not have any amounts due to non-controlling interests.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of the business, as at the close of business on 30 June 2022, the Group did not have any debt securities, issued and outstanding, and authorised or otherwise created but unissued, and term loans, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under

acceptances (other than normal trade bills) or similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other contingent liabilities.

3. WORKING CAPITAL STATEMENT

Taking into account the financial resources available to the Group, including the internally generated funds and the available banking facilities, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, which is for at least the next 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is a well-established air freight forwarding ground handling services provider and air cargo terminal operating services provider in Hong Kong, the Group continues to provide services to customers including global logistics companies and major freight forwarding agents.

Although the widespread COVID-19 is still affecting the logistics industry, the demand of air cargo terminal operating services is picking up gradually with the recovery of cargo volume processed. Besides, with its professional and efficient services, the Group secured a new client in the air freight forwarding ground handling services at in September 2021, which has further enriched the client base of the Group.

Looking ahead, amid the unstable economic environment, the Group will continue to adopt flexible approaches in business operation and take effective cost control measures. With the vaccine promotion and gradual relaxation of pandemic control policies among the countries, the global market has significant sign of recovery. Hence, the management believes that the demand for transport, including air cargo, ground transportation and warehousing services will recover progressively. To this end, the Group will strive to maintain good relationship with existing clients and pro-actively acquire new customers by upgrading its existing facilities and enhancing its competitive strengths, so as to mitigate the impact of COVID-19 and other social uncertainties.

The following is the text of a report received from an independent professional valuer, Flagship Appraisals and Consulting Limited, for the purpose of incorporation in this circular.



Flagship Appraisals and Consulting Limited
Unit 714, Lippo Sun Plaza
28 Canton Road, Tsim Sha Tsui
Kowloon, Hong Kong

LETTER OF OPINION

8 July 2022

The Board of Directors
A & S Group (Holdings) Limited
Room 11, 14th Floor, Tower 2, Ever Gain Plaza
88 Container Port Road
Kwai Chung, New Territories, Hong Kong

Dear Sirs/Madams,

Re: Valuation of Right-Of-Use Assets

In accordance with the instructions from A & S Group (Holdings) Limited (the “Company”) and A & S (HK) Logistics Limited (the “Lessee”), we are engaged to measure the right-of-use assets of the following tenancy agreements (the “Leases”):

Lease	Address	Date of Commence
A	Units 1, 2, 3, 5, 6 and 7 and the Mezzanine Floor thereof on the Ground Floor and Units 8, 9, 10, 11, 50, 51, 52 and 53 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong	1 July 2022
B	Unit 32 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong	15 July 2022
C	Units 41 and 42 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong	15 July 2022

The valuation date of Lease A is 1 July 2022 and the valuation date of Lease B and Lease C is 15 July 2022 (collectively referred to as the “Valuation Date”). It is noted that the Valuation Date of the right-of-use assets assessment of Lease B and Lease C is after the reporting date of this report. Therefore, we used the market data as of 1 July 2022 for this valuation.

Our analysis and conclusions, which are to be used only in their entirety, are for the use by the Company's management (the "Management") solely for internal reference. They are not to be used for any other purposes or by any other party for any purpose, without our express written consent. None should rely on our analysis and conclusion as a substitute for their own judgment or due diligence.

This valuation engagement is conducted in accordance with the International Valuation Standards. The estimate of value that results from a valuation engagement is expressed as a conclusion of value.

Based on our analysis, as described in this valuation report, the right-of-use assets of the Leases as at the Valuation Date are as follows:

Lease	Right-of-use assets (HK\$)
A	69,483,949
B	2,639,874
C	5,120,589

This conclusion is subject to the assumptions, the Limiting Conditions and the Statement of General Services Conditions described in this report. We have no obligation to update this report or our conclusion of value for information that comes to our attention after the date of this report.

Yours faithfully,
For and on behalf of
FLAGSHIP APPRAISALS AND CONSULTING LIMITED
Ferry S.F. Choy
MSc. Fin, CFA, ICVS
Managing Director

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1. EXECUTIVE SUMMARY

Governing Standard:	International Valuation Standards and HKFRS 16 Lease	
Purpose:	Internal reference	
Standard of Value:	Right-of-use assets	
Client Name:	A & S Group (Holdings) Limited and A & S (HK) Logistics Limited	
Asset Valued:	Lease	Address
	A	Units 1, 2, 3, 5, 6 and 7 and the Mezzanine Floor thereof on the Ground Floor and Units 8, 9, 10, 11, 50, 51, 52 and 53 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong
	B	Unit 32 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong
	C	Units 41 and 42 on the Ground of Floor Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong
Valuation Methodology	Income Approach	
Valuation Date:	Lease A: 1 July 2022	
	Lease B and C: 15 July 2022	
Report Date:	8 July 2022	
Conclusion of Value:	Lease	Right-of-use assets (HK\$)
	A	69,483,949
	B	2,639,874
	C	5,120,589

2. INTRODUCTION

According to the Management, as of the reporting date of this report, they are considering the renewal of the Leases. In accordance with the instructions from the Company and the Lessee, we estimated the right-of-use assets of the Leases according to the requirement under HKFRS 16 Lease (“HKFRS 16”) to facilitate the Management to assess the impact on its financial statement.

3. SCOPE OF SERVICES

We are engaged to perform an independent assessment of the right-of-use assets of the Leases as at the Valuation Date for internal reference.

4. BASIS OF VALUE

The right-of-use assets of the Leases according to HKFRS 16, should meet the following criteria:

At the commencement date, a lessee shall measure the right-of-use asset at cost.

The cost of the right-of-use asset shall comprise:

- (i) The amount of the initial measurement of the lease liability;
- (ii) Any lease payments made at or before the commencement date, less any lease incentives received;
- (iii) Any initial direct costs incurred by the lessee; and
- (iv) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying assets during a particular period.

5. SOURCES OF INFORMATION

Sources of data utilised in our analysis include but are not limited to the following:

- The Leases;
- Moody's research; and
- Bloomberg.

We also relied upon publicly available information from sources on capital markets, including industry reports, databases of publicly traded companies, and news. We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided by others. We assume that the financial and other information provided is accurate and complete, and we have relied upon this information in our assessment.

6. KEY TERMS OF THE LEASES

Lessor	Airport Freight Forwarding Centre Company Limited	
Lessee	A & S (HK) Logistics Limited	
Premises	Lease	Address
	A	Units 1, 2, 3, 5, 6 and 7 and the Mezzanine Floor thereof on the Ground Floor and Units 8, 9, 10, 11, 50, 51, 52 and 53 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong
	B	Unit 32 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong
	C	Units 41 and 42 on the Ground Floor of Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong
Rent	Lease	Rent details
	A	1 July 2022 to 30 June 2024: HK\$2,890,809 per month payable in advance on the 1st day of each calendar month
	B	15 July 2022 to 30 June 2024: HK\$110,754 per month payable in advance on the 1st day of each calendar month
	C	15 July 2022 to 30 June 2024: HK\$214,470 per month payable in advance on the 1st day of each calendar month
Rent free period	Lease	Payment details
	A	1 July 2022 to 14 July 2022 (both dates inclusive)
	B	15 July 2022 to 28 July 2022 (both dates inclusive)
	C	15 July 2022 to 28 July 2022 (both dates inclusive)

Re-instatement cost Per the Management, the re-instatement costs for Leases A, B and C are HK\$3,300,000, HK\$151,000 and HK\$301,000, respectively.

7. VALUATION METHODOLOGY

According to HKFRS 16, a lessee shall measure the right-of-use asset at cost at the commencement date. The cost of the right-of-use asset shall comprise:

- (i) The amount of the initial measurement of the lease liability;
- (ii) Any lease payments made at or before the commencement date, less any lease incentives received;
- (iii) Any initial direct costs incurred by the lessee; and
- (iv) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying assets during a particular period.

Based on the above requirements, the cost of the right-of-use asset is a stream of future payments. Therefore, the income approach is adopted in this valuation to measure the right-of-use assets.

Income Approach: The value of an asset is the sum of the present value of future economic benefits streams. In this case, the future economic benefits streams refer to the future payments under the Lease.

8. MAJOR ASSUMPTIONS

We have adopted the following assumptions in our valuation.

- (i) The reference date of market data and information is 1 July 2022;
- (ii) The cash flows are derived based on the Leases; and
- (iii) The incremental borrowing rate of 2.90% for Lease A and 2.89% for Lease B and C respectively reflect the risks associated with the Leases and the time value of money. Exhibit C sets out the details of the incremental borrowing rate derivation.

9. LIMITING CONDITIONS

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Company and the Lessee.

The opinion expressed in this report has been based on the information supplied to us by the Company and their staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the Management. Readers of this report should perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decisions or actions resulting from them.

This valuation reflects facts and conditions existing as at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

10. CONCLUSION

In conclusion, as described in this valuation report, the right-of-use assets of the Leases as at the Valuation Date are as follows:

Lease	Right-of-use assets (HK\$)
A	69,483,949
B	2,639,874
C	5,120,589

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under valuation. Moreover, we have neither personal interests nor bias with respect to the parties involved.

Yours faithfully,
For and on behalf of
FLAGSHIP APPRAISALS AND CONSULTING LIMITED
Ferry S.F. Choy
MSc. Fin, CFA, ICVS
Managing Director

EXHIBIT A – STATEMENT OF GENERAL SERVICES CONDITIONS

The service(s) provided by Flagship Appraisals and Consulting Limited will be performed in accordance with professional valuation standards. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least seven years after the completion of the engagement.

Our report is to be used only for the specific purpose stated herein, and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. None should rely on our report as a substitute for their own due diligence or judgment. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Flagship Appraisals and Consulting Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of the legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to a legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

EXHIBIT B – INVOLVED STAFF BIOGRAPHIES

Ferry S.F. Choy, *MSc. Fin, CFA, ICVS*

Managing Director

Mr. Choy is the Managing Director of Flagship Appraisals and Consulting Limited. He has worked in the accounting and valuation profession for 15 years. Mr. Choy has served many listed companies domiciled in Hong Kong, China, Malaysia and Singapore. Mr. Choy's experience included management advice, project evaluation, public listings, merger and acquisition and valuation of different assets.

Mr. Choy is a Charterholder of Chartered Financial Analyst (CFA) and an International Certified Valuation Specialist (ICVS) – a professional credential in business valuation issued by the International Association of Certified Valuation Specialists (IACVS). He served on the Continuous Education Committee of the IACVS Hong Kong Chapter, providing business valuation training courses to its members and different professional bodies, including the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia.

Mr. Choy has acted as a valuation specialist in listed companies' transactions, including disclosable acquisitions and disposals. He has also served as the expert witness in law assignments involving business valuation.

John T.H. Poon**Analyst**

Mr. Poon holds a Master of Science degree in Economics from the Chinese University of Hong Kong. He currently holds the position of Analyst of Flagship Appraisals and Consulting Limited and assists in various valuation assessments for transaction and financial reporting purposes.

EXHIBIT C – INCREMENTAL BORROWING RATE DERIVATION

Depending on the asset type, the incremental borrowing rate would be a mixture of secured and unsecured borrowing rates. After determining the secured and unsecured borrowing rates, we would apply the market loan-to-value ratio to arrive at the incremental borrowing rate for the asset.

The formula of the discount rate:

$$\begin{aligned} & \text{(Secured borrowing rate x Market loan-to-value ratio)} \\ + & \text{(Unsecured borrowing rate x (1 – Market loan-to-value ratio))} \\ = & \text{Incremental borrowing rate} \end{aligned}$$

Determination of Secured Borrowing Rate

We have adopted a “Three-step approach” method to determine the secured borrowing cost. Under the Three-step approach, a discount rate is estimated with 1) an appropriate reference rate; 2) risk-free rate adjustment; and 3) other lease-specific adjustments.

- a) Reference rate: we refer to the latest average mortgage rate in Hong Kong as a benchmark for secured borrowings. The latest average mortgage rate published by the Hong Kong Monetary Authority (“HKMA”) is 1.56% in January 2022. However, due to the start of the US interest rate hike cycle in March 2022, the Hong Kong Interbank Borrowing Rate (“HIBOR”), which is commonly used in mortgage, has increased significantly. Therefore, to capture the increase in HIBOR, we adjust the mortgage rate by adding the difference between the average 1-month HIBOR in January 2022 (0.15%) and that on 1 July 2022 (0.87%), which is 0.72%;
- b) Risk-free rate adjustment: as the term of mortgages usually are much longer than that of tenancy agreements; it is necessary to adjust the mortgage rate to reflect the term difference;
- c) Other lease-specific adjustments: we have adjusted the borrowing rate according to the type of underlying assets. The reference rate published by the HKMA mainly reflects the cost of financing domestic properties instead of non-domestic properties. Therefore, adjustment using the difference between the yield of domestic and non-domestic properties is necessary to reflect the actual borrowing costs of the Leases. The yields of different types of properties come from the Hong Kong Census and Statistics Department.

Determination of Unsecured Borrowing Rate

The discount rate of unsecured debt is a function of the risk-free rate, credit risk premium and country risk premium.

- a) Risk-free rate: we refer to the yield to maturity of the Hong Kong Government Bond with a similar term as of the Valuation Date;

- b) Credit rating: we have performed a financial ratio analysis to estimate the credit rating of the Company based on Moody's research;
- c) Credit risk premium: we search for comparable bonds with similar credit ratings to estimate the credit spread; and
- d) Country risk premium: we have made reference to Aswath Damodaran's research. We calculated the spread between Hong Kong and the US and considered it as the country risk premium.

Determination of Market Loan-to-value Ratio

To determine the market loan-to-value ratio, we refer to the HKMA's requirement. According to the HKMA, the maximum market loan-to-value ratio for commercial and industrial properties is 50%. Therefore, we apply 50% market loan-to-value ratio in the analysis.

The incremental borrowing rate of Lease A is calculated below:

Secured Borrowing Rate		
Average Mortgage Rate		1.56%
Adjustment		0.72%
Adjustment on Term		
Risk-free Rate (Subject lease)	2.43%	
Risk-free Rate (Mortgage)	3.50%	-1.07%
Adjustment on Lease Type		
Yield on Domestic Property	2.18%	
Yield on Non-domestic Property	2.58%	+0.40%
Secured Borrowing Rate		1.60%
Unsecured Borrowing Rate		
Risk-free Rate		2.43%
Credit Spread		1.17%
Country Risk Premium		0.60%
Unsecured Borrowing Rate		4.20%
Market Loan-to-value Ratio		50%
Weight for Secured Borrowing Rate		50%
Weight for Unsecured Borrowing Rate		50%
Incremental Borrowing Rate		2.90%

Remarks: Numbers may not sum to total due to rounding

The incremental borrowing rate of Lease B and C is calculated below:

Secured Borrowing Rate		
Average Mortgage Rate		1.56%
Adjustment		0.72%
Adjustment on term		
Risk-free Rate (Subject lease)	2.42%	
Risk-free Rate (Mortgage)	3.50%	-1.08%
Adjustment on Lease Type		
Yield on Domestic Property	2.18%	
Yield on Non-Domestic Property	2.58%	+0.40%
Secured Borrowing Rate		1.59%
Unsecured Borrowing Rate		
Risk-free Rate	2.42%	
Credit Spread	1.17%	
Country Risk Premium	0.60%	
Unsecured Borrowing Rate		4.19%
Market Loan-to-value Ratio		50%
Weight for Secured Borrowing Rate		50%
Weight for Unsecured Borrowing Rate		50%
Incremental Borrowing Rate		2.89%

Remarks: Numbers may not sum to total due to rounding

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. INTERESTS IN SECURITIES

(A) Directors' and chief executives' interests and short position in shares, underlying shares and debentures of the Company and its associated corporations

As at 31 March 2022, the interests and short positions of each of the Directors and chief executives 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 SFO which are required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(a) Interests in the Company

Name of Directors	Capacity/ Nature of interest	Total number of Shares and underlying Shares	Approximate percentage of issued share capital of the Company
Mr. Law Kwok Leung Alex ("Mr. Alex Law") (Note 1)	Interest of a controlled corporation	750,000,000	75.0%
Mr. Law Kwok Ho Simon ("Mr. Simon Law") (Note 2)	Interest of a controlled corporation	750,000,000	75.0%

Notes:

- Mr. Alex Law beneficially owns 65% of the issued share capital of Dynamic Victor Limited ("Dynamic Victor"). Therefore, Mr. Alex Law is deemed or taken to be, interested in 750,000,000 shares of the Company held by Dynamic Victor for the purpose of the SFO.
- Mr. Simon Law beneficially owns 35% of the issued share capital of Dynamic Victor. Therefore, Mr. Simon Law is deemed, or taken to be, interested in 750,000,000 shares of the Company held by Dynamic Victor for the purpose of the SFO.

(B) Substantial Shareholders' and other persons' interests and short positions in Shares and underlying Shares

So far as known to the Directors or chief executive of the Company, as at 31 March 2022, the following person/entities (other than the Directors and chief executive of the Company) had or were deemed to have an interest or a short position in the Shares or the underlying Shares of the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company remained to be kept under Section 336 of the SFO, or who were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Name of Shareholder	Capacity	Number of Shares/ underlying Shares held/ interested	Approximate percentage of issued share capital of the Company
Dynamic Victor	Beneficial owner	750,000,000	75.0%
Ms. Lau Lai Ha Sunshine (Note 1)	Interest of spouse	750,000,000	75.0%

Notes:

- Ms. Lau Lai Ha Sunshine is the spouse of Mr. Alex Law. Therefore, Ms. Lau Lai Ha Sunshine is deemed, or taken to be, interested in the same number of shares of the Company in which Mr. Alex Law is interested for the purpose 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 the Company and/or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the Controlling Shareholders or their respective close associates has been engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has or may have any other conflict of interests with the Group which would be required to be disclosed under Rule 8.10 of Listing Rules.

5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as of the Latest Practicable Date and which was significant in relation to the business of the Group; and none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2022, being the date to which the latest published audited financial statements of the Company were made up.

6. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the issue of this circular, and which are or may be material:

- (a) the Offer Letters.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance nor was any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL ADVERSE CHANGE

As of 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 March 2022, being the date to which the latest published audited financial statements of the Group were made up.

9. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice contained in this circular:

Name	Qualification
Flagship Appraisals and Consulting Limited	Independent property valuer

As at the Latest Practicable Date, the above expert:

- (a) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinions or advice and references to its name, in the form and context in which they appear;

- (b) did not have any shareholding, directly or indirectly, 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; and
- (c) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2022, being the date to which the latest published audited consolidated financial statements of the Company were made.

10. GENERAL

- (1) The registered office of the Company is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KYI-1108, Cayman Islands.
- (2) The principal place of business of the Company is Room 11, 14th Floor, Tower 2, Ever Gain Plaza, 88 Container Port Road, Kwai Chung, New Territories, Hong Kong.
- (3) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, Level 54, Hopewell Centre 183 Queen's Road East, Hong Kong (which will be relocated to 17/F, Far East Financial Centre, 16 Harcourt Road, Hong Kong with effect from Monday, 15 August 2022).
- (4) The secretary of the Company is Ms. Ng Hoi Ying who is a member of The Hong Kong Institute of Certified Public Accountants.
- (5) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be published on the website of the Company (www.asl.hk) and the Stock Exchange's website (www.hkexnews.hk) for a period of 14 days from the date of this circular.

- (1) the Memorandum and Articles of Association of the Company;
- (2) the annual report of the Company for the year ended 31 March 2022;
- (3) the annual report of the Company for the year ended 31 March 2021;
- (4) the annual report of the Company for the year ended 31 March 2020;
- (5) the valuation report prepared by Flagship Appraisals and Consulting Limited, the text of which is set out in the Appendix II to this circular;

- (6) the written consent referred to in the section headed “9. Expert and Consent” in this appendix; and
- (7) the Offer Letters.