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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 TRANSACTION IN RELATION TO
THE CAINIAO TENANCY AGREEMENT**

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 3 to 10 of this circular. The transaction 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.

3 May 2024

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	3
Appendix I — Financial Information of the Group	I-1
Appendix II — Valuation Report	II-1
Appendix III — General Information	III-1

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 15 March 2024 in relation to the Cainiao Tenancy Agreement
“associate(s)”	has the meaning as ascribed to it under the Listing Rules
“Board”	board of Directors
“Cainiao Tenancy Agreement”	the warehouse tenancy agreement entered into between the Tenant and the Landlord in respect of the lease of the Cainiao Warehouse
“Cainiao Warehouse”	Portion of L2 (being the Compartments A, B, and H) of Cainiao Smart Gateway, Chek Lap Kok, Hong Kong
“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
“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
“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

DEFINITIONS

“Independent Valuer”	Flagship Appraisals and Consulting Limited
“Landlord”	Hong Kong Cingleot Investment Management Limited, a company incorporated in Hong Kong with limited liability on 26 June 2018, a subsidiary of Alibaba Group Holding Limited (阿里巴巴集團控股有限公司), whose shares are listed on the Main Board of the Stock Exchange (stock code: 9988) and on the New York Stock Exchange (symbol: BABA), an Independent Third Party
“Latest Practicable Date”	26 April 2024, 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
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules
“PRC”	the People’s Republic of China
“Pre-lease Offer Letter”	The pre-lease offer letter entered into between the Tenant as tenant and the Landlord as landlord on 9 May 2023
“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)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction”	the leasing of the Cainiao Warehouse by the Tenant under the terms set out in the Cainiao Tenancy Agreement
“%”	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

Ms. Pau Yee Ling

Registered Office:

Windward 3

Regatta Office Park

PO Box 1350

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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

3 May 2024

To the Shareholders,

Dear Sir/Madam,

**MAJOR TRANSACTION IN RELATION TO
THE CAINIAO TENANCY AGREEMENT**

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 Cainiao Tenancy Agreement in accordance with the Pre-lease Offer Letter to finalise the details of the lease of the Cainiao Warehouse. Upon the entering into of the Cainiao Tenancy Agreement, the Pre-lease Offer Letter is superseded by the Cainiao Tenancy Agreement. 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 Cainiao Warehouse under the Cainiao Tenancy Agreement. Therefore, the entering into of the Cainiao Tenancy Agreement and the Transaction will be regarded as an acquisition of asset by the Group under the Listing Rules. The unaudited value of right-of-use assets recognised by the Group under the Cainiao Tenancy Agreement amounted to approximately HK\$85.2 million in aggregate. The purpose of this circular is to provide you with, among other things, (i) details of the Cainiao Tenancy Agreement; and (ii) other information required under the Listing Rules.

LETTER FROM THE BOARD

THE CAINIAO TENANCY AGREEMENT

The principal terms of the Cainiao Tenancy Agreement are set out as follows:

Date: 1 March 2024

Parties: (1) the Landlord as landlord; and
(2) the Tenant as tenant.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Landlord and its ultimate beneficial owner(s) are Independent Third Parties as at the date of this circular.

Warehouse: Portion of L2 (being the Compartments A, B, and H) of Cainiao Smart Gateway, Chek Lap Kok, Hong Kong.

The Cainiao Warehouse is a logistics center located at the Hong Kong International Airport. The Cainiao Warehouse is primarily utilized for freight forwarding and logistics operations and is built with ancillary office facilities to support such operations. The construction of the Cainiao Warehouse began in mid-2018 and was completed in 2023.

Estimated Area: Approximately 155,000 square feet.

Term: Thirty-nine (39) months commencing from 1 April 2024 and expiring on 30 June 2027 (both dates inclusive).

Rent: HK\$2,890,153 per calendar month, exclusive of rates, government rent, utility expenses and management charges ("Monthly Rent"). The rent payable under the Cainiao Tenancy Agreement was determined after arm's length negotiations between the Tenant and the Landlord with reference to the prevailing market rent for comparable warehouses in the vicinity of the Cainiao Warehouse.

Having considered that the unit rents of the Cainiao Warehouse under the Cainiao Tenancy Agreement are better or equal to the prevailing market rent for comparable warehouses in the vicinity of the Cainiao Warehouse, the Directors consider that the rents of the Cainiao Warehouse are fair and reasonable.

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

- Three (3) months from 1 January 2025 to 31 March 2025 (both days inclusive);
- Three (3) months from 1 January 2026 to 31 March 2026 (both days inclusive); and
- Three (3) months from 1 January 2027 to 31 March 2027 (both days inclusive).

LETTER FROM THE BOARD

Rental deposit: HK\$10,384,150, equivalent to an aggregate of three months of Monthly Rent, management charges, rates and government rent.

The cash deposits are transferred and applied towards payment of deposit upon the entering of the Cainiao Tenancy Agreement and refunded at the end of the leasing of the Cainiao Warehouse. 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.

Utility deposit: HK\$256,000. The utility deposit shall be returned to the Tenant without interest (a) within thirty (30) days after the expiration or sooner determination of the lease under the Cainiao Tenancy Agreement and delivery of vacant possession to the Landlord, or (b) within thirty (30) days after the settlement of the last outstanding claim by the Landlord against the Tenant for any arrears of charges for any services and/or such other utility services supplied to or consumed on the Cainiao Warehouse, whichever shall be the later.

Management charges: HK\$340,018 per calendar month and subject to review from time to time.

Use of premises: The Tenant shall use the Cainiao Warehouse for the purpose of freight forwarding in connection with air freight and logistics activities and the ancillary office facilitating the provision thereof. The Group intends to use the Cainiao Warehouse primarily as a logistics center and secondarily as office premises.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other restrictions on the use of Cainiao Warehouse.

Stamp duty: The stamp duty payable under the Cainiao Tenancy Agreement shall be borne equally by the Landlord and the Tenant.

Option to renew: The Tenant shall have an option to renew the tenancy for a further term of three (3) years commencing on 1 July 2027 to 30 June 2030 (both days inclusive) from the expiry of the current term on the same terms and conditions in this lease.

Termination: The lease under the Cainiao Tenancy Agreement may be terminated in the following manners:

- (a) In the event of any breach or non-observance or non-performance of any of the agreements, stipulations, terms or conditions stipulated in the Cainiao Tenancy Agreement, the Landlord shall be entitled to terminate the lease under the Cainiao Tenancy Agreement; or

LETTER FROM THE BOARD

- (b) If the Landlord intends to sell, assign, redevelop, demolish, re-build, refurbish, upgrade, and/or renovate the Cainiao Warehouse or any part thereof, then in any of such events the Landlord shall be entitled to give not less than six (6) calendar months' notice in writing to the Tenant to terminate the lease under the Cainiao Tenancy Agreement.

The payment of the Monthly Rent, the rental and the utility deposit and the stamp duty under the Cainiao Tenancy Agreement will be funded by the internal resources of the Group.

As at the Latest Practical Date, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries:

- (a) there are no encumbrances, liens, pledges, mortgages against the Cainiao Warehouse;
- (b) there is no breach of environmental regulations relating to the Cainiao Warehouse;
- (c) there are no investigations, notices, pending litigations, breaches of law or title defects relating to the Cainiao Warehouse;
- (d) there are no plans for the construction, renovation, improvement or redevelopment of the Cainiao Warehouse; and
- (e) the Cainiao Warehouse is not related to property activities.

EFFECT OF THE CAINIAO TENANCY AGREEMENT ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

The unaudited value of the right-of-use assets recognised by the Group amounted to approximately HK\$85.2 million in aggregate which is initially measured with reference to the amount of the lease liability plus adjustments for the estimate of costs of restoring the underlying asset to the condition required under the Cainiao Tenancy Agreement of approximately HK\$4.3 million. A discount rate of 4.72% for the Cainiao Warehouse is applied to compute the lease liabilities, which represents the present value of aggregate lease payments under the Cainiao Tenancy Agreement. The Group will depreciate the right-of-use assets over the estimated useful life of 39 months for the Cainiao Warehouse on a straight-line basis and a monthly depreciation amounting to approximately HK\$2.2 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\$80.9 million 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 4.72% per annum for the Cainiao Warehouse. After the commencement date of the lease, the lease liabilities are adjusted by interest accretion and lease payments.

LETTER FROM THE BOARD

Upon the completion of the Transaction, there was an increase in total assets of approximately HK\$85.2 million, comprising an increase in right-of-use assets of approximately HK\$85.2 million, increase in deposits of approximately HK\$10.6 million and netted-off by a decrease in bank balances and cash of approximately HK\$10.6 million. There was an increase in lease liabilities of approximately HK\$80.9 million.

The Group expects the Transaction will increase the annual depreciation charges of right-of-use assets by approximately HK\$26.4 million and finance costs by approximately HK\$5.9 million throughout the term of the Cainiao Tenancy Agreement on the basis of interest rate of 4.72% per annum.

VALUATION OF RIGHT-OF-USE ASSETS

The valuation of the right-of-use assets under the Transaction carried out by the Independent Valuer amounted to approximately HK\$85.2 million as at 1 April 2024.

In performing the valuation of the right-of-use assets, the Independent Valuer adopted the income approach which the value of an asset is the sum of the present value of future economic benefit streams. In this case, the future economic benefits streams refer to the future payments under the Transaction.

The Independent Valuer also based their valuation on various assumptions, including the assumptions that (i) the reference date of market data and information is 29 February 2024; (ii) the cash flows are derived based on the Cainiao Tenancy Agreement; and (iii) the incremental borrowing rate of 4.72% for the Cainiao Tenancy Agreement reflects the risks associated with the Tenant and the time value of money.

For further details of the methodology, key assumptions and parameters adopted in the valuation, please refer to the full text of the Valuation Report as set out in Appendix II of this circular.

Having discussed with the Independent Valuer the basis and rationale for different valuation methods and approaches, and having considered the analysis of the Independent Valuer in relation to the applicability of each method and approach and assumptions as explained above, the Board concurred with the Independent Valuer's analysis and the adoption of the income approach as the appropriate valuation methodology. The Board was also advised that the key assumptions and parameters adopted in the Valuation Report are common for valuations of right-of-use assets in Hong Kong, and the valuation is based on publicly available information. In view of the aforesaid, the Board is of the view that the methodology as well as the key assumptions and parameters adopted in the valuation are fair, objective and reasonable.

The Board had reviewed and enquired into the qualifications and experience of the Independent Valuer in relation to the preparation of the Valuation Report. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Ferry S.F. Choy, the Managing Director of the Independent Valuer and the signor of the Valuation Report, is a member of the Royal Institution of Chartered Surveyors (MRICS), and is a Charterholder of Chartered Financial Analyst (CFA) and an International Certified Valuation Specialist (ICVS) with over 15 years of valuation experience. The Board had also obtained information on the Independent Valuer's track records on

LETTER FROM THE BOARD

other valuations of right-of-use assets and noted that the Independent Valuer had been engaged as the independent valuer for a wide range of companies listed on the Stock Exchange. As such, the Board is of the view that the Independent Valuer is qualified, experienced and competent in performing valuations of the right-of-use assets and providing a reliable opinion in respect of the valuation of the right-of-use assets under the Transaction.

The Board also enquired with the Independent Valuer as to its independence from the Group, and had received confirmation from the Independent Valuer that they have no present or prospective interest in the Transaction, they are not a related corporation of and do not have a relationship with the Company or the Landlord, and they are independent of the Company. Based on the aforesaid and having made all reasonable enquiries, the Board is satisfied with the independence of the Independent Valuer and, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, there is no relationship or interest which may reasonably be considered to affect the Independent Valuer's independence to act as the independent valuer for the Company in connection with the Transaction.

Taking into account the above, the Directors are of the view that valuation of the right-of-use assets under the Transaction by the Independent Valuer as set out in the Valuation Report is fair and reasonable.

Having considered that the valuation of right-of-use assets 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 normal commercial terms and in the interest of the Company and its Shareholders as whole.

INFORMATION OF THE PARTIES

The Group

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.

The Tenant

The Tenant 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.

LETTER FROM THE BOARD

The Landlord

The Landlord, a company incorporated in Hong Kong with limited liability on 26 June 2018, is a subsidiary of Alibaba Group Holding Limited (阿里巴巴集團控股有限公司), whose shares are listed on the Main Board of the Stock Exchange (stock code: 9988) and on the New York Stock Exchange (symbol: BABA). The Landlord's group provides technology infrastructure and marketing platforms, and their Cainiao (菜鳥) segment includes domestic and international one-stop-shop logistics services and supply chain management solutions. 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.

INFORMATION OF THE CAINIAO SMART GATEWAY

Based on the information available to the Company, Cainiao Smart Gateway is a smart logistics center located in the Hong Kong International Airport. Cainiao Smart Gateway spans 12 floors and covers a total area of 4,100,000 square feet. It offers a range of logistics services, including space leasing, smart park and automated storage or retrieval system, as part of its smart logistics initiative.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CAINIAO TENANCY AGREEMENT

Owing to the increasing demand of the Group's air freight forwarding ground handling services from its customers and the recent commencement of operation of the Cainiao Smart Gateway, the Group considers that it is desirable for the Group to set up a warehouse in the Cainiao Smart Gateway to capture such new business opportunities. As such, the Board considers that the Transaction will enhance the Group's service capabilities and potential profitability.

Having considered (i) the operational requirements of the Group; and (ii) the prevailing market rent for warehouse space in the vicinity of the Cainiao Warehouse and the terms of the Cainiao Tenancy Agreement, the Directors are of the view that the terms of the Cainiao Tenancy Agreement are on normal commercial terms and the Transaction 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 Group recognises the value of the right-of-use assets on its consolidated statement of financial position in connection with the lease of the Cainiao Warehouse under the Cainiao Tenancy Agreement. Therefore, the entering into of the Cainiao Tenancy Agreement and the Transaction will be regarded as an acquisition of asset by the Group under the Listing Rules. The unaudited value of right-of-use assets recognised by the Group under the Cainiao Tenancy Agreement amounted to approximately HK\$85.2 million.

LETTER FROM THE BOARD

As the applicable percentage ratio as defined under the Listing Rules in respect of the acquisition of right-of-use assets recognised by the Group pursuant to HKFRS 16 under the Cainiao Tenancy Agreement is 25% or more but is less than 100% when aggregated, the entering into of the Cainiao Tenancy Agreement 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.

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) none of the Shareholders has a material interest in the Cainiao Tenancy Agreement and the Transaction and as such, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Transaction; and (ii) the written approval of Dynamic Victor for the Transaction has been obtained, no general meeting will be convened for the purpose of approving the Transaction 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 Cainiao Tenancy Agreement are on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Had a general meeting been convened by the Company, the Directors (including the independent non-executive Directors) would recommend the Shareholders to vote in favour of the resolutions to approve, confirm and ratify the Cainiao Tenancy Agreement and the Transaction.

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 2021, 2022 and 2023 and the six months ended 30 September 2023 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:

- interim report of the Company for the six months ended 30 September 2023
<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/1124/2023112400267.pdf>
- annual report of the Company for the year ended 31 March 2023
<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0728/2023072800827.pdf>
- 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>

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2024, 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 31 March 2024, the Group had aggregate outstanding bank guarantees of approximately HK\$0.5 million, all of which is secured by pledged bank deposits.

Bank borrowings

As at 31 March 2024, the Group did not have any outstanding bank borrowings.

Lease liabilities

As at 31 March 2024, the Group had unsecured and unguaranteed lease liabilities with outstanding carrying amount of approximately HK\$11.0 million.

Amounts due to non-controlling interests

As at 31 March 2024, 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 31 March 2024, 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. The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

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's customers include global logistics companies and major freight forwarding agents.

Although the global economic market showed signs of recovery, global uncertainties and instabilities still exist due to the intensification of global geopolitical conflicts. Amid the unstable economic environment, the Group will continue to adopt flexible approaches in its business operation and take effective cost control measures. Despite the volatile situation, the management believes that the demand for transportation, including air cargo, ground transportation and warehousing services will recover progressively in the second half of the financial year ended 31 March 2024. To this end, the Group will actively expand its customer base to increase the Group's revenue sources and be committed to strengthening its competitiveness in the logistics service industry to alleviate the impact of social and economic uncertainties.



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

LETTER OF OPINION

14 March 2024

The Board of Directors
A & S Group (Holdings) Limited
Room 11, 14th Floor, Tower 2, Ever Gain Plaza
88 Container Port Road
Kwai Chung, 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 “Tenant”), we are engaged to measure the right-of-use assets of the lease (the “Cainiao Tenancy Agreement”), which is the warehouse tenancy agreement entered into between the Tenant and Hong Kong Cingleot Investment Management Limited (the “Landlord”) in respect of the lease of Portion of L2 (being the Compartments A, B and H) of Cainiao Smart Gateway, Chek Lap Kok, Hong Kong (the “Cainiao Warehouse”).

The valuation date of the right-of-use assets of the Cainiao Tenancy Agreement is 1 April 2024 (the “Valuation Date”). It is noted that the Valuation Date is after the reporting date of this report. Therefore, we used the market data as of 29 February 2024 for this valuation.

Our analysis and conclusions, which are to be used only in their entirety, are for the use of 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 Cainiao Tenancy Agreement as at the Valuation Date is **HK\$85,175,000** (HONG KONG DOLLAR EIGHTY-FIVE MILLION ONE HUNDRED SEVENTY-FIVE THOUSAND ONLY).

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, MRICS
Managing Director

Contents

1. EXECUTIVE SUMMARY II-4

2. INTRODUCTION II-5

3. SCOPE OF SERVICES II-5

4. BASIS OF VALUE II-5

5. SOURCES OF INFORMATION II-5

6. KEY TERMS OF THE CAINIAO TENANCY AGREEMENT II-6

7. VALUATION METHODOLOGY II-6

8. MAJOR ASSUMPTIONS II-7

9. LIMITING CONDITIONS II-7

10. CONCLUSION II-8

EXHIBIT A — STATEMENT OF GENERAL SERVICES CONDITIONS II-9

EXHIBIT B — INVOLVED STAFF BIOGRAPHIES II-10

EXHIBIT C — INCREMENTAL BORROWING RATE DERIVATION II-11

EXHIBIT D — DETAILED CALCULATION II-13

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:	Portion of L2 (being the Compartments A, B and H) of Cainiao Smart Gateway, Chek Lap Kok, Hong Kong
Valuation Methodology	Income Approach
Valuation Date:	1 April 2024
Report Date:	14 March 2024
Conclusion of Value:	HK\$85,175,000

----- CONTINUED ON NEXT PAGE -----

2. INTRODUCTION

According to the Management, as of the reporting date of this report, they entered into the Cainiao Tenancy Agreement. The Cainiao Warehouse is held by the Landlord for investment. The Cainiao Warehouse is a logistics center located at Hong Kong International Airport, and the Cainiao Warehouse currently lies within an area zoned “Other Specified Uses” under Chek Lap Kok Outline Zoning Plan No. S/I-CLK/16. The estimated area of the Cainiao Warehouse is approximately 155,000 square feet. The Cainiao Warehouse is primarily utilized for freight forwarding related to air freight and logistics operations, along with ancillary office facilities to support these services. The construction of the Cainiao Warehouse began in mid-2018 and was completed in 2023. The government rent is assessed at 3% of the rateable value of the Cainiao Warehouse. Due to the newly established nature of Cainiao Warehouse and the unique nature of its operations, we cannot find publicly available information on the rental rates for the Cainiao Warehouse. In accordance with the instructions from the Company and the Tenant, we estimated the right-of-use assets of the Cainiao Tenancy Agreement 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 Cainiao Tenancy Agreement as at the Valuation Date for internal reference.

4. BASIS OF VALUE

We evaluate the right-of-use assets of the Cainiao Tenancy Agreement according to HKFRS 16.

5. SOURCES OF INFORMATION

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

- The Cainiao Tenancy Agreement;
- The Aswath Damodaran’s research on country risk premium;
- 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 CAINIAO TENANCY AGREEMENT

Lessor	Hong Kong Cingleot Investment Management Limited
Tenant	A & S (HK) Logistics Limited
Premises	Portion of L2 (being the Compartments A, B and H) of Cainiao Smart Gateway, Chek Lap Kok, Hong Kong
Rent details	The rent is HK\$2,890,153 per calendar month, exclusive of rates, government rent, utility expenses and management charges. The term of the Cainiao Tenancy Agreement is from 1 April 2024 to 30 June 2027 (both dates inclusive) with rent-free periods. The rent-free periods are three months from 1 January 2025 to 31 March 2025 (both days inclusive), three months from 1 January 2026 to 31 March 2026 (both days inclusive) and three months from 1 January 2027 to 31 March 2027 (both days inclusive)
Reinstatement cost	Per the Management, the reinstatement costs for the Cainiao Warehouse are HK\$4,335,000

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 the only applicable methodology in this valuation to measure the right-of-use asset.

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

8. MAJOR ASSUMPTIONS

We have adopted the following assumptions in our valuation.

- (i) The reference date of market data and information is 29 February 2024;
- (ii) The cash flows are derived based on the Cainiao Tenancy Agreement; and
- (iii) The incremental borrowing rate of 4.72% for the Cainiao Tenancy Agreement reflects the risks associated with the Tenant 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 Tenant.

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.

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10. CONCLUSION

In conclusion, as described in this valuation report, the right-of-use assets of the Cainiao Tenancy Agreement as at the Valuation Date is **HK\$85,175,000** (HONG KONG DOLLAR EIGHTY-FIVE MILLION ONE HUNDRED SEVENTY-FIVE THOUSAND ONLY).

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, MRICS
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, MRICS*
Managing Director**

Mr. Choy is the Managing Director of Flagship Appraisals and Consulting Limited. He has worked in the accounting and valuation profession for more than 15 years. Mr. Choy has served many listed companies in Hong Kong, China, Malaysia and Singapore. Mr. Choy's experience included management advice, project evaluation, public listings, M&A 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) and a member of the Royal Institution of Chartered Surveyors (MRICS). He served on the Continuous Education Committee of the IACVS Hong Kong Chapter, providing business valuation training courses to members. He also conducts seminars in different professional bodies, including HKICPA and CPA Australia.

Mr. Choy has acted as a valuation specialist in listed companies' transactions. He has also provided support in different Family law assignments involving business valuations, asset tracking and recovery, expenditure analysis and Duxbury calculations and advising on business, partnership and shareholder disputes.

**John T.H. Poon
Senior Analyst**

Mr. Poon holds a Master of Science degree in Economics from the Chinese University of Hong Kong. He currently holds the position of Senior 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 right-of-use assets.

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 adjustments; 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;
- b) Risk-free rate adjustments: as the terms of mortgages usually are much longer than those 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 Tenant. The yields of different types of properties come from the Hong Kong Census and Statistics Department.

We finally came up with a secured borrowing rate of 3.85%.

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 and our estimated credit rating is Ba;

- c) Credit risk premium: we search for comparable bonds with similar credit ratings to estimate the credit spread. The credit rating of the comparable bonds is Ba2. Besides, their average maturity is 1.5 years; 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.

We finally came up with an unsecured borrowing rate of 6.01%.

Determination of Market Loan-to-value Ratio

To determine the market loan-to-value ratio, we reference the HKMA requirement. According to the HKMA, the maximum market loan-to-value ratio for commercial and industrial properties is 60%. Therefore, we apply 60% market loan-to-value ratio in the analysis.

The incremental borrowing rate of the Cainiao Tenancy Agreement is calculated below:

Secured Borrowing Rate		
Average Mortgage Rate		3.57%
Adjustment		0.28%
Adjustment on Term		
Risk-free Rate (Subject lease)	3.79%	
Risk-free Rate (Mortgage)	3.93%	-0.13%
Adjustment on Lease Type		
Yield on Domestic Property	2.66%	
Yield on Non-domestic Property	3.08%	+0.42%
Secured Borrowing Rate		3.85%
Unsecured Borrowing Rate		
Risk-free Rate		3.79%
Credit Spread		1.57%
Country Risk Premium		0.65%
Unsecured Borrowing Rate		6.01%
Market Loan-to-value Ratio		60%
Weight for Secured Borrowing Rate		60%
Weight for Unsecured Borrowing Rate		40%
Incremental Borrowing Rate		4.72%

Remarks: Numbers may not sum to total due to rounding

EXHIBIT D — DETAILED CALCULATION

The table below presents the detailed calculation of the right-of-use assets of the Cainiao Tenancy Agreement.

Right-of-use assets calculation

Date	Rent (HK\$)	Discount factor	Present value of rent (HK\$)
Apr-24	2,890,153	1.00	2,890,153
May-24	2,890,153	1.00	2,878,830
Jun-24	2,890,153	0.99	2,867,551
Jul-24	2,890,153	0.99	2,856,316
Aug-24	2,890,153	0.98	2,845,125
Sep-24	2,890,153	0.98	2,833,978
Oct-24	2,890,153	0.98	2,822,875
Nov-24	2,890,153	0.97	2,811,815
Dec-24	2,890,153	0.97	2,800,798
Apr-25	2,890,153	0.95	2,757,162
May-25	2,890,153	0.95	2,746,360
Jun-25	2,890,153	0.95	2,735,600
Jul-25	2,890,153	0.94	2,724,882
Aug-25	2,890,153	0.94	2,714,206
Sep-25	2,890,153	0.94	2,703,572
Oct-25	2,890,153	0.93	2,692,980
Nov-25	2,890,153	0.93	2,682,429
Dec-25	2,890,153	0.92	2,671,919
Apr-26	2,890,153	0.91	2,630,291
May-26	2,890,153	0.91	2,619,986
Jun-26	2,890,153	0.90	2,609,721
Jul-26	2,890,153	0.90	2,599,496
Aug-26	2,890,153	0.90	2,589,312
Sep-26	2,890,153	0.89	2,579,167
Oct-26	2,890,153	0.89	2,569,062
Nov-26	2,890,153	0.89	2,558,997
Dec-26	2,890,153	0.88	2,548,971
Apr-27	2,890,153	0.87	2,509,258
May-27	2,890,153	0.86	2,499,427
Jun-27	2,890,153	0.86	2,489,635
Sum	86,704,590		80,839,874
Reinstatement cost			4,335,230
Right-of-use assets (Rounded)			85,175,000

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 the Latest Practicable Date, 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 the Latest Practicable Date, 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%

Note:

- 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 2023, 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 Cainiao Tenancy Agreement;
- (b) the Pre-lease Offer Letter; and
- (c) the offer letters entered into by and between the Airport Freight Forwarding Centre Company Limited (as landlord) and Tenant (as tenant) on 8 July 2022 in relation to the renewal of the warehouse tenancy agreements in respect of the leasing of warehouses located at the Airport Freight Forwarding Centre, No. 2 Chun Wan Road, Chek Lap Kok, Hong Kong with the monthly rent of approximately HK\$3.2 million and the value of the right-of-use assets recognised by the Company of approximately HK\$77.2 million. For further details, please refer to the announcement of the Company dated 8 July 2022.

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 2023, 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 2023, 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, 17/F, Far East Financial Centre, 16 Harcourt Road, Hong Kong.
- (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 ON DISPLAY

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 valuation report prepared by Flagship Appraisals and Consulting Limited, the text of which is set out in the Appendix II to this circular;
- (2) the written consent referred to in the section headed "9. Expert and Consent" in this appendix;
- (3) the Cainiao Tenancy Agreement; and
- (4) this circular.