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中國外運股份有限公司 **SINOTRANS LIMITED**

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 0598)

CONTINUING CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

References are made to the announcement of the Company dated 10 November 2017 and the circular of the Company dated 30 November 2017 in relation to, among other things, the continuing connected transactions of the Company.

Given that China Merchants and its associates (including SINOTRANS & CSC and its associates) may from time to time provide or purchase transportation and logistics services and/or enter into leasing arrangements with the Group and in order to ensure the compliance with the Listing Rules, the Company and China Merchants entered into the Master Services Agreement (China Merchants) and the Master Lease Agreement on 28 October 2020 that govern the provision or receipt of transportation and logistics services and the leasing arrangements between the Group and China Merchants and its associates to replace the Former Master Services Agreement and the Former Master Lease Agreement, the three-year term for both of which will expire on 31 December 2020. Similarly, the master services agreements dated 10 November 2017 entered into between the Company and the Connected Non Wholly-Owned Subsidiaries in relation to provision or receipt of transportation and logistics services between the Group and the Connected Non Wholly-Owned Subsidiaries and their associates will also expire on 31 December 2020. The Company has entered into the Master Services Agreement (Sinotrans Shandong Hongzhi) with Sinotrans Shandong Hongzhi to renew the former master services agreement. Based on the assessment of the future business development of the parties, the service agreements for provision or receipt of transportation and logistics services between the Group and each of Qingdao Jinyun Air and Shanghai Waihong Yishida and their associates will no longer be renewed. The transaction amounts between the Group and each of Qingdao Jinyun Air and Shanghai Waihong Yishida and their associates for provision or receipt of transportation and logistics services are expected to be minimal and within the de minimis threshold under Chapter 14A of the Listing Rules for the three years ending 31 December 2023.

In addition, the Company also entered into the Financial Services Agreement in relation to the provision of various financial services to the Group by the Finance Company on 28 October 2020 to replace the Former Financial Services Agreements. The Finance Company is held as to 51% by China Merchants and 49% by SINOTRANS & CSC. Its principal business activities target at members of China Merchants Group: (i) handle financial and financing consulting, credit verification and related consulting and agency services; (ii) assist in the collection and payment of transaction funds; (iii) provide guarantee; (iv) handle internal entrusted loans; (v) handle bill acceptance and discounting; (vi) internal transfer and settlement and corresponding settlement and clearing plan design; (vii) deposit services; (viii) handle loans and finance lease, etc.

As China Merchants is the ultimate controlling shareholder of the Company and the Finance Company is a wholly-owned subsidiary of China Merchants, both China Merchants and the Finance Company are connected persons of the Company, and thus the transactions contemplated under the Master Services Agreement (China Merchants), the Master Lease Agreement and the Financial Services Agreement constitute continuing connected transactions of the Company.

As a subsidiary of SINOTRANS & CSC (the controlling shareholder of the Company) holds more than 10% equity interest in Sinotrans Shandong Hongzhi, Sinotrans Shandong Hongzhi is a connected person of the Company pursuant to Rule 14A.16 of the Listing Rules, and thus the transactions contemplated under the Master Services Agreement (Sinotrans Shandong Hongzhi) constitute continuing connected transactions of the Company.

The transactions contemplated under the Master Services Agreement (China Merchants) and the Master Services Agreement (Sinotrans Shandong Hongzhi) shall be aggregated for the purposes of calculating the applicable percentage ratios pursuant to Rule 14A.82 of the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the provision or receipt of transportation and logistics services contemplated under the Master Services Agreements exceeds 5%, such transactions and their proposed annual caps are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the lease of properties and storage facilities (inclusive of the equipment therein) by the Group from China Merchants and its associates contemplated under the Master Lease Agreement exceeds 5%, such transactions and their proposed annual caps are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As each of the highest applicable percentage ratios (as defined under the Listing Rules) in respect of (i) the lease of properties and storage facilities (inclusive of the equipment therein) by the Group to China Merchants and its associates; and (ii) the lease of containers and other equipment between the Group and China Merchants and its associates exceeds 0.1% but less than 5%, such transactions are subject to the reporting, annual review and announcement requirements only, and exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the deposit services contemplated under the Financial Services Agreement exceeds 5% but is less than 25%, such transactions constitute discloseable transactions under Chapter 14 of the Listing Rules and continuing connected transactions under Chapter 14A of the Listing Rules, and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules. The provision of loan services by the Finance Company to the Group on normal commercial terms on an unsecured basis under the Financial Services Agreement constitute financial assistance by a connected person for the benefit of the Group which is exempt under the Rule 14A.90 of the Listing Rules from reporting, annual review, announcement and Independent Shareholders' approval requirements. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the other financial services contemplated under the Financial Services Agreement is less than 0.1%, such transactions are exempt from reporting, annual review, announcement and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Company has set up the Independent Board Committee to advise the Independent Shareholders in respect of the continuing connected transactions (including the related annual caps) contemplated under the Master Services Agreements, the lease of properties and storage facilities (inclusive of the equipment therein) by the Group from China Merchants and its associates contemplated under the Master Lease Agreement and the deposit services contemplated under the Financial Services Agreement. The Company has appointed VBG Capital as the Independent Financial Adviser of the Company for the Non-exempt Continuing Connected Transactions.

The EGM will be convened to consider and, if thought fit, approve, among other things, the Non-exempt Continuing Connected Transactions subject to the New Caps.

The notice convening the EGM and the circular are expected to be despatched to the Shareholders on or before 20 November 2020 as the Company needs additional time to prepare the circular which will contain, among other things, further details on the Non-exempt Continuing Connected Transactions subject to the New Caps, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

As each of China Merchants, the Finance Company and Sinotrans Shandong Hongzhi is a party to the Master Services Agreement (China Merchants) and the Master Lease Agreement, the Financial Services Agreement as well as the Master Services Agreement (Sinotrans Shandong Hongzhi), respectively, they, together with their respective associates (including SINOTRANS & CSC), are required under the Listing Rules to abstain from voting on the resolutions in respect of the Non-exempt Continuing Connected Transactions at the EGM.

None of the Directors had any material interest in the abovementioned continuing connected transactions and therefore they are not required under the Listing Rules to abstain from voting on the board resolutions approving these matters. Nonetheless, as Mr. Song Dexing, Mr. Su Jian, Mr. Xiong Xianliang and Mr. Jiang Jian, being the directors of the Company, are concurrently holding positions in China Merchants, they have abstained from voting on the board resolutions in respect of the abovementioned continuing connected transactions in accordance with the relevant PRC laws and regulations.

A. CONTINUING CONNECTED TRANSACTIONS

I. Background

References are made to the announcement of the Company dated 10 November 2017 and the circular of the Company dated 30 November 2017 in relation to, among other things, the continuing connected transactions of the Company.

The Group is a leading integrated logistics service provider and integrator in the PRC, and its principal businesses include logistics, forwarding and related business and e-commerce business. China Merchants is the ultimate controlling shareholder of the Company, and a wholly state-owned enterprise established under the laws of the PRC under direct control of the SASAC. China Merchants is a large-scale conglomerate with diversified businesses. At present, China Merchants mainly focuses on three core industries: comprehensive transportation, featured finance, and holistic development and operation of residential communities and industrial parks. It has also been engaging in the transformation from these three primary industries to the three platforms of industrial management, financial services, and investment and capital operation. SINOTRANS & CSC, a wholly owned subsidiary of China Merchants established under the laws of the PRC and the controlling shareholder of the Company, is mainly engaged in Non-Vessel Operating Common Carry (NVOCC), international shipping agency, the organization, investment and management of integrated logistics, ship building and repair through its subsidiaries.

Given that China Merchants and its associates (including SINOTRANS & CSC and its associates) may from time to time provide or purchase transportation and logistics services and/or enter into leasing arrangements with the Group and in order to ensure the compliance with the Listing Rules, the Company and China Merchants entered into the Master Services Agreement (China Merchants) and the Master Lease Agreement on 28 October 2020 that govern the provision or receipt of transportation and logistics services and the leasing arrangements between the Group and China Merchants and its associates to replace the Former Master Services Agreement and the Former Master Lease Agreement, the three-year term for both of which will expire on 31 December 2020. Similarly, the master services agreements dated 10 November 2017 entered into between the Company and the Connected Non Wholly-Owned Subsidiaries in relation to provision or receipt of transportation and logistics services between the Group and the Connected

Non Wholly-Owned Subsidiaries and their associates will also expire on 31 December 2020. The Company has entered into the Master Services Agreement (Sinotrans Shandong Hongzhi) with Sinotrans Shandong Hongzhi to renew the former master services agreement. Based on the assessment of the future business development of the parties, the service agreements for provision or receipt of transportation and logistics services between the Group and each of Qingdao Jinyun Air and Shanghai Waihong Yishida and their associates will no longer be renewed. The transaction amounts between the Group and each of Qingdao Jinyun Air and Shanghai Waihong Yishida and their associates for provision or receipt of transportation and logistics services are expected to be minimal and within the de minimis threshold under Chapter 14A of the Listing Rules for the three years ending 31 December 2023.

In addition, the Company also entered into the Financial Services Agreement in relation to the provision of various financial services to the Group by the Finance Company on 28 October 2020 to replace the Former Financial Services Agreements. The Finance Company is held as to 51% by China Merchants and 49% by SINOTRANS & CSC. Its principal business activities target at members of China Merchants Group: (i) handle financial and financing consulting, credit verification and related consulting and agency services; (ii) assist in the collection and payment of transaction funds; (iii) provide guarantee; (iv) handle internal entrusted loans; (v) handle bill acceptance and discounting; (vi) internal transfer and settlement and corresponding settlement and clearing plan design; (vii) deposit services; (viii) handle loans and finance lease, etc.

As each of the highest applicable percentage ratios (as defined under the Listing Rules) in respect of (i) the provision or receipt of transportation and logistics services contemplated under the Master Services Agreements, (ii) the lease of properties and storage facilities (inclusive of the equipment therein) by the Group from China Merchants and its associates contemplated under the Master Lease Agreement, and (iii) the utilization of deposit services by the Group from the Finance Company contemplated under the Financial Services Agreement exceeds 5%, the Company will seek Independent Shareholders' approval at the EGM to enter into transactions under each of those agreements.

II. Continuing Connected Transactions

Details of the Master Services Agreements, the Master Lease Agreement and the Financial Services Agreement are set out below:

(a) Transactions with China Merchants and its associates under the Master Services Agreement (China Merchants)

Principal terms of the Master Services Agreement (China Merchants)

On 28 October 2020, the Company and China Merchants entered into the Master Services Agreement (China Merchants) in respect of the provision and receipt of the transportation and logistics services (including freight forwarding services, shipping agency, storage and terminal services, trucking transportation, express services and shipping transportation and other logistics services) between members of the Group and China Merchants and its associates.

The Master Services Agreement (China Merchants) requires that transportation and logistics services be provided at the market prices and on normal commercial terms. “Market prices” means the price at which the same or comparable type of services are provided by or to (as appropriate) independent third parties in the same area on normal commercial terms in the ordinary course of business. The mechanism by which the Group ensures that the services provided under the Master Services Agreements are charged at market prices and the internal control procedures for monitoring such continuing connected transactions to ensure compliance with the Listing Rules are described in the section headed “IV. Basis of pricing of the transactions contemplated under the Master Services Agreements, the Master Lease Agreement and the Financial Services Agreement and internal control procedures for monitoring continuing connected transactions”.

The provision and receipt of services under the Master Services Agreement (China Merchants) are conditional upon the Company’s compliance with the relevant continuing connected transaction requirements under the Listing Rules (which include, among other things, the approval of the Independent Shareholders at the EGM). Subject to the approval of Independent Shareholders, the term of the Master Services Agreement (China Merchants) will commence on 1 January 2021 for a period of three years and end on 31 December 2023.

Historical transaction amounts

During the financial years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, the turnover/expenses of the Group attributable to each of the transactions with China Merchants and its associates under the Former Master Services Agreement were as follows:

Unit: hundred million

Currency: RMB

| | For the year ended 31 December 2018 | For the year ended 31 December 2019 | For the year ending 31 December 2020 |
|--|--|--|---|
| Actual amount with respect to the provision of transportation and logistics services by the Group | 8.00 ¹ | 13.53 ¹ | 3.98 ^{1&2} |
| Relevant annual cap under the Former Master Services Agreement | 25.00 | 32.50 | 42.25 |
| Historical utilization rate | 32.00% | 41.63% | 9.42% ^{1&2} |
| Actual amount with respect to the receipt of transportation and logistics services by the Group | 18.87 ¹ | 16.85 ¹ | 7.26 ^{1&2} |
| Relevant annual cap under the Former Master Services Agreement | 35.00 | 45.50 | 59.15 |
| Historical utilization rate | 53.91% | 37.03% | 12.27% ^{1&2} |

Notes:

1. These historical transaction figures include the transaction amounts in relation to the provision and receipt of the lease service of containers and other equipment between the Group and China Merchants and its associates as contemplated under the Former Master Services Agreement, and such transactions will be integrated into the Master Lease Agreement for the three years ending 31 December 2023.
2. These figures represent the transaction amount for the six months ended 30 June 2020 and the utilization rates are calculated by measuring those transaction amounts against the relevant annual caps.

Annual caps under the Master Services Agreement (China Merchants)

The Company proposes that the aggregate transaction amount for each of the following types of transactions (in respect of which Independent Shareholders' approval is proposed to be sought at the EGM) for the three years ending 31 December 2023 pursuant to the Master Services Agreement (China Merchants) be capped as follows:

Unit: hundred million

Currency: RMB

| | For the year ending 31 December 2021¹ | For the year ending 31 December 2022¹ | For the year ending 31 December 2023¹ |
|--|---|---|---|
| Provision of transportation and logistics services by the Group ² | 25.00 | 32.50 | 42.25 |
| Receipt of transportation and logistics services by the Group ² | 35.00 | 45.50 | 59.15 |

Notes:

1. These figures represent the maximum value of the relevant type of transactions which the Group may undertake during the relevant financial years. The actual amount of transaction may be different.
2. In determining the relevant caps for transactions under the Master Services Agreement (China Merchants), the Company took into account the following factors:
 - (i) in determining the annual cap for the year ending 31 December 2021, the Company has primarily taken into account the highest annual total value of transactions over the financial years ended 31 December 2018 and 2019 and the six months ended 30 June 2020 and the potential growth in the Group's revenue and operation scale as described further in paragraph (iv) below;
 - (ii) in determining the annual caps for the two years ending 31 December 2023, the Company has assumed a 30% year on year increase over the previous annual cap, to give allowance for:—
 - (a) the volatility of volume of business due to general industry or economic conditions as described in paragraph (iii) below; and

- (b) the potential growth in overall business of the Group and collaboration with China Merchants and its associates, as described further in paragraph (iv) and (v) below.
- (iii) business volumes and the market rates generally in the transportation and logistics services industry are inherently volatile (and are affected by the volatility in oil price, labor costs, the general economic environment in the PRC and overseas, the international trade flow as well as particular sectors of such economies). For example, the China Containerized Freight Index (CCFI) has been rising steadily after bottoming out in 2016. Despite the decline in the first half of 2020 affected by the COVID-19 pandemic, it has rebounded rapidly since June 2020 and the average value of the CCFI was 952.31 points in September 2020, representing a year-on-year increase of 16.4%. The continuous upward trend of CCFI has not changed. In view of the CCFI of various routes, the freight rates of North America, Australia and New Zealand routes have been rising rapidly, and the freight rates of Europe and Mediterranean routes have stabilized and rebounded. The container throughput capacity of national ports maintains a growth trend. In August 2020, the container throughput capacity of national ports continued to represent a year-on-year and month-on-month increase.
- (iv) the potential growth in the Group's revenue and operation scale taking into account the following factors:
 - (a) the country proposes to cultivate and develop modern logistics enterprises with international competitiveness, and the Company, as a unified operation platform for the logistics business of China Merchants Group, actively responds to the call of the country, focuses on the transformation and integration of the three major business sectors, and builds a full supply chain product system, so as to increase the development of the consumer market, import market, and online market, continue to expand market share and accelerate the construction of a world-class smart logistics platform enterprise. The Company's revenue recorded a compound annual growth rate of more than 10% from 2009 to 2019. Despite the impact of the COVID-19 pandemic, the revenue of the Company in the first half of 2020 increased by more than 5% compared with the corresponding period of last year;
 - (b) domestic demand in respect of new infrastructure, consumption upgrades and fragmented logistics will give rise to new growth points and internal circulation will become an important opportunity for a period of time in the future. Therefore, the long-term growth trend of China's economy will not change. In the first half of 2020, China's pandemic prevention and control situation continued to progress. The resumption of work and production, and the resumption of business and markets accelerated, and promoted economic growth from negative to positive. The GDP growth rate of China decreased by 6.8% in the first quarter but increased by 3.2% in the second quarter of 2020 as compared with the corresponding period of last year, and the growth rate in the third quarter reached 4.9%, showing a stable recovery trend, and China is the first major economy

throughout the world to achieve growth after the outbreak of COVID-19 pandemic. According to the forecast of the International Monetary Fund (IMF) in June 2020, China's GDP growth rate will reach 8.2% in 2021. Relying on the domestic circulation, the revenue of the Company will gain continuous growth momentum; and

- (c) with the gradual easing of the global pandemic of COVID-19 and the gradual recovery of international trade activities, the IMF expects that without a second wave of COVID-19 pandemic, the global GDP growth rate in 2021 will be 5.4%, and that of emerging markets and developing economies will be 5.9%. Driven by the overall recovery of the world economy, and benefiting from favorable factors such as a series of national support policies and the continued decline in international crude oil prices, the global freight market is expected to enter into an upward channel after 2021.
- (v) the potential increase in opportunities for collaboration between the Group and China Merchants Group (including SINOTRANS & CSC Group) and their associates as integration of the Group as a member of China Merchants Group continues and the investment and operations of China Merchants Group in the transportation segment facilitate the implementation of the Group's business strategies as mentioned above.

The Directors (excluding the independent non-executive Directors who will make their recommendation after having taken into account the written advice to be given by the Independent Financial Adviser) are of the view that, taking into account of the reasons described above, the relevant New Caps contemplated under the Master Services Agreement (China Merchants) are fair and reasonable and the terms of the Master Services Agreement (China Merchants) are fair and reasonable and on normal commercial terms, and the Master Services Agreement (China Merchants) is entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

(b) Transactions with Sinotrans Shandong Hongzhi and its associates under the Master Services Agreement (Sinotrans Shandong Hongzhi)

In order to facilitate the continuation of the provision and receipt of transportation and logistics services to and from Sinotrans Shandong Hongzhi and its associates in compliance with the requirements of the Listing Rules, on 28 October 2020, the Company entered into the Master Services Agreement (Sinotrans Shandong Hongzhi) with Sinotrans Shandong Hongzhi for the provision and receipt of the transportation and logistics services (including freight forwarding services, shipping agency, storage and terminal services, trucking transportation, express services and shipping transportation and other logistics services) between members of the Group and Sinotrans Shandong Hongzhi and its associates. The term of the Master Services Agreement (Sinotrans Shandong Hongzhi) is for a period of three years commencing on 1 January 2021 and ending on 31 December 2023, subject to the approval of

Independent Shareholders. Services provided under the Master Services Agreement (Sinotrans Shandong Hongzhi) will be at the market price charged by independent third parties and on normal commercial terms. Procedures and mechanism for determining market price will be as same as those described in the section headed “(a) Transactions with China Merchants and its associates under the Master Services Agreement (China Merchants)” above.

Sinotrans Shandong Hongzhi is owned as to 75% by Sinotrans Shandong Company Limited (a wholly-owned subsidiary of the Company) and 25% by LAILON Enterprises Limited (a non wholly-owned subsidiary of SINOTRANS & CSC). Sinotrans Shandong Hongzhi is mainly engaged in international container road-transportation business, international transportation agency business of sea, road, air freight forwarding for import and export cargo, import and export cargo transportation of the non-vessel operating common carrier (NVOCC) business and international express services.

The table below sets out the historical transaction amounts of the Group with Sinotrans Shandong Hongzhi and its associates during the financial years ended 31 December 2018 and 2019 and for the six months ended 30 June 2020 and the proposed annual caps for the value of transportation and logistics services to be provided and received by the Group (in respect of which Independent Shareholders’ approval is proposed to be sought at the EGM), with Sinotrans Shandong Hongzhi and its associates for the three years ending 31 December 2023 respectively:

Unit: ten thousand

Currency: RMB

| | For the year ended 31 December 2018 | For the year ended 31 December 2019 | For the year ending 31 December 2020 | For the year ending 31 December 2021 Cap ² | For the year ending 31 December 2022 Cap ² | For the year ending 31 December 2023 Cap ² |
|---|---|---|--|---|---|---|
| Provision of transportation and logistics services by the Group | 11,703 | 12,572 | 6,110 ¹ | 25,000 | 32,500 | 39,000 |
| Historical annual cap | 20,000 | 26,000 | 33,800 | – | – | – |
| Historical utilization rate | 58.52% | 48.35% | 18.08% ¹ | – | – | – |
| Receipt of transportation and logistics services by the Group | 2,147 | 4,430 | 5,075 ¹ | 25,000 | 28,000 | 31,900 |
| Historical annual cap | 6,000 | 7,800 | 10,140 | – | – | – |
| Historical utilization rate | 35.78% | 56.79% | 50.05% ¹ | – | – | – |

Notes:

1. These figures represent the transaction amount for the six months ended 30 June 2020 and the relevant utilization rates are calculated by measuring those transaction amounts against the annual cap.
2. These figures represent the maximum aggregate annual transaction value in respect of the transactions of the relevant type which the Group will undertake under the Master Services Agreement (Sinotrans Shandong Hongzhi) during the financial year specified. The actual transaction amount may be different.
3. In determining the relevant caps for transactions under the Master Services Agreement (Sinotrans Shandong Hongzhi), the Company took into account the following factors:
 - (i) the highest historical transaction amounts in respect of the transportation and logistics services between the Group and Sinotrans Shandong Hongzhi and its associates for the two years ended 31 December 2019 and six months ended 30 June 2020; and
 - (ii) potential increase in opportunities for collaboration between the Group and Sinotrans Shandong Hongzhi in respect of the transaction contemplated under the Master Services Agreement (Sinotrans Shandong Hongzhi) arising from the reasonable business expansion of the parties.

The Directors (excluding the independent non-executive Directors who will make their recommendation after having taken into account the written advice to be given by the Independent Financial Adviser) are of the view that the terms (including the relevant annual caps contemplated thereunder) of the Master Services Agreement (Sinotrans Shandong Hongzhi) are fair and reasonable, on normal commercial terms, and are entered into in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

(c) Transactions with China Merchants and its associates under the Master Lease Agreement

The Former Master Lease Agreement will expire on 31 December 2020, which covers the lease of properties and storage facilities (inclusive of the equipment therein) by the Group from China Merchants and its associates. The provision and receipt of the lease service of containers and other equipment between the Group and China Merchants and its associates are contemplated under the Former Master Services Agreement, which will also expire on 31 December 2020. Considering the future business needs on the lease arrangements between the Group and China Merchants and its associates, the Company and China Merchants entered into the Master Lease Agreement on 28 October 2020, for a term of three years commencing on 1 January 2021 and ending on 31 December 2023 to govern (i) the lease of

properties and storage facilities (inclusive of the equipment therein) and (ii) the lease of containers and other equipment between the Group and China Merchants and its associates.

Principal terms of the Master Lease Agreement

China Merchants and its associates agrees to lease certain properties and storage facilities (inclusive of the equipment therein) to the Group in various locations at which the Group mainly operates including Beijing, Shanghai, Guangdong, Shandong, Fujian, Tianjin, Jiangsu, Zhejiang, Liaoning, Hubei and Hebei, etc. In the meantime, the Group agrees to lease certain properties and storage facilities (inclusive of the equipment therein) to China Merchants and its associates for their daily operation.

In addition, the Group and China Merchants and its associates agree on the provision and receipt of the lease service of containers and other equipment between each other in the course of the transportation and logistics business operation.

Separate lease agreements may be entered into by the relevant parties in respect of individual leases.

Historical transaction amounts

The table below sets out the historical transaction amounts in relation to (i) the lease of properties and storage facilities (inclusive of the equipment therein) and (ii) the lease of containers and other equipment between the Group and China Merchants and its associate during the financial years ended 31 December 2018 and 2019 and for the six months ended 30 June 2020:

Unit: ten thousand

Currency: RMB

| | For the year ended 31 December 2018 | For the year ended 31 December 2019 | For the six months ended 30 June 2020 |
|--|--|--|--|
| <i>(i) Lease of properties and storage facilities (inclusive of the equipment therein)</i> | | | |
| Actual amount with respect to the lease of properties and storage facilities (inclusive of the equipment therein) by the Group as the lessee from China Merchants and its associates | 13,200 ¹ | 12,400 ¹ | 12,300 ¹ |
| Actual amount with respect to the lease of properties and storage facilities (inclusive of the equipment therein) by the Group as the lessor to China Merchants and its associates | 972 ² | 748 ² | 662 ² |
| <i>(ii) Lease of containers and other equipment</i> | | | |
| Actual amount with respect to the lease of containers and other equipment by the Group as the lessee from China Merchants and its associates | 45 ³ | 170 ³ | 192 ³ |
| Actual amount with respect to the lease of containers and other equipment by the Group as the lessor to China Merchants and its associates | 10,500 ³ | 9,664 ³ | 4,801 ³ |

Notes:

1. These historical figures were transaction amounts in relation to the lease of properties and storage facilities (inclusive of the equipment therein) by the Group as the lessee from China Merchants and its associates contemplated under the Former Master Lease Agreement for the two years ended 31 December 2019 and six months ended 30 June 2020.
2. The historical amount with respect to the lease of properties and storage facilities (inclusive of the equipment therein) by the Group as the lessor to China Merchants and its associates for each of the three years ending 31 December 2020 was and will be within the de minimis threshold under Chapter 14A of the Listing Rules.
3. The provision and receipt of the lease service of containers and other equipment between the Group and China Merchants and its associates were contemplated under the Former Master Services Agreement for the three years ending 31 December 2020. Such transactions will be integrated into and governed by the Master Lease Agreement for the three years ending 31 December 2023.

Annual caps under the Master Lease Agreement

The Company proposes that the estimated caps in respect of (i) lease of properties and storage facilities (inclusive of the equipment therein) and (ii) the lease of containers and other equipment between the Group and China Merchants and its associates contemplated under the Master Lease Agreement for the three years ending 31 December 2023 are as follows:

Unit: ten thousand

Currency: RMB

| | For the year ending 31 December 2021 ¹ | For the year ending 31 December 2022 ¹ | For the year ending 31 December 2023 ¹ |
|--|--|--|--|
| (i) Lease of properties and storage facilities (inclusive of the equipment therein) | | | |
| (a) <i>Annual cap with respect to the lease of properties and storage facilities (inclusive of the equipment therein) by the Group as the lessee from China Merchants and its associates</i> | | | |
| – Right-of-use assets (for those leases of which the lease term exceeds one year) | 250,000 | 275,000 | 302,500 |
| – Other payments (including rent for those leases of which the lease term is no more than one year) | 12,000 | 13,200 | 14,520 |
| (b) <i>Annual cap with respect to the lease of properties and storage facilities (inclusive of the equipment therein) by the Group as the lessor to China Merchants and its associates</i> | | | |
| – Total rent payments | 4,000 | 4,600 | 5,290 |

| | For the year ending 31 December 2021 ¹ | For the year ending 31 December 2022 ¹ | For the year ending 31 December 2023 ¹ |
|--|--|--|--|
| (ii) Lease of containers and other equipment | | | |
| (a) <i>Annual cap with respect to the lease of containers and other equipment by the Group as the lessee from China Merchants and its associates</i> | | | |
| – Right-of-use assets (for those leases of which the lease term exceeds one year) | 6,000 | 6,600 | 7,260 |
| – Other payments (including rent for those leases of which the lease term is no more than one year) | 500 | 600 | 720 |
| (b) <i>Annual cap with respect to the lease of containers and other equipment by the Group as the lessor to China Merchants and its associates</i> | | | |
| – Total rent payments | 20,000 | 23,000 | 26,450 |

Notes:

1. Different accounting treatment apply to different components of payments by the Group as lessee under the Master Lease Agreement in accordance with the PRC Accounting Standards for Business Enterprises applicable to the Group. Under the PRC Accounting Standards for Business Enterprises, the Group as the lessee shall recognize leases for a term of more than one year as right-of-use assets and lease liabilities. The right-of-use assets represent its rights to use the underlying leased asset over the lease term and the lease liabilities represent its obligations to make lease payments (i.e. the rental payment). The assets and the liabilities arising from the lease are initially measured on present value basis and calculated by discounting the non-cancellable lease payments under the Master Lease Agreement, using the incremental borrowing rate as the discount rate. Under the PRC Accounting Standards for Business Enterprises and in the consolidated statement of comprehensive income of the Group, the Group shall recognize (i) depreciation charge over the life of the right-of-use asset, and (ii) interest expenses amortized from the lease liability over the lease term. In accordance with the Listing Rules, the Company is required to set caps on the total value of right-of-use assets relating to the above leases. Other amounts payable by the Group as lessee (including rent for those leases for a term of no more than one year) will be recorded as expenses by the Company over the remainder of term of the lease and separate caps are set in accordance with the Listing Rules.

2. The annual caps in respect of the provision and receipt of lease of properties and storage facilities (inclusive of the equipment therein) between the Group and China Merchants and its associates under the Master Lease Agreement have been determined after taking into account:
 - (i) the rent payable for subsisting property lease arrangements between the Group and China Merchants and its associates;
 - (ii) the rising market rent generally for properties at locations and of a quality similar to those currently occupied by the Group and China Merchants and its associates and in particular, for commercial properties in key cities in China, for example, Beijing, Shanghai and Shenzhen where the headquarters of the Company and certain of its subsidiaries are located;
 - (iii) the potential expansion of the business of the parties and the consequential increase in demand for additional properties and storage facilities (inclusive of the equipment therein); and
 - (iv) the effect on the transaction amount from the recognition of property leases under the applicable provisions of the PRC Accounting Standards for Business Enterprises.
3. The annual caps in respect of the provision and receipt of lease of containers and other equipment between the Group and China Merchants and its associates under the Master Lease Agreement have been determined after taking into account:
 - (i) the expenses payable for subsisting lease arrangements in relation to the containers and other equipment between the Group and China Merchants and its associates;
 - (ii) the potential expansion of the business of the parties and the consequential increase in demand for additional containers and other equipment, especially when carrying out the transportation and logistics businesses by the Group; and
 - (iii) the effect on the transaction amount from the recognition of leases of containers and other equipment under the applicable provisions of the PRC Accounting Standards for Business Enterprises.

The Directors (excluding the independent non-executive Directors who will make their recommendation after having taken into account the written advice to be given by the Independent Financial Adviser) are of the view that the terms (including the relevant annual caps contemplated thereunder) of the Master Lease Agreement are fair and reasonable and on normal commercial terms and the Master Lease Agreement is entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

(d) Transactions with the Finance Company

Principal terms of the Financial Services Agreement

On 28 October 2020, the Company and the Finance Company entered into the Financial Services Agreement under which the Finance Company agreed to provide a series of financial services which include: (1) deposit services; (2) loan services; (3) other financial services (including the following categories of services, namely settlement services, notes services, foreign exchange services, entrusted loan services, financial consultancy services, credit appraisal and other relevant advice and agency services, and other financial services within its business scope), as set out in more details below, to the Group within the caps agreed thereunder for the three years commencing on 1 January 2021 and ending on 31 December 2023:

- (i) Deposit services: the interest rates of the deposit services offered by the Finance Company (a) are to be 15% to 50% higher than the general interest rates set by the PBOC for the same type of deposit for the same term; and (b) are not to be lower than the interest rates offered by major commercial banks in the PRC to the Group for the same type of deposit for the same term in the same period.

Services ancillary to the deposit services, including but not limited to account management services and provision of deposit certificate, are to be provided by the Finance Company free of charge.

- (ii) Loan services: the interest rates of loan services charged by the Finance Company will not be higher than the interest rates provided by other financial institutions in the PRC to the Group for the same level of loan in the same period. Loans provided by the Finance Company will in principle be by way of unsecured credit loans.

- (iii) Other financial services:

- (a) Settlement services: the Finance Company will provide domestic settlement services free of charge and the rate of cross border and overseas settlement services will not be higher than that of the same services provided by other domestic and local financial institutions. In addition, the Finance Company can facilitate management by the Company of its offshore cash through the SWIFT channel which can be accessed through the Finance Company.

- (b) Notes services: including but not limited to bank acceptance bill, commercial acceptance bill and related business. The charges for such services will not be higher than that charged by other PRC financial institutions which provide comparable products in the same period.
- (c) Foreign exchange services: the Finance Company may on application of the Company provide the Group with settlement and sale of foreign exchange services. The exchange rates to be offered by the Finance Company will not be less favorable than that offered by other domestic financial institutions for similar services.
- (d) Other services including but not limited to entrusted loan services, financial consultancy services, credit appraisal and other relevant advice and agency services. The charge for provision of such services by the Finance Company will not be higher than those charged by other major domestic financial institutions for similar services.

As the making of deposits by the Group to the Finance Company constitutes “financial assistance” by the Group to the Finance Company for the purposes of the Listing Rules and, in view of the size of the annual caps for deposits set out as below, the use of the deposit services by the Group under the Financial Services Agreement is conditional upon the approval by the Independent Shareholders at the EGM.

Internal control and risk management measures under the Financial Services Agreement

The Financial Services Agreement contains the following internal control and risk management measures:

- 1) The Group utilizes the services of the Finance Company on a voluntary, non-exclusive basis and is not obliged to engage the Finance Company for any services. The Finance Company is merely one of the financial institutions which provide services to the Group.
- 2) In accordance with the compliance and disclosure requirements to which the Group is subject, the Finance Company will provide all legal documents, agreements, government approvals, financial data and other information as required by the Group.

- 3) The Finance Company has obligation to keep confidential the Group's unpublished information that it has obtained in the course of its provision of financial services to the Group under the Financial Services Agreement, except as otherwise required by applicable laws and regulations.
- 4) The Finance Company will strictly comply with the relevant laws and regulations and requirements imposed by the regulatory authority and ensure the security of funds of the Group, including compliance with the requirements of CBIRC and other regulatory authorities.
- 5) The Finance Company is required to provide the Group with quarterly reports, setting out daily status of the Group's deposits with the Finance Company; the quarterly balance sheet, income statement and cash flow statement of the Finance Company; significant organization change, equity transaction or operational risks that may impact the deposits of the Group in the future, and to timely inform the Group the occurrence of any significant security risk towards the Group's deposits and take necessary measures to avoid any losses.

Furthermore, the Company noted that China Merchants, the holding company of the Finance Company, has made an undertaking to CBIRC on 25 July 2016 that, in the event the Finance Company is unable to meet its payment obligations, China Merchants will inject capital into the Finance Company to pay for the actual shortfall. Identical undertaking is also set out in the articles of association of the Finance Company.

Historical transaction amounts in relation to the deposit services

During the financial years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, the amounts incurred by the Group attributable to deposit services with the Finance Company under the Former Financial Services Agreements were as follows:

Unit: hundred million

Currency: RMB

| | For the year ended 31 December 2018 | For the year ended 31 December 2019 | For the year ending 31 December 2020 |
|---|--|--|---|
| Actual maximum daily outstanding balance of deposits placed by the Group with the Finance Company (excluding loan proceeds advanced by the Finance Company) | 35.37 | 38.40 | 38.57 ¹ |
| Relevant annual cap under the Former Financial Services Agreement | 40.00 | 50.00 | 50.00 |
| Historical utilization rate | 88.43% | 76.80% | 77.14% ¹ |

Notes:

1. These figures represent the transaction amount for the six months ended 30 June 2020 and the utilization rates are calculated by measuring those transaction amounts against the relevant annual caps.

Annual caps for deposit services

The Company proposes that the maximum amount for the deposit services (in respect of which Independent Shareholders' approval is proposed to be sought at the EGM) for the three years ending 31 December 2023 pursuant to the Financial Services Agreement be capped as follows:

Unit: hundred million

Currency: RMB

| | For the year ending 31 December 2021¹ | For the year ending 31 December 2022¹ | For the year ending 31 December 2023¹ |
|---|---|---|---|
| Maximum daily outstanding balance of deposits placed by the Group with the Finance Company (excluding loan proceeds advanced by the Finance Company) | 50.00 | 50.00 | 50.00 |

Notes:

1. These figures represent the maximum value of transactions of the relevant type which the Group may undertake during the relevant financial years. The actual amount of transaction may be different. Taking into account the basis for the determination of the caps as detailed below, the Board (excluding the independent non-executive Directors who will make their recommendation after having taken into account the written advice to be given by the Independent Financial Adviser) considers that the New Caps set out above are fair and reasonable.
2. In setting the annual caps for the deposit services under the Financial Services Agreement for the three years ending 31 December 2023, the Company has taken into account the following:
 - (i) the highest historical utilization rate for the caps of the maximum daily outstanding balance of deposits placed by the Group with the Finance Company under the Former Financial Services Agreements has reached 88.43%;
 - (ii) the deposits to facilitate settlement of transactions between the Group and other members of China Merchants Group, or as amongst members of the Group, to take advantage of lower transaction costs given that the Finance Company does not charge for domestic settlement services under the terms of the Financial Services Agreement as a result of increased collaboration on the provision of logistics services between them as explained in greater detail in note 2(v) under the sub section headed “(a) Transactions with China Merchants and its associates under the Master Services Agreement (China Merchants)”;
 - (iii) the deposits placed by the Group with the Finance Company can be utilized to supplement the fund cash requirements of the subsidiaries of the Company and increase the efficiency of funds utilization of the Group; and

- (iv) the interest rate for the deposits placed by the Group with the Finance Company is generally superior to the interest rate for the same type of deposit announced by PBOC for the same period and the interest rate for the same type of deposit offered by the major commercial banks in the PRC for the same period, which is beneficial to improving the level of the Company's capital gains.

Annual cap for loan services and other financial services

Under the Financial Services Agreement, the maximum daily outstanding balance of loans granted by the Finance Company to the Group (including accrued interests and handling charges) shall not exceed RMB10 billion. The provision of loan services by the Finance Company to the Group on normal commercial terms on an unsecured basis under the Financial Services Agreement constitute financial assistance by a connected person for the benefit of the Group which is exempt under the Rule 14A.90 of the Listing Rules from reporting, annual review, announcement and Independent Shareholders' approval requirements.

Under the Financial Services Agreement, the maximum total expenses payable by the Group to the Finance Company for each of the three years ending 31 December 2023 with respect to other financial services shall not exceed RMB20 million. For each of the three years ending 31 December 2020, the total expenses incurred by the Group with respect to other financial services under the Former Financial Services Agreement was and will be within the de minimis threshold under Chapter 14A of the Listing Rules.

The Directors (excluding the independent non-executive Directors who will make their recommendation after having taken into account the written advice to be given by the Independent Financial Adviser) are of the view that the terms (including the relevant annual caps contemplated thereunder) of the Financial Services Agreement are fair and reasonable and on normal commercial terms and the Financial Services Agreement is entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

III. Listing Rules compliance in respect of the continuing connected transactions

As China Merchants is the ultimate controlling shareholder of the Company and the Finance Company is a wholly-owned subsidiary of China Merchants, both China Merchants and the Finance Company are connected persons of the Company, and thus the transactions contemplated under the Master Services Agreement (China Merchants), the Master Lease Agreement and the Financial Services Agreement constitute continuing connected transactions of the Company.

As a subsidiary of SINOTRANS & CSC (the controlling shareholder of the Company) holds more than 10% equity interest in Sinotrans Shandong Hongzhi, Sinotrans Shandong Hongzhi is a connected person of the Company pursuant to Rule 14A.16 of the Listing

Rules, and thus the transactions contemplated under the Master Services Agreement (Sinotrans Shandong Hongzhi) constitute continuing connected transactions of the Company.

The transactions contemplated under the Master Services Agreement (China Merchants) and the Master Services Agreement (Sinotrans Shandong Hongzhi) shall be aggregated for the purposes of calculating the applicable percentage ratios pursuant to Rule 14A.82 of the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the provision or receipt of transportation and logistics services contemplated under the Master Services Agreements exceeds 5%, such transactions and their proposed annual caps are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the lease of properties and storage facilities (inclusive of the equipment therein) by the Group from China Merchants and its associates contemplated under the Master Lease Agreement exceeds 5%, such transactions and their proposed annual caps are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As each of the highest applicable percentage ratios (as defined under the Listing Rules) in respect of (i) the lease of properties and storage facilities (inclusive of the equipment therein) by the Group to China Merchants and its associates; and (ii) the lease of containers and other equipment between the Group and China Merchants and its associates exceeds 0.1% but less than 5%, such transactions are subject to the reporting, annual review and announcement requirements only, and exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the deposit services contemplated under the Financial Services Agreement exceeds 5% but is less than 25%, such transactions constitute discloseable transactions under Chapter 14 of the Listing Rules and continuing connected transactions under Chapter 14A of the Listing Rules, and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules. The provision of loan services by the Finance Company to the Group on normal commercial terms on an unsecured basis under the Financial Services Agreement constitute financial assistance by a connected person for the benefit of the Group which is exempt under the Rule 14A.90 of the Listing Rules from reporting, annual review, announcement and Independent Shareholders' approval requirements. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the other financial services contemplated under the Financial Services Agreement is less than 0.1%, such transactions are exempt from reporting, annual review, announcement and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Company has set up the Independent Board Committee to advise the Independent Shareholders in respect of the continuing connected transactions (including the related annual caps) contemplated under the Master Services Agreements, the lease of properties and storage facilities (inclusive of the equipment therein) by the Group from China Merchants and its associates contemplated under the Master Lease Agreement and the deposit services contemplated under the Financial Services Agreement. The Company has appointed VBG Capital as the Independent Financial Adviser of the Company for the Non-exempt Continuing Connected Transactions.

IV. Basis of pricing of the transactions contemplated under the Master Services Agreements, the Master Lease Agreement and the Financial Services Agreement and internal control procedures for monitoring continuing connected transactions

Basis of pricing

(i) the Master Services Agreements

Separate contracts in relation to each transaction will be entered into by the relevant parties. As the Group is a key market player in the transportation and logistics services in the PRC, during its ordinary course of business it gathers information on the market rates of various services offered by its competitors from time to time. For some standard services, various service providers may issue price lists from time to time. When entering into any particular transaction with a connected person, the relevant member of the Group would consider a number of factors including, among other things, the combination of services provided, the geographical coverage of services provided and the terms offered by the local competitors, with a view to ensuring that the terms offered to the Group are at market prices as defined above. If a transaction involves customized combination of services for which the terms offered by service providers could substantially differ, the relevant member of the Group will in accordance with the Group's internal control manual requirements obtain quotes and terms of services from at least two independent third parties (to the extent such alternative service providers are available) and the connected person. The Company has established a business contracts review system in which the supervisory departments and offices of the Group will review the terms of services (including the price of services) and compare the same against those offered by independent third parties, to ensure that those terms are at market prices as defined above. In the event that there are less than two alternative independent third parties service providers in the relevant market for a particular type of services, such departments and offices will review the terms of such services (including the price) with reference to the terms of similar services provided or received by the Group previously and consider whether the terms being offered are commercially beneficial to the Group having regard to such comparables. The Directors consider that the

procedures described above can ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

The payment terms of the transportation and logistics services provided and received vary depending on the content of the services required and would typically be settled in full after completion of the delivery services, and may entail the payment of deposits of a size determined by the nature of services that are required to be provided.

(ii) *the Master Lease Agreement*

The Master Lease Agreement requires that the transactions between the parties are at the market prices and on normal commercial terms. “Market prices” means the price at which the same or comparable type of the subject of the lease arrangements are provided by or to (as appropriate) independent third parties in the same area on normal commercial terms in the ordinary course of business. Rent for the properties or facilities leased under the Master Lease Agreement is payable on a monthly or annual basis and on such payment terms prescribed under the terms of the specific lease agreement between the parties.

In respect of property leases between the Group and China Merchants and its associates, the rental shall be determined through arm’s length negotiations between relevant parties with reference to the prevailing market price of local properties in vicinity with similar size and quality. When considering new leases or renewal of existing leases with a subsidiary or associate of China Merchants, the relevant member of the Group would gather the rental information of at least two properties of similar specification and sizes in similar locations and negotiate based on such market terms to make sure that the terms offered by the relevant counterparty would not be less favourable than those offered by independent third parties on the market.

In respect of the leases of containers and other equipment with between the Group and China Merchants and its associates, the rental shall be determined through arm’s length negotiations between relevant parties with reference to the prevailing market price of comparable facilities of similar ages, sizes, functions and attributes. For the containers and other equipment leased by the Group as the lessee from China Merchants or its associates, before entering into any new leases or renewal of existing leases, the Group will actively seek to obtain market price information through various channels, for example, obtaining quotes from at least two independent service providers which lease comparable facilities of similar nature in the same area.

(iii) the Financial Services Agreement

The Company first engaged the Finance Company for the provision of the deposit services to the Group, on normal commercial terms, pursuant to an agreement entered into between them in 2012. The existing deposit services used by the Group mainly involve placing/withdrawing current deposits in the Finance Company to facilitate the Group's daily operations such as receiving sales proceeds from customers or making payments for expenses to suppliers or government authorities and payrolls. As maximizing interest income is not the Group's only goal for using the deposit services, the Group also considers other selection criteria, in addition to the interest rates, such as fund security, preferences of customers, suppliers and the government authorities, location of bank branches, quality of services and convenience on fund transfers, in selection of deposit services providers. Given that the Group is satisfied with the quality of services provided by the Finance Company, the Group intends to continue the deposit services with the Finance Company after expiration of the term of the Former Financial Services Agreements.

In order to ensure the terms of the deposit services, in particular the interest rates, offered by its deposit services providers for both savings deposits and term deposits are on normal commercial terms, the Group compares the current interest rates offered by its deposit services providers with the relevant standard deposit rates published by the PBOC and the rates offered by other major commercial banks in the PRC from time to time. The Group would apply the same principles in selection of deposit services providers and in determination of the terms of the deposit services to be provided by the Finance Company.

The payment of the relevant interests, expenses and service fees for the financial services contemplated under the Financial Services Agreement can be settled by the parties on a one-off basis or by installment in accordance with separate agreements as might be entered into between the Group and the Finance Company.

Internal control procedures

To ensure the relevant terms provided by connected parties under the Master Services Agreements, the Master Lease Agreement and the Financial Services Agreement are no less favorable than those available from independent third parties and the annual caps of the transactions under the above agreements are not exceeded, the Company's internal control system includes procedures specifically for monitoring continuing connected transactions which include the following steps:

- (i) the entering into and monitoring of continuing connected transactions are to be conducted in accordance with the Company's internal control manual;

- (ii) the finance department and compliance department of the Company will collect real-time statistics of the continuing connected transactions under the Master Services Agreements, the Master Lease Agreement and the Financial Services Agreement on a weekly basis and monitor such transactions through the Group's internal online system to ensure the annual caps approved by the Independent Shareholders are not exceeded;
- (iii) the auditors of the Company reviews the statistics of the continuing connected transactions on an annual basis in compliance with the annual reporting and review requirements under the Listing Rules.

By implementing the above procedures, the Directors consider that the Company has established sufficient internal control measures to ensure the transactions under the Master Services Agreements, the Master Lease Agreement and the Financial Services Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

V. Reasons and benefits for the continuing connected transactions

The Master Services Agreements provide flexibility to the Group in working with China Merchants and Sinotrans Shandong Hongzhi and their associates to provide end-to-end logistics services to independent customers, including covering locations in which the Group does not have operations and sourcing specific type of services at competitive prices when necessary. For instance, the Group's transportation and logistics resources do not cover areas such as Xinjiang, Ningxia and Gansu of the PRC, while China Merchants Group is able to provide relevant services for the Group in these areas. In addition, Sinotrans Shandong Hongzhi may from time to time be able to provide specific types of services (such as container transportation services, air freight forwarding services or warehousing services) to the Group at competitive prices. Furthermore, those parts of China Merchants and its associates, who are not in the same line of business of the Group can become potential customers for services of the Group. Accordingly, the Directors (excluding the independent non-executive Directors who will make their recommendation after having taken into account the written advice to be given by the Independent Financial Adviser) consider that it is in the interest of and beneficial to the Company and its shareholders as a whole to allow continuing connected transactions on normal commercial terms as contemplated under the Master Services Agreements.

The Master Lease Agreement facilitates continuous and stable use of operating premises and containers and other equipment between the Group and China Merchants and its associates at market rate and provides the Group with greater flexibility to leasing arrangements. Accordingly, the Directors (excluding the independent non-executive Directors who will make their recommendation after having taken into account the written advice to be given by the Independent Financial Adviser) consider that it is in the

interest of and beneficial to the Company and the Shareholders as a whole to allow continuing connected transactions on normal commercial terms as contemplated under the Master Lease Agreement.

The Financial Services Agreement having entrenched terms that ensure deposit rates at a premium to published PBOC rates and not less than those offered by major commercial banks in the PRC to the Group, offers flexibility to the Group to choose to use deposit taking services of the Finance Company to increase deposit interest returns on its Disposable Cash that is generated primarily from its operations and reduce costs and increase efficiency of settlement of transactions within China Merchants Group, in circumstances where the services being offered by the Finance Company are able to satisfy the Group's rigorous internal control procedures with respect to pricing etc. In terms of risk management, the Company notes that not only does the Finance Company (that is regulated by the PBOC and CBIRC) have paid up capital of RMB5 billion and be subject to the rules as to capital adequacy, debt-to-asset and other types of liquidity related ratios and corporate governance published by CBIRC, the Finance Company also has the benefit of the undertaking from China Merchants to provide funds to the Finance Company to make up any funding shortfall (as described in the subsection headed "(d) Transactions with the Finance Company – Internal control and risk management measures under the Financial Services Agreement" above). Accordingly, the Directors (excluding the independent non-executive Directors who will make their recommendation after having taken into account the written advice to be given by the Independent Financial Adviser) consider that it is in the interest of and is beneficial to the Group to have greater latitude to deposit Disposable Cash with the Finance Company.

B. GENERAL

The EGM will be convened to consider and, if thought fit, approve, among other things, the Non-exempt Continuing Connected Transactions subject to the New Caps.

The notice convening the EGM and the circular are expected to be despatched to the Shareholders on or before 20 November 2020 as the Company needs additional time to prepare the circular which will contain, among other things, further details on the Non-exempt Continuing Connected Transactions subject to the New Caps, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

As each of China Merchants, the Finance Company and Sinotrans Shandong Hongzhi is a party to the Master Services Agreement (China Merchants) and the Master Lease Agreement, the Financial Services Agreement as well as the Master Services Agreement (Sinotrans Shandong Hongzhi), respectively, they, together with their respective associates (including SINOTRANS & CSC), are required under the Listing Rules to abstain from voting on the resolutions in respect of the Non-exempt Continuing Connected Transactions at the EGM.

None of the Directors had any material interest in the abovementioned continuing connected transactions and therefore they are not required under the Listing Rules to abstain from voting on the board resolutions approving these matters. Nonetheless, as Mr. Song Dexing, Mr. Su Jian, Mr. Xiong Xianliang and Mr. Jiang Jian, being the directors of the Company, are concurrently holding positions in China Merchants, they have abstained from voting on the board resolutions in respect of the abovementioned continuing connected transactions in accordance with the relevant PRC laws and regulations.

C. DEFINITIONS

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

| | |
|---------------------------|--|
| “Articles of Association” | the articles of association of Sinotrans Limited, as amended, modified or otherwise supplemented from time to time |
| “A Share(s)” | the domestic share(s) of the Company with nominal value of RMB1.00 each, which are listed on the SSE and traded in RMB |
| “associate(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Board” | the board of Directors of the Company |
| “CBIRC” | formerly known as China Banking Regulatory Commission and currently named as China Banking and Insurance Regulatory Commission |
| “China Merchants” | 招商局集團有限公司 (China Merchants Group Limited*), a wholly state-owned enterprise established under the laws of the PRC under direct control of the SASAC, the actual controller of the Company, which directly and indirectly holds approximately 57.64% of the issued share capital of the Company as at the date of this announcement |
| “China Merchants Group” | China Merchants and its subsidiaries |
| “Company” | 中國外運股份有限公司 (Sinotrans Limited), a joint stock limited company incorporated in the PRC with limited liability, whose H Shares are listed on the Hong Kong Stock Exchange and whose A Shares are listed on the SSE |

| | |
|---|--|
| “Connected Non Wholly-Owned Subsidiaries” | Sinotrans Shandong Hongzhi, Qingdao Jinyun Air and Shanghai Waihong Yishida, each being a non wholly-owned subsidiary of the Company and a connected person of the Company as at the date of this announcement |
| “connected person(s)” | has the meaning ascribed thereto under the Listing Rules |
| “controlling shareholder(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “Disposable Cash” | in respect of a company is the cash and cash equivalents (including term deposits and excluding restricted cash) held by that company and its subsidiaries |
| “EGM” | the 2020 second extraordinary general meeting of the Company to be held to consider and, if thought fit, approve, among other things, the Non-exempt Continuing Connected Transactions subject to the New Caps |
| “Finance Company” | 招商局集團財務有限公司 (China Merchants Group Finance Co., Ltd.*), a company owned as to 51% by China Merchants and 49% by SINOTRANS & CSC as at the date of this announcement |
| “Financial Services Agreement” | the financial services agreement entered into between the Company and the Finance Company on 28 October 2020 in relation to the provision of various financial services by the Finance Company to the Group |
| “Former Financial Services Agreements” | the financial services agreements dated 14 November 2012, 25 March 2014, 16 April 2015 and 10 November 2017 entered into between the Company and the Finance Company in relation to the provision of various financial services by the Finance Company to the Group |
| “Former Master Lease Agreement” | the master lease agreement dated 10 November 2017 entered into between the Company and China Merchants in relation to the lease of certain properties and storage facilities (inclusive of the equipment therein) by the Group from China Merchants and its associates |

| | |
|--|---|
| “Former Master Services Agreement” | the master services agreement dated 10 November 2017 entered into between the Company and China Merchants in relation to the provision and receipt of transportation and logistics services between the Group and China Merchants and its associates |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “H Share(s)” | overseas listed foreign invested share(s) of RMB1.00 each in the share capital of the Company, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars |
| “Independent Board Committee” | a board committee comprising all the independent non-executive Directors of the Company constituted to advise the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions subject to the New Caps |
| “Independent Financial Adviser” or “VBG Capital” | VBG Capital Limited, a corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exemption Continuing Connected Transactions subject to the New Caps |
| “Independent Shareholder(s)” | Shareholders other than China Merchants, the Finance Company, Sinotrans Shandong Hongzhi and their respective associates (including SINOTRANS & CSC) |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| “Master Lease Agreement” | the master lease agreement dated 28 October 2020 entered into between the Company and China Merchants in relation to the lease of certain properties and storage facilities (inclusive of the equipment therein) and the lease of containers and other equipment between the Group and China Merchants and its associates |

| | |
|--|--|
| “Master Services Agreement (China Merchants)” | the master services agreement entered into between the Company and China Merchants on 28 October 2020 in relation to the provision and receipt of transportation and logistics services between the Group and China Merchants and its associates |
| “Master Services Agreement (Sinotrans Shandong Hongzhi)” | the master services agreement entered into between the Company and Sinotrans Shandong Hongzhi on 28 October 2020 in relation to the provision and receipt of transportation and logistics services between the Group and Sinotrans Shandong Hongzhi and its associates |
| “Master Services Agreements” | collectively, the Master Services Agreement (China Merchants) and the Master Services Agreement (Sinotrans Shandong Hongzhi) |
| “New Cap(s)” | the maximum value of the relevant Non-exempt Continuing Connected Transactions for each of the three years ending 31 December 2023 as set out in this announcement |
| “Non-exempt Continuing Connected Transactions” | the continuing connected transactions contemplated under the Master Services Agreements, the lease of properties and storage facilities (inclusive of the equipment therein) from China Merchants and its associates by the Group contemplated under the Master Lease Agreement and the deposit services contemplated under the Financial Services Agreement |
| “PBOC” | the People’s Bank of China |
| “PRC” | the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan |
| “Qingdao Jinyun Air” | 青島金運航空貨運代理有限公司 (Qingdao Jinyun Air Cargo Freight Forwarding Co., Ltd.*), which is held as to 75% by Sinotrans Shandong Company Limited (a wholly-owned subsidiary of the Company) and 25% by LAILON Enterprises Limited (a non wholly-owned subsidiary of SINOTRANS & CSC) as at the date of this announcement |
| “RMB” | Renminbi, the lawful currency of the PRC |

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| “SASAC” | the State-owned Assets Supervision and Administration Commission of the State Council of the People’s Republic of China |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) |
| “Shanghai Waihong Yishida” | 上海外紅伊勢達國際物流有限公司 (Shanghai Waihong Yishida International Logistics Co., Ltd.*), which is held as to 60% by 中國外運華東有限公司 (Sinotrans Eastern Company Limited*) (a wholly-owned subsidiary of the Company), 15% by 中外運上海(集團)有限公司 (Sinotrans Shanghai (Group) Co., Ltd.*) (a wholly-owned subsidiary of SINOTRANS & CSC), 15% by 上港集團物流有限公司 (SIPG Logistics Co., Ltd.*) and 10% by 上海外高橋保稅區聯合發展有限公司 (Shanghai Waigaoqiao Free Trade Zone United Development Co., Ltd.*) as at the date of this announcement |
| “Share(s)” | H Share(s) and A Share(s) |
| “Shareholder(s)” | holder(s) of the Shares |
| “SINOTRANS & CSC” | Sinotrans & CSC Holdings Co., Ltd., a wholly owned subsidiary of China Merchants established under the laws of the PRC, and the controlling shareholder of the Company which directly and indirectly holds approximately 36.01% of the issued share capital of the Company as at the date of this announcement |
| “SINOTRANS & CSC Group” | SINOTRANS & CSC and its subsidiaries |
| “Sinotrans Shandong Hongzhi” | 山東中外運弘志物流有限公司 (Sinotrans Shandong Hongzhi Logistics Co., Ltd.*), which is held as to 75% by Sinotrans Shandong Company Limited (a wholly-owned subsidiary of the Company) and 25% by LAILON Enterprises Limited (a non wholly-owned subsidiary of SINOTRANS & CSC) as at the date of this announcement |
| “SSE” | Shanghai Stock Exchange |
| “subsidiary(ies)” | has the meaning ascribed thereto under the Listing Rules |

“‰”

per cent

* *For the purpose of identification only*

By order of the Board of
Sinotrans Limited
Li Shichu
Company Secretary

Beijing, 28 October 2020

As at the date of this announcement, the board of directors of the Company comprises Li Guanpeng (Chairman), Song Dexing (Vice Chairman), Song Rong (executive director), Su Jian (non-executive director), Xiong Xianliang (non-executive director), Jiang Jian (non-executive director), Jerry Hsu (non-executive director), and four independent non-executive directors, namely Wang Taiwen, Meng Yan, Song Haiqing and Li Qian.