

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in YTO Express (International) Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**YTO EXPRESS (INTERNATIONAL) HOLDINGS LIMITED**  
**圓通速遞(國際)控股有限公司**

*(Formerly known as On Time Logistics Holdings Limited 先達國際物流控股有限公司)*  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 6123)**

**DISCLOSEABLE AND CONNECTED TRANSACTION**  
**IN RELATION TO THE ACQUISITION OF**  
**THE REMAINING 25% EQUITY INTEREST IN**  
**THE ISSUED SHARES OF OTX HOLLAND**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**



The letter from the Board is set out on pages 5 to 12 of this circular and the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 13 to 14 of this circular. The letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 40 of this circular.

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.

3 April 2018

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## DEFINITIONS

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

“Accumulated Consolidated Net Profit”	the sum of Consolidated Net Profit for the financial years ended 31 December 2017 and ending 31 December 2018 and 2019
“Acquisition”	the acquisition of the Target Shares by the Purchaser pursuant to the Sale and Purchase Agreement
“Announcement”	the announcement of the Company dated 9 March 2018 in respect of the Acquisition
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday in Hong Kong and any day on which a tropical cyclone warning no. 8 or above or a “black” rain warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks in Hong Kong are generally open for business
“Company”	YTO Express (International) Holdings Limited (formerly known as On Time Logistics Holdings Limited), an exempted company incorporated under the laws of the Cayman Islands with limited liability, and the Shares of which are listed and traded on the Main Board of the Stock Exchange (stock code: 6123)
“Completion”	Completion of the sale and purchase of the Target Shares in accordance with the terms and conditions of the Sale and Purchase Agreement
“Completion Date”	the fifth (5) Business Day after all of the Conditions Precedent are satisfied or, where applicable, waived by the Purchaser or such other date as the Vendor and the Purchaser may agree in writing

## DEFINITIONS

“Conditions Precedent”	the conditions precedent to Completion as set out in the sub-section headed “The Sale and Purchase Agreement — Conditions Precedent” in this circular and each a “Condition Precedent”
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	has the meaning ascribed to it in the sub-section headed “The Sale and Purchase Agreement — Subject matter of the transactions and Consideration” in this circular
“Consolidated Net Profit”	<p>the sum of the audited consolidated net profits after tax of OTX Holland as stated in the audited accounts of the Company for each of the financial years ending as follows 31 December 2017, 2018 and 2019, respectively, adjusted by:</p> <ul style="list-style-type: none"><li>(a) the Consolidated Net Profit shall be downward adjusted by an amount equivalent to any revaluation surplus of tangible or intangible assets</li><li>(b) the Consolidated Net Profit shall be upward adjusted by an amount equivalent to any revaluation deficit of tangible or intangible assets</li></ul>
“Director(s)”	the directors(s) of the Company
“€”	Euro, the lawful currency of the European Union
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder

## DEFINITIONS

“Independent Financial Adviser”	Red Sun Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders as to the Sale and Purchase Agreement and the Acquisition
“Independent Shareholders”	Shareholders who are independent of and have no interest in the transactions contemplated under the Sale and Purchase Agreement
“Latest Practicable Date”	27 March 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Long Stop Date”	5 May 2018 or such later date to be agreed between the Purchaser and the Vendor in writing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. de Wit”	Dennis Ronald de Wit, a former executive Director, a director of OTX Holland and a shareholder of the Vendor
“Ms. Kalshoven”	Astrid Kalshoven, a director of OTX Holland and a shareholder of the Vendor
“New Management Agreement”	the agreement dated 30 December 2016 and entered into between OTX Holland, D.R. de Wit Beheer B.V. and Mr. de Wit for the provision of management services for the terms commencing from 1 January 2017 and expiring on 31 December 2019
“OTX Holland”	OTX Logistics B.V., a company incorporated in the Netherlands with limited liability and an indirect non-wholly-owned subsidiary of the Company as at the date of this circular
“OTX Holland Group”	OTX Holland and its subsidiaries and associated companies
“PRC”	the People’s Republic of China which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

## DEFINITIONS

“Purchaser”	Jumbo Channel Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Sale and Purchase Agreement”	the sale and purchase agreement dated 9 March 2018 entered into between the Vendor, the Purchaser, Mr. de Wit and Ms. Kalshoven, relating to the Acquisition
“Service Agreements”	has the meaning ascribed to it in the section headed “The Sale and Purchase Agreement — Conditions Precedent” in this circular and each a “Service Agreement”
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) in the capital of the Company with a nominal value of HK\$0.1 each
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Target Shares”	21,575 ordinary shares of €1 each in OTX Holland, legally and beneficially owned by the Vendor and to be acquired by the Purchaser in accordance with the terms and conditions of the Sale and Purchase Agreement
“Vendor”	T.Y.D. Holding B.V., a company incorporated in the Netherlands
“%”	per cent.

*Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures. Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.*

*For the purpose of this circular, conversion of € into HK\$ is based on the exchange rate of €1.0 to HK\$9.7. The exchange rate has been used, where applicable, for the purposes of the illustration only and does not constitute a representation in that any amounts were or may have been exchanged at this or any other rates at all.*

LETTER FROM THE BOARD



**YTO EXPRESS (INTERNATIONAL) HOLDINGS LIMITED**

**圓通速遞(國際)控股有限公司**

*(Formerly known as On Time Logistics Holdings Limited 先達國際物流控股有限公司)*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6123)**

*Executive Directors:*

Mr. Lam Chun Chin, Spencer

Mr. Li Xianjun

*Non-Executive Directors:*

Mr. Yu Huijiao

Mr. Su Xiufeng

Mr. Zhu Rui

Mr. Lin Kai

*Independent Non-Executive Directors:*

Mr. Li Donghui

Mr. Xu Junmin

Mr. Chung Kwok Mo John

*Registered Office:*

Cricket Square

Hutchins Drive

PO Box 268

1 Grand Cayman KY1-1111

Cayman Islands

*Headquarters and principal place of  
business in Hong Kong:*

Unit 18, 1st Floor, Sino Industrial Plaza

9 Kai Cheung Road

Kowloon Bay

Hong Kong

3 April 2018

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF  
THE REMAINING 25% EQUITY INTEREST IN  
THE ISSUED SHARES OF OTX HOLLAND**

**INTRODUCTION**

Reference is made to the Announcement, in which the Company announced that on 9 March 2018 (after trading hours), the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Vendor, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Target Shares, at the consideration of HK\$38,000,000, subject to and in accordance with the terms and conditions of the Sale and Purchase Agreement.

## LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other matters, (i) details of the Acquisition as well as the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser in respect of the Acquisition and (iv) other information as required under the Listing Rules.

### THE SALE AND PURCHASE AGREEMENT

A summary of the principal terms of the Sale and Purchase Agreement are set out below:

<b>Date</b>	9 March 2018 (after trading hours)
<b>Parties</b>	(1) the Vendor (as vendor) (2) the Purchaser (as purchaser) (3) Mr. de Wit (as director of OTX Holland) (4) Ms. Kalshoven (as director of OTX Holland)

### Subject matter of the transactions and Consideration

The Vendor has agreed to sell and the Purchaser has agreed to purchase the Target Shares, representing 25% of the issued share capital of OTX Holland.

Subject to and conditional upon the terms and conditions of the Sale and Purchase Agreement, the purchase price payable by the Purchaser for the Target Shares will be HK\$38,000,000 (the “**Consideration**”).

The Purchaser will pay the entire sum of the Consideration by cash one (1) Business Day prior to Completion, which shall be deemed to be paid to the Vendor upon Completion.

The Company’s original acquisition cost for its existing 75% interest in OTX Holland in 2011 was €5,963,175. The original seller of the 75% interest in OTX Holland was also the current Vendor, which was an independent third party at the original acquisition date.

The Consideration under the Sale and Purchase Agreement was negotiated on an arm’s length basis between the parties on normal commercial terms with reference to the unaudited net asset value of OTX Holland as at 31 December 2017. The basis for determining the Consideration is the price to earnings ratio (“**P/E ratio**”) as well as the price to book (“**P/B ratio**”) ratio of certain similar listed companies on the Stock Exchange which are also engaged in the freight forwarding business. The P/E ratio of similar listed companies ranges from 4.8 to 23.8 and the P/B ratio of similar listed companies ranges from 0.4 to 6.7.

### Conditions Precedent

Completion is conditional upon the following conditions being fulfilled (or waived in accordance with the Sale and Purchase Agreement) in all respects (the “**Conditions Precedent**”):

- (a) compliance by the Company with all applicable requirements under the Listing Rules and the Takeovers Code in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder;



## LETTER FROM THE BOARD

- (b) all necessary waivers, consents or approvals from any third party (including but not limited to any consents or approvals from government authority, regulatory authority, the Stock Exchange and/or the SFC and in relation to any pre-emption or similar rights under any shareholder agreements entered into in relation to the OTX Holland Group) in connection with the transactions contemplated under the Sale and Purchase Agreement having been obtained and that no government authority or any third party has proposed or taken any action which resulted in any prohibition or restriction on or delay in the performance and completion of the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (c) each of Mr. de Wit and Ms. Kalshoven having entered into a new service agreement with OTX Holland on such terms and conditions to the satisfaction of the Purchaser in relation to the management and operation of OTX Holland (the “**Service Agreements**”);
- (d) a special dividend in an aggregate sum of €2,600,000 having been declared and paid by OTX Holland to its shareholders after signing of the Sale and Purchase Agreement; and
- (e) the Vendor’s warranties remaining true, accurate and not misleading in all material respects as of the Completion Date by reference to the facts and circumstances subsisting at the Completion Date.

Each of the Vendor, Mr. de Wit and Ms. Kalshoven shall use their respective best endeavours to procure the fulfilment of the Conditions Precedent set out in paragraphs (b), (c), (d) and (e) on or before the Long Stop Date.

The Purchaser shall use its best endeavours to procure the fulfilment of the Conditions Precedent set out in paragraph (a) and (d) before the Long Stop Date.

The Conditions Precedent are required to be fulfilled on or before the Long Stop Date. If the Conditions Precedent have not been satisfied on or before the Long Stop Date, the Sale and Purchase Agreement will terminate and no party to the Sale and Purchase Agreement shall have any claims against the other party, save in respect of any prior breaches of the Sale and Purchase Agreement and claims arising out of the continuing provisions.

As at the Latest Practicable Date, none of the above Conditions Precedent had been satisfied and/or waived and the Company had no intention to waive any such conditions.

## LETTER FROM THE BOARD

### Net Profit Guarantee

Subject to Completion having duly occurred in accordance with the terms and conditions of the Sale and Purchase Agreement and the Purchaser having complied with certain provisions under the Sale and Purchase Agreement, the Vendor undertakes to the Purchaser and guarantees that:

- (a) in the event that the Accumulated Consolidated Net Profit shall be less than HK\$18,000,000, the Vendor undertakes with the Purchaser that it shall in aggregate compensate the Purchaser HK\$3,330,000 within five (5) Business Days after the audited accounts for the financial year ending 31 December 2019 have been completed;
- (b) in the event that the Accumulated Consolidated Net Profit shall be less than HK\$12,000,000, the Vendor undertakes with the Purchaser that it shall in aggregate compensate the Purchaser HK\$6,660,000 within five (5) Business Days after the audited accounts for the financial year ending 31 December 2019 have been completed; or
- (c) in the event that the Accumulated Consolidated Net Profit shall be less than HK\$6,000,000, the Vendor undertakes with the Purchaser that it shall in aggregate compensate the Purchaser HK\$10,000,000 within five (5) Business Days after the audited accounts for the financial year ending 31 December 2019 have been completed.

The net profit guarantee was determined with reference to the unaudited net profit after tax attributable to the owners of the OTX Holland Group for the year ended 31 December 2016 of approximately €654,000 (equivalent to approximately HK\$6,000,000). The net profit guarantee of HK\$18,000,000, HK\$12,000,000 and HK\$6,000,000 is with reference to the estimated profit of OTX Holland for three financial years, two financial years and one financial year, respectively. The net profit guarantee will only be determined after the audited accounts of OTX Holland for the financial year ending 31 December 2019 have been completed.

The maximum compensation amount of HK\$10,000,000 for failing to meet the net profit guarantee for HK\$6,000,000 was determined with reference to the excess of the Consideration over 25% of the unaudited net asset value of the OTX Holland Group for the year ended 31 December 2016, being approximately HK\$11,600,000 (i.e. HK\$38,000,000 minus HK\$26,400,000 (equivalent to approximately €2,721,750, being 25% of €10,877,000)). The Company has not taken the exact difference, but has made reference to such amount and set the compensation amount as HK\$10,000,000.

If the Accumulated Consolidated Net Profit is less than HK\$12,000,000, which is closer to the target net profit guarantee of HK\$18,000,000, the Company agreed to reduce the compensation amount to around two-thirds of HK\$10,000,000, being HK\$6,600,000. If the Accumulated Consolidated Net Profit is less than HK\$18,000,000, which is further closer to the target net profit guarantee of HK\$18,000,000, the Company agreed to reduce the compensation amount to around one-third of HK\$10,000,000, being HK\$3,300,000.

## LETTER FROM THE BOARD

The Board considers that the maximum compensation amount of HK\$10,000,000 will be sufficient compensation as this represents the excess of the Consideration over 25% of the unaudited net asset value of the OTX Holland Group for the year ended 31 December 2016 which has been paid by the Company to the Vendor with a view that the Accumulated Consolidated Net Profit will be around or more than HK\$18,000,000.

The Company will comply with Rule 14A.62 and 14A.63 of the Listing Rules regarding the announcement and annual report disclosure obligations on the discharge of the profit guarantees as and when appropriate.

### **Undertaking**

Subject to the Purchaser having complied with the terms and conditions of the Sale and Purchase Agreement, the Vendor irrevocably and unconditionally undertakes and each of Mr. de Wit and Ms. Kalshoven irrevocably and unconditionally undertakes to the Purchaser to procure that (i) the direct and indirect ownership of Mr. de Wit and Ms. Kalshoven in the Vendor shall remain unchanged until 30 April 2020, and (ii) the Vendor shall have at least HK\$10,000,000 in its bank account at all times from the signing of the Sale and Purchase Agreement until all amounts payable by the Vendor to the Purchaser under the Sale and Purchase Agreement have been settled by the Vendor. The Vendor irrevocably and unconditionally undertakes to the Purchaser to provide the bank statement(s) of the said account to the Purchaser from time to time upon request by the Purchaser.

### **Completion**

Subject to the satisfaction of the Conditions Precedent set out above and the terms and conditions of the Sale and Purchase Agreement, Completion shall take place on the Completion Date.

In the event that the Vendor shall fail to do anything required to be done by it upon Completion as required under the provisions of the Sale and Purchase Agreement, without prejudice to any other right or remedy available to the Purchaser, the Purchaser may:

- (a) defer Completion to a day not more than ten (10) days after the Completion Date; or
- (b) proceed to Completion so far as practicable but without prejudice to the Purchaser's right to the extent that the Vendor shall not have complied with its obligations under the Sale and Purchase Agreement; or
- (c) rescind the Sale and Purchase Agreement (apart from the surviving clauses of the Sale and Purchase Agreement which shall continue to have full force and effect) in which case none of the parties to the Sale and Purchase Agreement shall have any claim of any nature whatsoever against any of the other party under the Sale and Purchase Agreement (save for any rights and liabilities of the parties which have accrued prior to rescission).

## LETTER FROM THE BOARD

### **Governing law**

The Sale and Purchase Agreement is governed by the laws of the Netherlands.

### **SERVICE AGREEMENTS TO BE ENTERED INTO AT COMPLETION**

At Completion, OTX Holland would enter into the Service Agreement with Mr. de Wit and Ms. Kalshoven, respectively, for a term commencing from the Completion Date until the completion of the audited accounts of OTX Holland for the financial year ending 31 December 2019 and will continue thereafter unless terminated. Pursuant to the Service Agreements, Mr. de Wit and Ms. Kalshoven would be the managing director and director, respectively, of OTX Holland. Reference is made to the announcement of the Company dated 30 December 2016. The Service Agreements will replace the New Management Agreement.

Pursuant to Rule 14A.95 of the Listing Rules, director's service contracts with the listed issuer or its subsidiary is fully exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **INFORMATION ABOUT THE PARTIES TO THE SALE AND PURCHASE AGREEMENT**

The Vendor is a limited liability company established under the laws of the Netherlands. It is principally engaged in investment holdings. As at the date of this circular, the Vendor held 25% of the issued shares in OTX Holland and it is indirectly owned as to 80% by Mr. de Wit and 20% by Ms. Kalshoven, respectively.

Mr. de Wit is a former executive Director who resigned on 1 December 2017 and currently a director of OTX Holland. Ms. Kalshoven is a director of OTX Holland.

As at the date of this circular, the Purchaser held 75% of the issued shares in OTX Holland. OTX Holland is primarily engaged in the freight forwarding business in the Netherlands, namely, arranging shipments upon the receipt of booking instructions, customs clearance and cargo handling. Upon Completion, OTX Holland will become an indirect wholly-owned subsidiary of the Company.

## LETTER FROM THE BOARD

### FINANCIAL INFORMATION OF OTX HOLLAND

Set out below is a summary of certain audited consolidated financial information for the years ended 31 December 2015, 2016 and 2017 of the OTX Holland Group:

*OTX Holland*

	<b>Audited</b>		
	<b>For the years ended</b>		
	<b>31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>(€'000)</i>	<i>(€'000)</i>	<i>(€'000)</i>
	<i>Approximately</i>	<i>Approximately</i>	<i>Approximately</i>
Net profit before tax	1,244	792	1,848
Net profit after tax	956	606	1,338
Net profit after tax for the year attributable to owners of the OTX Holland Group	893	654	1,460
	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>(€'000)</i>	<i>(€'000)</i>	<i>(€'000)</i>
	<i>Approximately</i>	<i>Approximately</i>	<i>Approximately</i>
Total assets	15,059	18,238	23,650
Net assets	9,430	10,036	11,113
Net assets attributable to owners of the OTX Holland Group	8,787	9,442	10,887

### REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group specialises in international air and sea freight forwarding as well as warehousing and value-added logistics and distribution. The Group further provides support services in relation to origin management, key account management, customs and compliance, web-based supply chain visibility and supply chain consultancy.

The Directors, are of the view that the Acquisition, if completed, will further consolidate the Group's control in OTX Holland and enhance the operating efficiency of the Group in respect of the OTX Holland Group. On this basis, the Vendor and the Purchaser commenced negotiations and eventually agreed upon on the terms of the Acquisition.

None of the Directors have a material interest in the Sale and Purchase Agreement, nor are they required to abstain from voting on the relevant resolution of the Board approving the Acquisition.

## LETTER FROM THE BOARD

The Sale and Purchase Agreement was entered into on normal commercial terms. Taking into account the amount of the Consideration and considering the P/E ratio and P/B ratio of certain similar listed companies on the Stock Exchange which are also engaged in the freight forwarding business in the range of 4.8 to 23.8 and 0.4 to 6.7 respectively, the Directors (save for the independent non-executive Directors, who will express their view after considering the advice of the Independent Financial Adviser) are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### LISTING RULES IMPLICATIONS

As at the date of this circular, the Vendor was held as to 80% by Mr. de Wit and 20% by Ms. Kalshoven, respectively. Mr. de Wit, being a former executive Director within the preceding 12 months from the date of this circular, is a connected person of the Company according to Rule 14A.07(2) of the Listing Rules. Accordingly, the Vendor, being an associate of Mr. de Wit, is a connected person. As one of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction for the Company, which is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. Given that the Vendor is a connected person of the Company, the Acquisition also constitutes a connected transaction of the Company and is subject to reporting, announcement and the Independent Shareholders' approval under Chapter 14A of the Listing Rules.

### WRITTEN APPROVAL FROM THE SHAREHOLDERS IN RESPECT OF THE ACQUISITION

On 10 February 2018, the Company had obtained written approval for the Acquisition from the controlling Shareholder, YTO Global Holdings Ltd., which as at the date of this circular beneficially holds approximately 64.75% of the issued share capital of the Company. Pursuant to Rule 14A.36 of the Listing Rules, since the Company's controlling Shareholder has approved the Acquisition in writing and pursuant to Rule 14A.37 of the Listing Rules, that no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition, the Company is not required to convene an extraordinary general meeting in connection with the Acquisition since a waiver from the Stock Exchange was granted on 15 March 2018.

### FURTHER INFORMATION

Your attention is also drawn to the information set out in the other sections to this circular.

As Completion is subject to the fulfilment of Conditions Precedent which are detailed in this circular under the sub-section headed "The Sale and Purchase Agreement — Conditions Precedent", the Acquisition may or may not be completed. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares or any other securities of the Company.

Yours faithfully,  
For and on behalf of the Board  
**YTO Express (International) Holdings Limited**  
圓通速遞(國際)控股有限公司  
**Yu Huijiao**  
Chairman

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

*The following is the text of the letter of recommendation, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders regarding the terms of Sale and Purchase Agreement and the transactions contemplated thereunder.*



### **YTO EXPRESS (INTERNATIONAL) HOLDINGS LIMITED** **圓通速遞(國際)控股有限公司**

*(Formerly known as On Time Logistics Holdings Limited 先達國際物流控股有限公司)*  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 6123)**

3 April 2018

*To the Independent Shareholders*

Dear Sir or Madam,

#### **DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE REMAINING 25% EQUITY INTEREST IN THE ISSUED SHARES OF OTX HOLLAND**

We refer to the circular of the Company to the Shareholders dated 3 April 2018 (the “Circular”), in which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from Red Sun Capital Limited, the Independent Financial Adviser, as set out on pages 15 to 40 of the Circular and the letter from the Board as set out on pages 5 to 12 of the Circular.

Having considered the terms of the Sale and Purchase Agreement, the situation of the Company, the factors and reasons considered by the Independent Financial Adviser and its opinion as stated in its letter of advice on pages 15 to 40 of the Circular, we consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are being carried out on normal commercial terms and in the ordinary and usual course of business of the Company, the terms of which are fair and reasonable so far

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

as the Independent Shareholders are concerned and the transactions are in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution proposed to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

the Independent Board Committee of

**YTO Express (International) Holdings Limited**

圓通速遞(國際)控股有限公司

**Mr. Li Donghui**

*Independent*

*Non-executive Director*

**Mr. Xu Junmin**

*Independent*

*Non-executive Director*

**Mr. Chung Kwok Mo John**

*Independent*

*Non-executive Director*



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.*



紅日資本有限公司  
RED SUN CAPITAL LIMITED

3 April 2018

*To: The Independent Board Committee and the Independent Shareholders of  
YTO Express (International) Holdings Limited*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE REMAINING 25% EQUITY INTEREST IN THE ISSUED SHARES OF OTX HOLLAND**

#### **INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders on the terms of the Acquisition, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 3 April 2018 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference is made to the Letter from the Board, in relation to, among others, the Sale and Purchase Agreement in relation to the Acquisition. Pursuant to the Sale and Purchase Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Target Shares, at the consideration of HK\$38,000,000, subject to and in accordance with the terms and conditions of the Sale and Purchase Agreement.

As at the Latest Practicable Date, OTX Holland was an indirect non-wholly-owned subsidiary of the Company, held as to 75% by the Purchaser and 25% by the Vendor. Immediately after Completion, OTX Holland will become an indirect wholly-owned subsidiary of the Company.

As disclosed in the Letter from the Board, the Vendor was held as to 80% by Mr. de Wit and 20% by Ms. Kalshoven, respectively. Mr. de Wit, being a former executive Director within the preceding 12 months from the date of the Circular, is a connected person of the Company according to Rule 14A.07(2) of the Listing Rules. Accordingly, the Vendor, being an associate of Mr. de Wit, is a connected person. As one of the applicable percentage

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ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction for the Company, which is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. Given that the Vendor is a connected person of the Company, the Acquisition also constitutes a connected transaction of the Company and is subject to the requirements of reporting, announcement and the Independent Shareholders' approval under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all three independent non-executive Directors, namely Mr. Li Donghui, Mr. Xu Junmin and Mr. Chung Kwok Mo John, has been established to advise the Independent Shareholders regarding whether the terms of the Acquisition are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

On 10 February 2018, the Company obtained written approval for the Acquisition from the controlling Shareholder, YTO Global Holdings Ltd., which as at the date of the Circular beneficially held approximately 64.75% of the issued share capital of the Company. Pursuant to Rule 14A.36 of the Listing Rules, since the Company's controlling Shareholder has approved the Acquisition in writing and pursuant to Rule 14A.37 of the Listing Rules, that no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition, the Company is not required to convene an extraordinary general meeting in connection with the Acquisition since a waiver from the Stock Exchange was granted on 15 March 2018.

We, Red Sun Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Acquisition are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

### **OUR INDEPENDENCE**

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. In the previous two years, Red Sun Capital Limited has not acted as an independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company for any transaction.

Apart from normal professional fees paid or payable to us in connection with this appointment and the engagement as stated above as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

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### BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management (for which they are solely and wholly responsible), were true and accurate at the time they were made and continue to be so as at the Latest Practicable Date.

The Directors jointly and severally accept full responsibility for the accuracy of the statements, information and representations contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been reasonably arrived at after due and careful consideration and there are no other material facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information in order to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion.

We have not, however, for the purpose of this exercise, conducted any independent verification, investigation or audit into the information provided by the Directors and the Management, business or affairs or future prospects of the Company, OTX Holland, the Vendor and their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

This letter is issued for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement, we have taken into consideration the following principal factors and reasons:

### **1. Background information of the Group**

#### *1.1. Background information of the Group*

The shares of the Company have been listed on the Main Board of the Stock Exchange since 11 July 2014. The Group is principally engaged in the provision of air and ocean freight forwarding services, complemented by ancillary and contract logistics services, which include warehousing, distribution and customer clearance, and general sales agency services. Other businesses of the Group include trucking, combined shipment, hand-carry services and e-commerce business.

As set out in the annual report of the Group for the year ended 31 December 2016 (the “**2016 Annual Report**”) and the annual results announcement of the Group for the year ended 31 December 2017 (the “**2017 Annual Results Announcement**”), the core strategy of the Group is to (i) strengthen its global presence and expand the Group’s office network by aggressively expanding in Asia and the Middle East to meet the increasing cross-border logistics service demand to capture greater market share and trade volume; and (ii) grow its core businesses in air and ocean freight operations and broadening its range of services. Furthermore, it was noted from the 2017 Annual Results Announcement that the important drivers of the Group’s medium to long term growth include (i) the global demand for freight services, warehousing and logistics services; (ii) development of global cross-border e-commerce; and (iii) the improvement of the business environment in the United States of America (“**United States**”) and Europe.

Based on the segmental reporting information as set out in the 2016 Annual Report and the 2017 Annual Results Announcement, the Group has derived its revenue primarily from its air freight and ocean freight segments, being the two largest segments by revenue.

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### 1.2. *Historical financial performance of the Group*

The following table summarises the consolidated financial results of the Group for the year ended 31 December 2017 as extracted from the 2017 Annual Results Announcement, and the two financial years ended 31 December 2015 and 31 December 2016 as extracted from the 2016 Annual Report.

	<b>For the year ended</b>		
	<b>31 December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)
Revenue	3,670,514	2,867,339	3,223,589
Cost of sales	<u>(3,098,754)</u>	<u>(2,375,321)</u>	<u>(2,702,850)</u>
<b>Gross profit</b>	571,760	492,018	520,739
<b>Profit before taxation</b>	123,510	16,036	65,359
Income tax expenses	<u>(22,525)</u>	<u>(9,733)</u>	<u>(13,006)</u>
<b>Profit for the year</b>	<u>100,985</u>	<u>6,303</u>	<u>52,353</u>
<b>Profit for the year attributable to:</b>			
Owners of the Company	97,501	4,967	49,900
Non-controlling interests	<u>3,484</u>	<u>1,336</u>	<u>2,453</u>
	<u>100,985</u>	<u>6,303</u>	<u>52,353</u>

#### *Financial performance for the year ended 31 December 2017*

The revenue of the Group increased by approximately 28.0% from approximately HK\$2,867.3 million for the year ended 31 December 2016 to approximately HK\$3,670.5 million for the year ended 31 December 2017. The increase in revenue was primarily attributable to the revenue derived from the air freight segment which increased by approximately 37.1% from approximately HK\$1,868.6 million for the year ended 31 December 2016 to approximately HK\$2,561.6 million for the year ended 31 December 2017.

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The gross profit of the Group increased by approximately 16.2% from approximately HK\$492.0 million for the year ended 31 December 2016 to approximately HK\$571.8 million for the year ended 31 December 2017. The increase in gross profit was primarily due to the increase in gross profit of the air freight segment from approximately HK\$176.3 million for the year ended 31 December 2016 to approximately HK\$231.7 million for the year ended 31 December 2017.

The administrative expenses of the Group were largely stable at approximately HK\$481.0 million for the year ended 31 December 2016 and approximately HK\$475.8 million for the year ended 31 December 2017.

As a result, the profit before tax of the Group increased from approximately HK\$16.0 million for the year ended 31 December 2016 to approximately HK\$123.5 million for the year ended 31 December 2017. The profit after tax of the Group increased from approximately HK\$6.3 million for the year ended 31 December 2016 to approximately HK\$101.0 million for the year ended 31 December 2017.

As stated in the 2017 Annual Results Announcement, the increase in profitability and demand for logistics and freight forwarding services was primarily attributable to (i) the recovery of the global economy which resulted in an improvement of the export business in the PRC and global market demand, especially in the United States; and (ii) the growth in cross-border e-commerce which led to increase in cross-border small parcel delivery, both of which also contributed to the improvement of the Group's financial results for the year ended 31 December 2017.

### *Financial performance for the year ended 31 December 2016*

The revenue of the Group decreased by approximately 11.1% from approximately HK\$3,223.6 million for the year ended 31 December 2015 to approximately HK\$2,867.3 million for the year ended 31 December 2016. The decrease in revenue was mainly due to the reduction in revenue derived from the air freight segment which decreased by approximately 13.9% from approximately HK\$2,171.1 million for the year ended 31 December 2015 to approximately HK\$1,868.6 million for the year ended 31 December 2016.

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The gross profit of the Group decreased by approximately 5.5% from approximately HK\$520.7 million for the year ended 31 December 2015 to approximately HK\$492.0 million for the year ended 31 December 2016. The decrease in gross profit was mainly due to the decrease in air freight segment by approximately 22.0% from approximately HK\$226.0 million for the year ended 31 December 2015 to approximately HK\$176.3 million for the year ended 31 December 2016.

The administrative expenses of the Group remained largely stable, amounting to approximately HK\$458.4 million and approximately HK\$481.0 million for the year ended 31 December 2015 and 2016, respectively.

As a result, the profit before tax of the Group decreased by approximately 75.5% from approximately HK\$65.4 million for the year ended 31 December 2015 to approximately HK\$16.0 million for the year ended 31 December 2016. The profit after tax of the Group decreased by approximately 88.0% from approximately HK\$52.4 million for the year ended 31 December 2015 to approximately HK\$6.3 million for the year ended 31 December 2016.

The profit attributable to owners of the Company decreased by approximately 90.0% from approximately HK\$49.9 million for the year ended 31 December 2015 to approximately HK\$5.0 million for the year ended 31 December 2016. As stated in the 2016 Annual Report, the decrease in profitability and demand for logistics and freight forwarding services was primarily attributable to (i) the excess supply in the air and sea cargo industry which lead to an aggressive competition in pricing; (ii) the increase in staff costs and rental expenses due to the expansion of the sales team and the ancillary and contract logistics service business; (iii) the net loss arisen from the Group's e-commerce companies, of which certain of these companies have been disposed by the Group; (iv) the severance package paid to the stations managers who have departed the Group; and (v) the increase in legal and professional fees.

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### 1.3. Historical financial position of the Group

The following table summarises the consolidated financial position of the Group as at 31 December 2017 as extracted from the 2017 Annual Results Announcement and as at 31 December 2015 and 31 December 2016 as extracted from the 2016 Annual Report.

		<b>As at</b>	
	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)
<b>Non-current assets</b>	<b>136,960</b>	<b>109,233</b>	<b>115,061</b>
Property, plant and equipment	49,203	48,584	48,482
Goodwill	36,453	13,770	14,429
Intangible assets	22,172	17,654	20,918
Available-for-sale investment	–	16,237	17,976
<b>Current assets</b>	<b>1,100,387</b>	<b>830,996</b>	<b>750,881</b>
Trade receivables	684,132	496,150	423,001
Other receivables, deposits and prepayments	138,252	79,421	56,868
Bank balances and cash	248,201	211,207	242,300
<b>Total assets</b>	<b><u>1,237,347</u></b>	<b><u>940,229</u></b>	<b><u>865,942</u></b>
<b>Current liabilities</b>	<b>665,840</b>	<b>461,344</b>	<b>372,775</b>
Trade and other payables	473,900	309,685	265,029
Bank borrowings	179,770	145,400	98,595
<b>Non-current liabilities</b>	<b>17,768</b>	<b>16,245</b>	<b>17,676</b>
Trade and other payables – due after one year	3,153	3,021	2,596
Deferred tax liabilities	14,324	12,930	14,664
<b>Total liabilities</b>	<b><u>683,608</u></b>	<b><u>477,589</u></b>	<b><u>390,451</u></b>
<b>Total equity</b>	<b>553,739</b>	<b>462,640</b>	<b>475,491</b>
Net assets attributable to owners of the Company	526,998	434,939	446,191
Non-controlling interests	26,741	27,701	29,300



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Financial position as at 31 December 2017*

The total assets of the Group increased by approximately 31.6% from approximately HK\$940.2 million as at 31 December 2016 to approximately HK\$1,237.3 million as at 31 December 2017.

The non-current assets of the Group increased by approximately 25.4% from approximately HK\$109.2 million as at 31 December 2016 to approximately HK\$137.0 million as at 31 December 2017. Approximately 62.5% of the balance as at 31 December 2017 was attributable to property, plant and equipment and goodwill. The largest balance under non-current assets of the Group was property, plant and equipment which remained largely stable at approximately HK\$49.2 million as at 31 December 2017.

The current assets of the Group increased by approximately 32.4% from approximately HK\$831.0 million as at 31 December 2016 to approximately HK\$1,100.4 million as at 31 December 2017. Approximately 62.2% of the balance as at 31 December 2017 was attributable to trade receivables, being the largest balance under the current assets of the Group as at 31 December 2017. The trade receivables of the Group increased from approximately HK\$496.2 million as at 31 December 2016 to approximately HK\$684.1 million as at 31 December 2017.

The total liabilities of the Group increased by approximately 43.1% from approximately HK\$477.6 million as at 31 December 2016 to approximately HK\$683.6 million as at 31 December 2017. The increase was largely attributable to an increase in the current portion of trade and other payables of approximately HK\$164.2 million as at 31 December 2017.

The current liabilities of the Group increased by approximately 44.3% from approximately HK\$461.3 million as at 31 December 2016 to approximately HK\$665.8 million as at 31 December 2017. The increase was primarily attributable to the increase in the current portion of trade and other payables of approximately HK\$164.2 million as at 31 December 2017.

The non-current liabilities of the Group increased by approximately 9.4% from approximately HK\$16.2 million as at 31 December 2016 to approximately HK\$17.8 million as at 31 December 2017. The increase was primarily attributable to the increase in deferred tax liabilities of approximately HK\$1.4 million as at 31 December 2017.

As a result, the net assets attributable to the owners of the Company increased by approximately 21.2% from approximately HK\$434.9 million as at 31 December 2016 to approximately HK\$527.0 million as at 31 December 2017.

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### *Financial position as at 31 December 2016*

The total assets of the Group increased by approximately 8.6% from approximately HK\$865.9 million as at 31 December 2015 to approximately HK\$940.2 million as at 31 December 2016.

The non-current assets of the Group amounted to approximately HK\$109.2 million as at 31 December 2016 (31 December 2015: HK\$115.1 million). Approximately 75.5% of the balance as at 31 December 2016 was attributable to property, plant and equipment, intangible assets and available-for-sale investment.

The current assets of the Group increased by approximately 10.7% from approximately HK\$750.9 million as at 31 December 2015 to approximately HK\$831.0 million as at 31 December 2016. Approximately 85.1% of the balance as at 31 December 2016 was attributable to trade receivables and bank balances and cash. The largest balance of the current assets of the Group was trade receivables. The trade receivables of the Group increased by approximately 17.3% from approximately HK\$423.0 million as at 31 December 2015 to approximately HK\$496.2 million as at 31 December 2016.

The total liabilities of the Group increased by approximately 22.3% from approximately HK\$390.5 million as at 31 December 2015 to approximately HK\$477.6 million as at 31 December 2016. The increase was largely attributable to (i) an increase in the current portion of trade and other payables of approximately HK\$44.7 million as at 31 December 2016; and (ii) an increase in bank borrowings of approximately HK\$46.8 million as at 31 December 2016.

The current liabilities of the Group increased by approximately 23.7% from approximately HK\$372.8 million as at 31 December 2015 to approximately HK\$461.3 million as at 31 December 2016. The increase in the current liabilities as at 31 December 2016 was primarily attributable to (i) the increase in the current portion of trade and other payables of approximately HK\$44.7 million as at 31 December 2016; and (ii) an increase in bank and bank borrowings of approximately HK\$46.8 million as at 31 December 2016.

The non-current liabilities of the Group amounted to approximately HK\$16.2 million as at 31 December 2016 (31 December 2015: HK\$17.7 million). The decrease in non-current liabilities was primarily attributable to the decrease in deferred tax liabilities of approximately HK\$1.7 million as at 31 December 2016.

As a result of the foregoing, the net assets attributable to the owners of the Company decreased by approximately 2.5% from approximately HK\$446.2 million as at 31 December 2015 to approximately HK\$434.9 million as at 31 December 2016.

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Subsequent to the year ended 31 December 2016, as set out in the announcement of the Company dated 5 May 2017 (the “**2017 Acquisition Announcement**”), On Time Worldwide Logistics Limited (“**On Time BVI**”), a wholly-owned subsidiary of the Company, entered into an acquisition agreement with Air Partner Logistics Company Limited (“**Air Partner Logistics**”) and Ms. Chan Yi Lam (“**Ms. Chan**”), who owned 60% of Air Partner Logistics, pursuant to which On Time BVI conditionally agreed to acquire the entire issued share capital of Best Loader Logistics Company Limited (“**Best Loader Logistics**”) at the consideration of HK\$3 million. In addition, as set out in the 2017 Acquisition Announcement, on 5 May 2017, On Line Service Limited (“**On Line Service**”), an indirect wholly-owned subsidiary of the Company, entered into a separate acquisition agreement with Air Partner Logistics and Ms. Chan, pursuant to which On Line Service conditionally agreed to acquire the entire issued capital Best Loader Logistics (Shanghai) Company Limited\* (翼尊國際貨運代理(上海)有限公司) (“**Best Loader Logistics Shanghai**”) at the consideration of HK\$27 million. For further details of the aforementioned acquisitions (the “**2017 Acquisitions**”), please refer to the 2017 Acquisition Announcement. As advised by the Management, the 2017 Acquisitions were completed in June 2017 for Best Loader Logistics and in July 2017 for Best Loader Shanghai, respectively.

Furthermore, it was also noted that on 29 March 2017, the Group entered into a sale and purchase agreement with an independent third party to dispose of 5,200,000 shares in DNJ Logistics Co., Ltd.\* (北京明邦物流股份有限公司) (“**DNJ Logistics**”) at a consideration of approximately RMB14.6 million. Such transaction was completed on 14 August 2017. The shares of DNJ Logistics were listed on the National Equities Exchange and Quotations (新三板) at the time of the disposal.

Subsequent to the publication of the interim report of the Company for the six months ended 30 June 2017, based on information set out in the respective announcements of the Company, (i) on 20 October 2017, the Group entered into a disposal agreement with an independent third party to dispose all capital contribution on OTWL-On Time Worldwide Logistics Ltd. (先達環球物流有限公司) (“**OT Taiwan**”) at a consideration of approximately HK\$15.5 million (the “**OT Taiwan Disposal Announcement**”); and (ii) on 1 November 2017, the Group entered into a disposal agreement with an independent third party to dispose 3% of the entire issued shares of On Time Worldwide Logistics Ltd. (“**OT Korea**”) at a consideration of HK\$841,728 (the “**OT Korea Disposal Announcement**”).

## **2. Overview of macro-economy and logistics industry**

### *2.1 Overview of macro-economy and risks*

The logistics industry is dependent on global trade, including international import and export activities, which are in turn affected by the global economy. It is noted that the United States has experienced a low interest rate environment in recent years and there has been on-going speculation of more interest rate hikes by the Federal Reserve going forward, which may affect global financial markets. Notable events such as the anticipated withdrawal of the United Kingdom from the European Union, the potential implications of additional United States protectionist policies as well as the geopolitical risks around Asia driven by the ongoing situation in North Korea, are amongst the uncertainties faced by the global economy which could in turn affect investor sentiment and preferences.

According to a report published by the World Bank in June 2017 titled “Global Economic Prospects: A Fragile Recovery”, they estimated the global growth rate to be approximately 2.7% for 2017, which represents a slight increase as compared to that in 2016 which was approximately 2.4%. Both advanced economies as well as emerging markets and developing economies are expected to contribute to the aforementioned growth.

### *2.2 Overview of the freight forwarding industry in the Netherlands*

Given that OTX Holland is primarily engaged in the freight forwarding business in the Netherlands, we herewith set out certain background information on the freight forwarding industry in the Netherlands. According to Statistics Netherlands, a Dutch government institution, the import and export of total goods in the international trade of the Netherlands amounted to approximately €375.4 million and approximately €430.0 million for the first eleven months in 2017, respectively, compared to the import and export of total goods in the international trade of the Netherlands which amounted to approximately €372.7 million and approximately €425.0 million for the year ended 31 December 2016, respectively.

Furthermore, the Logistics Performance Index published by the World Bank shows that in terms of efficiency of the clearance process by border control agencies, infrastructure, ease of arranging competitive priced shipments, competence and quality of logistic services, and the ability to track and trace consignments, the Netherlands was ranked fourth as at 31 December 2016 (as per the review by the World Bank in 2017).

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### 3. Information on OTX Holland

OTX Holland was incorporated in the Netherlands with limited liability and is an indirect non-wholly owned subsidiary of the Company as at the Latest Practicable Date. The principal activity of OTX Holland is the provision of freight forwarding services in the Netherlands.

Set out below is a summary of consolidated financial information of OTX Holland for the two years ended 31 December 2016 and 2017 as extracted from the Letter from the Board:

	For the years ended/As at	
	31 December	
	2017	2016
	(€'000)	(€'000)
	(audited)	(audited)
Net profit before tax	1,848	792
Net profit after tax	1,338	606
– attributable to owners of the OTX Holland Group	1,460	654
Net assets	11,113	10,036
– attributable to owners of the OTX Holland Group	10,887	9,442

### 4. Reasons for and benefits of the Acquisition

As discussed in the Letter from the Board, the Group specialises in international air and sea freight forwarding as well as warehousing and value-added logistics and distribution. The Group further provides support services in relation to origin management, key account management, customs and compliance, web-based supply chain visibility and supply chain consultancy.

The Directors are of the view that the Acquisition, if completed, will further consolidate the Group's control in OTX Holland and enhance the operating efficiency of the Group in respect of the OTX Holland Group. We understand from the Management that the acquisition of remaining 25% equity interest in OTX Holland shall enable the Group to further integrate the business of OTX Holland into that of the Group with a view of creating additional synergies, as well as to determine OTX Holland's business model and strategic direction without the need to consider the non-controlling shareholders' position and interests. On this basis, we concur with the Management that the Acquisition is in the interests of the Company and the Shareholders as a whole.

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### 5. Principal terms of the Sale and Purchase Agreement

A summary of the principal terms of the Sale and Purchase Agreement are set out below:

Date:	9 March 2018 (after trading hours)
Parties:	(1) the Vendor (as vendor) (2) the Purchaser (as purchaser) (3) Mr. de Wit (as director of OTX Holland) (4) Ms. Kalshoven (as director of OTX Holland)
Subject matter of the transaction:	The Vendor has agreed to sell and the Purchaser has agreed to purchase the Target Shares, representing 25% of the issued share capital of OTX Holland
Consideration:	<p>Subject to and conditional upon the terms and conditions of the Sale and Purchase Agreement, the purchase price payable by the Purchaser for the Target Shares will be HK\$38,000,000.</p> <p>The Purchaser will pay the entire sum of the Consideration one (1) Business Day prior to Completion in cash, which shall be deemed to be paid to the Vendor upon Completion.</p> <p>The Company's original acquisition cost for its existing 75% interest in OTX Holland in 2011 was €5,963,175. The original seller of the 75% interest in OTX Holland was also the Vendor, which was an independent third party at the original acquisition date.</p> <p>The Consideration under the Sale and Purchase Agreement was negotiated on an arm's length basis between the parties on normal commercial terms with reference to the unaudited net asset value of OTX Holland as at 31 December 2017. The basis for determining the Consideration is the price to earnings ratio as well as the price to book ratio of certain similar listed companies on the Stock Exchange which are also engaged in the freight forwarding business.</p>

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Conditions Precedent: Completion is conditional upon the following conditions being fulfilled (or waived in accordance with the Sale and Purchase Agreement) in all respects (the “**Conditions Precedent**”):

- (a) compliance by the Company with all applicable requirements under the Listing Rules and the Takeovers Code in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (b) all necessary waivers, consents or approvals from any third party (including but not limited to any consents or approvals from government authority, regulatory authority, the Stock Exchange and/or the SFC and in relation to any pre-emption or similar rights under any shareholder agreements entered into in relation to the OTX Holland Group) in connection with the transactions contemplated under the Sale and Purchase Agreement having been obtained and that no government authority or any third party has proposed or taken any action which resulted in any prohibition or restriction on or delay in the performance and completion of the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (c) each of Mr. de Wit and Ms. Kalshoven having entered into a new service agreement with the OTX Holland on such terms and conditions to the satisfaction of the Purchaser in relation to the management and operation of OTX Holland;
- (d) a special dividend in an aggregate sum of €2,600,000 having been declared and paid by OTX Holland to its shareholders after signing of the Sale and Purchase Agreement (the “**Special Dividend**”); and
- (e) the Vendor’s warranties remaining true, accurate and not misleading in all material respects as of the Completion Date by reference to the facts and circumstances subsisting at the Completion Date.



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Each of the Vendor, Mr. de Wit and Ms. Kalshoven shall use their respective best endeavours to procure the fulfilment of the Conditions Precedent set out in paragraphs (b), (c), (d) and (e) on or before the Long Stop Date.

The Purchaser shall use its best endeavours to procure the fulfilment of the Conditions Precedent set out in paragraph (a) and (d) before the Long Stop Date.

The Conditions Precedent are required to be fulfilled on or before the Long Stop Date. If the Conditions Precedent have not been satisfied on or before the Long Stop Date, the Sale and Purchase Agreement will terminate and no party to the Sale and Purchase Agreement shall have any claims against the other party, save in respect of any prior breaches of the Sale and Purchase Agreement and claims arising out of the continuing provisions.

Further details of the Sale and Purchase Agreement, including the undertaking by the Vendor and Completion, are set out under the section headed "The Sale and Purchase Agreement" in the Letter from the Board.

### *Net Profit Guarantee*

Pursuant to the Sale and Purchase Agreement, subject to Completion having duly occurred in accordance with the terms and conditions of the Sale and Purchase Agreement, and the Purchaser having complied with certain provisions under the Sale and Purchase Agreement, the Vendor undertakes to the Purchaser and guarantees that:

- in the event that the Accumulated Consolidated Net Profit shall be less than HK\$18,000,000, the Vendor undertakes with the Purchaser that it shall in aggregate compensate the Purchaser HK\$3,330,000 within five (5) Business Days after the audited accounts for the financial year ending 31 December 2019 having been completed;
- in the event that the Accumulated Consolidated Net Profit shall be less than HK\$12,000,000, the Vendor undertakes with the Purchaser that it shall in aggregate compensate the Purchaser HK\$6,660,000 within five (5) Business Days after the audited accounts for the financial year ending 31 December 2019 having been completed; or
- in the event that the Accumulated Consolidated Net Profit shall be less than HK\$6,000,000, the Vendor undertakes with the Purchaser that it shall in aggregate compensate the Purchaser HK\$10,000,000 within five (5) Business Days after the audited accounts for the financial year ending 31 December 2019 having been completed (together the "**Profit Guarantee**").



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the Letter from the Board, the net profit guarantee was determined with reference to the unaudited net profit after tax attributable to owners of the OTX Holland Group for the year ended 31 December 2016 of approximately €654,000 (equivalent to approximately HK\$6,000,000). The net profit guarantee will only be determined after the audited accounts of OTX Holland for the financial year ending 31 December 2019 have been completed. The means of settlement of compensation (if any) under the Profit Guarantee will be by the Vendor in cash.

For further information on the basis of the Profit Guarantee, please refer to the section headed “The Sale and Purchase Agreement” in the Letter from the Board.

### *Our analysis on the Consideration*

As set out in the Letter from the Board, the Consideration was negotiated on an arm’s length basis between the parties on normal commercial terms with reference to the unaudited net asset value of OTX Holland as at 31 December 2017.

We noted from the Letter from the Board that, based on the audited financial information of the OTX Holland Group, OTX Holland Group recorded a net profit after taxation attributable to owners of approximately €1.5 million (equivalent to approximately HK\$14.6 million<sup>1</sup>) for the year ended 31 December 2017 and recorded net assets attributable to owners of OTX Holland of approximately €10.9 million (equivalent to approximately HK\$105.7 million<sup>1</sup>) as at 31 December 2017 (before the payment of the Special Dividend).

Based on the Consideration of HK\$38.0 million for the remaining 25% equity interest in OTX Holland and the audited net profit attributable to owners of approximately €1.5 million (equivalent to approximately HK\$14.6 million<sup>1</sup>) recorded by the OTX Holland Group for the year ended 31 December 2017, the implied transaction price-to-earnings multiple (the “**P/E multiple**”) is approximately 10.4 times. On the basis that the audited net assets attributable owners of OTX Holland as at 31 December 2017 is approximately €10.9 million (equivalent to approximately HK\$105.7 million<sup>1</sup>), the implied transaction price-to-book multiple (the “**P/B multiple**”) is approximately 1.4 times (before the payment of the Special Dividend). For illustration purposes, if the net asset attributable to the owners of OTX Holland has been adjusted for the Special Dividend of €2,600,000 (equivalent to approximately HK\$25,220,000<sup>1</sup>), the adjusted amount would be approximately HK\$80.5 million as advised by the Management (the “**Adjusted NAV**”). Based on the Consideration and the Adjusted NAV, the adjusted implied transaction price-to-book multiple (the “**Adjusted P/B multiple**”) is approximately 1.9 times (after the payment of Special Dividend).

<sup>1</sup> For the purpose of the relevant calculations in this letter, conversion of Euro into Hong Kong dollars is based on the approximate exchange rate of €1.0 to HK\$9.7. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or Euro have been, could have been or may be converted at such or any other rate or at all.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With a view to assess the fairness and reasonableness of the Consideration, we have reviewed the acquisitions and disposals (involving non-listed securities) conducted by the Group during the year ended 31 December 2017. We are of the view that these acquisitions and disposals to be a meaningful valuation reference given that (i) the subject entities are also principally engaged in similar business activities as OTX Holland, namely logistics related activities; (ii) the subject transactions are entered into recently (i.e. during the year ended 31 December 2017); and (iii) the respective terms of these transactions are considered to be fair and reasonable by the board of directors of the Company. Based on the information published by the Company, we noted that the Group conducted four notifiable transactions (as defined under the Listing Rules), namely, two notifiable acquisitions and two notifiable disposals of unlisted equity interests in certain companies during the year ended 31 December 2017, namely (i) the acquisition of the respective entire equity interest of Best Loader Logistics and Best Loader Logistics Shanghai from independent third parties, details of such acquisitions were set out in the 2017 Acquisition Announcement; (ii) the disposal of the entire capital contribution of OT Taiwan to an independent third party; and (iii) the disposal of 3% equity interest in OT Korea to an independent third party (together the “**2017 Transactions**”). The 2017 Transactions are an exhaustive list of notifiable transactions involving the acquisition or disposal of non-listed equity interests by the Company during the year ended 31 December 2017.

As set out in the 2017 Acquisition Announcement, (i) Best Loader Logistics was primarily engaged in the freight forwarding business in Hong Kong; and (ii) Best Loader Logistics Shanghai was primarily engaged in the freight forwarding business in the PRC. As set out in the OT Taiwan Disposal Announcement, OT Taiwan was primarily engaged in the freight forwarding business in Taiwan. As set out in the OT Korea Disposal Announcement, OT Korea was primarily engaged in the freight forwarding business in South Korea.

Based on the information as set out in the 2017 Acquisition Announcement, including (i) the consideration of HK\$3.0 million, the unaudited profit after tax of Best Loader Logistics being approximately HK\$347,000 for the year ended 31 December 2016 and the unaudited net assets of Best Loader Logistics being approximately HK\$1,676,000 as at the year ended 31 December 2016, the implied transaction P/E multiple and P/B multiple for the acquisition of Best Loader Logistics was approximately 8.6 times and 1.8 times, respectively; and (ii) the consideration of HK\$27.0 million, the unaudited profit after tax of Best Loader Logistics Shanghai being approximately HK\$2,373,000 for the year ended 31 December 2016 and the unaudited net assets of Best Loader Logistics Shanghai being approximately HK\$2,263,000 as at the year ended 31 December 2016, the implied transaction P/E multiple and P/B multiple for the acquisition of Best Loader Logistics Shanghai was approximately 11.4 times and 11.9 times, respectively.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the information as set out in the OT Taiwan Disposal Announcement, including the consideration of approximately HK\$15,477,072, the audited profit after tax of OT Taiwan being approximately NT\$5,358,000 (equivalent to approximately HK\$1,446,660<sup>2</sup>) for the year ended 31 December 2016 and the audited net assets of OT Taiwan being approximately NT\$61,244,000 (equivalent to approximately HK\$16,535,880<sup>2</sup>) as at the year ended 31 December 2016, the implied transaction P/E multiple and P/B multiple for the disposal of OT Taiwan was approximately 10.7 times and 0.9 times, respectively.

Based on the information as set out in the OT Korea Disposal Announcement, including the consideration of approximately HK\$841,728 for 3% of the entire issued shares of OT Korea, the audited profit after tax of OT Korea being approximately KRW349,863,000 (equivalent to approximately HK\$2,555,609<sup>3</sup>) for the year ended 31 December 2016 and the audited net assets of OT Korea being approximately KRW1,486,928,000 (equivalent to approximately HK\$10,861,417<sup>3</sup>) as at the year ended 31 December 2016, the implied transaction P/E multiple and P/B multiple for the disposal of OT Korea was approximately 11.0 times and 2.6 times, respectively.

Based on the above analysis, the implied P/E multiple of approximately 10.4 times under the Acquisition is lower than the P/E multiple for three out of the four 2017 Transactions and within the range of the implied P/E multiple for the 2017 Transactions, being approximately 8.6 times to 11.4 times. The Adjusted P/B multiple of approximately 1.9 times in respect of the Acquisition is within and towards the lower end of the range of P/B multiple for the 2017 Transactions, being approximately 0.9 times and 11.9 times.

In addition, with a view to further assess the fairness and reasonableness of the Consideration, we have also conducted an analysis on the trading P/E multiple and P/B multiple of the Listed Logistics Companies (as defined below). In this regard, we have identified certain companies listed on the Main Board of the Stock Exchange which are primarily engaged in a business similar to that of OTX Holland, namely the freight forwarding business, for comparison purposes. The companies were selected based on the following criteria, namely, (i) the shares of those companies are listed on the Main Board of the Stock Exchange; and (ii) the revenue generated from their logistics business (such as air freight, ocean freight and/or other logistics business activities) represents over 90% of their respective total revenue for the latest completed financial year. On a best effort basis, we identified

<sup>2</sup> For the purpose of the relevant calculations in this letter, conversion of New Taiwan Dollars ("NT\$") into Hong Kong dollars is based on the approximate exchange rate of NT\$1.0 to HK\$0.27. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or New Taiwan Dollars have been, could have been or may be converted at such or any other rate or at all.

<sup>3</sup> For the purpose of the relevant calculations in this letter, conversion of Korean Republic Won ("KRW") into Hong Kong dollars is based on the approximate exchange rate of KRW136.9 to HK\$1.0. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or Korean Republic Won have been, could have been or may be converted at such or any other rate or at all.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

seven companies<sup>4</sup> (the “**Listed Logistics Companies**”), being an exhaustive list identified based on the aforementioned criteria. Even through the history, scale of operations and financial performance and position of the Listed Logistics Companies may differ from that of the OTX Holland Group, we believe that the trading multiples of the Listed Logistics Companies can serve as a meaningful valuation reference point for the valuation and provide some insight into the prevailing trading market multiples.

Set out below is our analysis on the P/E multiple and P/B multiple of the Listed Logistics Companies as at the Latest Practicable Date:

*Table A: Trading multiples of the Listed Logistics Companies*

Company Name (Stock code)	Principal business(es)	Market Capitalisation (HK\$'million)	P/E multiple (Note 1)	P/B multiple (Note 2)
Changan Minsheng APLL Logistics Co., Limited – H Shares (1292)	Supply chain management services for automobiles and automobile raw material, components and parts.	820.0	4.8	0.4
Frontier Services Group Limited (500)	Provision of aviation and logistics services and the provision of online financial market information	2,479.0	N/A (Note 3)	9.4
Kerry Logistics Network Limited (636)	Provision of logistics, freight and warehouse leasing and operating services	18,087.0	8.5	1.0
Sinotrans Limited (598)	Freight forwarding, logistics, storage and terminal services and other services in the PRC	28,007.6	9.9	1.1
Sinotrans Shipping Limited (368)	Dry bulk shipping business, container shipping business, shipping agency and ship management	8,782.6	35.0	0.6

<sup>4</sup> Inclusive of the Company

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company Name <i>(Stock code)</i>	Principal business(es)	Market Capitalisation <i>(HK\$'million)</i>	P/E multiple <i>(Note 1)</i>	P/B multiple <i>(Note 2)</i>
SITC International Company Limited <i>(1308)</i>	Provision of marine transportation services, freight forwarding services for marine transportation, depot and warehouse services and related business	21,412.5	14.5	2.8
The Group <i>(6123)</i>	Provision of air and ocean freight forwarding services, complemented by the ancillary and contract logistics services	2,444.2	25.1	4.6
		Minimum	4.8	0.4
		Maximum	35.0	9.4
		Average	16.3	2.8
		<b>The Acquisition</b>	10.4	1.4 <i>(before Special Dividend)</i>
				1.9 <i>(after Special Dividend)</i>

*Notes:*

- (1) The P/E multiple of the Listed Logistics Companies is calculated based on their respective market capitalisation as at the Latest Practicable Date divided by the net profit attributable to the owners of the respective Listed Logistics Companies as extracted from their latest published results announcements or annual reports.
- (2) The P/B multiple of the Listed Logistics Companies is calculated based on their respective market capitalisation as at the Latest Practicable Date divided by the net asset value/equity attributable to the owners of the respective Listed Logistics Companies as extracted from their latest published interim/annual results announcements or reports.
- (3) The subject company recorded a net loss attributable to its owners based on its latest published annual results announcement.
- (4) For the purpose of our analysis, the exchange rate between the Renminbi and Hong Kong dollar is assumed to be 1.00 to 1.23, and the exchange rate between the United States Dollar and Hong Kong dollar is assumed to be 1.00 to 7.78.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown in Table A above, (i) the trading P/E multiple of the Listed Logistics Companies ranged from approximately 4.8 times to 35.0 times, with an average of approximately 16.3 times. The implied P/E multiple for the Acquisition being approximately 10.4 times is below the average and within the range of the trading P/E multiple of the Listed Logistics Companies; and (ii) the trading P/B multiple of the Listed Logistics Companies ranged from approximately 0.4 times to 9.4 times, with an average of approximately 2.8 times. The implied P/B multiple for the Acquisition being approximately 1.4 times and the Adjusted P/B multiple being approximately 1.9 times are within and near the low-end of the range of the trading P/B multiple of the Listed Logistics Companies.

We also conducted research on the Group and the Listed Logistics Companies and noted that during their respective latest completed financial year, save for the Acquisition, none of them have conducted a notifiable transaction involving the acquisition or disposal of equity interest of logistic company(ies) operating solely in the Netherland.

In connection with the Company's original acquisition cost for its existing 75% interest in OTX Holland in 2011, being €5,963,175 (the "**Original Acquisition Cost**"). Having considered that, given the passage of time, being over six years, since the original date and that factors such as the financial status of OTX Holland, the outlook of macro-economy and the prevailing market environment of the logistics industry at the time of the original acquisition in 2011 differs from that at the time of the Acquisition, we are of the view that the Original Acquisition Cost is not an appropriate valuation reference for assessing the reasonableness of the Consideration.

In assessing the fairness and reasonableness of the Consideration, we have considered that (i) the implied P/E multiple under for the Acquisition is below the implied P/E multiple in three out of the four 2017 Transactions as well as within the range of the implied P/E multiple for the 2017 Transactions; (ii) the implied P/B multiple for the Acquisition being approximately 1.4 times and the Adjusted P/B multiple being approximately 1.9 times are within the range of the implied P/B multiple for the 2017 Transactions; (iii) the implied P/E multiple and implied P/B multiple for the Acquisition is within the range of the trading P/E multiple and the trading P/B multiple of the Listed Logistics Companies; and (iv) the reasons as set out under paragraph headed "4. Reasons for and benefits of the Acquisition" in this letter. On this basis, we concur with the Management that the Consideration is fair and reasonable.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Our analysis on the Profit Guarantee*

Based on the information obtained from the Management, including (i) the audited consolidated net profit attributable to the owners of OTX Holland for each of the years ended 31 December 2015, 2016 and 2017, being approximately €0.9 million, €0.7 million and €1.5 million, (equivalent to approximately HK\$8.7 million<sup>1</sup>, HK\$6.8 million<sup>1</sup> and HK\$14.6 million<sup>1</sup>), respectively; and (ii) the audited consolidated net profit of OTX Holland (including non-controlling interests) for each of the years ended 31 December 2015, 2016 and 2017 was approximately €1.0 million, €0.6 million and €1.3 million, (equivalent to approximately HK\$9.7 million<sup>1</sup>, HK\$5.8 million<sup>1</sup> and HK\$12.6 million<sup>1</sup>), respectively. Based on the above, the aggregate of the audited consolidated net profit of OTX Holland for the years ended 31 December 2015, 2016 and 2017, amounted to approximately €2.9 million (equivalent to approximately HK\$28.1 million<sup>1</sup>) (the “**Historical Aggregate OTX Holland Net Profit**”). On this basis, the Historical Aggregate OTX Holland Net Profit exceeded the Profit Guarantee of the Accumulated Consolidated Net Profit at HK\$18.0 million and that the audited consolidated net profit of OTX Holland of approximately €1.3 million (equivalent to approximately HK\$12.6 million<sup>1</sup>) for the year ended 31 December 2017 already represents a significant portion of the Profit Guarantee of the Accumulated Consolidated Net Profit which is HK\$18.0 million with the remaining portion of the Accumulated Consolidated Net Profit to be satisfied by OTX Holland over the next two years ending 31 December 2018 and 2019. The Management advised that OTX Holland has been and shall continue (after Completion) to be operated under the Group’s stated strategic direction.

As part of our analysis, we have also reviewed a number of notifiable transactions announced by main board listed companies on the Stock Exchange during the year ended 31 December 2017 and up to the Latest Practicable Date (the “**PG Review Period**”) and note that numerous main board listed companies, including, among others (i) China National Building Material Company Limited (stock code: 3323); (ii) China Zenith Chemical Group Limited (stock code: 362); (iii) Enerchina Holdings Limited (stock code: 622); (iv) GT Group Holdings Limited (stock code: 263); (v) Smartac Group China Holdings Limited (stock code: 395); and (vi) Vincent Medical Holdings Limited (stock code: 1612), entered into profit guarantee arrangements as part of their transaction during the PG Review Period (the “**Market Profit Guarantee Arrangements**”).



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out in the table below is a summary of the Market Profit Guarantee Arrangements:

Company Name ( <i>Stock code</i> )/Transaction type	Profit guarantee period	Basis of guaranteed profit	Consideration compared to compensation amount	Compensation mechanism
China National Building Material Company Limited (3323)/Disposal	Three financial years	Year-on-year basis	The aggregate of the profit compensation amount for the entire profit guarantee period and the impairment compensation amount shall not exceed 100% of the total consideration.	Pre-agreed formula compensation basis
China Zenith Chemical Group Limited (362)/Acquisition	Approximately one year from completion date	Year-on-year basis	Subject consideration: HK\$85,800,000, compensation up to RMB8 million.	Dollar-to dollar basis
Enerchina Holdings Limited (622)/Acquisition	Five financial years	Cumulative basis	The first tranche and the second tranche consideration amount to a total of HK\$1,225,000,000 and the maximum profit guarantee compensation amount is HK\$675,000,000.	Pre-agreed formula compensation basis
GT Group Holdings Limited (263)/Acquisition	One financial year	Year-on-year basis	Subject consideration is HK\$196 million, profit guarantee compensation is to be calculated based on 11.1 times, being the price-to-earnings ratio, of the shortfall between audit profit and guarantee profit.	Price-to-earnings multiple basis
Smartac Group China Holdings Limited (395)/Acquisition	Three financial years	Year-on-year basis	Approximately HK\$98.3 million of the subject consideration is to be settled by way of consideration shares, in the event that the actual profits of the target group for the years ended 31 December 2017, 2018 and 2019 (i.e. the profit guarantee period) is less than 50% of the target profit, the value of the consideration shares to be issued (and the part of consideration to be payable) for those respective years shall be nil.	Pre-agreed formula compensation basis
Vincent Medical Holdings Limited (1612)/Acquisition	Three financial years	First year to be assessed on its own and the last two years to be assessed on a cumulative basis	Subject consideration is HK\$130 million. In the event of loss recorded by the target group, compensation is the aggregate of (i) guaranteed amount of HK\$24 million; and (ii) amount of loss suffered by the target group for the guarantee period.	Dollar-to dollar basis

source: *website of the Stock Exchange*



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the aforesaid analysis, we noted that Market Profit Guarantee Arrangements varied notably, including (i) duration of profit guarantee period, from one year to five financial years; (ii) the guaranteed profit being calculated on a year-on-year basis and/or on a cumulative basis over the stated profit guarantee period; (iii) the subject consideration compared to that of the compensation amount under the respective profit guarantees; and (iv) compensation mechanism in the event of shortfall, some of which were linked to (a) price-to-earnings multiple basis; (b) dollar-to-dollar compensation basis; and (c) pre-agreed formula compensation basis. Having considered the Market Profit Guarantee Arrangements, we considered the profit guarantee arrangement under the Acquisition as a whole to be in line with market practice. In addition, the Management advised that the Profit Guarantee is negotiated as an additional safeguard to the Shareholders' interests under the Acquisition. In this connection, we concur with the Management that the Profit Guarantee is in the interests of the Company and the Shareholders as a whole.

In addition, we also note from the Letter from the Board that the Vendor irrevocably and unconditionally undertakes and each of Mr. de Wit and Ms. Kalshoven irrevocably and unconditionally undertakes to the Purchaser to procure that the Vendor shall have at least HK\$10,000,000 in its bank account at all times from the signing of the Sale and Purchase Agreement until all amounts payable by the Vendor to the Purchaser under the Sale and Purchase Agreement have been settled by the Vendor. Given the maximum compensation amount is HK\$10,000,000, we concur with the Directors' assessment that the Vendor has the capability to discharge its compensation obligation if there is any shortfall of the Profit Guarantee.

### **6. Financial effects of the Acquisition**

Upon Completion, OTX Holland will become a wholly-owned subsidiary of the Company and the financial results of which will be fully consolidated into the financial statements of the Group.

#### *6.1 Earnings*

Based on the Letter from the Board, the OTX Holland Group recorded an audited net profit attributable to owners of approximately €1.5 million (equivalent to approximately HK\$14.6 million<sup>1</sup>) for the year ended 31 December 2017. After Completion, the financial results of OTX Holland will be fully consolidated into the financial results of the Group without the non-controlling interests at the OTX Holland level.

#### *6.2 Cash flow*

For information purposes, based on the 2017 Annual Results Announcement, the Group had cash and bank balances of approximately HK\$248.2 million (excluding pledged bank deposits) as at 31 December 2017. The Consideration of HK\$38 million will be settled in cash by the Company one (1) Business Day prior to Completion, which shall be deemed to be paid to the Vendor upon Completion, and the special dividend of in an aggregate sum of €2,600,000 (equivalent to approximately HK\$25.2 million<sup>1</sup>) will be declared and paid as mentioned under the section headed "Principal terms of the Sale and Purchase Agreement" above. On this basis, the Management expects a net cash outflow attributable to the Acquisition.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 6.3 *Net asset value*

Based on the 2017 Annual Results Announcement, the consolidated net asset to the owners of the Company as at 31 December 2017 was approximately HK\$553.7 million. As at 31 December 2017, OTX Holland recorded a net asset attributable to the owners of OTX Holland of approximately €10.9 million (equivalent to approximately HK\$105.7 million<sup>1</sup>). Upon Completion, the non-controlling interest in relation to the 25% issued share capital of OTX Holland would be eliminated and the entire net asset attributable to owners of OTX Holland will be consolidated into the consolidated financial position of the Group.

### OPINION AND RECOMMENDATION

Having taken into account of the above factors and reasons, in particular, (i) our analysis on the Consideration and Profit Guarantee; (ii) the reasons for and benefits of the Acquisition; and (iii) the possible financial effects of the Acquisition, we are of the view that the terms of the Sale and Purchase Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Yours faithfully,  
For and on behalf of  
**Red Sun Capital Limited**  
**Lewis Lai**  
*Managing Director*

*Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in the corporate finance industry.*

\* *For identification purpose only*

## 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 regards to the Group. 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. DISCLOSURE OF INTERESTS

### (a) Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive 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 the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors or chief executive of the Company were deemed or taken to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) were as follows:

Name of Director	Capacity	Number of Shares/ underlying shares held	Approximate percentage of the issued share capital of the Company
Yu Huijiao	Beneficial interest	268,229,408 (L)	64.75

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

**3. DIRECTORS' INTEREST IN COMPETING BUSINESS**

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or the controlling shareholders (as defined under the Listing Rules) nor any of their respective close associates had interests in a business, which compete or is likely to compete either directly or indirectly with the businesses of the Group which would be required to be disclosed under the Listing Rules.

**4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the Company or any member of the Group within one year without payment of any compensation (other than statutory compensation)).

**5. INTEREST IN ASSETS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which, since 31 December 2017 (being the date of the latest published audited consolidated financial statements of the Group), had been or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

**6. INTERESTS IN CONTRACT OR ARRANGEMENT**

As at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

**7. MATERIAL ADVERSE CHANGE**

As at 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 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**8. QUALIFICATION AND CONSENTS OF EXPERTS**

The following sets out the qualification of the experts who have given opinions and advice which are included in this circular:

<b>Name</b>	<b>Qualification</b>
Red Sun Capital Limited	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter(s), report(s) and/or opinion, as the case may be, and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above expert(s) had any interest, direct or indirect, in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the experts had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, the date to which the latest published audited consolidated financial statements of the Company were made up.

## 9. GENERAL

In case of any inconsistency, the English text of this circular shall prevail over the Chinese text.

## 10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on any weekday (except public holidays) at the principal place of business of the Company in Hong Kong at Unit 18, 1st Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Hong Kong for a period of not less than 14 days from the date of this circular:

- (a) the Sale and Purchased Agreement;
- (b) the letter of recommendation from Independent Board Committee, the text of which is set out on pages 13 to 14 of this circular;
- (c) the letter of advice from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 40 in this circular;
- (d) the letter of consent from the Independent Financial Advisor referred to in the above paragraph headed "Qualifications and Consents of Experts" in this appendix; and
- (e) this circular.