



27 January 2025

Dear Sirs or Madams,

**(1) PROPOSED PRIVATISATION OF HANG CHI HOLDINGS LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES ACT)
AND
(2) PROPOSED WITHDRAWAL OF LISTING**

I INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in respect of the Proposal and the Scheme. Details of the Proposal and the Scheme are set out in Part IV Letter from the Board contained in the Scheme Document dated 27 January 2025, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context requires otherwise.

On 6 November 2024, the Company announced that on 24 October 2024 the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of the Scheme, being a scheme of arrangement under Section 86 of the Companies Act involving the cancellation and extinguishment of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders as at the Scheme Record Date of the Cancellation Price in cash for each Scheme Share cancelled and extinguished and the simultaneous allotment and issue of an equivalent number of new Shares to the Offeror, subject to the Conditions, and the withdrawal of the listing of the Shares on GEM of the Stock Exchange.

Subject to the Proposal being approved and implemented, under the Scheme, (a) all Scheme Shares on the Effective Date will be cancelled and extinguished in exchange for the payment of the Cancellation Price, i.e. HK\$0.70 per Scheme Share, in cash to each Scheme Shareholder as at the Scheme Record Date by the Offeror; (b) simultaneously with the cancellation and extinguishment of the Scheme Shares, the issued share capital of the Company will be maintained at its amount immediately prior to the cancellation and extinguishment of the Scheme Shares by the allotment and issue at par to the Offeror, credited as fully paid, of the same number of new Shares as the number of Scheme Shares cancelled and extinguished; (c) the Offeror and the Offeror Concert Parties will in aggregate hold the entire issued share capital of

the Company; and (d) the Company will apply to the Stock Exchange, in accordance with Rule 9.23 of the GEM Listing Rules, for the withdrawal of the listing of the Shares on GEM of the Stock Exchange as soon as practicable after the Effective Date.

II THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee which comprises Mr. Lau Joseph Wan Pui, Mr. Chan Ching Sum Sam, Mr. Lau Tai Chim and Mr. Wong Wai Ho, being the non-executive Director and all of the independent non-executive Directors, has been established by the Board to make a recommendation to the Scheme Shareholders as to (i) whether the Proposal and the Scheme are fair and reasonable; and (ii) whether to vote in favour of the Scheme and the Proposal at the Court Meeting and the EGM, respectively.

Having reviewed the Proposal, the Board has resolved to put forward the Proposal to the Scheme Shareholders. The Directors who have a conflict of interest have abstained from voting in relation to that resolution.

As the Independent Financial Adviser with respect to the Proposal and the Scheme, our role is to provide the Independent Board Committee with an independent opinion and recommendation as to (a) whether the Proposal and the Scheme are, or are not, fair and reasonable; and (b) voting by the Scheme Shareholders at the Court Meeting and at the EGM, respectively.

We are independent of and not associated or connected with the Company or the Offeror, their respective controlling shareholders or any parties acting in concert with any of them. Save for the appointment as the Independent Financial Adviser to the Independent Board Committee, we did not act as a financial adviser to the Company and the Offeror within the two years immediately preceding the commencement of the Offer Period and up to and including the Latest Practicable Date. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee, no arrangement exists whereby we shall receive any other fees or benefits from the Company or the Offeror or their respective controlling shareholders or any party acting, or presumed to be acting, in concert with any of them.

III BASIS OF OUR ADVICE

In forming our opinion and recommendation, we have relied on, amongst others, (i) the information, facts, representations and opinions contained or referred to in the Scheme Document, (ii) the information and facts provided by the Company, its advisers, the executive Directors and the management of the Company and its subsidiaries (the “**Management**”), (iii) the representations and opinions of the Directors and the Management, and (iv) our review of relevant public information, including but not limited to (v) the Announcement; (vi) the annual report of the Company for the year ended 31 December 2022 (the “**2022 Annual Report**”); (vii) the annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”) and; (viii) the interim report of the Company for the six months ended 30 June 2024 (the “**2024 Interim Report**”). We have assumed that all the statements made and information provided, and all representations and opinions expressed to us or contained or referred to in the Scheme Document were true, accurate and complete in all respects at the time they were made and continue to be true as at the Latest Practicable Date and may be relied upon. We have also assumed that all statements of belief, opinions, expectations and intention of the Directors and the Management and those as set out or referred to in the Scheme Document were reasonably made after due and careful enquiry. We have sought and received confirmation from the Company that no material facts have been withheld or omitted from the information and representations provided and the opinions expressed, and that all information, facts, representations and opinions provided/expressed to us are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information, facts, representations and opinions provided to us by the Directors and the Management and/or the advisers of the Company, or that any relevant material facts have been withheld or omitted from the information provided, or the reasonableness of the opinions and representations provided/expressed to us by the Directors and the Management. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Scheme Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/ or change our opinion. Scheme Shareholders will be notified if there is any material change to such information and representations and our opinion contained in this letter as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We consider that we have been provided with sufficient information available and have taken all reasonable steps to reach an informed view and to provide a reasonable basis for our opinion. We however have not conducted any independent verification of the information included in the Scheme Document and/or provided to us by the Company, its advisers, the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group or the Offeror or any of their respective subsidiaries or associates.

We have not considered the tax and regulatory implications on the Scheme Shareholders of acceptance or non-acceptance of the Proposal since these depend on their individual circumstances. In particular, Scheme Shareholders who are residents overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

Your attention is drawn to the responsibility statements as set out under the section headed “1. Responsibility Statement” in Appendix II General Information of the Scheme Document. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Scheme Document, save and except for this letter.

This letter is issued for the information of the Independent Board Committee and the Scheme Shareholders solely in connection with their consideration of the Proposal, and except for inclusion in the Scheme Document, 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.

IV PRINCIPAL FACTORS AND REASONS CONSIDERED FOR THE PROPOSAL

1. Background information of the Company

The Company is an investment holding company which through its subsidiaries is principally engaged in the operation of elderly residential care homes in Hong Kong. The Group generates its revenue primarily from (i) rendering of elderly home care services, and (ii) sales of elderly related goods and provision of healthcare services.

The Group primarily generated revenue from three types of customers: (i) the Social Welfare Department (“**SWD**”) that leased a fixed number of residential care places at the Group’s elderly residential care homes that participate in the Enhanced Bought Place Scheme (the “**EBPS**”)^(Note 1) and the Bought Place Scheme on Day Care Units; (ii) the individual customers that include both EBPS-subsidised and non-subsidised customers; and (iii) non-governmental organisations (“**NGOs**”) which leased a few residential care places from the Group at the elderly residential care homes. The Group also generated revenue from sales of healthcare and medical consumable products such as adult nappies, nutritional milk, other medical consumables, daily supplies, and the provision of customisable add-on healthcare services to elderly residents of its elderly care homes.

Notes:

1. The EBPS is a publicly funded welfare programme of the SWD that offers leased residential care places at a subsidised rate to eligible elderly citizens in Hong Kong. The participating elderly care homes charge a fixed fee as determined by the SWD and periodically updated from time to time, for each care place (or “**bed space**”) leased by the SWD under the EBPS. The SWD sets different fixed fees for different categories of elderly care homes under the EBPS^(Note 2). The fixed fee is partly subsidised and paid for by the SWD (the amount of which is subject to annual review and adjustment by the SWD, and the eligible elderly resident would bear the remaining (un-subsidised) portion of the fixed fee).

2. EA1 and EA2 are the two categories of Residential Care Homes for the Elderly (“RCHE(s)”) eligible under the EBPS, under which EA1 homes have higher requirements in terms of staffing and per capita net floor area as compared to EA2 homes. Pursuant to the EBPS, the SWD determines the prices for the various types of residential care places in RCHEs participating in the EBPS. The monthly residential fees payable by the SWD and the resident (i.e. The “fixed fee” as referred to in Note 1 above) for a residential care place in residential care homes under the EA1 category are generally higher than those under the EA2 category.

1.1 Financial Information

Set out below is a table summarising certain financial information of the Group as extracted from (i) the 2022 Annual Report; (ii) the 2023 Annual Report and (iii) the 2024 Interim Report.

	Six months ended		Year ended 31 December		
	30 June		2023	2022	2021
	2024	2023	2023	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
Revenue	112,645	102,551	211,214	193,041	203,849
– Rendering of elderly home care services	85,958	77,415	159,255	145,144	151,891
– Sales of elderly related goods and provision of healthcare services	26,687	25,136	51,959	47,897	51,958
Profit for the period/year	14,236	9,802	26,204	38,610	52,191
Profit attributable to owners of the Company	12,468	9,419	23,408	36,498	46,954

	As at 30 June 2024	As at 31 December 2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Non-current assets		
– <i>Property, plant and equipment</i>	19,405	21,219
– <i>Right-of-use assets</i>	114,820	81,122
– <i>Intangible assets</i>	2	2
– <i>Goodwill</i>	112,790	112,790
– <i>Deposits</i>	10,188	9,885
– <i>Deferred tax assets</i>	1,903	1,793
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	259,108	226,811
Current assets	74,462	71,473
Total assets	333,570	298,284
Current liabilities	70,432	59,789
Non-current liabilities	69,347	41,140
Total liabilities	139,779	100,929
Total equity	193,791	197,355
Total equity attributable to owners of the Company	184,857	188,389

1.1.1 Profit or loss

Year ended 31 December 2022 (“**FY2022**”) compared to year ended 31 December 2021 (“**FY2021**”)

Revenue

The Group’s revenue decreased from HK\$203.8 million in FY2021 to HK\$193.0 million in FY2022 as a combined result of revenue decrease from both (i) rendering of elderly home care services, which in turn was mainly driven by decrease in revenue received from individual customers (including both EBPS-subsidised and non-subsidised customers) from HK\$107.5 million for FY2021 to HK\$100.0 million for FY2022; and (ii) sales of elderly-related goods and provision of healthcare services, which decreased from HK\$52.0 million in FY2021 to HK\$47.9 million in FY2022. As disclosed in the 2022 Annual Report, the average occupancy rates for both elderly residential care homes under the EBPS and non-EBPS elderly residential care homes were lower in FY2022 compared to FY2021, which is indicative of fewer residents being admitted during FY2022 overall.

Profit for the year

The Group recorded a net profit of HK\$52.2 million in FY2021 and HK\$38.6 million in FY2022, respectively. The decrease in net profit was primarily due to a decrease in revenue and an increase in staff costs, as the Group allocated more resources for manpower and materials for epidemic prevention measures. This was partially offset by an increase in other income from government grants related to COVID-19 subsidies and special allowances for residential care homes and for staff under on-site quarantine or isolation, which were supported by the SWD.

Year ended 31 December 2023 (“**FY2023**”) compared to year ended 31 December 2022 (“**FY2022**”)

Revenue

The Group’s revenue increased from HK\$193.0 million in FY2022 to HK\$211.2 million in FY2023, primarily derived from an increase in revenue from the rendering of elderly home care services, particularly residential care places leased by the SWD under the EBPS. In FY2023, Guardian Home (Chun Shek) Limited, a subsidiary of the Group, has been admitted in the EBPS as EA1 and accordingly, the number of the Group’s elderly residential care homes classified as EA1 under the EBPS increased from two to three.

Profit for the year

The Group recorded a net profit of HK\$26.2 million in FY2023, which represented a decrease of HK\$12.4 million (or 32.1%) as compared to FY2022 despite an increase in revenue by HK\$18.2 million (or 9.4%) from FY2022 to FY2023. Such decrease in net profit was mainly attributable to a significant drop in other income from HK\$49.6 million in FY2022 to HK\$10.3 million in FY2023, which in turn was mainly resulting from the termination of the COVID-related special allowance received from the SWD in December 2022 (which amounted to HK\$34.6 million in FY2022) and the cessation of COVID-related government subsidies in FY2023 (including subsidy under the Employment Support Scheme which contributed HK\$5.2 million of other income to the Group in FY2022).

Six months ended 30 June 2024 (“**1H2024**”) compared to six months ended 30 June 2023 (“**1H2023**”)

Revenue

The Group’s revenue increased from HK\$102.6 million in 1H2023 to HK\$112.6 million in 1H2024, driven mainly by higher revenue from providing elderly home care services, which in turn was primarily resulting from the increase in revenue from residential care places leased to the SWD under the EBPS, driven by the upgrade of one of the Group’s residential care homes from EA2 to EA1 (having a higher per-care space fee charge compared to EA2 as stipulated by the SWD) under the EBPS in December 2023. As a result, the Group had four elderly residential care homes classified as EA1 under the EBPS in 1H2024, up from three in the same period in previous year, along with one classified as EA2. Additionally, the moderate improvement in average occupancy rates for both elderly residential care homes under the EBPS (the Group leased 373 residential care places under the EBPS in 1H2024 compared to 290 places in the same period the previous year) as well as non-EBPS elderly residential care homes of the Group also contributed to the overall revenue growth during 1H2024.

Profit for the period

The Group recorded a net profit of HK\$14.2 million in 1H2024 compared to HK\$9.8 million 1H2023. The increment was mainly due to the increased revenue derived from the leasing of additional residential care spaces by the SWD under the EBPS, coupled with the upgrade of one of the Group’s residential care homes from EA2 to EA1 (which charges a higher per-care space fee compared to an EA2 category care home as mentioned above).

1.1.2 Balance sheet

The Group recorded total equity of HK\$197.4 million and HK\$193.8 million as at 31 December 2023 and 30 June 2024, respectively. Total fixed bank deposits and cash and cash equivalents increased from HK\$58.3 million as at 31 December 2023 to HK\$60.3 million as at 30 June 2024. The Group’s gearing ratio increased from 18% as at 31 December 2023 to 28% as at 30 June 2024, partly resulting from increase in lease liabilities under the reporting requirement of IFRS 16 Leases.

1.1.3 Summary conclusion

The Company has seen signs of revenue recovery in FY2023 following the overall stabilization of the pandemic's impact. As noted from the 2023 Annual Report, the moderate recovery in revenue was mainly contributed from an increase in revenue derived from the SWD under the EBPS (from HK\$40.1 million in FY2022 to HK\$51.3 million in FY2023) as previously explained. However, this revenue source is inherently dependent on government policies and ongoing subsidies. The reliance on government support makes the financial health of these care homes vulnerable to policy changes.

Contrary to the moderate re-bounce in revenue, net profit of the Company has been on a declining trend from FY2021 to FY2023. This decline can be attributed to several factors, including, without limitation, (i) the impact of COVID-19 and thereafter the termination of COVID-related government subsidies and the special allowance received from the SWD for providing care support services to residents who were admitted to residential care homes for quarantine; and (ii) staff costs of the Group had increased from HK\$83.5 million in FY2021 to HK\$92.9 million in FY2023, reflecting a more challenging operating cost environment. These factors have collectively contributed to the downward trend in net profit during this period.

1.2 Prospect and outlook of the Group

1.2.1 Overview of the elderly care industry in Hong Kong

Demand for long-term care services in Hong Kong is largely influenced by the aging population, as indicated by the rise in the number of elderly individuals (aged 65 or over) and the increasing elderly dependency ratio.

Between 2021 and 2023, data from the Census and Statistics Department of the Hong Kong Government (the "CSD") shows that the population of the elderly surged from about 1,451,500 individuals (comprising about 19.6% of the total population) in 2021 to about 1,641,900 individuals (making up about 21.8% of the total population) in 2023. Concurrently, the elderly dependency ratio (calculated as the number of persons aged 65 and over per 1,000 persons aged between 15 and 64) escalated from about 282 in 2021 to 321 in 2023.

Moreover, according to the "Hong Kong Population Projections 2022–2046" from 15 August 2023, published by the CSD, the elderly dependency ratio is forecasted to rise from 282 in mid-2021 (as the base year) to 369 by mid-2026 and further to 441 by mid-2031.

According to the “Annual Service Provision and Statistics – Residential Care Services” published by the SWD, the capacity of subsidised and non-subsidised residential services for the elderly in Hong Kong stood at 32,396 and 46,751, respectively, as of 30 June 2024. Additionally, by 31 August 2024, a total of 16,570 applicants were waitlisted for various types of subsidised residential care services for the elderly in the central waitlist for subsidised long-term care services. The average waiting time was 9 months for care and attention places and 9 months for nursing home places.

Notwithstanding the generally positive demand-side drivers, the elderly services industry in Hong Kong is facing increasing operating challenges, including (without limitation) increasing rental costs, stringent licensing and compliance requirements, and persistent shortage in healthcare workers. In addition, changes and/or adjustments of governmental budgets and financial resources on social welfare and elderly care (such as EBPS) may also have varying degree of impact on the business and financial aspects of elderly residential care home operators.

1.2.2 Increasing rental and other operating costs

All elderly residential care homes operated by the Group are rented properties, and rental and related expenses have been a major contributor to the Group’s costs of services. During the year ended 31 December 2023 and the six months ended 30 June 2024, the average monthly rental payments incurred by the Group amounted to HK\$4,780,333 and HK\$4,995,333, respectively.

The Residential Care Homes Legislation (Miscellaneous Amendments) Ordinance 2023 (the “**RCH Ordinance**”) has been effective since 16 June 2024. The RCH Ordinance tightens the minimum staffing requirements including a higher nurse/health worker – resident ratio and an increase in the duty time required for high-care and medium-care level RCHEs, while providing grace periods of 2 to 4 years for implementation. Further, the RCH Ordinance introduces an increase in minimum area per resident from the current 6.5 m² to 9.5 m² (for high-care level RCHEs) and 8 m² (for medium-care level and low-care level RCHEs). Similarly, grace periods are available for orderly and controlled compliance with the enhanced statutory requirements. Combined with utilities, food, and labor, this upsurge is expected to translate into elevated operating expenses for care providers. These increased costs may strain the financial sustainability of elderly homes. In the long run, a continuous increasing trend in rental cost may obstruct the expansion and enhancement of elderly care services, posing challenges in meeting the increasing demand for elderly care for an aging demographic.

According to the Management, rental costs of the Group's elderly residential care facilities have been on an increasing trend. In this connection, we have obtained and reviewed the currently effective and most recently expired rental agreements from the period of 2019 to 2024 for each of the Group's operating elderly homes, which reveals an average increase of around 20% of rental charges. Coupled with the elevated legislative minimum requirement on per resident space introduced in the RCH Ordinance, the Management envisage that the Group will face continuously increasing pressure on rental costs.

While the Group may in theory raises its fee charges for care places leased by non-subsidised individual customers to counter its rental and other operating costs pressure, such commercial decision would likely be weighed against other considerations such as competitive market prices, affordability of the non-subsidised individual customers, public image and social responsibility. Moreover, the Group's participation in the EBPS has been on an increasing trend, as noted from its increasing percentage revenue contribution. As the per-care place fee charge is fixed and determined by the SWD, the Group has no autonomy in raising its fee charges for care places leased under the EBPS at will. All in all, if the Group is not able to substantially pass on the rising costs to its customers, either from user affordability and social responsibility perspective or otherwise, the Group's profit margin is likely to be faced with increasing downward pressure.

1.2.3 Stringent licensing and compliance requirements

According to the Management, legislative and regulatory requirements for licensing and operational compliance of elderly care facilities have been a key consideration of the Group when contemplating any business expansion, whether organically or through acquisitions. However, when considering organic growth, the Group must first be able to identify suitably located premises with sufficient size, which may involve consolidation of multiple, adjacent properties and complicated negotiation process with multiple property owners, and legally permissible usage which typically involves the stated usage on title deeds and/or approval of the incorporated owners association of relevant buildings. These practical hurdles have proved to be particularly challenging for the Group to expand through organic growth. Further, past attempts by the Group to grow through acquisitions were also met with practical difficulties, such as navigating through pre-existing non-compliance issues in rental spaces or acquisition targets and opposition from the owners' corporations of buildings. Consequently, in seven years since the listing of the Group on GEM in 2017, the Group only succeeded in adding one elderly residential care home to its portfolio through an acquisition from a connected party in 2019 (the "**2019 Acquisition**").

1.2.4 Persistent shortage in healthcare workers

Hong Kong has been experiencing shortage of healthcare workers in recent years. To cope with the additional manpower requirement and to assist the residential care homes sector in enhancing service quality, the LWB launched the Special Scheme to Import Care Workers for Residential Care Homes (the “**Special Scheme**”) in June 2023 with the total quota number for importation of care workers approved for this sector increasing from 4,000 to 7,000, i.e. additional 3,000 imported care workers. The Special Scheme aims to alleviate the operational challenges faced by the residential care homes sector arising from the acute shortage of care workers in the immediate term. Nevertheless, its effectiveness in catering for the rising demand for healthcare workers remains uncertain. The industry’s reliance on imported care workers due to local worker shortages underscores underlying issues within the workforce.

Adding to the industry challenge of persistent healthcare staff shortage, the RCH Ordinance raised the minimum statutory staffing requirements on care workers of residential care homes. The relevant applicable statutory requirements are expected to intensify the problem of the shortage of care workers.

According to the Management, the Group has been facing staff cost pressure driven by the increasingly stringent statutory staffing requirements coupled with persistent shortage in healthcare workers, and it is unclear if the situation would alleviate in the near term. In this connection, we have obtained and reviewed staff costs (particularly healthcare and nursing workers) of the Group for the past 5 years ended 31 December 2023, as well as for the six months ended 30 June 2023 and 2024 with the aim of understanding the general level of the Group’s staff costs throughout the pre-COVID to post-COVID normalization period. We noted that the Group’s healthcare staff costs increased from HK\$55.8 million in 2019 to HK\$82.6 million in 2023 (with average staff cost increased from HK\$164,000 in 2019 to HK\$196,000 in 2023). While the Group’s healthcare staff costs is noted to have somewhat stabilised since 2023, a persistent (or worse, deteriorating) healthcare staff shortage situation in the Hong Kong market may impose further staff costs pressure on, and negatively impact the financial performance of the Group.

1.2.5 Summary conclusion

As stated in the Scheme Document, (i) the rental of elderly residential care homes has been rocketing to the extent that “nothing is the most expensive but only more expensive”; (ii) the Group has been experiencing significant practical hurdles in identifying and securing suitable, compliant and willing premises for the operations of elderly care facilities, which has continue to impede the Group’s ability to pursue organic growth; (iii) the increments in salary costs are far higher than the inflation rate while the problem of caretaker labour shortage continues to persist in the industry in general; and (iv) the increasingly stringent licensing and compliance requirements associated with the operations of elderly care facilities has further hindered the Group’s efforts to expand organically. According to the Management, such operating challenges have not only impeded the Group’s ability to pursue growth, but also imposed increasing pressure on the Group’s ability to control costs and maintain its profitability.

Having considered the above analysis, we concur with the view of the Management that notwithstanding the overall demand-side drivers, the Group faces significant operational and business development challenges, ranging from increasing rental costs and the practical difficulties in identifying and securing suitable and compliant care home facilities, stringent licensing and compliance requirements, to the persistent shortage in healthcare workers and increasing staff costs, which are unfavourable to the Group’s pursuit in business and financial growth, and poses uncertainties in the future prospects of the Group.

2. Considerations of the Offeror, the Company and the Scheme Shareholders on the Proposal

2.1 From perspective of the Offeror and the Company

As stated in the section headed “6. Reasons for, and Benefits of, the Proposal - For the Offeror and the Company - The Listed Platform has Provided Limited Equity Financing Capabilities” set out in Part VII Explanatory Memorandum of the Scheme Document, since the Company was listed on GEM of the Stock Exchange, it has not engaged in any equity fundraising activities - typically one of the main benefits of being publicly listed. Such circumstance is largely due to the low liquidity of the Shares and the underperformance in the trading of the Shares. As such, the Offeror considers that the Company’s current listing platform may no longer serve as an effective fund-raising platform for the Company’s business and future growth.

Furthermore, the Offeror and the Company believe that implementing the Proposal will enable them to make strategic decisions focused on long-term growth and benefits, free from regulatory constraints, the pressure of market expectations and share price fluctuations which arise from being a publicly listed company. The Proposal, which entails the delisting of the Company, is also expected to reduce the administrative costs and management resources associated with maintaining the Company's listing status and compliance with regulatory requirements. This, in turn, will allow greater flexibility for the Offeror and the Company to manage the Group's business.

We have reviewed the public announcements and past annual reports of the Company and noted that the Group has not announced or completed any equity fund raising since its listing on the GEM in 2017, notwithstanding the net proceeds from the initial public offering of the Company in 2017 were fully utilized in 2019. Taking into consideration the Share price and liquidity performance as further discussed in "3.1 Historical Performance of the Shares" below, we concur with the Offeror and the Company that maintaining the listing status may hold limited significance to the Group from a financing perspective as the listing costs and pressure outweigh the benefits from the listing of the Shares.

2.2 From perspective of the Scheme Shareholders

As disclosed in the section headed "6. Reasons for, and Benefits of, the Proposal – For Scheme Shareholders – An Opportunity to Secure Attractive Cash Returns and Mitigate Uncertainties on the Business Outlook" set out in Part VII Explanatory Memorandum of the Scheme Document, the Proposal provides an opportunity for the Scheme Shareholders to reduce exposure to the volatile elderly service industry and mitigate the risks associated with the broader macro-economic and business uncertainties. According to the Management, the Group is facing significant operational and business development challenges, ranging from increasing rental costs and the practical difficulties in identifying and securing suitable and compliant care home facilities, to the stringent licensing and compliance requirements and the persistent shortage in healthcare workers and increasing staff costs. Such challenges have not only impeded the Group's ability to pursue growth, but also imposed increasing pressure on the Group's ability to control costs and maintain its profitability.

Based on our review of the public announcements and past annual reports of the Company, aside from the fact that the Group has not announced or completed any equity fund raising since its listing on the GEM in 2017, we also note that: (i) due to difficulty in finding a suitable leased property in Hong Kong, the Board had, in 2018, resolved to adjust the allocation of the then unutilized net proceeds from setting up residential care home to acquisition of residential care home, which were ultimately applied towards the 2019 Acquisition; and (ii) save for the 2019 Acquisition, the Group had not added any residential care home to its portfolio.

In light of these circumstances, particularly with the uncertain sector dynamics and prospects in the foreseeable near term, we concur that the Proposal presents a valuable opportunity for the Scheme Shareholders to reduce exposure to the volatile elderly service industry and mitigate the risks associated with the broader macro-economic and business uncertainties.

In addition, as stated in the section headed “6. Reasons for, and Benefits of, the Proposal – For Scheme Shareholders – Low Trading Liquidity of the Shares” set out in Part VII Explanatory Memorandum of the Scheme Document, trading liquidity of the Shares has been at a low level over a long period in recent years. As set out in “3.1 Historical Performance of the Shares” below, the average daily trading volume of the Shares over the Review Period (as defined below) was only 120,111 Shares (or 0.030% of the total issued Shares as at the Latest Practicable Date), and if the block-trade of 32,000,000 Shares in January 2024 were excluded, the average daily trading volume of the Shares was a mere 29,202 Shares (or 0.007% of the total issued Shares as at the Latest Practicable Date). The low trading liquidity of the Shares has rendered it difficult for the Scheme Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares, if at all feasible.

Moreover, due to the low liquidity of the Shares, the Company has been unable to effectively utilise its listing platform as a viable venue for seeking funding for its long-term growth. Going forward, should the Group requires external funding to support its ongoing operations, it may need to resort to capital contribution from existing Shareholders for the necessary funding, which will not be favourable to Shareholders who do not have financial resources or who have shorter investment horizon.

From the point of view of the Scheme Shareholders, we believe one has to balance between (i) retaining a stake in the Group, which any future gain that may arise therefrom is uncertain; and (ii) receiving immediate cash proceeds through participation in the Scheme, the amount of which can then be deployed towards other investments.

Scheme Shareholders are also reminded that unlike a general offer to acquire all or part of a listed company's shares, Scheme Shareholders will not have the opportunity to partially tender to the Offeror their shareholding in the Company under the Scheme. Rather, the Proposal and the Scheme, if approved, will be effective and binding on the Company and all its Shareholders. As such, Scheme Shareholders will either have to accept the Proposal at the Cancellation Price for their entire shareholding interests or not accept the Proposal at all. If the Scheme is not effective or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with the Offeror in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not effective or the Proposal otherwise lapses, announce an offer or possible offer for the Company.

3. The Cancellation Price

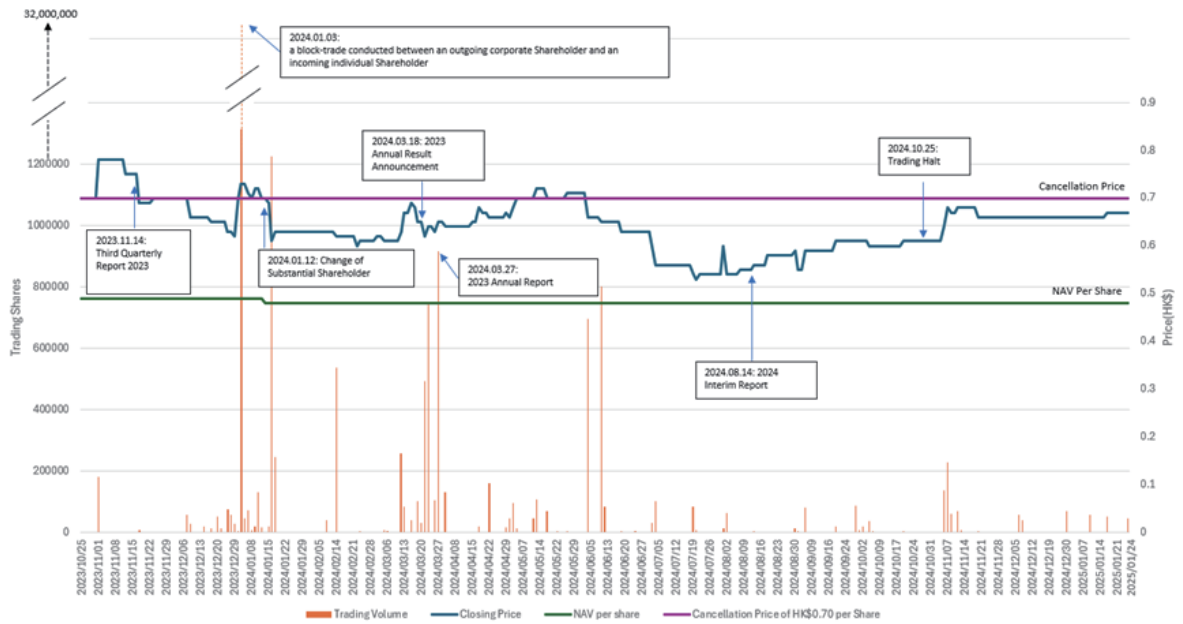
As set out in the Scheme Document, the Cancellation Price of HK\$0.70 represents a premium over (i) the closing price of the Shares on the Last Trading Day as well as the average closing prices of the Shares for the 5, 10, 30, 60, 90, 120 and 180 trading days up to and including the Last Trading Day; and (ii) the consolidated net asset value (“NAV”) per Share as at 31 December 2023 and as at 30 June 2024. For details of the comparison of the Cancellation Price against the closing prices of the Shares and consolidated NAV per Share, please refer to the section headed “2. Terms of the Proposal – Cancellation Price” set out in the Part IV Letter from the Board in the Scheme Document.

3.1 Historical performance of the Shares

The graph below illustrates the historical closing prices and trading volume of the Shares as quoted on the Stock Exchange during the period from 25 October 2023 (being one year prior to the Last Trading Day) and up to and including the Latest Practicable Date (the “**Review Period**”), against the Cancellation Price and NAV per Share. We consider the Review Period should be sufficiently recent yet able to capture short-term market fluctuations to be of reference value in reflecting the current market view on the Company. We consider the Review Period is reasonably representative of and is sufficient for a demonstration of the recent market performance of the Shares and reflect the market's current view on the performance, outlook and value of the Company in general. As an additional reference check for our adoption of the Review Period, we have also reviewed the published letters of independent financial advisers for privatisation transactions (excluding those conducted by way of exchange offer) completed during the Review Period and noted that eight out of 12 have adopted a comparable review period of around one year. We consider the Review Period is within norm from recent market practice.

On the basis of the foregoing, we consider the Review Period is relevant and appropriate for our evaluation on the fairness and reasonableness of the Cancellation Price.

The following chart illustrate the price and trading volume performance of the Shares during the Review Period:



Source: the Stock Exchange (www.hkex.com.hk) and Bloomberg

3.1.1 Historical Share price performance

Over the Review Period, the highest closing price of the Shares was HK\$0.78 on 1 November 2023 (which remained so for seven additional trading days up to 10 November 2023 without any Share trading), whereas the lowest closing price of the Shares was HK\$0.53 on 22 July 2024, and the average closing prices of the Shares was HK\$0.643.

The Cancellation Price, aside from being a premium over the closing price of the Shares on the Last Trading Day and the average closing prices of the Shares for the 5, 10, 30, 60, 90, 120 and 180 trading days up to and including the Last Trading Day as detailed in the section headed “2. Terms of the Proposal – Cancellation Price” set out in “Part IV Letter from the Board” in the Scheme Document, also represented a premium of 8.86% and 32.08%, respectively, over the average closing prices and the lowest closing price of the Shares over the Review Period.

On the other hand, the Cancellation Price represented a discount of 10.26% from the highest closing price of the Share over the Review Period. In this connection, it is noted that there were 26 over the 309 trading days throughout the Review Period that reported a closing Share price higher than the Cancellation Price, out of which only eight trading days were reported to have Shares transacted.

Furthermore, the Cancellation Price of HK\$0.70 also represents a premium of 41.87% and 44.48% over the NAV per Share of HK\$0.4934 as at 31 December 2023 and HK\$0.4845 as at 30 June 2024, respectively.

3.1.2 Historical Share trading volume

The table below sets out the average daily trading volume of the Shares on a monthly basis during the Review Period and the respective percentages of the average daily trading volume of the Shares as compared to the total number of issued Shares and Shares held by Scheme Shareholders.

Month/period	Total trading volume of the Shares in each month/period	No. of trading days in each month/period	Average daily trading volume of the Shares	Percentage of the average daily trading volume of the Shares to the total number of Shares in issue (Note 1)	Percentage of the average daily trading volume of the Shares to the total number of Scheme Shares (Note 2)
2023					
October (Note 3)	0	5	0	0.000%	0.000%
November	188,000	22	8,545	0.002%	0.008%
December	340,000	19	17,895	0.004%	0.017%
2024					
January	33,848,000	22	1,538,545	0.385%	1.470%
January (Note 4)	1,848,000	22	84,000	0.021%	0.080%
February	580,000	19	30,526	0.008%	0.029%
March	2,780,000	20	139,000	0.035%	0.133%
April	372,000	20	18,600	0.005%	0.018%
May	336,000	21	16,000	0.004%	0.015%
June	1,588,000	19	83,579	0.021%	0.080%
July	224,000	22	10,182	0.003%	0.010%
August	92,000	22	4,182	0.001%	0.004%
September	200,000	19	10,526	0.003%	0.010%
October	64,000	21	3,048	0.001%	0.003%
November	504,000	21	24,000	0.006%	0.023%
December	164,000	20	8,200	0.002%	0.008%
2025					
January (Note 5)	152,000	17	8,941	0.002%	0.009%
Average			120,111	0.030%	0.115%
Average (Note 6)			29,202	0.007%	0.028%

Source: the Stock Exchange (www.hkex.com.hk)

Note 1: Calculated based on the total number of Shares in issue as at the end of the relevant month/period

Note 2: Calculated based on a total of 104,686,000 Scheme Shares as disclosed in the Scheme Document

Note 3: From 25 to 31 October 2023

Note 4: Trading volume data after excluding a block-trade of 32,000,000 Shares conducted on 3 January 2024

Note 5: From 1 to 24 January 2025

Note 6: Calculated with trading volume data after excluding the block-trade of 32,000,000 Shares conducted on 3 January 2024

As illustrated in the above table, during the Review Period, the liquidity of Shares was mostly very low, except for the month of January 2024 which reported a monthly trading volume of 33,848,000 Shares (corresponding to an average daily trading volume of 1,538,545 Shares and represented 0.385% of the average daily trading volume to the total number of issued Shares). Excluding January 2024 (which included a block trade of 32,000,000 Shares to be further explained below) and October 2023 (which only had 5 trading days and without any Share trading), the trading volume for each of the remaining months/periods under the Review Period ranged from merely 64,000 Shares (or 0.001% of the total number of issued Shares and 0.003% of the total number of Scheme Shares) for the month of October 2024 to 2,780,000 Shares (or 0.035% of the total number of issued Shares and 0.133% of the total number of Scheme Shares) for the month of March 2024.

Based on relevant disclosure of interests information available on the website of the Stock Exchange, the trading volume of the Shares in January 2024 was largely contributed by a block-trade of 32,000,000 Shares (or 8% of the total number of issued Shares) conducted between an outgoing corporate Shareholder and an incoming individual Shareholder on 3 January 2024. It is noted that the average consideration price per Share of the said block-trade (of HK\$0.65) stood at a discount of 7.14% to the Cancellation Price.

Excluding such outlier event would reduce the January 2024 monthly trading volume to 1,848,000 Shares (or 0.462% of the total number of issued Shares and 1.765% of the total number of Scheme Shares), with a corresponding average daily trading volume of 84,000 Shares (or 0.021% of the total number of issued Shares and 0.080% of the total number of Scheme Shares).

Moreover, it is noted that out of a total of 309 trading days throughout the Review Period, only 82 trading days (less than 30%) were reported to have Shares transacted. Excluding the 32,000,000 Shares transacted under the

block-trade on 3 January 2024, throughout the Review Period of 309 trading days, the total trading volume of the Shares only amounted to 9,432,000 Shares (or 2.358% of the total number of issued Shares and 9.010% of the total number of Scheme Shares), with an overall average daily trading volume of 29,202 Shares (or 0.007% of the total number of issued Shares and 0.028%) of the total number of Scheme Shares).

Considering the thin trading liquidity of the Shares throughout the Review Period, we concur that the liquidity condition is likely to cause significant difficulty for Scheme Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares.

3.2 Summary conclusion

In arriving at our view as to whether the Cancellation Price is fair and reasonable, we have taken into consideration of the following:

- (i) the Cancellation Price represents a premium of 14.75%, 14.75%, 16.67%, 16.67%, 20.69%, 20.69%, 14.75% and 12.90%, over the closing price of the Shares on the Last Trading Day and the average closing prices of the Shares for the 5, 10, 30, 60, 90, 120 and 180 trading days up to and including the Last Trading Day, a premium of 8.86% and 32.08% over the average closing prices and the lowest closing price of the Shares over the Review Period, and a premium of 41.87% and 44.48% over the NAV per Share as at 31 December 2023 and the six months ended 30 June 2024;
- (ii) while the Cancellation Price represents a moderate discount of 10.26% to the highest closing price of the Shares over the Review Period, there were only 26 over the 309 trading days throughout the Review Period that reported a closing Share price higher than the Cancellation Price, out of which only eight trading days were reported to have Shares transacted;
- (iii) the continuous operational and business development challenges faced by the Group, the uncertainties surrounding the Group's pursuit of business and financial growth and its future prospects as further discussed under "1.2. Prospect and Outlook of the Group" above, and the declining trend in the Group's net profit as mentioned in "1.1. Financial Information" above; and
- (iv) the poor liquidity performance of the Shares throughout the Review Period which is unlikely to support any substantial on-market disposals of the Shares by Scheme Shareholders, whereas the Scheme offers an opportunity for the Scheme Shareholders to exit their investment in the Shares at the assured Cancellation Price of HK\$0.70 per Share without any exposure to

price volatility and other market uncertainties associated with on-market disposals, allowing the Scheme Shareholders to re-deploy the cash proceeds towards other more attractive investments.

On the balance of the foregoing factors of consideration, we are of the view that the Cancellation Price is fair and reasonable so far as the Scheme Shareholders are concerned.

4. Market comparable analysis

4.1 Industry comparable analysis

The Company is an investment holding company which through its subsidiaries is principally engaged in the operation of elderly residential care homes in Hong Kong. The Group generates its revenue primarily from (i) rendering of elderly home care services, and (ii) sales of elderly related goods and provision of healthcare services.

Taking into consideration the principal business of the Company, we have conducted research on companies which are (i) listed on the Stock Exchange; and (ii) principally engaged in the provision of elderly home care services in Hong Kong with over 70% of the revenue generated from the provision of such services, for peer group comparison. Based on the aforesaid selection criteria, we have exhaustively identified one comparable company (the “**Industry Comparable Company**”).

Although the Industry Comparable Company exhibit differences in market capitalisation, size of financial assets, investment portfolio, financial performance and positions and capital structure as compared with the Company, the principal business and the primary geographical market of the Industry Comparable Company and the Company are considered to be significantly comparable, thus are likely subject to the same industry, regulatory and macro-economic factors such as economic outlook, applicable government policies, regulatory regimes and the market demand for the elderly care services. Therefore, notwithstanding the Industry Comparable Company is the only one identified as a valid industry comparable, we remain of the view that it represents the closest and most relevant benchmark for comparison, and its key financial indicators are considered as valid for reference to the fairness and reasonableness of the Cancellation Price.

In assessing the fairness and reasonableness of the Cancellation Price, we attempted to carry out a comparable analysis using the equity value multiples, namely, price-to-earnings ratio (“**PER**”) and price-to-book ratio (“**PBR**”), which are the most commonly used benchmarks in assessing the financial valuation of a company as the data for calculating the ratios can be obtained fairly and directly from publicly available information source and reflect the value of a company determined by the open market.

	Market capitalization as at the Latest Practicable Date <i>(Note 1)</i> <i>HK\$ million</i>	Equity attributable to owners of the Comparable Company <i>(Note 2)</i> <i>HK\$ million</i>	Revenue <i>(Note 3)</i> <i>HK\$ million</i>	Net profit attributable to owners of the Comparable Company <i>(Note 3)</i> <i>HK\$ million</i>	PER <i>(Note 4)</i> <i>Times</i>	PBR <i>(Note 5)</i> <i>Times</i>
Kato (Hong Kong) Holdings Limited (2189.HK) (“Kato”)	480.0	440.9	271.3	64.2	7.48	1.09
	Implied market capitalisation <i>(Note 6)</i> <i>HK\$ million</i>	Equity attributable to owners <i>(Note 2)</i> <i>HK\$ million</i>	Revenue <i>(Note 3)</i> <i>HK\$ million</i>	Net profit attributable to owners <i>(Note 3)</i> <i>HK\$ million</i>	Implied PER <i>(Note 7)</i> <i>Times</i>	Implied PBR <i>(Note 8)</i> <i>Times</i>
The Company	280.0	184.9	211.2	23.4	11.96	1.51

Source: the website of the Stock Exchange and the respective companies’ latest published financial reports

Notes:

1. The market capitalisation is calculated based on the closing price of the shares of the Industry Comparable Company multiplied by the corresponding number of issued shares as at the Latest Practicable Date.
2. The equity attributable to owners of the Industry Comparable Company/the Company are extracted from their respective latest published financial reports/results announcement.
3. The revenue and the net profit attributable to owners of the Industry Comparable Company/the Company are extracted from their respective latest published annual reports.
4. The PER is calculated based on the market capitalisation of the Industry Comparable Company as at the Latest Practicable Date divided by the net profit attributable to owners of the Industry Comparable Company as extracted from its latest published financial report.
5. The PBR is calculated based on the market capitalisation of the Industry Comparable Company as at the Latest Practicable Date divided by its equity attributable to owners of the Industry Comparable Company as extracted from its latest published financial reports/results announcement.

6. The implied market capitalisation of the Company is calculated based on the Cancellation Price multiplied by the number of issued Shares as at the Latest Practicable Date.
7. The implied PER of the Cancellation Price is calculated based on the implied market capitalization (calculated in point (6) above) divided by the revenue as extracted from its latest published financial reports/results announcement.
8. The implied PBR of the Cancellation Price is calculated based on the implied market capitalization (calculated in point (6) above) divided by the equity attributable to owners of parent of the Company as extracted from its latest published financial reports/results announcement.

As shown above, shares of the Industry Comparable Company were trading at (i) the PER of 7.48 times, and (ii) the PBR of 1.09 times as at the Latest Practicable Date. The implied PER and the implied PBR of the Cancellation Price of 11.96 times and 1.51 times, respectively, are higher than the PER and the PBR of the Industry Comparable Company.

4.2 Transaction comparable analysis

Given that only one Industry Comparable Company was identified, we have additionally looked at privatization transactions of listed companies in Hong Kong to supplement our overall assessment on the Cancellation Price. For the purpose of this comparable exercise, we have conducted an exhaustive search for companies listed in Hong Kong which had successfully completed its privatisation during the Review Period, and applied the following elimination criteria in arriving at a list of comparable transactions:

- privatisation transactions involving exchange offer are excluded, as it involves non-cash cancellation/offer price;
- privatisation transactions of dual-listed companies (such as A+H and/or Singapore-Hong Kong listed companies) are excluded as they are likely subject to factors and circumstances that are not applicable to companies with Hong Kong as its a single listing venue; and
- listed companies having market capitalisation, at the time of announcement of its privatisation proposal, of over two times the largest market capitalisation reported by the Company since its listing (HK\$480 million as reported on 11 July 2018, compared to the market capitalisation of the Company as at the Last Trading Day and the Latest Practicable Date of HK\$244.0 million and HK\$268.0 million, respectively) are excluded, as the trading performance dynamics of companies of significantly different market capitalisations (such as small-cap versus large-cap companies) are likely to be different.

Based on the above elimination criteria, we have arrived at an exhaustive list of 12 comparable transactions (the “**Privatisation Comparables**”) for our assessment of the Cancellation Price. On the basis that the Privatisation Comparables encompass privatisation proposals by way of scheme of arrangement, voluntary cash offer and share buy-back involving cash-only consideration, and are selected with relatively comparable market size (market capitalization) and under a reasonable period which is relatively close to the time of the Proposal, we consider the Privatisation Comparables to be fair and representative for the purpose of our assessment on the Cancellation Price.

	Company Name	Stock code	Rule 3.5 announcement date	Cancellation Price (HK\$)	52 Weeks Hi-Low up to and including the last trading day prior to the Rule 3.5 announcement (HK\$)	Market Capitalisation as at date of Rule 3.5 announcement (HK\$)	Premium over the closing price per share of the last trading day prior to the Rule 3.5 announcement	Premium over the average closing price per share for the 5 trading days up to and including the last trading day prior to the Rule 3.5 announcement	Premium over the average closing price per share for the 10 trading days up to and including the last trading day prior to the Rule 3.5 announcement	Premium over the average closing price per share for the 30 trading days up to and including the last trading day prior to the Rule 3.5 announcement	Delisting date
1	CM Hi-Tech Cleanroom Limited	2115.HK	14/10/2024	0.25	0.156-0.245	280,000,000	25.00%	23.80%	26.84%	30.20%	8/1/2025
2	Eggiculture Foods Ltd.	8609.HK	29/8/2024	1.103	0.19-0.54	245,000,000	125.10%	122.40%	125.60%	129.80%	6/1/2025
3	A8 New Media Group Limited	0800.HK	12/6/2024	0.36	0.111-0.285	379,878,344	162.77%	158.99%	168.66%	185.71%	24/9/2024
4	Kin Yat Holdings Limited	0638.HK	18/4/2024	0.72	0.32-0.68	294,103,200	33.30%	43.40%	52.38%	51.50%	23/8/2024
5	Sinsoft Technology Group Limited	1297.HK	14/12/2023	0.33	0.238-0.54	311,708,073	29.41%	30.43%	31.21%	31.13%	4/3/2024
6	Weiqiao Textile Company Limited (Note)	2698.HK	4/12/2023	3.5	1.12-1.8	707,288,490	104.68%	104.92%	102.66%	104.68%	19/3/2024
7	Haikan Holdings Limited	2278.HK	8/5/2023	3.36	2.25-4.8	960,000,000	5%	5%	5%	5%	21/11/2023
8	Yongsheng Advanced Materials Company Limited	3608.HK	25/6/2023	1	0.58-0.94	446,045,097	58.70%	55.80%	61.00%	52.90%	7/2/2024
9	Poly Culture Group Corporation Limited (Note)	3636.HK	27/6/2023	8.88	2.95-5	447,238,000	77.60%	112.50%	125.20%	133.10%	14/11/2023
10	Lansen Pharmaceutical Holdings Limited	0503.HK	17/9/2023	1.8	1.024-1.757	595,446,376	26.76%	24.14%	22.45%	20.00%	19/12/2023
11	CST Group Limited	0985.HK	3/9/2023	1	0.52-2.3	299,911,894	61.29%	24.38%	21.36%	36.61%	4/12/2023
12	Pine Care Group Limited	1989.HK	6/10/2023	0.89	0.88-0.9	812,592,000	-1.11%	0.68%	0.91%	1.48%	29/2/2024
						Maximum:	162.77%	158.99%	168.66%	185.71%	
						Minimum:	-1.11%	0.68%	0.91%	1.48%	
						Average:	59.04%	58.87%	61.94%	65.18%	
						Median:	46.00%	36.92%	41.80%	44.06%	
	Hang Chi Holdings Limited	8405.HK	6/11/2024	0.7	0.53-0.78	256,000,000	14.75%	14.75%	16.67%	16.67%	

Note: Weiqiao Textile Company Limited and Poly Culture Group Corporation Limited were H share listed companies and their respective market capitalisation as indicated in the table were calculated based only on the listed H shares.

As noted from the above table,

- the premium of Cancellation Price over the closing price of the Shares on the Last Trading Day and the average closing prices of the Shares for the 5, 10 and 30 trading days up to and including the Last Trading Day all fall within the range (notwithstanding below the average and median) of the premium/discount of cancellation prices of the Privatisation Comparables for each of the various closing price benchmarks considered;
- five of the Privatisation Comparables had their respective cancellation prices falling within the 52-weeks high-low closing price range as in the case of the Cancellation Price (while the cancellation prices of the remaining seven Privatisation Comparables were above the 52-weeks high); and
- Pine Care Group Limited, which was engaged in the provision of senior care services in Hong Kong and the only Privatisation Comparable considered to be an industry comparable to the Company, had a cancellation price that represented either a discount, or had a smaller premium than that of the Cancellation Price, for the various closing price benchmarks considered.

4.3 Summary Conclusion

As drawn from the above two market comparable analyses,

- both the implied PER and the implied PBR of the Cancellation Price are higher than the PER and the PBR of the Industry Comparable Company;
- the premium of Cancellation Price over the closing price of the Shares on the Last Trading Day and the average closing prices of the Shares for the 5, 10 and 30 trading days up to and including the Last Trading Day all fall within the range of the premium/discount of cancellation prices of the Privatisation Comparables under the said comparable scenarios;
- notwithstanding that the Cancellation Price represented a smaller premium than the average and median of the Privatisation Comparables over each of the various closing price benchmarks considered, they were consistently higher than those in the case of the only Privatisation Comparable considered to be an industry comparable to the Company; and
- the 52-weeks high-low analysis suggests that having the Cancellation Price falling within the 52-weeks high-low range is not out of norm from recent market transactions.

On the balance of the foregoing, and having considered the poor liquidity of the Shares, we remain of the view that the Cancellation Price provides a fair and reasonable exit opportunity for the Scheme Shareholders to realise their investment in the Shares.

V RECOMMENDATION

Having considered the principal factors and reasons as set out in the section headed “IV Principal Factors and Reasons Considered for the Proposal” set out in this letter, including (without limitation):

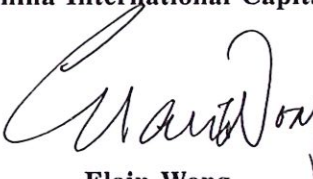
- (a) the increasing cost control pressure and the decreasing trend in the net profit of the Company as noted from the financial performance of the Group between FY2021 and FY2023;
- (b) the continuous operational and business development challenges faced by the Group, ranging from increasing rental costs and the practical difficulties in identifying and securing suitable and compliant care home facilities, to the stringent licensing and compliance requirements and the persistent shortage in healthcare workers and increasing staff costs, which pose uncertainties to the future prospects of the Group;
- (c) the poor liquidity performance of the Shares has rendered the Company’s listing platform ineffective as a fund-raising platform for the Company’s business and future growth, losing a major benefit of maintaining the listing status of the Company;
- (d) the Cancellation Price represents a premium of 14.75%, 14.75%, 16.67%, 16.67%, 20.69%, 20.69%, 14.75% and 12.90% over the closing price of the Shares on the Last Trading Day and the average closing prices of the Shares for the 5, 10, 30, 60, 90, 120 and 180 trading days up to and including the Last Trading Day, a premium of 8.86% and 32.08% over the average closing prices and the lowest closing price of the Shares over the Review Period, and a premium of 41.87% and 44.48% over the NAV per Share as at 31 December 2023 and the six months ended 30 June 2024;
- (e) the premium of Cancellation Price over the closing price of the Shares on the Last Trading Day and the average closing prices of the Shares for the 5, 10 and 30 trading days up to and including the Last Trading Day all fall within the range of the premium/discount of cancellation prices of the Privatisation Comparables under the said comparable scenarios;
- (f) the Cancellation Price has an implied PER of 11.96 times and an implied PBR of 1.51 times, which are higher than the PER (of 7.48 times) and PBR (of 1.09 times) of the Industry Comparable Company; and

- (g) the poor liquidity performance of the Shares throughout the Review Period which is unlikely to support any substantial on-market disposals of the Shares by Scheme Shareholders, whereas the Scheme offers an opportunity for the Scheme Shareholders to exit their investment in the Shares at the assured Cancellation Price of HK\$0.70 per Share without any exposure to price volatility and other market uncertainties associated with on-market disposals, allowing the Scheme Shareholders to re-deploy the cash proceeds towards other more attractive investments.

On the balance of the foregoing, we (i) are of the opinion that the Proposal and the Scheme are fair and reasonable and in the interest of the Company and its shareholders as a whole; and (ii) recommend the Scheme Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting to approve the Scheme and implement the Proposal.

As different Shareholders would have different investment criteria, objectives or risk appetite and profiles, we recommend any Shareholders who may require advice in relation to any aspect of the Scheme Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Central China International Capital Limited



Elain Wong
General Manager

Note: Ms. Elaine Wong is a responsible officer of Central China International Capital Limited registered with the SFC to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 24 years of experience in securities industry.