

# Nuada Limited

Nuada Limited  
Unit 1805-08, 18/F  
OfficePlus @Sheung Wan  
93-103 Wing Lok Street  
Sheung Wan, Hong Kong  
洛爾達有限公司  
香港上環永樂街 93-103 號  
協成行上環中心 18 樓 1805-08 室

Phone/電話: 2544-9978

Fax/傳真: 2544-0023

5 June 2018

*To the Independent Board Committee of  
Hua Xia Healthcare Holdings Limited*

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFERS BY  
▣ KINGSTON SECURITIES  
ON BEHALF OF  
SOLAR STAR GLOBAL LIMITED TO ACQUIRE ALL THE ISSUED  
SHARES IN HUA XIA HEALTHCARE HOLDINGS LIMITED AND  
TO CANCEL ALL OUTSTANDING OPTIONS OF HUA XIA  
HEALTHCARE HOLDINGS LIMITED (OTHER THAN THOSE ALREADY  
OWNED OR TO BE ACQUIRED BY THE OFFEROR AND PARTIES  
ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the terms of the Offers, details of which are set out in the Composite Document dated 5 June 2018 jointly issued by the Company and the Offeror to the Shareholders and Optionholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

Reference is made to the Joint Announcement, on 24 April 2018, the Board was informed by the Offeror that the Offeror has acquired an aggregate of 553,491,516 Shares in the following manners:-

- (a) the Transfer Shares representing approximately 14.85% of the entire issued ordinary share capital of the Company as at the Latest Practicable Date at the consideration of HK\$46,034,066.76, representing HK\$0.11 per Transfer Share, pursuant to the Deed of Settlement entered into between Easeglory and Golden Prince on 24 April 2018; and
- (b) the Sale Shares representing approximately 4.79% of the entire issued ordinary share capital of the Company as at the Latest Practicable Date at the aggregate consideration of HK\$14.85 million, representing HK\$0.11 per Sale Share, through a broker by way of an off market trade on 25 April 2018. As confirmed by the Offeror with the broker, there were two Vendors under the Share Sale, from whom the Offeror acquired 70,000,000 Shares and 65,000,000 Shares, respectively. To the best of the Offeror Director's knowledge, information and belief having made all reasonable enquiries, each of the Vendors and their ultimate beneficial owners is an independent third party not connected with the Offeror and parties acting in concert with it.

Completion of the Share Transfer took place on 25 April 2018. Completion of the Share Sale took place on 25 April 2018.

Immediately prior to the Acquisitions, the Offeror and parties acting in concert with it were interested in 379,000,000 Shares, representing approximately 13.45% of the entire issued ordinary share capital of the Company. Save as disclosed above, none of the Offeror, its ultimate beneficial owners or parties acting in concert with any of them has acquired any other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

Immediately following Completion and as at the Latest Practicable Date, the Offeror and the parties acting in concert with it own an aggregate of 932,491,516 Shares, representing approximately 33.09% of the entire issued ordinary share capital of the Company as at the Latest Practicable Date. Accordingly, the Offeror and parties acting in concert with it are required to make the Share Offer pursuant to Rule 26.1 of the Takeovers Code and the Option Offer pursuant to Rule 13.5 of the Takeovers Code.

**The Share Offer**

**For each Share . . . . . HK\$0.12 in cash**

**The Option Offer**

**For cancellation of each outstanding Option . . . . . HK\$0.01 in cash**

The Share Offer Price of HK\$0.12 for each Share under the Share Offer is higher than the highest price paid by the Offeror and parties acting in concert with it for the acquisition of the Shares within the Relevant Period. The Share Offer will be extended to all Shareholders other than the Offeror and parties acting in concert with it in accordance with the Takeovers Code.

Pursuant to Rule 13 of the Takeovers Code and Practice Note 6 of the Takeovers Code, the offer price for the outstanding Options would normally represent the difference between the exercise price of the Options and the Share Offer Price. Under the Option Offer, given that the exercise price of the outstanding Options (which is HK\$0.50 per Share) is above the Share Offer Price, the outstanding Options are out-of-money and the offer price for each outstanding Option (i.e. the Option Offer Price) is at a nominal value of HK\$0.01.

The Company has established the Independent Board Committee comprising the non-executive Directors who have no direct or indirect interest in the Offer namely, Dr. Wong Yu Man, James, Mr. Tang Xun, Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian, Prof. Lu Chuazhen and Prof. Zhang Bin, to advise the Independent Shareholders in relation to the terms and conditions of the Offers, in particular as to whether the Offers are, or are not, fair and reasonable and as to the acceptance of the Offers. Mr. Chan Chi Ming, Tony, a non-executive Director, is not taking part in the Independent Board Committee in order to avoid any perceived conflict of interest due to him being a consultant providing strategic advice to Bloom Dragon Finance Limited (興龍財務有限公司), a company incorporated in Hong Kong with limited liability, which is owned as to 50% by Mr. Ng and 50% by Good Fellow Group Limited as at the Latest Practicable Date. As at the Latest Practicable Date, Good Fellow Group Limited is owned as to 99.99% by Hillbrow Securities Limited and 0.01% by Mr. Ng Leung Ho, who is the father of Mr. Ng. Hillbrow Securities Limited is wholly-owned by Mr. Ng Leung Ho.

We, Nuada Limited, have been appointed by the Company after approval by the Independent Board Committee as the Independent Financial Adviser pursuant to Rule 2.1 of the Takeovers Code to advise the Independent Board Committee and the Independent Shareholders in respect of the Offers and, in particular as to whether the Offers are, or are not fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned and as to the acceptance of the Offers. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee.

As at the Latest Practicable Date, we are not associated or connected with the Company or the Offeror, their respective controlling shareholders or any party acting, or presumed to be acting, in concert with any of them. During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, save for this appointment as the Independent Financial Adviser in respect of the Offers, there were no other engagements between Nuada Limited and the Group or the Offeror. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the Offeror, their respective controlling shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice on the Offers.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the representations made to us by the Directors and the senior management of the Company. We have assumed that all statements, information and representations provided by the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and the Independent Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors or the Offeror (as the case may be) in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, the Offeror, their respective advisers, the Directors and/or the director of the Offeror, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than that relating to the Offeror, the director of the Offeror, their associates and parties acting in concert with any of them, the terms and conditions of the Offers and the intention of the Offeror regarding the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than opinions expressed by the Offeror, the director of the Offeror, their associates and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

The sole director of the Offeror, Mr. Ng, accepts full responsibility for the accuracy of the information (other than that relating to the Group, the Directors, the Vendors, their associates and parties acting in concert with any of them) contained in the Composite Document, and confirm, having made all reasonable enquires, that to the best of his knowledge, opinions expressed in the Composite Document (other than opinions expressed by the Group, the Directors, the Vendors, their associates and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 17.92 of the GEM Listing Rules. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Independent Shareholders as a result of the Offers. Our opinion is necessarily based on the financial market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion and recommendation with regards to the Offers, we have taken into account the following principal factors and reasons:

### **1. Financial information of the Group and outlook**

#### **(a) *Financial information of the Group***

As stated in the Composite Document, the Company is an investment holding company, and the Group is principally engaged in the provision of general hospital services in the PRC.

Set out below is a summary of the Group's operating results and financial position extracted from the Company's annual reports for the year ended 31 March 2015 (the "Annual Report 2014/15"), 2016 (the "Annual Report 2015/16") and 2017 (the "Annual Report 2016/17"), the interim report for the six months ended 30 September 2017 (the "Interim Report 2017/18"), and the third quarterly report for the nine months ended 31 December 2017 (the "Q3 Report 2017/18").

### Operating results

	For the nine months ended		For the six months ended		For the year ended 31 March			
	31 December		30 September		2017			
	2017	2016	2017	2016	2017	2016	2015	2014
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
	(unaudited)	(restated)	(unaudited)	(restated)	(audited)	(audited)	(audited)	(audited)
Revenue	244,425	198,966	159,504	120,687	269,515	1,574,607	1,780,309	2,243,159
Provision of general hospital services	244,425	198,966	159,504	120,687	269,515	252,844	214,040	150,685
Pharmaceutical wholesale and distribution and pharmaceutical retail chain business	-	-	-	-	-	1,321,763	1,566,269	2,092,474
					(Note 1)			
Total segment profit/(loss)	-	-	12,509	5,350	22,932	14,362	(746,431)	102,582
	(Note 2)	(Note 2)						
Provision of general hospital services	-	-	12,509	5,350	22,932	5,242	9,669	15,591
	(Note 2)	(Note 2)						
Pharmaceutical wholesale and distribution and pharmaceutical retail chain business	-	-	-	-	-	9,120	(756,100)	86,991
	(Note 2)	(Note 2)			(Note 1)			
Profit/(Loss) for the period/year attributable to owners of the Company	(2,068)	(17,146)	(788)	(21,276)	10,208	(43,372)	(505,581)	21,913
		(Note 3)			(Note 3)			

Notes:

1. On 2 March 2017, the Group completed the disposal of some of its non-wholly owned subsidiaries and the Group ceased to engage in pharmaceutical wholesale, distribution and pharmaceutical retail chain business in the PRC since then. During the year ended 31 March 2017 (“FY2016/17”), revenue and segment loss from discontinued operation were amounted to approximately HK\$938.0 million and HK\$3.8 million respectively.
2. No disclosure regarding segment profit/loss was made in Q3 Report 2017/18.
3. Without taking into account the profit from the discontinued operation of pharmaceutical wholesale, distribution and pharmaceutical retail chain business, the Group recorded loss from continuing operations of (i) approximately HK\$33.4 million for FY2016/17, as compared to that of approximately HK\$31.6 million (restated) for the year ended 31 March 2016 (“FY2015/16”); and (ii) approximately HK\$2.7 million (restated) for the nine months ended 30 September 2016 (“Nine Months 2016/17”).

*Financial position*

	As at		As at 31 March		
	30 September		2016	2015	2014
	2017	2017	2016	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(audited)	(audited)	(audited)	(audited)
Non-current assets	251,720	250,015	163,936	142,317	864,465
Current assets	132,859	132,325	713,934	732,674	773,575
Current liabilities	56,165	61,234	325,401	414,992	410,818
Non-current liabilities	41,476	33,211	158,123	78,501	76,799
Net current assets	76,694	71,091	388,533	317,682	362,757
Net assets	286,938	287,895	394,346	381,498	1,150,423

We noted that the Company usually released annual results announcement in mid of June (the release dates of annual results for FY2015/16 and FY2016/17 were 16 June 2016 and 18 June 2017 respectively). As advised by the management of the Company, the Company targets to release the annual results announcement for the year ended 31 March 2018 in late June 2018.

For the year ended 31 March 2015 (“FY2014/15”)

The Group was principally engaged in the provision of general hospital services and pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC for FY2014/15.

The Group’s revenue for FY2014/15 amounted to approximately HK\$1,780.3 million, dropped by approximately 20.6% as compared to approximately HK\$2,243.2 million for the year ended 31 March 2014 (“FY2013/14”). According to the Annual Report 2014/15, the decrease in revenue was mainly attributed to the decline in sales from the pharmaceutical wholesales and distribution segment due to the implementation of new 藥品經營品質管理規範 (in English, for identification purpose only, Good Supply Practice for Pharmaceutical Products), which is the new good supply practice on the quality control of pharmaceutical products announced by the PRC government.

Total segment loss recorded approximately HK\$746.4 million for FY2014/15, as compared to profit of approximately HK\$102.6 million for FY2013/14. Such loss was mainly due to the segment loss from pharmaceutical wholesale and distribution and pharmaceutical retail chain business of approximately HK\$756.1 million for FY2014/15 (FY2013/14: profit of approximately HK\$87.0 million).

Loss for the year attributable to owners of the Company amounted to approximately HK\$505.6 million for FY2014/15, as compared to profit of approximately HK\$21.9 million for FY2013/14. We noted from the Annual Report 2014/15 that the loss was mainly related to the impairment loss on goodwill of approximately HK\$785.2 million recognised by the Company’s non-wholly owned subsidiary for FY2014/15 (FY2013/14: nil) due to the lowered forecasted performance in sales to distributor customers by the directors of such subsidiary having taken into account the financial performance as of June 2014 and the potential effects of the abovementioned new good supply practice on the distribution business.

As at 31 March 2015, the net current assets and net assets of the Group amounted to approximately HK\$317.7 million and HK\$381.5 million respectively, as compared to that of approximately HK\$362.8 million and HK\$1,150.4 million respectively as at 31 March 2014. The decrease in net assets was mainly due to the impairment loss on goodwill of approximately HK\$785.2 million recognised by the Company’s non-wholly owned subsidiary for FY2014/15.



For FY2015/16

The Group's revenue for FY2015/16 amounted to approximately HK\$1,574.6 million, dropped by approximately 11.6% as compared to approximately HK\$1,780.3 million for FY2014/15. According to the Annual Report 2015/16, the decrease in revenue was mainly attributed to the decline in sales from the pharmaceutical wholesales and distribution segment due to the implementation of new 藥品經營品質管理規範 (in English, for identification purpose only, Good Supply Practice for Pharmaceutical Products) in 2015.

Total segment result reported turnaround from loss of approximately HK\$746.4 million for FY2014/15 to profit of approximately HK\$14.4 million for FY2015/16. Such turnaround was mainly due to the segment profit from pharmaceutical wholesale and distribution and pharmaceutical retail chain business of approximately HK\$9.1 million for FY2015/16 (FY2014/15: loss of approximately HK\$756.1 million).

Loss for the year attributable to owners of the Company decreased from approximately HK\$505.6 million for FY2014/15 to approximately HK\$43.4 million for FY2015/16. We noted from the Annual Report 2015/16 that the decrease in loss was mainly because no impairment loss on goodwill was recorded for FY2015/16 (FY2014/15: approximately HK\$785.2 million).

As at 31 March 2016, the net current assets and net assets of the Group amounted to approximately HK\$388.5 million and HK\$394.3 million respectively, as compared to that of approximately HK\$317.7 million and HK\$381.5 million respectively as at 31 March 2015.

For the FY2016/17

According to the Annual Report 2016/17, on 2 March 2017, the Group completed the disposal of some of its non-wholly owned subsidiaries regarding the business of pharmaceutical wholesale, distribution and pharmaceutical retail chain business in the PRC. Since then, the Group ceased to engage in the aforementioned business and has been principally engaged in the provision of general hospital services in the PRC.

The Group's revenue for FY2016/17 amounted to approximately HK\$269.5 million, slightly increased by approximately 6.6% as compared to revenue from provision of general hospital services of approximately HK\$252.8 million for FY2015/16. According to the Annual Report 2016/17, the increase in revenue was mainly attributable to the inclusion of the revenue derived from Beijing hospital through the acquisition of Glowing Smart Investment Limited since 30 September 2016, details of which are set out in the announcements of the Company dated 14 September 2016 and 30 September 2016.

Total segment result amounted to approximately HK\$22.9 million for FY2016/17, representing an increase of approximately 340.4% as compared to segment profit from provision of general hospital services of approximately HK\$5.2 million for FY2015/16.

Profit for the year attributable to owners of the Company recorded approximately HK\$10.2 million for FY2016/17, as compared to loss of approximately HK\$43.4 million for FY2015/16. We noted from the Annual Report 2016/17 that the turnaround of profit was mainly due to the gain on disposal of subsidiaries regarding the business of pharmaceutical wholesale, distribution and pharmaceutical retail chain of approximately HK\$62.6 million for FY2016/17 (FY2015/16: nil). Without taking into account the profit from the discontinued operation of pharmaceutical wholesale, distribution and pharmaceutical retail chain business which was mainly due to the gain on disposal, the Group recorded loss of approximately HK\$33.4 million for FY2016/17, as compared to loss of approximately HK\$31.6 million (restated) for FY2015/16.

Following the disposal of subsidiaries for FY2016/17, as at 31 March 2017, the net current assets and net assets of the Group amounted to approximately HK\$71.1 million and HK\$287.9 million respectively, as compared to that of approximately HK\$388.5 million and HK\$394.3 million respectively as at 31 March 2016.

For the six months ended 30 September 2017 (“**Six Months 2017/18**”)

The Group’s revenue for Six Months 2017/18 amounted to approximately HK\$159.5 million, increased by approximately 32.1% as compared to approximately HK\$120.7 million for the six months ended 30 September 2016 (“**Six Months 2016/17**”). According to the Interim Report 2017/18, the significant increase in revenue was mainly attributed to the acquisition of Beijing hospital on 30 September 2016, details of which are set out in the announcements of the Company dated 14 September 2016 and 30 September 2016.

Total segment profit increased by approximately 131.5% to approximately HK\$12.5 million for Six Months 2017/18 from approximately HK\$5.4 million for the corresponding period in 2016.

Loss for the period attributable to owners of the Company decreased significantly by approximately 96.2% from approximately HK\$21.3 million for Six Months 2016/17 to approximately HK\$0.8 million for Six Months 2017/18. We noted from the Interim Report 2017/18 that such decrease was mainly attributable to the increase in gross profit of approximately HK\$27.3 million for Six Months 2017/18.

As at 30 September 2017, the net current assets and net assets of the Group amounted to approximately HK\$76.7 million and HK\$286.9 million respectively, as compared to that of approximately HK\$71.1 million and HK\$287.9 million respectively as at 31 March 2017.

For the nine months ended 31 December 2017 (“**Nine Months 2017/18**”)

The Group’s revenue for Nine Months 2017/18 amounted to approximately HK\$244.4 million, increased by approximately 22.8% as compared to approximately HK\$199.0 million for the Nine Months 2016/17. According to the Q3 Report 2017/18, the increase in revenue was mainly attributable to the revenue from Beijing hospital, which was acquired on 30 September 2016, in an aggregate amount of approximately HK\$30.7 million.

Loss for the period attributable to owners of the Company amounted to approximately HK\$2.1 million for Nine Months 2017/18, as compared to loss of approximately HK\$17.1 million for Nine Months 2016/17. We noted from the Q3 Report 2017/18 that such decrease in loss was mainly attributable to the increase in gross profit of approximately HK\$31.0 million for Nine Months 2017/18.

Reference is made to the announcement of the Company dated 9 May 2018. Based on a preliminary review of the unaudited financial information of the Group for the year ended 31 March 2018 and information currently available to the Board, the Group is expected to record a significant loss attributable to the shareholders of the Company for the year ended 31 March 2018. The expected loss for the such financial year was mainly attributable to the effects of an impairment loss on carrying amounts of goodwill as at 31 March 2018.

According to Note 3 to the consolidated financial statements in the Annual Report 2016/17, we noted that cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

We also noted the financial performance of the Company has been negative since FY2014/15. The Company recorded loss for the year attributable to owners of the Company for FY2014/15, FY2015/16 and loss from continuing operations for FY2016/17 respectively.

We also noted from Annual Report 2014/15, the Annual Report 2015/16 and the Annual Report 2016/17 that the Group recorded impairment loss on goodwill of nil, approximately HK\$785.2 million, nil and approximately HK\$29.5 million for FY2013/14, FY2014/15, FY2015/16 and FY2016/17 respectively. Impairment loss of goodwill is one of the reasons for the loss for the year attributable to owners of the Company for FY2014/15 and loss from continuing operations for FY2016/17.

Taking into account that (i) the test for impairment is conducted annually, or more frequently when there is an indication that the unit may be impaired; (ii) impairment loss of the recoverable amount of the cash-generating unit is less than its carrying amount; and (iii) impairment loss of goodwill is one of the reasons for the loss for the year attributable to owners of the Company for FY2014/15 and loss from continuing operations for FY2016/17, we cannot come to the conclusion that the impairment loss on goodwill is not expected to occur frequently.

***(b) Overview of general hospital services in the PRC***

To understand the demand of general hospital services in the PRC which is currently the Group's principal business, we studied relevant statistics as disclosed in "China Statistical Yearbook 2017" (the "Yearbook") compiled by National Bureau of Statistics of the PRC.

According to the Yearbook, (i) the consumption on healthcare and medical services per urban households increased from RMB1,305.6 in 2014 to RMB1,630.8 in 2016, representing a compound annual growth of approximately 11.8%, whereas those consumption per rural household increased from RMB753.9 in 2014 to RMB929.2 in 2016, representing a compound annual growth of approximately 11.0%; (ii) total expenditure on public health increased from approximately RMB3,531.2 billion in 2014 to approximately RMB4,634.5 billion in 2016, representing a compound annual growth of approximately 14.6%; (iii) the number of visits for medical services in township health centres rose from approximately 1,028.7 million times in 2014 to approximately 1,082.3 million times in 2016, representing a compound annual growth of approximately 2.6%; and (iv) the number of general hospitals increased from 16,524 in 2014 to 18,020 in 2016, representing a compound annual growth of approximately 4.4%. We noted from the above that the expenditure and demand of citizens on medical services in the PRC was experiencing an upward trend from 2014 to 2016 and the percentage growth in the number of general hospitals from 2014 to 2016 is far below that for the expenditure of PRC citizens. As such, the trend for the demand of general hospital services in the PRC in recent years is positive.

**(c) Our view**

Despite the progressive prospect of general hospital services in the PRC as discussed above, the financial performance of the Group was not that promising as discussed in the sub-section headed “(a) Financial information of the Group” above, in particular that, without taking into account the profit from the discontinued operation of pharmaceutical wholesale, distribution and pharmaceutical retail chain business, the Group recorded loss for the year from continuing operations of approximately HK\$31.6 million and HK\$33.4 million for FY2015/16 and FY2016/17 respectively, and is expected to record a significant loss attributable to the shareholders of the Company for the year ended 31 March 2018 due to an impairment loss on goodwill, which we cannot come to the conclusion that the impairment loss on goodwill is not expected to occur frequently as discussed in sub-section headed “For the nine months ended 31 December 2017 (“**Nine Months 2017/18**”)” above, according to the announcement of the Company dated 9 May 2018. As such, we cast doubt on the profitability of the general hospital services business of the Group.

**2. Information on the Offeror and the Offeror’s intention regarding the Group**

**(a) Information on the Offeror**

The Offeror is an investment holding company incorporated in the BVI with limited liability on 7 February 2018 and did not carry out any other business activities other than holding of Shares. The Offeror is legally and beneficially owned as to 50% by Mr. Ng, 25% by Ms. Ng Si Wing and 25% by Ms. Ng Yin as at the Latest Practicable Date. The direct and sole beneficial owner of Golden Prince, Mr. Ng Leung Ho, is the father of Mr. Ng, Ms. Ng Si Wing and Ms. Ng Yin. Mr. Ng, Ms. Ng Si Wing and Ms. Ng Yin are siblings. Accordingly, each of Mr. Ng Leung Ho, Mr. Ng, Ms. Ng Si Wing, Ms. Ng Yin and Golden Prince is presumed to be a party acting in concert with the Offeror under the definition of “acting in concert” in the Takeovers Code.

As at the Latest Practicable Date, the sole director of the Offeror is Mr. Ng.

Mr. Ng has eight years of experience in founding new business and commercial management. Mr. Ng studied at Macquarie University (Major in Accounting) in Australia after obtained his diploma from the Sydney Institute of Business and Technology in year of 2009. Since February 2012, Mr. Ng founded and managed businesses including the scope of manufacturing and services sector. Mr. Ng is an executive director and vice chairman of Theme International Holdings Limited (stock code: 990) (“TIHL”), the shares of which are listed on the Main Board of the Stock Exchange. He was also an executive director of Yueshou Environmental Holdings Limited (stock code: 1191), the shares of which are listed on the Main Board of the Stock Exchange, from October 2014 to March 2016. Mr. Ng holds directorship in certain subsidiaries of TIHL, including Asia Develop Limited and King Topwell International Limited.

Ms. Ng Si Wing has five years of experiences in the finance field. Ms. Ng Si Wing graduated from Macquarie University in Australia and obtained a bachelor’s degree in commerce majoring in accounting in 2003 after she obtained the diploma of commerce from the Sydney Institute of Business and Technology in Australia in 2000. She worked as the vice president at Fulbright Financial Group Holdings Limited from January 2017 to May 2018. As at the Latest Practicable Date, Ms. Ng Si Wing has not held any directorship in company listed on the Stock Exchange.

Ms. Ng Yin has six years of experience in the accounting field and has been involved in the property development investment business since 2015. Ms. Ng Yin graduated from Macquarie University in Australia and obtained a bachelor’s degree in professional accounting in 2007. She is currently a director of Golden Empire Limited, a company primarily engaged in the investment of property development projects in the PRC. As at the Latest Practicable Date, Ms. Ng Yin has not held any directorship in company listed on the Stock Exchange.

***(b) Offeror’s intention regarding the business of the Group***

Following the close of the Offers, the Offeror intends to continue the existing principal businesses of the Group. The Offeror would conduct a review on the financial position and the operations of the Group and would formulate long-term business plans and strategies of the Group, explore other business opportunities and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification would be appropriate to enhance the long-term growth potential of the Group. The Offeror has no intention to (i) discontinue the employment of any employees of the Group (other than the possible changes to the members of the Board as detailed in the sub-section headed “(c) Possible Change of the Board Composition” below); or (ii) redeploy the fixed assets of the Group other than those in its ordinary and usual course of business as at the Latest Practicable Date.

***(c) Possible Change of the Board composition***

The Board is currently made up of twelve Directors, comprising five executive Directors, three non-executive Directors and four independent non-executive Directors.

As at the Latest Practicable Date, the Offeror intends to nominate new Directors to the Board and such appointments will not take effect earlier than the date of posting of the Composite Document in relation to the Offers or such other date as permitted under the Takeovers Code. As at the Latest Practicable Date, the Offeror has not reached any final decision as to who will be nominated. It is also possible that certain existing Director(s) may leave the Board. As at the Latest Practicable Date, the Offeror had not reached any final decision as to who will form the composition of the Board. Any changes to the Board will be made in compliance with the Takeovers Code and the GEM Listing Rules and a separate announcement will be made in this regard as and when appropriate.

***(d) Maintenance of the listing status of the Company***

The Offeror intends to maintain the listing of the Shares on GEM following the close of the Offers.

The Stock Exchange had stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) that there are insufficient Shares in public hands to maintain an orderly market,

it would consider exercising its discretion to suspend dealings in the Shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror and new directors to be appointed to the Board have jointly and severally undertaken/will undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in Shares.

In this connection, it should be noted that following the close of the Offers, there might be insufficient public float of the Shares and therefore, trading in the Shares might be suspended until sufficient public float exists in the Shares.



*(e) Our view*

While the Offeror intends to continue the existing principal businesses of the Group, none of Mr. Ng, Ms. Ng Si Wing and Ms. Ng Yin, all being the shareholders of the Offeror, has direct experience in provision of general hospital services, in which the Group is principally engaged currently, we are of the view that there remains uncertainty on the future performance of the Group under the control of the Offeror.

**3. Principal terms of the Share Offer**

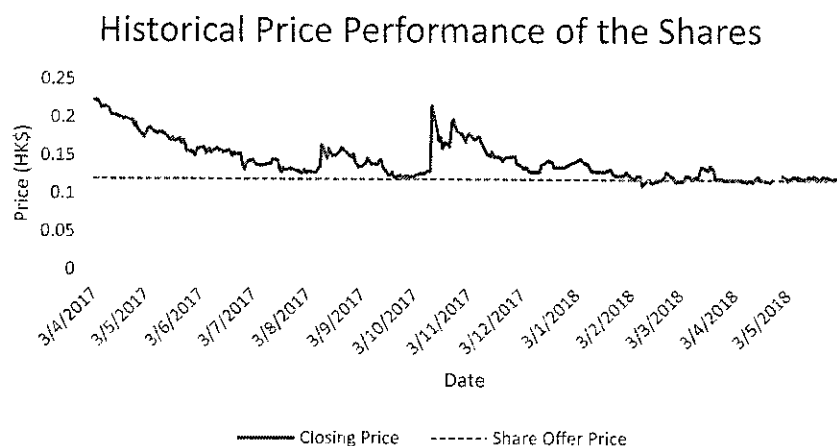
*(a) Comparison of the market prices of the Shares*

As stated in the Composite Document, the Share Offer Price of HK\$0.12 for each Share under the Share Offer represents:

- (i) the closing price of HK\$0.12 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 0.84% over the average of closing price of HK\$0.119 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 0.33% over the average of closing price of approximately HK\$0.1196 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 2.76% to the average of closing price of approximately HK\$0.1234 per Share as quoted on the Stock Exchange for the thirty consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 0.83% to the closing price of HK\$0.121 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) a premium of approximately 20.00% over the net asset value per share of approximately HK\$0.10 (the “NAV per Share”), calculated based on the unaudited consolidated net asset value attributable to Shareholders of the Company as at 30 September 2017, the date to which the latest unaudited interim financial results of the Group were made up and after taking into account of the net proceeds of approximately HK\$44.5 million from the placement of Shares completed on 20 March 2018, divided by the number of issued Shares as at the Latest Practicable Date.

**(b) Historical price performance of the Shares**

Set out below is a chart showing the movement of the closing prices of the Shares during the period from 3 April 2017, being the starting date of the twelfth month prior to the Last Trading Day, up to the Latest Practicable Date (the “**Review Period**”), to illustrate the general trend and level of movement of the closing prices of the Shares.



Source: Website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

Note: Trading in the Shares was halted from 25 April 2018 to 27 April 2018 (both days inclusive).

As illustrated above, from April 2017 to October 2017, the closing prices of the Shares moved with a general decreasing trend with a trough of HK\$0.122 on 26 September 2017. There was a surge of the closing price of the Shares to HK\$0.216 on 13 October 2017. We are not aware of any public information relating to such price movement and we are advised by the Directors that they are not aware of any specific reason for the aforesaid price movement. Thereafter, the closing prices of the Shares fell down gradually to the lowest of HK\$0.112 on 9 February 2018, and fluctuated at similar level until the Latest Practicable Date.

During the Review Period, the closing prices of the Shares ranged from HK\$0.112 to HK\$0.223 per Share, with an average of approximately HK\$0.145 per Share. The Share Offer Price of HK\$0.12 per Offer Share (i) represents a premium of approximately 7.1% over the lowest closing price of HK\$0.112 per Share recorded on 9 February 2018; (ii) represents a discount of approximately 46.2% to the highest closing price of HK\$0.223 per Share recorded on 3 April 2017 and 5 April 2017 respectively; and (iii) represents a discount of approximately 17.2% to the average closing price of approximately HK\$0.145 per Share.

(c) **Historical trading liquidity of the Shares**

The following table sets out the historical trading liquidity of the Shares during the Review Period:

	No. of trading days in each month/period	Average daily trading volume (Note 1)	Total number of issued Shares at month/period end	Percentage of average daily trading volume of the Shares to the total number of issued Shares as at the month/period end (Note 2)
<b>2017</b>				
April	17	3,770,235	2,358,249,944	0.16%
May	20	2,287,548	2,358,249,944	0.10%
June	22	770,891	2,358,249,944	0.03%
July	21	612,222	2,358,249,944	0.03%
August	23	2,382,525	2,358,249,944	0.10%
September	21	1,557,524	2,358,249,944	0.07%
October	20	10,244,650	2,358,249,944	0.43%
November	22	864,178	2,358,249,944	0.04%
December	19	434,466	2,358,249,944	0.02%
<b>2018</b>				
January	22	2,173,879	2,358,249,944	0.09%
February	18	3,997,240	2,358,249,944	0.17%
March	21	1,968,029	2,818,249,944	0.07%
April	16	1,322,500	2,818,249,944	0.05%
May	21	2,272,737	2,818,249,944	0.08%
June (up to the Latest Practicable Date)	1	8,524,000	2,818,249,944	0.30%

*Notes:*

1. It is calculated by dividing the total trading volume of the Shares for the month/period by the number of trading days during the month/period (excluding the days on which the trading in the Shares was halted).
2. It is calculated by dividing the average daily trading volume of the Shares by the total issued share capital of the Company at the end of each month/period or as at the Latest Practicable Date, as applicable.
3. Trading in the Shares was halted from 25 April 2018 to 27 April 2018 (both days inclusive).

As depicted above, during the Review Period, the average daily trading volume ranged from approximately 434,466 Shares to approximately 10,244,650 Shares, representing approximately 0.02% to 0.43% of the total number of Shares in issue at the end of each respective month/period. Except in October 2017 which we are not aware of any public information relating to such trading volume movement and we are advised by the Directors that they are not aware of any specific reason for the aforesaid trading volume movement, the average daily trading volume of the Shares as a percentage of the total number of issued Shares had been between 0.02% and 0.30% during the Review Period. As such, we consider that the liquidity of the Shares had been thin as a whole during the Review Period. Given the inactive trading of the Shares, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the price of the Shares. Hence, the Share Offer provides an assured opportunity for the Independent Shareholders to realise their investment in the Shares without creating a significant downside pressure on the trading price of the Shares.

Independent Shareholders should be mindful as to whether there will be sufficient liquidity in the Shares for those who wish to realise part or all of their investment in the Company at the prevailing market price of the Shares and whether their disposal of Shares will exert a downward pressure on the market prices of the Shares. They are therefore strongly advised to carefully and closely monitor the market price and liquidity of the Shares during the Offer Period if they wish to dispose of part or all of their Shares.

**(d) Comparable analysis**

In assessing the fairness and reasonableness of the Share Offer, we have considered to compare the price-to-earnings ratio (the “**P/E Ratio**”) and the price-to-book ratio (the “**P/B Ratio**”) of other listed companies in Hong Kong, 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 and reflect the value of the companies determined by the open market. As P/E Ratio measures the value of companies by measuring their profitability of their principal business and the Group recorded loss of approximately HK\$33.4 million for FY2016/17 (excluding the profit from the discontinued operation of pharmaceutical wholesale, distribution and pharmaceutical retail chain business) as detailed in section headed “1. Financial information of the Group and outlook” above, we are of the view that P/E Ratio of the Company is not feasible to assess the Share Offer Price. Given (i) P/E Ratio is not applicable for the Company as stated above; and (ii) P/B Ratio analysis is also one of most commonly used benchmarks in assessing the financial valuation of a company as discussed above, we consider P/B Ratio is applicable to assess the fair and reasonableness of the Share Offer Price and therefore adopted P/B Ratio for analysis. As such, we performed comparable analysis using P/B Ratio.

We have attempted to search for companies which (i) are listed on the Stock Exchange; (ii) principally engaged in similar business to the Group; (iii) with over 50% of turnover derived from such principal activities in the latest financial year; and (iv) with market capitalization less than HK\$500 million (as the market capitalization of the Company is approximately HK\$341.0 million as at the Latest Practicable Date). However, we have not identified any comparable companies that fulfill the above criteria. In view of the above, we are of the view that we cannot conduct a comparable analysis which can provide a meaningful benchmark in assessing the fairness and reasonableness of the Share Offer.

**(e) Our view**

Having considered that

- (i) the Share Offer Price represents a premium of approximately 20.00% over the NAV per Share of approximately HK\$0.10;

- (ii) despite the Share Offer Price was generally below the closing prices of the Shares during the Review Period, the closing prices of the Shares were in overall downward trend during the Review Period and the Share Offer Price is equal to the closing price of HK\$0.12 per Share as quoted on the Stock Exchange on the Last Trading Day, it is uncertain as to whether the closing prices of the Shares would drop continuously in the absence of the Offers; and
- (iii) given the inactive trading of the Shares, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the price of the Shares. Hence, the Share Offer provides an assured opportunity for Independent Shareholders to realise their investment in the Shares without creating a significant downside pressure on the trading price of the Shares,

we are of the view that the Share Offer Price is fair and reasonable.

#### **4. Principal terms of the Option Offer**

For cancellation of each outstanding Option . . . . . HK\$0.01 in cash

As advised by the management of the Company, as at the Latest Practicable Date, there was a batch of outstanding Option entitling Optionholders to subscribe for 450,000 Shares at an exercise price of HK\$0.50. Pursuant to Rule 13 of the Takeovers Code and Practice Note 6 of the Takeovers Code, the “see-through” values of the outstanding Options would be the difference between the exercise prices of the outstanding Options and the Share Offer Price. Under the Option Offer, given that the exercise price of the outstanding Options (which is HK\$0.50 per Share) is above the Share Offer Price (i.e. HK\$0.12), the outstanding Options are out-of-money with zero “see-through” value. Accordingly, the offer price for each outstanding Option (i.e. the Option Offer Price) is at a nominal value of HK\$0.01. Given that the “see-through” value of the outstanding Options is zero, we consider that the Option Offer Price of HK\$0.01 offered to the Optionholders is fair and reasonable so far as the Optionholders are concerned.

## RECOMMENDATION

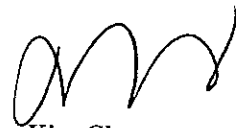
Taking into consideration the aforementioned principal factors and reasons, in particular that:

- (i) we cast doubt on the profitability of the general hospital services business of the Group in view of the less promising financial performance of the Group as compared to the progressive prospect of general hospital services in the PRC, in particular that, without taking into account the profit from the discontinued operation of pharmaceutical wholesale, distribution and pharmaceutical retail chain business, the Group recorded loss for the year from continuing operations of approximately HK\$31.6 million and HK\$33.4 million for FY2015/16 and FY2016/17 respectively, and is expected to record a significant loss attributable to the shareholders of the Company for the year ended 31 March 2018 due to an impairment loss on goodwill, which we cannot come to the conclusion that the impairment loss on goodwill is not expected to occur frequently as discussed in sub-section headed “For the nine months ended 31 December 2017 (“**Nine Months 2017/18**”)” above, according to the announcement of the Company dated 9 May 2018;
- (ii) while the Offeror intends to continue the existing principal businesses of the Group, none of Mr. Ng, Ms. Ng Si Wing and Ms. Ng Yin, all being the shareholders of the Offeror, has direct experience in the Group’s principal business. There remains uncertainty on the future performance of the Group under the control of the Offeror;
- (iii) the Share Offer Price represents a premium of approximately 20.00% over the NAV per Share of approximately HK\$0.10;
- (iv) despite the Share Offer Price was generally below the closing prices of the Shares during the Review Period, the closing prices of the Shares were in overall downward trend during the Review Period and the Share Offer Price is equal to the closing price of HK\$0.12 per Share as quoted on the Stock Exchange on the Last Trading Day, it is uncertain as to whether the closing prices of the Shares would drop continuously in the absence of the Offers;
- (v) given the inactive trading of the Shares, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the price of the Shares. Hence, the Share Offer provides an assured opportunity for Independent Shareholders to realise their investment in the Shares without creating a significant downside pressure on the trading price of the Shares; and
- (vi) the “see-through” value of the outstanding Options is zero,

we are of the opinion that the terms of the Offers are fair and reasonable so far as the Independent Shareholders and Optionholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and the Optionholders to accept the Share Offer and the Option Offer respectively.

The Independent Shareholders and the Optionholders, in particular those who intend to accept the Offers, are reminded to closely monitor the market price and liquidity of the Shares during the Offer Period, especially that the disposal of large blocks of Shares held by the Independent Shareholders in the open market may trigger price slump of the Shares as a result of the thin trading of the Shares. The Independent Shareholders who intend to realise their investment in the Company and the Optionholders shall, having regard to their own circumstances, consider exercising the outstanding Options and/or selling the Shares (as the case may be) in the open market, instead of accepting the Offers, if the net proceeds from the ultimate sale of such Shares would be higher than that receivable under the Offers.

Yours faithfully,  
For and on behalf of  
**Nuada Limited**



**Kim Chan**  
Director

*Mr. Kim Chan is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 16 years of experience in corporate finance industry.*