

Nuada Limited

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11 April 2019

*To the IBC of
Qianhai Health Holdings Limited*

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFER BY
HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED
FOR AND ON BEHALF OF EXPLORER ROSY LIMITED TO
ACQUIRE ALL OF THE ISSUED SHARES OF
QIANHAI HEALTH HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED BY OR AGREED
TO BE ACQUIRED BY EXPLORER ROSY LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the IBC in respect of the terms of the Offer, details of which are set out in the Composite Document dated 11 April 2019 jointly issued by the Company and the Offeror to the Shareholders, 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.

On 24 January 2019, the Offeror and the Company jointly announced that on 24 January 2019, the Offeror as purchaser entered into the SPA, pursuant to which, the Vendor conditionally agreed to sell and the Offeror conditionally agreed to acquire an aggregate of 805,688,000 Shares, being the Sale Shares, representing 47.6% of the issued share capital of the Company as at the date of the Joint Announcement, free from all Encumbrances and together with all rights and benefits attaching to them at Completion and thereafter, at the consideration of HK\$201,422,000, equivalent to HK\$0.25 per Sale Share. The consideration was paid in cash by the Offeror to the Vendor on Completion.

All conditions precedent to the SPA were fulfilled or waived in accordance with the SPA and the Completion took place on 1 February 2019.

Upon the Completion and as at the Latest Practicable Date, the Offeror and the parties acting in concert with it hold 805,688,000 Shares (representing approximately 47.6% of the existing issued Shares on the date of the Completion). Accordingly, pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make the Offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with any of them).

Haitong International Securities, for and on behalf of the Offeror, makes the Offer in compliance with the Takeovers Code and on the terms set out in the Composite Document on the following basis:

For each Share HK\$0.25 in cash

The Offer Price is the same as the price payable by the Offeror for each Share under the SPA. The Offer Shares to be acquired under the Offer shall be fully paid and shall be acquired free from all Encumbrances and together with all rights attaching to them as at the date of the Composite Document or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of the Composite Document.

The IBC, comprising all the independent non-executive Directors (namely, Mr. Li Wei, Mr. Wu Wai Leung Danny and Mr. Yuen Chee Lap Carl), has been constituted to give a recommendation to the Shareholders other than the Offeror and parties acting in concert with it as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer.

We, Nuada Limited, has been appointed as the Independent Financial Adviser to the IBC on the Offer. Our appointment as the Independent Financial Adviser has been approved by the IBC.

OUR INDEPENDENCE

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 Offer, 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 Offer.

BASIS OF OUR OPINION

In formulating our opinion to the IBC, 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 information contained in this Composite Document (other than any information relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those opinions expressed by the directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Group and the Vendor), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than the opinion expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement contained in this 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. 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 Offer. 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, and the Independent Shareholders will be notified of any material changes (if any) to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. 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 Offer, 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 Group is principally engaged in sales of health products which includes American ginseng, healthcare wine and Chinese herbal medicines to wholesalers and retailers in Hong Kong.

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 December 2016 ("AR2016") and 2017 ("AR2017") and the Company's annual results announcement dated 29 March 2019 for the year ended 31 December 2018 ("RA2018").

Operating results of the Group

	For the year ended 31 December			
	2018	2017	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(audited)
		(restated)	(restated)	(restated)
Revenue (<i>Note 1</i>)	78,047	197,062	354,385	835,531
Gross profit/(loss) (<i>Note 2</i>)	3,003	14,868	(301,386)	2,880
Profit/(Loss) for the year	5,033	35,861	(525,862)	(438,520)

Notes:

- (1) The revenue were net of reversal or provision (as the case may be) of rebates and discounts. Please refer to the discussion in the paragraph below for details.

- (2) The inventory write down was reclassified to "other losses" for the year ended 31 December 2018 ("FY2018"), which was previously recognised within "cost of sales"; hence the same reclassifications have been made in the comparative information for the years ended 31 December 2015 ("FY2015"), 2016 ("FY2016"), and 2017 ("FY2017") to conform to the FY2018 presentation.

Financial position of the Group

	As at 31 December			
	2018	2017	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)	(audited)
Net current assets	389,385	375,997	460,618	305,403
Net assets	635,557	672,703	619,901	510,266

Background related to the minimal gross profit of the Group for the year ended 31 December 2015 and the significant gross loss of the Group for the year ended 31 December 2016

We noted that the Group recorded a minimal gross profit of approximately HK\$2.9 million for FY2015 despite a revenue of approximately HK\$835.5 million, and a significant gross loss of approximately HK\$397.9 million for FY2016 respectively. As discussed with the management of the Company and as disclosed in AR2016, we understand that the possible change in control of the Company as set out in the announcement of the Company dated 2 February 2016 led to turbulence in the ginseng market, therefore the customers are more cautious of ginseng trading as well as settlement of trade receivables. As a result of the slow settlement by the customers of the Group, provision of rebates and discounts of approximately HK\$352.0 million and approximately HK\$239.7 million were recognised for FY2015 and FY2016 respectively. In addition, the market price of ginseng also suffered due to the aforesaid turbulence in the ginseng market, and resulted in inventory write down amounting to approximately HK\$131.6 million and approximately HK\$96.5 million for FY2015 and FY2016 respectively, which were included in other losses of the Group contributing to the loss for the year. The aforesaid provision of rebates and discounts in FY2015 and FY2016 contributed to the minimal gross profit of the Group for FY2015 and the significant gross loss of the Group for FY2016. For details related to the above matter, please refer to notes 2 and 8 to the condensed consolidated financial statements in the annual report of the Company for FY2015 and note 6 to the consolidated financial statements in AR2016.

Financial performance for the year ended 31 December 2016

As stated in AR2016, the revenue of the Group decreased to approximately HK\$354.4 million for FY2016, representing a decrease of approximately 57.6% as compared with that of approximately HK\$835.5 million for FY2015. Meanwhile, the Group recorded a gross loss of approximately HK\$301.4 million for FY2016 as opposed to a gross profit of approximately HK\$2.9 million for FY2015. As advised by the management of the Company, such decrease in revenue and deterioration to gross loss was due to the substantial decrease in price of American ginseng as well as the aforesaid rebates and discounts in the previous paragraph. The loss of the Group for the year increased from approximately HK\$438.5 million for FY2015 to approximately HK\$525.9 million for FY2016, representing an increase in loss of approximately 19.9%. As advised by the management of the Company, such deterioration was mainly due to the aforesaid change from gross profit in FY2015 to gross loss in FY2016 and counterbalanced mainly by (i) the decrease in administrative expenses for FY2016 by approximately HK\$86.3 million; and (ii) the change from an income tax expenses for FY2015 to an income tax credit for FY2016 with difference amounting to approximately HK\$80.3 million.

Financial performance for the year ended 31 December 2017

As stated in AR2017, the revenue of the Group further decreased from approximately HK\$354.4 million for FY2016 to approximately HK\$197.1 million for FY2017, representing a decrease of approximately 44.4%. As advised by the management of the Company, such decrease in revenue was mainly due to the decreased trading volume under the competitive trading of American ginseng business environment and the decreased average wholesale price of American ginseng during FY2017. Nevertheless, the profitability of the Group improved from gross loss of approximately HK\$301.4 million for FY2016 to a gross profit of approximately HK\$14.9 million for FY2017. As advised by the management of the Company, such improvement was due to the fact that there were reversal of provision of rebates and discounts recognised for FY2017 instead of provision of rebates and discounts recognised for FY 2016 as the impact of the previous change in control of the Company stabilised. The Group also recorded a profit of approximately HK\$35.9 million for FY2017 as compared with a loss of approximately HK\$525.9 million for FY2016. As advised by the management of the Company, such improvement was mainly due to (i) the aforesaid change from a substantial gross loss to a gross profit; (ii) the change from an exchange loss for FY2016 to an exchange gain in FY2017 with difference amounting to approximately HK\$59.9 million; (iii) the increase in gain on disposal of property, plant and equipment for FY2017 by approximately HK\$29.8 million; (iv) the change on revaluation of investment properties from a loss on changes in fair value of investment properties for FY2016 to a gain for FY2017 with difference amounting to approximately HK\$26.9 million; and (v) the reduction of administrative expenses by approximately HK\$27.0 million for FY2017.

Financial performance for the year ended 31 December 2018

As stated in RA2018, the revenue of the Group continued to decrease from approximately HK\$197.1 million for FY2017 to approximately HK\$78.0 million for FY2018, representing a decrease of approximately 60.4%. As disclosed in RA2018 and as advised by the management of the Company, such decrease in revenue was mainly due to the Group's tightened trading volume given the volatile American ginseng market and the decreased average wholesale price of American ginseng during FY2018. As a result of the decrease in revenue, the gross profit of the Group also dropped from approximately HK\$14.9 million in FY2017 to approximately HK\$3.0 million for FY2018, representing a decrease of approximately 79.8%. The profit of the Group decreased from approximately HK\$35.9 million for FY2017 to approximately HK\$5.0 million for FY2018. As advised by the management of the Company, such decrease in profit was mainly due to (i) the aforesaid decrease in gross profit; (ii) the decrease of gain on disposal of property, plant and equipment for FY2018 by approximately HK\$23.2 million; (iii) the decrease in fair value gain of investment properties for FY2017 by approximately HK\$14.0 million; (iv) the increase in inventory write down in FY2018 by approximately HK\$9.1 million; and (v) counterbalanced by a change from income tax expense for FY2017 to an income tax credit for FY2018 with the difference amounting to approximately HK\$10.0 million.

Financial position as at 31 December 2018

Regarding the financial position of the Group, according to RA2018, net current assets of the Group amounted to approximately HK\$389.4 million as at 31 December 2018, which consisted mainly of (i) loan and interest receivables of approximately HK\$183.7 million; (ii) cash and cash equivalents of approximately HK\$138.3 million; (iii) trade and other receivables of approximately HK\$75.9 million; and (iv) trade and other payables of approximately HK\$49.8 million. Such amount of net current assets of the Group represent a slight increase by approximately 3.6% as compared with that of approximately HK\$376.0 million as at 31 December 2017. Meanwhile, the net assets of the Group decreased from approximately HK\$672.7 million as at 31 December 2017 to approximately HK\$635.6 million as at 31 December 2018, representing a decrease of approximately 5.5%. As advised by the management of the Company, the decrease in net assets was mainly due to (i) the dividend declared for FY2017 amounting to HK\$17.0 million recognised as distribution in FY2018 and (ii) the total comprehensive loss in FY2018 amounted to approximately HK\$8.8 million. The net assets of the Group as at 31 December 2018 consisted mainly of, in addition to the current assets and liabilities, (i) interest in a joint venture of approximately HK\$115.8 million; and (ii) investment properties of approximately HK\$92.5 million.

(b) Overview of American ginseng industry

As stated in the paragraph headed “(a) Financial information of the Group” above, and as discussed with the management of the Company, the Group is principally engaged in sales of health products, the majority of which are American ginseng from Canada, to wholesalers and retailers in Hong Kong. To understand the business outlook of the Group related to the sales of American ginseng, we have studied the relevant official statistics compiled by UN Comtrade, the trade statistics database operated by the United Nations, as set out below:

Import of American ginseng from Canada to Hong Kong

Year	2013	2014	2015	2016	2017	2018
Weight ('000 kilogram)	2,737.2	1,535.7	2,636.4	3,009.2	2,475.2	2,417.6
Trade value (million US\$)	171.8	128.7	212.4	203.2	142.1	127.1
Average trade value per kilogram (US\$)	62.8	83.8	80.6	67.5	57.4	52.6

Source: Website of UN Comtrade (<https://comtrade.un.org/data/>)

As shown in the table above, we note that the total weight of American ginseng import from Canada to Hong Kong varied from year 2013 to 2018, with decreases in 2014, 2017 and 2018 and increases in 2015 and 2016. The trade value of the American ginseng import followed a similar pattern as the weight of American ginseng import, albeit with different rates of change. However, the average trade value per kilogram has dropped continuously immediately following a peak of approximately US\$83.8 in 2014, and decreased to approximately US\$52.6 in 2018, representing a decrease of approximately 37.2% over the aforesaid period. This decreasing trend reflected a unfavourable market condition to the Group in recent years as the Group had to compete with decreasing market price.

(c) Our view regarding the financial and trading position of the Group

We noted that while the Group had improvement in terms of profit in the latest financial year and period (i.e. FY2017 and FY2018), the revenue of the Group has decreased significantly in the last few years from the peak of approximately HK\$835.5 million for FY2015 to approximately HK\$78.0 million for FY2018 which, as advised by the management of the Company, was due to the competitive American ginseng market as mentioned above. Our analysis on the relevant market above also revealed that market price of American ginseng has indeed experienced downward pressure since year 2014. In light of the foregoing, we consider that the prospect of the Group remains dubious.

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 BVI with limited liability on 12 August 2015, the shares of which are owned as to 80% by Great Prosperous, 10% by Thousands Beauties and 10% by Noble Stand Global. Great Prosperous is wholly owned by Mr. Huang, while both Thousands Beauties and Noble Stand Global are wholly owned by Mr. Lim. Therefore, Mr. Huang and Mr. Lim are the ultimate beneficial owners of the Offeror.

Mr. Huang and Mr. Lim are the only two directors of the Offeror. Mr. Huang is the sole director of Great Prosperous. Mr. Lim is the sole director of each of Thousands Beauties and Noble Stand.

Mr. Huang, aged 44, has over 19 years of management experience in international trading and distribution of electronic components. From 1999 to 2003, Mr. Huang operated an electronic components trading company individually. Subsequently in 2003, Mr. Huang, together with other business partners, founded a Hong Kong-based global electronic components trading and distribution group (the "**Trading and Distribution Group**"), the Trading and Distribution Group supplies electronic components to customers including sizeable manufacturing groups and technology companies. Since the establishment of the Trading and Distribution Group, Mr. Huang has been the Trading and Distribution Group's CEO, managing its business with presence in Hong Kong, PRC and Southeast Asia. In 2005, Mr. Huang, together with other business partners, established another manufacturing and trading group, which businesses include the manufacturing of semiconductor products of a well-known brand that are sold to different markets including Hong Kong, the PRC, Taiwan and other Asian countries. Mr. Huang has been the standing director of Shenzhen Chao Shan Chamber of Commerce from December 2011 until now.

Mr. Lim, aged 51, has over 21 years of management experience in international trading and distribution of electronic components. From 1997 to 2002, Mr. Lim was the General Manager of an electronic components trading company based in Singapore, mainly responsible for the company's trading business in various Southeast Asian countries. Mr. Lim was the General Manager of another Singapore based electronic components trading company from 2003 to 2008, mainly responsible for managing and supervising the company's operation of the trading business in Hong Kong and the PRC. Since 2009, Mr. Lim is one of the key management personnel and one of shareholders of an international trading company based in Singapore, being responsible for the management of the company's trading business in Singapore, Hong Kong, the PRC and Vietnam.

The Offeror did not carry on any business since its incorporation until the entering of the SPA and the transactions in connection therewith.

(b) Offeror's intention regarding the business of the Group

Following the close of the Offer, the Offeror intends to continue the existing principal business of the Group and maintain the listing status of the Company on the Main Board of the Stock Exchange.

The Offeror will conduct a review of the business activities and assets of the Group for the purpose of formulating business plans and strategies for the future business development of the Group.

Subject to the results of the review, the Offeror may explore other business opportunities for the Company, which include the business of electronic components and international trading, and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance long-term growth potential of the Company.

Save for the Offeror's intention regarding the Group as set out above, as at the Latest Practicable Date, no such investment or business opportunities has been identified nor has the Offeror entered into any agreement, arrangements, understandings or negotiation in relation to the injection of any assets or business into the Group. Further, the Offeror has no intention to discontinue the employment of the employees (save for the change in the composition of the Board) or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

(c) Possible Change of the Board composition

The Board is currently made up of five Directors, comprising two executive Directors, being Mr. George Lu and Mr. Wong Kwok Ming, and three independent non-executive Directors, being Mr. Li Wei, Mr. Wu Wai Leung Danny and Mr. Yuen Chee Lap Carl.

It is intended that Mr. George Lu and Mr. Wong Kwok Ming will resign with effect from the earliest time permitted under the Takeovers code. The Offeror at present intends to appoint Mr. Huang and Mr. Lim as new executive directors of the Company with effect from a date which is no earlier than such date as permitted under Rule 26.4 of the Takeovers Code. As at the Latest Practicable Date, the Offeror has not decided on the future composition of the Board. The day-to-day operations of the Company will continue to be managed by the existing professional management staff. Any changes to the Board composition will be made in compliance with the Takeovers Code and the Listing Rules.

(d) Maintenance of the listing status of the Company

The Offeror has no intention to privatise the Group and intends to maintain the listing of the Shares on the Main Board of the Stock Exchange after the close of the Offer.

The directors of the Offeror and the new executive directors to be appointed to the Board of the Company have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares following closing of the Offer.

The Stock Exchange has stated that if, at the closing of the Offer, 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:

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

the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

(e) Our view

We noted that the Offeror intends that the Group will continue the principal business of the Group and as the two directors of the Offeror, namely Mr. Huang and Mr. Lim, are not expert in trading of American ginseng, the Group may not be able to benefit from their network for expansion of the existing principal business but only rely on its own organic growth or development. However, the Offeror will conduct a review of the business activities and assets of the Group and, subject to the results of the review, explore other business opportunities for the Company and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance long-term growth potential of the Company. Accordingly, we are of the view that the future performance of the Group under the Offeror may be subject to the change depending on whether there could be any organic growth of its existing principal business and whether there is any new revenue driver.

3. Principal terms of the Offer

(a) Comparison of the market prices of the Shares

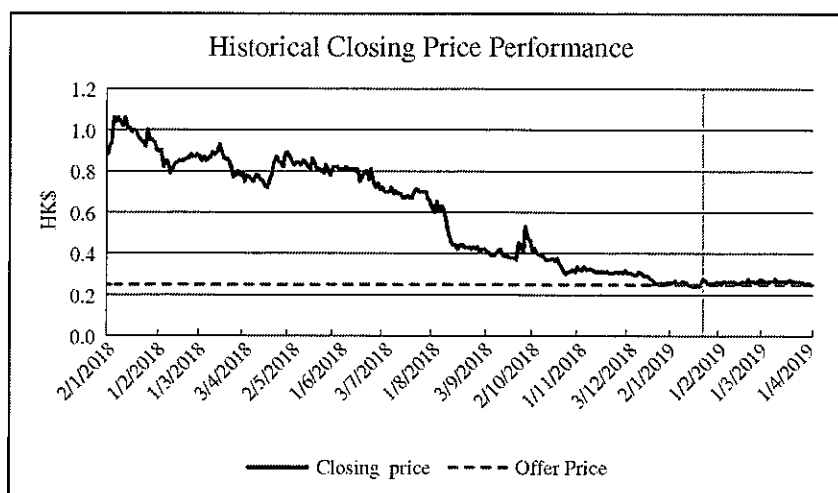
The Offer Price of HK\$0.25 per Offer Share represents:

- (i) a premium of approximately 3.3% over the closing price of HK\$0.242 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 2.5% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day of HK\$0.244 per Share;

- (iii) the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day of HK\$0.25 per Share;
- (iv) a discount of approximately 6.0% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day of approximately HK\$0.266 per Share;
- (v) the closing price of HK\$0.25 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a discount of approximately 36.4% to the audited consolidated net asset value per Share (“NAV”) of the Company of approximately HK\$0.393 as at 31 December 2017 (which is calculated by dividing the audited consolidated net asset value attributable to owners of the Company as at 31 December 2017 of approximately HK\$665,503,000 by 1,692,760,000 Shares in issue as at the Latest Practicable Date);
- (vii) a discount of approximately 35.2% to the unaudited NAV of the Company of approximately HK\$0.386 as at 30 June 2018 (which is calculated by dividing the unaudited consolidated net asset value attributable to owners of the Company as at 30 June 2018 of approximately HK\$652,587,000 by 1,692,760,000 Shares in issue as at the Latest Practicable Date); and
- (viii) a discount of approximately 33.3% to the audited NAV of the Company of approximately HK\$0.375 as at 31 December 2018 (which is calculated by dividing the audited consolidated net asset value attributable to owners of the Company as at 31 December 2018 of approximately HK\$635,557,000 by 1,692,760,000 Shares in issue as at the Latest Practicable Date).

(b) Historical price performance of the Shares

The graph below shows Offer Price and the movement of the closing prices of the Shares during the period from 2 January 2018, being the first date of the twelfth month prior to the Last Trading Day (as indicated by the vertical line), to the Latest Practicable Date (the “Review Period”).



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

As illustrated in the graph above, the closing prices of the Shares followed a general decreasing trend from a peak of HK\$1.06 in January 2018 to December 2018, and since then has stayed at a price around HK\$0.25. During the Review Period, the closing prices of the Shares ranged from the highest of HK\$1.06 recorded on multiple days in January 2018 to the lowest of HK\$0.238 per Share recorded on 21 January 2019, with an average of approximately HK\$0.560 per Share. During the Review Period, the Offer Price of HK\$0.25 per Share (i) represents a discount of approximately 76.4% to highest closing price of HK\$1.06 per Share; (ii) represents a premium of approximately 5.0% over the lowest closing price of HK\$0.238 per Share; and (iii) represents a discount of approximately 55.4% to the average closing price of approximately HK\$0.560 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:

	Number of trading days in each month/period	Average daily trading volume (Note 1)	Total number of issued Shares as at the end of the month or the Latest Practicable Date	Total number of issued Shares held by public Shareholders as at the end of the month or the Latest Practicable Date (Note 2)	Percentage of average daily trading volume of the Shares to the total number of issued Shares held by public Shareholders as at the end of the month or the Latest Practicable Date (Note 3)
2018					
January	22	2,248,932	17,004,050,000	8,947,170,000	0.03%
February	18	884,686	17,004,050,000	8,947,170,000	0.01%
March	21	1,132,345	17,004,050,000	8,947,170,000	0.01%
April	19	1,501,658	17,004,050,000	8,947,170,000	0.02%
May	21	787,021	17,004,050,000	8,947,170,000	0.01%
June	20	1,071,173	16,970,570,000	8,913,690,000	0.01%
July	21	540,762	16,943,130,000	8,886,250,000	0.01%
August	23	1,150,078	16,943,130,000	8,886,250,000	0.01%
September	19	835,635	1,694,313,000 (Note 4)	888,625,000 (Note 4)	0.09%
October	21	1,376,992	1,694,313,000	888,625,000	0.15%
November	22	383,955	1,692,760,000	887,072,000	0.04%
December	19	834,540	1,692,760,000	887,072,000	0.09%
2019					
January	22	7,276,181 (Note 5)	1,692,760,000	887,072,000	0.82% (Note 5)
February	18	2,774,169	1,692,760,000	887,072,000	0.31%
March	21	1,237,143	1,692,760,000	887,072,000	0.14%
April	5	1,061,250	1,692,760,000 (Note 6)	887,072,000 (Note 6)	0.12%

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

Notes:

1. It is calculated by dividing the total trading volume of the Shares for the month/period by the corresponding number of trading days of that month/period.
2. It is calculated by subtracting the Shares held by the then substantial Shareholders of the Company from the total number of issued Shares as at the end of the month or the Latest Practicable Date, as the case may be.
3. It is calculated by dividing the average daily trading volume of the Shares by the total issued share capital of the Company held by public Shareholders as at the end of the month or the Latest Practicable Date, as the case may be.
4. A share consolidation of ten (10) shares of the Company prior to such share consolidation into one (1) Share was effective on 12 September 2018.
5. There was a spike on 25 January 2019 (i.e. the next day following the Joint Announcement) in trading volume to 103,021,415 Shares, which was substantially higher than the rest of the month.
6. These refer to the total number of issued Shares held by all Shareholders or public Shareholders, as the case may be, as at the Latest Practicable Date.

As depicted above, during the Review Period, the average daily trading volume represents approximately 0.01% to 0.82% of the total number of Shares in issue held by public Shareholders as at the end of the respective month or the Latest Practicable Date, as the case may be. We also note that the average daily trading volume raised substantially in January 2019, which was due to a spike in trading volume to 103,021,415 Shares on 25 January 2019 (i.e. the next day following the Joint Announcement) as compared with the average daily trading volume of 2,716,884 Shares for the rest of January (i.e. excluding the trading volume on 25 January 2019). The trading volume has continued to decrease since then and average daily trading volume in April (up to and including the Latest Practicable Date) represents approximately 0.12% of the total number of Shares in issue held by public Shareholders as at the Latest Practicable Date. As such, we consider that the liquidity of the Shares had been thin throughout the Review Period. Given trading of the Shares has been generally inactive, 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, should they wish so, without affecting the price of the Shares.

(d) Comparable analysis

In assessing the fairness and reasonableness of the Offer, we have considered to compare the price-to-earnings ratio and the price-to-book ratio of other listed companies in Hong Kong with business similar to that of the Company, which are the most commonly used benchmarks in assessing the financial valuation of a company. We have attempted to search for companies listed on the Stock Exchange which are principally engaged in business similar to the Group (i.e. sales of American ginseng), but identified none that fulfils the above criteria to conduct a fair comparison.

While we have also attempted to compare the terms of the Offer with other mandatory offers of other listed companies, those listed companies identified are engaged in different business and/or have different financial performance from the Company. As such, we consider that no meaningful the following comparable analysis can be conducted to assess the fairness and reasonableness of the Offer.

(e) Our view

Having considered that

- (i) the Offer Price represents a premium of approximately 3.30% over the closing price of the Shares on the Last Trading Day;
- (ii) given that trading of the Shares has been inactive in the Review Period prior to the publication of the Joint Announcement, 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 affecting the price of the Shares. Hence, the Offer provides an assured opportunity for Independent Shareholders to realise their investment in the Shares without creating a significant downward pressure on the trading price of the Shares,
- (iii) despite the Offer Price currently representing a discount of approximately 33.33% to the NAV of the Company as at 31 December 2018 of approximately HK\$0.375, it should not be the only factor to determine the fairness and reasonableness of the Offer Price in term of value of asset backing. In particular, it shall be noted that, in addition to points (i) and (ii) above, the revenue of the Group has deteriorated continuously for the recent three financial years, from approximately HK\$835.5 million for FY2015 to approximately HK\$78.0 million for FY2018 as stated in the sub-section headed “1. Financial Information of the Group and Outlook” above,

we are of the view that the Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Despite the Offer Price representing a discount of approximately 33.33% to the NAV of the Company of approximately HK\$0.375 as at 31 December 2018, having taken into account that:

- (i) the prospect of the Group remains uncertain given the deteriorating revenue of the Group and the decreasing market price of American ginseng;
- (ii) the Offeror intends that the Group will continue the principal business of the Group but the only two directors of the Offeror, namely Mr. Huang and Mr. Lim, do not have experience related to trading of American ginseng, currently the principle business of the Group;
- (iii) the Offer Price represents a premium of approximately 3.30% over the closing price of the Shares on the Last Trading Day; and
- (iv) given that trading of the Shares has been generally inactive in the Review Period, 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 affecting the price of the Shares. Hence, the Offer provides an assured opportunity for Independent Shareholders to realise their investment in the Shares without creating a significant downward pressure on the trading price of the Shares,

we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the IBC to advise the Independent Shareholders to accept the Offer.

Nevertheless, the Independent Shareholders who intend to accept the Offer are reminded to closely monitor the market price and liquidity of the Shares during the Offer Period, especially because disposal of large blocks of Shares in the open market may trigger price slump of the Shares as a result of the relatively inactive trading of the Shares. The Independent Shareholders who intend to realise their investment in the Company shall, having regard to their own circumstances, consider selling the Shares in the open market instead of accepting the Offer, if the net proceeds from the sale of such Shares in the open market would be higher than that receivable under the Offer.

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.