



24 January 2025

*To the Independent Board Committee and
the Independent Shareholders of
Kato (Hong Kong) Holdings Limited*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
IN RELATION TO
(1) RENEWAL OF EXISTING LEASES;
AND
(2) ENTERING INTO NEW TENANCY AGREEMENT**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement and the transactions contemplated thereunder (the “**Transactions**”), the details of which are set forth in the “Letter from the Board” (the “**Board Letter**”) contained in the circular issued by the Company to the Shareholders dated 24 January 2025 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Reference is made to the announcement dated 17 May 2022 and the circular dated 2 June 2022 of the Company in relation to the renewal of certain leases entered into with the controlling shareholders of the Company and their associates.

On 3 December 2024, the Group entered into the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement with the controlling shareholders of the Company and their associates in respect of the leasing of certain properties for the operation of the Group for a period of 1 April 2025 to 31 March 2028.

Second Renewal Letters and Tsuen Wan Warehouse Tenancy Agreement

As stated in the Board Letter, the Group has been leasing various premises in Hong Kong from the controlling shareholders of the Company and their associates for the operations of the Group since 2019.

According to the original tenancy agreements dated 20 May 2019 for the leasing of the premises for the operation of (i) Kato Elderly Home, (ii) Kato Home for the Aged, (iii) Fai To Home (On Lai), (iv) Fai To Home (Tuen Mun), (v) Tsuen Wan Centre, (vi) Happy Luck Home, (vii) staff quarters for the Tsuen Wan Centre, (viii) staff quarters for the Kato Elderly Home and Kato Home for the Aged, (ix) staff quarters for the Happy Luck Home, Pine Villa, Fai To Sino West Home and Tsuen Wan Centre and (x) staff quarters for the Fai To Sino West Home (the “**Original Tenancy Agreements**”), each tenancy agreement has a provision to renew the lease period for three years upon expiry of the initial term, and another provision to renew the lease period for another three years upon expiry of the second term on the same terms and conditions, save for downward adjustment of monthly rental fee where the prevailing market of the relevant premises has been lowered.

The Group and the controlling shareholders of the Company entered into the First Renewal Letters on 17 May 2022 for the renewal of the Original Tenancy Agreements for a term from 1 April 2022 to 31 March 2025 on the same terms and conditions.

On 3 December 2024, (i) the Group and the controlling shareholders of the Company entered into the Second Renewal Letters for the second renewal of the Original Tenancy Agreements for a term from 1 April 2025 to 31 March 2028 on the same terms and conditions; and (ii) Crawfield International, an indirect wholly-owned subsidiary of the Company, as tenant, entered into the Tsuen Wan Warehouse Tenancy Agreement with Mr. Lam Kong as landlord in relation to the leasing of a warehouse and office located in Tsuen Wan.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Or Kevin, Ms. Wu Wing Fong and Mr. Wong Chun Kit, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Transactions. We, Grand Moore Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company, its respective substantial Shareholders, Directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

In the past two years, we have not acted in any financial adviser role to the Company. Save for the appointment as the Independent Financial Adviser, there was no other relationship and/or engagement between the Company and us in the past two years.

With regards to our independence from the Company, it is noted that (i) apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling Shareholders that could reasonably be regarded as relevant to our independence; and (ii) the aggregate professional fees paid or to be paid to us do not make up a significant portion of our revenue during the relevant period which would affect our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Transactions pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the Company's interim report for the six months ended 30 September 2024 (the "2024/2025 Interim Report"); (iii) the valuation report prepared by the Independent Valuer as appended in Appendix II of the Circular (the "Valuation Report"); (iv) other information provided by the Directors and/or the senior management of the Company (the "Management"); (v) the opinions expressed by and the representations of the Directors and the Management; and (vi) our review of the relevant public information. We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are

solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular 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 Circular, or the reasonableness of the opinions expressed by the Company, its advisers, the Directors and/or the Management (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Chapters 13 and 14A of the Listing Rules. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, its respective subsidiaries or associates (if applicable) or any of the other parties involved in the Transactions, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. The Company has been separately advised by its own professional advisers with respect to the Transactions and the preparation of the Circular (other than this letter).

We have assumed that the Transactions will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Transactions, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Transactions. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Transactions, we have taken into account the following principal factors and reasons:

1. Background Information of the Group

As per the 2024/2025 Interim Report, the Group principally engages in the provision of residential care services and day care services for the elderly in Hong Kong and is organized into two business segments including (i) elderly care services segment (“Elderly Care Services”); and (ii) investment properties holding segment (“Investment Properties Holding”). Set out below is the key consolidated financial information of the Group for the six months ended 30 September 2023 and 2024 as extracted from the 2024/2025 Interim Report.

	For the six months ended	
	30 September	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	147,971	135,157
— Elderly Care Services	139,755	132,025
— Investment Properties Holding	8,216	3,132
Profit for the period	25,501	20,126

According to the 2024/2025 Interim Report, the revenue increased from approximately HK\$135.2 million for the six months ended 30 September 2023 to approximately HK\$148.0 million for the six months ended 30 September 2024, such increase was mainly due to (i) increase in revenue from rendering of elderly home care services as two new care and attention homes located in Lam Tin commenced operation during the six months ended 30 September 2024; and (ii) increase in rental and management fee income as the Group completed acquisition of the properties located at Tsuen Wan in February 2024 and rented to an independent third party for operation of an elderly home since then.

Profit of the Group amounted to approximately HK\$25.5 million for the six months ended 30 September 2024 which represents an increase of approximately HK\$5.4 million, or approximately 26.9%, from approximately HK\$20.1 million for the six months ended 30 September 2023. Such increase was mainly attributable to the increase in revenue as discussed above.

As over 90% of the revenue of the Group is derived from Elderly Care Service (i.e. its principal business), the Second Renewal Letters are crucial for the Group to maintain its portfolio of elderly residential care homes as an operator and continue to create sustainable income from operation of elderly residential care homes.

Set out below are certain key consolidated financial information of the Group as extracted from the interim condensed consolidated statement of financial position set out in the 2024/2025 Interim Report.

	As at	
	30 September 2024	31 March 2024
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Total assets	838,997	863,301
— Investment properties	368,100	368,100
— Right-of-use assets	265,674	282,115
 Total liabilities	 398,032	 428,774
 Equity attributable to the owners of the Company	 440,894	 434,293
 Cash and cash equivalents	 50,002	 37,420

The total assets of the Group amounted to approximately HK\$839.0 million as at 30 September 2024, representing a decrease of approximately HK\$24.3 million or approximately 2.8%, as compared to HK\$863.3 million as at 31 March 2024. The decrease was primarily due to (i) the decrease in short-term bank deposits of approximately HK\$29.0 million; and (ii) the decrease in right-of-use assets of approximately HK\$16.4 million, and partially offset by (i) the increase in cash and cash equivalents of approximately HK\$12.6 million; (ii) the increase in trade receivables of approximately HK\$5.2 million; and (iii) the increase in prepayments, deposits and other receivables of approximately HK\$5.7 million. The value (unaudited) of the right-of-use assets represents the present value of lease payments throughout the lease term under the renewal letters and tenancy agreement(s), discounted using the increment borrowing rate in accordance with HKFRS 16, and it decreases as time passes by. The value (unaudited) of the right-of-use assets recognised by the Company as of 3 December 2024 (i.e. date of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement) under the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement is approximately HK\$65.7 million.

The total liabilities of the Group amounted to approximately HK\$398.0 million as at 30 September 2024, representing a decrease of approximately HK\$30.8 million or approximately 7.2%, as compared to HK\$428.8 million as at 31 March 2024. The decrease was primarily due to (i) the decrease in lease liabilities of approximately HK\$13.5 million; (ii) the decrease in bank borrowings of approximately HK\$13.0 million; and (iii) the decrease in income tax payable of approximately HK\$5.1 million.

The Group's equity attributable to the owners of the Company remained relatively stable at approximately HK\$434.3 million and HK\$440.9 million as at 31 March 2024 and 30 September 2024, respectively.

The Group's cash and cash equivalents amounted to approximately HK\$50.0 million as at 30 September 2024, representing an increase of approximately 33.6% from approximately HK\$37.4 million as at 31 March 2024.

2. The Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement

(i) Information of the Group and the background of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement

The Group has been leasing various premises in Hong Kong from the controlling shareholders of the Company and their associates for the operations of the Group since 2019.

According to the Original Tenancy Agreements, each tenancy agreement has a provision to renew the lease period for three years upon expiry of the initial term, and another provision to renew the lease period for another three years upon expiry of the second term on the same terms and conditions, save for downward adjustment of monthly rental fee where the prevailing market of the relevant premises has been lowered.

The Group and the controlling shareholders of the Company entered into the First Renewal Letters on 17 May 2022 for the renewal of the Original Tenancy Agreements for a term from 1 April 2022 to 31 March 2025 on the same terms and conditions.

On 3 December 2024, (i) the Group and the controlling shareholders of the Company entered into the Second Renewal Letters for the second renewal of the Original Tenancy Agreements for a term from 1 April 2025 to 31 March 2028 on the same terms and conditions; and (ii) Crawfield International, an indirect wholly-owned subsidiary of the Company, as tenant, entered into the Tsuen Wan Warehouse Tenancy Agreement with Mr. Lam Kong as landlord in relation to the leasing of a warehouse and office located in Tsuen Wan.

(ii) Reasons for and benefits of entering into of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement

As set out in the Board Letter, the Group has been occupying the premises under the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement for its business and operation. In order to ensure that the business and operation of the Group will not be affected upon the expiration of the existing leases, the Group entered into the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement with the respective landlords.

The Group has also engaged the Independent Valuer to assess the fair market rent of the Premises which were of the opinion that the rental payments under the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement are fair and reasonable, compared with the open market rent of similar properties at the vicinity of each of the Premises.

In view of the above, the Directors consider that the terms of each of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement and the transactions contemplated thereunder, are fair and reasonable; and each of the Second Renewal Letters and Tsuen Wan Warehouse Tenancy Agreement and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Group and its Shareholders as a whole.

Given (i) the nature of the principal business of the Group as stated above; and (ii) the Second Renewal Letters are entered into in accordance to the provisions of the Original Tenancy Agreements for an extension of the lease period, we are of the view that the entering into of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement is in the ordinary and usual course of business of the Group.

(iii) Principal terms of the Second Renewal Letters

We have reviewed the Original Tenancy Agreements, First Renewal Letters and the Second Renewal Letters and understood it is the provision of the Original Tenancy Agreements that, among other things, the lease period shall be automatically renewed for three years upon expiry of the initial term on the same terms and conditions of the Original Tenancy Agreements, save for downward adjustment of monthly rental fee where the prevailing market of the relevant premises has been lowered. Therefore, the Second Renewal Letters are an extension of the Original Tenancy Agreements and the terms of the Second Renewal Letters are basically the same as the Original Tenancy Agreements, save for the time period being covered.

The principal terms of each of the Second Renewal Letters are summarised in the table below.

Premises no.	Renewal Letter	Address	Term	Use of property	Size (saleable floor area)	Annual rental amounts (for the years ending 31 March)	Monthly Unit Rent under the Second Renewal Letters (approx.) (Note 1)	Fair Monthly Unit Rent conducted by the Independent Valuer (approx.)
1	Kato Elderly Home Tenancy Second Renewal Letter	Shops 8-12 on G/F and I/F, Lakeshore Building, 7 Tseng Choi Street, Tuen Mun, New Territories, Hong Kong	1 April 2025 to 31 March 2028	Kato Elderly Home	Approx. 18,680 sq. ft.	2026: HK\$4,860,000 2027: HK\$4,860,000 2028: HK\$4,860,000	HK\$21.68 per sq. ft.	Shops 8-12 on G/F: HK\$41 per sq. ft. I/F: HK\$22 per sq. ft.
2	Kato Home for the Aged Tenancy Second Renewal Letter	I/F, Tung Wai Court, No. 3 Tsing Ling Path, Tuen Mun, New Territories, Hong Kong	1 April 2025 to 31 March 2028	Kato Home for the Aged	Approx. 12,277 sq. ft.	2026: HK\$2,376,000 2027: HK\$2,376,000 2028: HK\$2,376,000	HK\$16.13 per sq. ft.	HK\$22 per sq. ft.
3	Fai To Home (On Lai) Tenancy Second Renewal Letter	Shops 1-17 on I/F, On Lai Building, 3 Tsing To Path, Tuen Mun, New Territories, Hong Kong	1 April 2025 to 31 March 2028	Fai To Home (On Lai)	Approx. 5,271 sq. ft.	2026: HK\$1,236,000 2027: HK\$1,236,000 2028: HK\$1,236,000	HK\$19.54 per sq. ft.	HK\$27 per sq. ft.
4	Fai To Home (Tuen Mun) Tenancy Second Renewal Letter	I/F, including Entrance on G/F, Florence Mansion, 6 Tsing Ling Path, Area 4B, Tuen Mun, New Territories, Hong Kong	1 April 2025 to 31 March 2028	Fai To Home (Tuen Mun)	Approx. 8,645 sq. ft.	2026: HK\$2,004,000 2027: HK\$2,004,000 2028: HK\$2,004,000	HK\$19.32 per sq. ft.	HK\$28 per sq. ft.
5	Tsuen Wan Centre Tenancy Second Renewal Letter	Shop C1, I/F, Tsuen Wan Centre Shopping Arcade, 87-105 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong	1 April 2025 to 31 March 2028	Tsuen Wan Centre	Approx. 15,950 sq. ft.	2026: HK\$2,904,000 2027: HK\$2,904,000 2028: HK\$2,904,000	HK\$15.17 per sq. ft.	HK\$21 per sq. ft.

Premises no.	Renewal Letter	Address	Term	Use of property	Size (saleable floor area)	Annual rental amounts (for the years ending 31 March)	Monthly Unit Rent under the Second Renewal Letters (approx.) (Note 1)	Fair Monthly Unit Rent conducted by the Independent Valuer (approx.)
6	Happy Luck Home Tenancy Second Renewal Letter	2nd Floor of Phase 1 of Commercial Development of Allway Gardens, Nos. 187-195 Tsuen King Circuit, Nos. 2-22 On Yat Street, Tsuen Wan, New Territories, Hong Kong	1 April 2025 to 31 March 2028	Happy Luck Home	Approx. 15,729 sq. ft.	2026: HK\$2,724,000 2027: HK\$2,724,000 2028: HK\$2,724,000	HK\$14.43 per sq. ft.	HK\$24 per sq. ft.
7	Tsuen Wan Staff Quarters Tenancy Second Renewal Letter	Flat C, 24/F, Block 9 (Nanking House), Tsuen Wan Centre, 89 Tsuen King Circuit, Tsuen Wan, New Territories, Hong Kong	1 April 2025 to 31 March 2028	Staff quarters for the Tsuen Wan Centre	Approx. 425 sq. ft.	2026: HK\$146,400 2027: HK\$146,400 2028: HK\$146,400	HK\$28.71 per sq. ft.	HK\$30 per sq. ft.
8	Kato Staff Quarters Tenancy Second Renewal Letter	Rooms C and D on 2/F and Flat Roof, Lakeshore Building, 7 Tseng Choi Street, Tuen Mun, New Territories, Hong Kong	1 April 2025 to 31 March 2028	Staff quarters for the Kato Elderly Home and Kato Home for the Aged	Approx. 8,257 sq. ft. (including flat roof area of 7,427 sq. ft.)	2026: HK\$356,400 2027: HK\$356,400 2028: HK\$356,400	HK\$3.60 per sq. ft. (Note 2)	HK\$4 per sq. ft. (Note 2)
9	Staff Quarters Tenancy Second Renewal Letter	3/F, Four Sea Mansion, 11 Fa Yuen Street, Mongkok, Hong Kong	1 April 2025 to 31 March 2028	Staff quarters for the Happy Luck Home, Pine Villa, Fai To Sino West Home and Tsuen Wan Centre	Approx. 799 sq. ft.	2026: HK\$254,400 2027: HK\$254,400 2028: HK\$254,400	HK\$26.53 per sq. ft.	HK\$28 per sq. ft.

Premises no.	Renewal Letter	Address	Term	Use of property	Size (saleable floor area)	Annual rental amounts (for the years ending 31 March)	Monthly Unit Rent under the Second Renewal Letters (approx.) (Note 1)	Fair Monthly Unit Rent conducted by the Independent Valuer (approx.)
10	Fai To Sino West Staff Quarters Tenancy Second Renewal Letter	Room 10 on 3/F and Flat Roof, Tung Shun Hing Building, 22 Chi Kiang Street, Kowloon, Hong Kong	1 April 2025 to 31 March 2028	Staff quarters for the Fai To Sino West Home	Approx. 266 sq. ft. (together with flat roof of 280 sq. ft.)	2026: HK\$60,000 2027: HK\$60,000 2028: HK\$60,000	HK\$18.80 per sq. ft. (Note 2)	HK\$34 per sq. ft. (Note 2)

Note:

1. The monthly rent is payable by the tenants each and every calendar month during the term of the Second Renewal Letters.
2. Flat roof area is not taken into account for the calculation monthly on unit rent.

Annual rental amounts

The aggregate annual rental amounts under the Second Renewal Letters is HK\$16,921,200, HK\$16,921,200 and HK\$16,921,200 for each of the three years ending 31 March 2026, 2027 and 2028 respectively.

The rental amount for each of the Second Renewal Letters were arrived at after arm's length negotiations between the parties and with reference to an exhaustive list of prevailing market rent for similar properties in neighboring areas when the Original Tenancy Agreements were entered into (except for Happy Luck Home Tenancy Second Renewal Letter, of which elderly centre rental transactions in other locations are also analysed, due to the insufficient local market data available) and with transaction date close to the valuation date of the Premises. In case where the said selection criteria is not fully met, the Independent Valuer has extended the research to identify rental comparables that were transacted in earlier dates but are considered to be comparable to the Premises in terms of location and nature.

(iv) Principal terms of the Tsuen Wan Warehouse Tenancy Agreement

Date : 3 December 2024

Parties : Crawfield International, as tenant; and
Mr. Lam Kong, as landlord

Location of property	:	Flat B, 3/F., Metropolitan Factory & Warehouse Building, 30–32 Chai Wan Kok Street, Tsuen Wan, New Territories, Hong Kong
Size of property (saleable floor area)	:	Approximately 5,800 sq. ft.
Term	:	1 April 2025 to 31 March 2028
Monthly Rental Fee	:	The monthly rent of HK\$55,000 is payable by Crawfield International each and every calendar month during the term of the Tsuen Wan Warehouse Tenancy Agreement.
Monthly unit rent under the Tsuen Wan Warehouse Tenancy Agreement	:	Approximately HK\$9.48 per sq. ft.
Fair monthly unit rent conducted by the Independent Valuer	:	HK\$10 per sq. ft.

Historical rental amounts

Crawfield International and Mr. Lam Kong entered into a short term lease from 1 November 2024 to 31 March 2025 with a monthly rental of HK\$55,000 for the use of the warehouse. The historical rental amounts paid/payable by the Group to Crawfield International in relation to the leasing of a warehouse for the three years ended/ending 31 March 2023, 2024 and 2025 was nil, nil and HK\$275,000, respectively.

Annual rental amounts

The rent payable by the Group to Mr. Lam Kong under the Tsuen Wan Warehouse Tenancy Agreement for each of the three years ending 31 March 2026, 2027 and 2028 is HK\$660,000, HK\$660,000 and HK\$660,000, respectively, which were arrived at after arm's length negotiations between the parties and with reference to an exhaustive list of prevailing market rent for similar properties in neighboring areas at which the warehouse and office is located.

The fair monthly market rent as at 31 October 2024 opined by the Independent Valuer amounts to HK\$56,400 per month (equivalent to HK\$676,800 per annum). The rent payable by the Group to Mr. Lam Kong under the Tsuen Wan Warehouse Tenancy Agreement for each of the three years ending 31 March 2026, 2027 and 2028 is HK\$660,000, HK\$660,000 and HK\$660,000, respectively, are slightly lower than the aforementioned fair market rent.

(v) Analysis of the principal terms of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement

As stated in the Board Letter, the Group determined the rent payable for each of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement after arm's length negotiations with the respective landlords based on normal commercial principles with reference to the prevailing market rent of leases of comparable premises, the historical quotations to other Independent Third Parties by the respective landlords for similar leases, and other factors such as floor area, facilities and location.

To ensure the rent payable under each of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement is fair and reasonable and not less favourable than the rent payable to Independent Third Parties in respect of the same or similar premises, the Management will follow the below procedures:

- (a) search for actual rental transactions of the same premises, premises in the same building and premises in the neighboring area (where such transactions are not available, refer to real estate industry publications describing rental trends in the relevant areas);
- (b) compare the said market rent (or rental trends, where applicable) with the rent payable under the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement; and
- (c) in cases where rent payable offer by the respective landlords under any of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement is higher than the prevailing market rent of the relevant premises, request such landlord(s) to reduce the rent payable.

To facilitate the above pricing procedures, we understand the Company has engaged ValQuest Advisory (Hong Kong) Limited (i.e. the Independent Valuer), a professional and independent valuer, to assess the fair market rents of the Premises for internal reference to the Board. In assessing the fairness and reasonableness of the rent payable by the Group under the Second

Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement, we have reviewed the Valuation Report in Appendix II of the Circular issued by the Independent Valuer which set out their market rental valuation for the Premises as at 31 October 2024.

Independence, qualification and scope of work of the Independent Valuer

We have reviewed and enquired into the qualifications and experience of the Independent Valuer in relation to the preparation of the Valuation Report, and noted that the Independent Valuer is a firm specialised in the provision of valuation services for its clients engaging in different industries for various purposes. The Independent Valuer is a provider of appraisals for various assets and businesses, and has extensive experience in providing valuation and advisory services to Hong Kong, United States and Shanghai listed companies and non-listed multi-national companies. Based on the information provided by the Independent Valuer, the responsible person in charge of the Valuation Report, namely Mr. Norris Nie (“**Mr. Nie**”), the managing director of the Independent Valuer, is a member of the China Institute of Real Estate Appraiser, a member of the Royal Institution of Chartered Surveyors (“**RICS**”) and a member of the Hong Kong Institute of Surveyors. He has over 26 years’ experience in the professional property valuation and advisory services in the Greater China Region including Hong Kong.

Per the discussion with and confirmation made by the Independent Valuer, we understand that (i) the Independent Valuer had no concern on the accuracy and completeness of information the Independent Valuer relied upon throughout the valuation process; and (ii) the Independent Valuer had no concern on the reasonableness of any representation made by the Management or any other party to the Independent Valuer.

We have also reviewed the Independent Valuer’s terms of engagement with the Company in relation to the Valuation Report and in particular, the scope of work, and noted that it is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the degree of assurance given by the Independent Valuer in the Valuation Report.

We enquired on the Independent Valuer whether they have any current or prior relationships with the Company, the Landlords, and core connected persons of either the Company or the Landlords and noted that save for the current engagement, a valuation engagement for the Company’s acquisition in early 2024 and valuation engagement for the Company’s annual audit, no other relationship exists. As discussed with and confirmed by the Independent Valuer, the aggregate revenue generated from the aforementioned valuation engagements does not constitute a significant portion of the Independent Valuer’s annual revenue. The Independent Valuer considers, and we are satisfied, that the Independent Valuer is independent from the Company and the Landlords.

We discussed with the Independent Valuer on (i) the valuation approach adopted; (ii) the criteria in selecting the comparable rental transactions, including location, property type and usage and transaction date; and (iii) the sources of comparable rental transactions.

Valuation approach

We understand from the Independent Valuer that the Valuation Report was prepared in accordance with the RICS Valuation — Global Standards (effective from 31 January 2022) incorporating the IVSC International Valuation Standards, published by the RICS. We noted that the Independent Valuer adopted the market approach by referring to rental transactions or listings of comparable properties in the subject localities, and with adjustments to reflect the differences between the Premises and the comparables in terms of various factors including time, location, floor level, building age, size, view and accessibility, etc. where necessary. As advised by the Independent Valuer, this approach is widely accepted and is the best indicator for assessing the relevant rental of similar properties given that the subject markets are situated in Hong Kong, which is an open property market, and market comparables are sufficient and available in public domain. The Independent Valuer advised that they had not, and considered it is not necessary, to perform secondary valuation method for cross checking, as there are sufficient market comparables for each of the Premises. Secondary valuation method involves estimating a price for the property using cost method, and estimating the rate of return to obtain the rent, which is complicated and involves a lot of professional judgements, and is only adopted when the property is very unique without suitable market comparables. Based on the above, we are of the opinion that the valuation approach adopted by the Independent Valuer is reasonable and acceptable in establishing the fair market rent of the Premises.

We noted that in assessing the fair market rents, the Independent Valuer has considered the current market condition for rents of the types of properties involved and their locations, examined comparable rentals of similar properties in the nearby vicinity of the Premises, and conducted the market rental valuation on the basis of market rent, being defined as “the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”. Accordingly, we consider that the methodology, basis and assumptions adopted by the Independent Valuer for determining the fair market rents of the Premises are appropriate. During our discussion with the Independent Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Report.

We consider that as all the Premises are situated in Hong Kong which is an open property market in which market comparables are sufficient and available in public domain, and the Independent Valuer could be able to identify at least three (3) comparable rental transactions for each of the Premises, which we consider the sample size of 3 is sufficient. Market approach involves the least judgement by the Independent Valuer and is considered the most appropriate valuation approach in the cases that market comparables are sufficient. Hence, we concur with the opinion of the Independent Valuer that none of the other valuation methodologies is considered to be more appropriate.

Comparable rental transactions

We have also reviewed and discussed with the Independent Valuer on (i) the criteria in selecting the comparable rental transactions (the “Comparable(s)”), including location, property usage, floor size, floor level, transaction date and building age and condition; (ii) the sources of the Comparable; and (iii) the valuation approach adopted.

We have enquired, obtained and reviewed the list of Comparables identified by the Independent Valuer for each of the Premises and noted that the Independent Valuer identified at least three (3) Comparables for each of the Premises. As advised by the Independent Valuer, the selection criteria of Comparables are (i) being located in same district of the Premises (except for Happy Luck Home (No. 6) which the elderly centre rental transactions in other locations are also analyzed due to the insufficient local market data available); (ii) being either situated within same building or building complex (if any) or on the proximate streets of the Premises (except for Happy Luck Home for reasons as mentioned above); (iii) the accessibility is similar to that of the Premises; and (iv) the type of usage of which is the same as the Premises. The Independent Valuer further advised that the details of the Comparables are sourced from properties transaction database, the Land Registry or property agents. We have enquired, obtained and reviewed the source data of every Comparable identified by the Independent Valuer for each of the Premises and are satisfied that all the Comparables are sourced from properties transaction database, the Land Registry or property agents. We also note that, in particular, certain Premises has adopted Comparables in other districts of Hong Kong or transacted in older days (i.e. between 2020 and 2023). We enquired the Independent Valuer and we understand that Comparables having the same nature as the Premises that are located within the same development/locality, and with transaction date close to the valuation date (i.e. 31 October 2024) are most preferred, as such Comparables require the least subjective and judgmental adjustments by the Independent Valuer. We reviewed the list of Comparables provided. However, in case where the Independent Valuer was unable to identify suitable and recent rental transactions/listings of similar nature as the Premises within the subject arcade/neighboring developments during their on-site inspection and from various market sources, the Independent Valuer considered whether expanding the location or transaction time criteria enabled the Independent Valuer to identify more suitable comparable rental transactions

with less subjective and judgmental adjustments. We are also satisfied that all the Comparables selected by the Independent Valuer are in line with the aforementioned selection criteria set by the Independent Valuer. Taking into account that, from a reasonable lessee's perspective, (i) the location and the accessibility of a property are one of the major characteristics in determining the rent; (ii) the usage of property affects rental value in a large extent; and (iii) a period of up to four years from the valuation date has captured the general rental market and economic conditions with sufficient number of publicly available transactions for valuation purpose, we agree that the Independent Valuer's selection criteria are appropriate to identify Comparables and to determine the fair market rent of the Premises.

We also understand from the Independent Valuer that they have made certain adjustments, including but not limited to, timing difference between the transaction date of the Comparables and the valuation date, size, location and floor level, to account for the differences between the Premises and the Comparables. In particular, we note that the Independent Valuer had tried to obtain the most recent transactions date (i.e. within 12 months) for valuation purpose, and for certain Premises which has comparable transactions transacted in the year 2020 to 2023, we note that the Independent Valuer has applied adjustment to reflect the time difference. We also note that, for certain Premises which do not have suitable comparable rental transactions, the Independent Valuer obtained the rental listings from property agents, and applied adjustment to reflect the difference between landlords' ask prices and the possible transaction prices. We have reviewed the calculation of the fair market rent of the Premises and understood the rationale of the adjustments made to the Comparables. We noted that the timing difference adjustment was made in accordance to the official private property rental indices published by the Rating and Valuation Department in order to reflect the rental movement between the transaction date of the Comparables and the valuation date of the Premises.

We have taken a close review on the adjustment schedule of each of the Comparables for each of the Premises, and we note the following general principles adopted by the Independent Valuer:

Location: Upward adjustment has been applied if the location of the Comparable is inferior to the Premise, and downward adjustment has been applied if the location of the Comparable is better than the Premise.

Floor level: For retail properties, ground floor property has higher unit rent than property situated on 1/F or 2/F. For residential properties, the unit rent increase gradually along the floor level of the residential building. For industrial properties, the unit rent does not vary prominently among floors on the same building.

- Size: Property of larger size has lower unit rent than property of smaller size. Upward adjustment has been applied if the size of the property of the Comparable is larger than the Premise, and downward adjustment has been applied if the size of the property of the Comparable is smaller than the Premise.
- Time: Time adjustment was made in accordance to the official private property rental indices published by the Rating and Valuation Department according to the time the Comparable was entered into.
- Asking: For certain Premises which do not have suitable comparable rental transactions, the Independent Valuer obtained the rental listings from property agents, and applied adjustment to reflect the difference between landlords' asking rents and the possible transaction rents. The degree of adjustment is based on the Independent Valuer's internal data base and experience.

We are satisfied that the abovementioned general principles are appropriate and reasonable.

Based on our discussion with and review of the Comparables adopted by the Independent Valuer, we are of the view that the Comparables are fair and representative, and the adjustments are appropriate and reasonable for the market rental valuation for the Premises.

Conclusion on the Valuation Report

With regards to the Valuation Report, we have complied with the requirements under note 1(d) to Rule 13.80 of the Listing Rules and paragraph 5.3 of the Corporate Finance Adviser Code of Conduct by performing, including but not limited to, the following works: (i) discussed with the Independent Valuer regarding the methodology applied and principal basis and assumptions adopted in the Valuation Report; (ii) assessed the experience and expertise of the person responsible for the Valuation Report, namely Mr. Nie, and the Independent Valuer's recent valuation assignments; (iii) enquired on any current or prior relationships with the Company and core connected persons of either the Company or the Landlords and noted that save for the current engagement and valuation engagement for the Company's annual audit, no other relationship exists; and (iv) reviewed the terms of engagement in respect of the Valuation Report.

Based on aforementioned works performed by us, we are of the view that (i) methodology applied and principal basis and assumptions adopted in the Valuation Report are fair and reasonable; (ii) the scope of services as illustrated in the engagement letter is appropriate; (iii) the Independent Valuer, Mr. Nie, being the responsible person of the Valuation Report, has adequate qualifications, experience and expertise, and hence is competent to issue the Valuation Report. Nothing has come to our attention that causes us to doubt the fairness and reasonableness of the Valuation Report.

By comparing the monthly unit rent payable by the Group under the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement to the fair market monthly unit rent as appraised by the Independent Valuer, we found that all the unit rent payable is either equal to or lower than the fair market unit rent. As the lower the rental fee, the greater the benefit is to the lessee, we consider the rent payable (and the possible downward adjustment of monthly rental fee where the prevailing market of the relevant premises has been lowered) under each of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement is fair and reasonable, on normal commercial terms and no less favourable to the Group than those available from Independent Third Parties in respect of the same or similar premises.

Payment terms

Pursuant to the terms of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement, the monthly rent is payable by the tenants each and every calendar month during the term of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement.

Rental payment on monthly basis is the most commonly adopted payment terms negotiated on arms' length basis in a typical rental agreement between landlord and tenant and is considered fair and reasonable.

3. Internal control measures

As stated in the Board Letter, in order to ensure that the pricing basis is adhered to for each of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement and the connected transactions under the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement are in compliance with the requirements of the Listing Rules, the Company has adopted the following internal control measures:

- (i) the relevant operation departments and management of the Group have examined the proposed rent under the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement in order to ensure that such rent is determined based on arm's length negotiations between the parties and the terms of the Second Renewal Letters and the

Tsuen Wan Warehouse Tenancy Agreement are fair and reasonable, on normal commercial terms and on terms that are no less favourable to the Group than those available from Independent Third Parties;

- (ii) the finance department of the Group has reviewed whether the proposed rent payable under each of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement is in line with the pricing policy; and
- (iii) the Company's responsible management with assistance from external legal, accounting or other professional advisers continues to oversee and monitor the Company's on-going compliance with the Listing Rules in relation to the Group's lease arrangements.

We have discussed the above internal control measures with the Company and understood the Company engaged the Independent Valuer to conduct professional valuation on the fair market rents for the Premises for their internal reference in order to ensure the rent payable under each of the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement is determined based on arm's length negotiations between the parties and the terms thereof are fair and reasonable, on normal commercial terms and on terms that are no less favourable to the Group than those available from Independent Third Parties. We have reviewed the register of rents paid to connected persons by the Group under the First Renewal Letters prepared by the accounting department of the Company and noted that the transaction amounts were properly recorded and understood that same practice will be implemented for the rent payable under the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement.

Based on the above procedures and our review of the relevant documents, we are of the view that there are appropriate internal control procedures in place to ensure the transactions contemplated under the Second Renewal Letters and the Tsuen Wan Warehouse Tenancy Agreement are conducted on normal commercial terms and in the interests of the Group and its Shareholders as a whole.

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the view that the Transactions are in the ordinary and usual course of business, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Therefore, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favor of the ordinary resolution(s) to approve the Transactions at the EGM.

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited



Florence Ng
Associate Director

Note:

Ms. Florence Ng is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Ms. Ng has over 10 years of experience in the corporate finance industry in Hong Kong.