

27 March 2025

To the Shareholders

Dear Sir or Madam

**MAJOR TRANSACTION IN RELATION
TO THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL
OF MASTER CLEVER LIMITED**

INTRODUCTION

Reference is made to the announcement of the Company dated 9 January 2025 in relation to the Disposal.

The purpose of this circular is to provide you with, among other things, (i) further details of the Disposal; (ii) financial information of the Group; and (iii) any other information required under the GEM Listing Rules.

THE DISPOSAL

On 9 January 2025 (after trading hours), the Vendor, a wholly-owned subsidiary of the Company and the Purchaser entered into the SPA pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Share, representing the entire issued share capital of the Target Company, at the Consideration of HK\$14,400,000, subject to the terms and conditions of the SPA.

The SPA

Set out below are the principal terms of the SPA:

Date 9 January 2025

Parties (i) the Vendor (as vendor); and
(ii) the Purchaser (as purchaser)

To the best knowledge, information and belief of the Directors, the Purchaser is a director of the Target Company and he did not hold any Shares as at the Latest Practicable Date. Hence, the Purchaser is a connected person at the subsidiary level.

Subject matter

The disposal of the Sale Share, representing the entire issued share capital of the Target Company, at the Consideration of HK\$14,400,000.

Consideration and payment terms

The Consideration, being the sum of HK\$14,400,000, was satisfied by the Purchaser in cash in the following manners:

- (i) as to HK\$10,800,000 to be payable by the Purchaser to the Vendor within 36 months after the Completion Date in monthly instalments of HK\$300,000 each. The Purchaser has paid HK\$300,000 and has delivered 35 post-dated cheques in the amount of HK\$300,000 each to the Vendor on Completion; and
- (ii) as to HK\$3,600,000 to be payable by the Purchaser to the Vendor from the 37th month to the 42nd month from the Completion Date. During the six months period from the 37th month to the 42nd month, the Purchaser shall pay no less than HK\$600,000 each month and until all the balance sum of HK\$3,600,000 has been paid off. The Purchaser has delivered six post-dated cheques in the amount of HK\$600,000 each to the Vendor on Completion.

The Vendor and the Purchaser agreed that, subject to the Completion, from 9 January 2025 onwards, all the expenses and incomes from the dental clinic operated by the Company should be borne by (in case of expenses) and belong to (in case of incomes) the Purchaser.

The prolonged payment term of the Consideration was requested by the Purchaser and arrived at after arm's length negotiation between the Purchaser and the Vendor. The Purchaser agreed to pay a premium in light of the prolonged payment arrangement as further elaborated in the section headed "*Basis for determination of the Consideration*" in this letter from the Board. Prior to the entry of the SPA, the Company carried out due diligence exercise against

the financial status of the Purchaser to assess the credit risk. Particularly, the Company has requested the Purchaser to provide information to prove he has sufficient assets to discharge the payment obligation of the Consideration. The Company also conducted independent search which revealed that at least three of the properties are beneficially owned by the Purchaser and they are free from mortgages or pledges. The Company further conducted research on the market prices of comparable properties in terms of both size and location of the properties, and based on such search results on the prevailing market prices of similar properties in the same vicinity, the Company is reasonably satisfied that the Purchaser has sufficient assets to fulfill its payment obligations under the SPA when they fall due.

Moreover, pursuant to the SPA, the Vendor has received from the Purchaser the first installment payment of HK\$300,000 in clear fund and 41 post-dated cheques on Completion to satisfy the Consideration in full. Due to the fact that (i) the use of dishonoured cheque constitutes an offence under the Theft Ordinance (Cap. 210 of the laws of Hong Kong) which will lead to criminal liability on the part of the Purchaser in the event any of the post-dated cheques is dishonoured; (ii) the Purchaser is an esteemed registered dental practitioner in Hong Kong with over 30 years of experience in the industry and is himself subject to stringent codes of conducts as a medical professional; and (iii) the past business relationship between the Group and the Purchaser has been admirable to which the Purchaser was known to conduct his affairs in good faith, the Company is therefore of the view that the Purchaser has high creditworthiness and the risk of the Purchaser using dishonoured cheques is relatively low.

In the unlikely event of default payments, legal recourses are also available to the Vendor. Specifically, the SPA provides that, among others, a default in any part payment of the Consideration would constitute an event of default under the SPA and all outstanding part(s) of the Consideration shall forthwith become fallen due. The Vendor will therefore immediately recoup the full Consideration and may elect to pursue in court against the Purchaser for breach of contract should the Purchaser defaults in payment.

The Company cannot obtain an irrevocable undertaking from the Purchaser that he will not create any encumbrance on the aforesaid properties beneficially owned by him, as the Purchaser was unwilling to provide such undertaking. Nonetheless, in light of (i) the high creditworthiness of the Purchaser and the low risk pertaining to dishonoured cheques based on the above assessment; (ii) the legal recourses available to the Group to recover money owed under the dishonoured cheques; (iii) the continuous successful monthly bank in of the Purchaser's post-dated cheques is a sufficient indication of the Purchaser's payment ability; and (iv) the continuing communication between the management of the Company and the Purchaser on a monthly basis, including notification to the Purchaser of upcoming payments and basic enquiries regarding the Purchaser's ability to honour the post-dated cheques, the Company considers that it has proper means to closely monitor the performance of the Purchaser's payment obligations. As at the Latest Practicable Date, no post-dated cheques fallen due have been dishonoured. Based on the aforesaid, the Company is satisfied that the Company's entitlement to the Consideration is sufficiently safeguarded under the current payment terms of the SPA.

The Debt Restructuring

It is a condition under the SPA that the Target Company and the Group should undergo the restructuring of the inter-companies loans due to and from the Target Company and the Remaining Group. Based on the management accounts of the Target Company as at 30 September 2024, the Remaining Group was indebted to the Target Company of approximately HK\$6.39 million.

The Debt Restructuring comprised the following steps:

- (i) the Target Company declared a dividend of approximately HK\$7.4 million to the Vendor which was set off against the amount due by the Company to the Target Company as at 30 November 2024 on dollar-for-dollar basis;
- (ii) the Target Company used its idle cash in bank to pay off all account payables, and the surplus cash was used to repay the amount due by the Target Company to the other creditor subsidiaries of the Company;
- (iii) all the amounts due to and from the Target Company and the Remaining Group were assigned and novated to the Company; and
- (iv) the remaining amount due to or from the Target Company and the Company was waived before Completion.

After the Debt Restructuring, there was no amount due to or from the Remaining Group and the Target Company. As at the Latest Practicable Date, the Debt Restructuring has been completed.

Conditions

Completion is conditional upon the following conditions being satisfied on or before the Long Stop Date:

- (i) the Company having obtained a written Shareholder's approval from its controlling shareholder(s) in accordance with the requirements under the GEM Listing Rules approving the SPA and the transactions contemplated thereunder;
- (ii) completion of the Debt Restructuring;
- (iii) all necessary consents, licenses and approvals required to be obtained on the part of the Vendor and the Target Company in respect of the SPA and the transactions contemplated thereunder having been obtained and remain in full force and effect;
- (iv) all necessary consents, licenses and approvals required to be obtained on the part of the Purchaser in respect of the SPA and the transactions contemplated thereunder having been obtained and remain in full force and effect;
- (v) the warranties provided by the Vendor under the SPA remaining true and accurate in all respects; and

(vi) the warranties provided by the Purchaser under the SPA remaining true and accurate.

Each party to the SPA shall use its best endeavours to satisfy and fulfill the conditions and, in particular, shall procure that all information and documents required pursuant to the GEM Listing Rules, and other applicable rules, codes and regulations whether in connection with the preparation of all circulars, reports, documents, independent advice or otherwise are duly given promptly to the Vendor, the Stock Exchange and other relevant regulatory authorities.

If the conditions have not been satisfied on or before 4:00 p.m. of the Long Stop Date, the SPA shall cease and determine and thereafter neither party shall have any obligations and liabilities towards each other under the SPA save for any antecedent breaches of the SPA.

As at the Latest Practicable Date, all conditions have been satisfied and Completion has taken place.

Completion

Subject to the fulfilment of the conditions under the SPA, Completion shall take place on the Completion Date, being a day falling within five Business Days after the fulfilment of the Conditions (or such other date as the parties to the SPA may agree).

Completion took place on 19 February 2025.

Basis for determination of the Consideration

The Consideration was arrived after arm's length negotiation between the Vendor and the Purchaser with reference to, among other things, (i) the financial results of the Target Company for the financial years ended 31 March 2023 and 2024 and the nine months ended 31 December 2024; (ii) the combination of (a) the common market price over earning ("PE") multiple of 12, (b) the post-Completion annual return of HK\$1.00 million of the Target Company as represented by the Purchaser, and (c) the premium attributed to the post-Completion payment of the Consideration as requested by the Purchaser; and (iii) the reasons and benefits of the Disposal as discussed in the section headed "*The reasons for and the benefits of the Disposal*" in this letter from the Board.

Prior to the negotiation for the Disposal, the Group and the Purchaser have explored the feasibility to outsource the operation of the dental clinic of the Target Company to the Purchaser. The Purchaser proposed to provide an annual return of HK\$1.00 million to the Group for the outsourcing arrangement. However, considering the keen competition arising from the dental clinics in Shenzhen, the uncertain trading prospect of the dental business of the Target Company, the Company counter-proposed the Disposal to the Purchaser. In reaching the Consideration, the Company proposed an initial consideration of HK\$12.00 million, being the product of the common market PE multiple of 12 and the post-Completion annual return of HK\$1.00 million as previously proposed by the Purchaser. The Group has been engaging in medical and dental services for approximately 30 years and the management of the Company has in-depth knowledge in the corporate medical and dental solutions industry, to which based on their market acumen and understanding, transactions of similar nature typically have a PE

multiple in the range of 10 to 12. Such PE multiple range was reflected in the valuation report obtained in respect of the Previous Acquisition, details of which are set out in the Appendix V to the circular of the Company dated 31 January 2019. The management therefore proposed to adopt the higher end of the aforesaid range. The management further noted and considered that as at 30 November 2024, based on publicly available information, comparable listed companies in Hong Kong principally engaged in similar business and with a positive PE ratio, have a average PE ratio of approximately 12.2, which is in line with the aforesaid PE multiple range of 10 to 12 in transactions of similar nature. The said comparable companies consist of four Hong Kong listed companies, the principal businesses of which include the provision of non-hospital medical services in Hong Kong, including but not limited to general practices, specialty, and dental services, and the provision of other healthcare solutions and services, which are highly akin to the business of the Target Company as it involves the operations of clinics providing medical treatments to patients by medical professionals.

The annual return of HK\$1.00 million was in turn proposed by the Purchaser solely based on his own representation. Given that (i) at the material times, the Company was not able to identify any potential buyer in respect of the Target Company and the Purchaser was the sole potential purchaser who has expressed interest in acquiring the Target Company, and (ii) the Target Company was already in loss-making position for consecutive years, and that the management was uncertain about the trading and financial prospects of the Target Company, the Company considered that the annual return of HK\$1.00 million as represented by the Purchaser was optimistic and in the interest of the Company for the purpose of reaching the Consideration. In addition, neither the Vendor was required to provide any profit guarantee to the Purchaser in respect of the HK\$1.00 million annual return, nor was the payment obligations of the Purchaser conditioned upon the Target Company achieving the HK\$1.00 million annual return, as such, the Vendor's entitlement to the full Consideration is safeguarded regardless of whether the proposed annual return is achievable or in fact achieved, and the Company is of the view that the basis of consideration, including the HK\$1.00 million as proposed by the Purchaser, is fair and reasonable and in the interest of the Company. When arriving at the final Consideration, the management of the Company and the Purchaser also agreed to a premium to the initial consideration as consideration for the prolonged payment period.

INFORMATION OF THE TARGET COMPANY

The Target Company is a limited company incorporated in Hong Kong and is principally engaged in the business of operation of dental clinics for the provision of dental services including orthodontic treatment, dental laser implant surgery, teeth whitening and other general dental services.

Set out below is a summary of the audited financial information of the Target Company for the two financial years ended 31 March 2023 and 2024 and the unaudited financial information of the Target Company for the nine months ended 31 December 2024:

	For the year ended 31 March		For the nine months ended
	2023	2024	31 December
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2024</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
	<i>(approx.)</i>	<i>(approx.)</i>	<i>(approx.)</i>
Revenue	42,520	29,817	16,645
Net (loss) before taxation	(829)	(2,555)	(767)
Net (loss) after taxation	(829)	(2,555)	(767)

The unaudited net liability value of the Target Company as at 31 December 2024 was approximately HK\$0.4 million.

FINANCIAL EFFECTS OF THE DISPOSAL

Prior to the Completion, the Target Company was a wholly-owned subsidiary of the Company. Upon Completion, the Target Company was ceased to be a subsidiary of the Company and the Company ceased to have any interest in the Target Company. The financial results of the Target Group is no longer be consolidated into the consolidated financial statements of the Group following Completion.

Assets and liabilities

Having taken into account the Consideration and the unaudited net liability value of the Target Group as at 31 December 2024, it is estimated that following the Completion, the total assets of the Group will increase by approximately HK\$8.6 million.

The total liabilities of Group will decrease by approximately HK\$6.1 million. It is estimated that the net assets of the Group will have an increase of approximately HK\$14.8 million, being the difference between the increase in total assets and decrease in total liabilities of the Group.

Earnings

As the Target Company has been loss making for the nine months ended 31 December 2024, and having considered the prospect of the Target Company, and its business did present pressure on the Group's overall profitability before Completion. Notwithstanding that the turnover of the Group will decrease following the Completion, it is expected that the Disposal can reduce loss of the Company and that the Group's earnings will improve as a result of the Disposal.

Based on the net proceeds from the Disposal of HK\$14.1 million (after deducting of estimated professional fees and other related expenses of approximately HK\$337,000) and the Company's carrying value, being the unaudited net liability value of the Target Group, of the Sale Share of approximately HK\$0.3 million as at 31 December 2024, it is estimated that the Company will record a gain of approximately HK\$14.0 million as a result of the Disposal. The actual gain or loss to be recorded by the Company depends on the net asset/liability value of the Target Group as at the Completion Date, which is subject to final audit to be performed by the auditors of the Company.

INFORMATION OF THE PARTIES TO THE SPA

The Vendor

The Vendor is a company incorporated in the British Virgin Islands with limited liability, a direct wholly-owned subsidiary of the Company and is principally engaged in investment holding.

The Purchaser

To the best of the knowledge, information and belief of the Directors, and having made all reasonable enquiries, the Purchaser is a registered dentist registered with The Dental Council of Hong Kong and one of the directors of the Target Company, hence, a connected person at the subsidiary level.

REASONS FOR AND BENEFITS OF THE DISPOSAL AND USE OF PROCEEDS

The Group is principally engaged in the provision of corporate medical and dental solutions to contract customers through the design and administration of tailored medical and/or dental benefit plans for the contract customers and the provision of different combinations of medical and/or dental services through the MediNet network and/or MediNet centre and dental clinic.

On 12 July 2018, the Group, via the Previous Acquisition, acquired the Target Company from Tradewide Investments Limited, a controlled corporation of the Purchaser. Since the Previous Acquisition, the performance of the Target Company initially gained traction and subsequently experienced a downturn when the dental services business of the Target Company faced significant challenges due to the impact of COVID-19. The dental industry of the Group has been further affected in the post-COVID era, particularly with the reopening of borders, which has led to an exodus of patients seeking dental treatment in Shenzhen. This shift in consumer behavior has negatively impacted dental operations in Hong Kong, resulting in ongoing losses for the Target Company over the past year. As disclosed in the section headed "Information of the Target Company", the Target Company has been in loss-making position over the two financial years ended 31 March 2024. Moreover, most of the dental equipment and facilities used in the dental clinics of the Target Company have been in use for more than 7 years, it is anticipated that should the Group continues to operate the dental clinics under the Target Company, it would have been required to replace the outdated equipment and facilities in the near future. The Company is therefore of the view that the continuing operation of the dental clinics under the Target Company will not be viable. The Disposal will enable the

Group to realise the remaining value of the Target Company, relieve the Group from incurring additional costs in the provision of dental services in Hong Kong and replenish the cash resources of the Group so as to allow the Group to better utilise its resources for the development of the medical service segment of the Group.

In particular, the Target Company has been in loss-making position in the two recent financial years ended 31 March 2023 and 2024. Having considered the financial position of the Target Company, in or around mid-2024, the management of the Company requested the management of the Target Company, which was headed by the Purchaser, to engage in cost-cutting. In response to the management's request, the Purchaser was of the view that the operation of the Target Company had already been very streamlined, further cost cutting would undermine the competitiveness of the Target Company, the Purchaser suggested the Company to outsource the Target Company's operation to the Purchaser and in return he would provide a guaranteed annual return of HK\$1.00 million to the Company. Taking into consideration of the loss-making position and the uncertainty in the post-COVID era trading prospect of the Target Company, the management of the Company counter-proposed to dispose of the Target Company entirely to the Purchaser before the business and financial condition of the Target Company worsens.

Since the Previous Acquisition, the Target Company had in fact generated an aggregated Adjusted Net Profit (as defined in the circular of the Company dated 31 January 2019) of approximately HK\$35.4 million (including the compensation paid by the vendor in the Previous Acquisition for shortfall in the guaranteed profit provided by the vendor therein). The Group has also received no less than HK\$29 million dividend or distributions from the Target Company since the Previous Acquisition, as such the Board considered that the Group has already successfully recouped its costs in the Previous Acquisition and the present Disposal offers an opportunity for the Group to capitalize on the remaining value of the Target Company in light of the diminishing return in recent years.

In view of the aforesaid and taking into account the terms of the SPA were arrived at after arm's length negotiations, the Directors (including the independent non-executive Directors) consider that the terms of the SPA and the Disposal contemplated thereunder, including the basis of Consideration and the payment terms of the Consideration, are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

The net proceeds arising from the Disposal are expected to be approximately HK\$14.1 million (after deducting expenses in relation to the Disposal) and will be utilized as general working capital of the Group, including but not limited to rental payments for the head office of the Company and clinics operated by the Group, professional fees, salary payments, office overheads and other day-to-day administrative and operating expenses.

GEM LISTING RULES IMPLICATIONS

As the highest applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Disposal exceeds 25% but is under 75%, the Disposal constituted a major transaction of the Company under Chapter 19 of the GEM Listing Rules. Accordingly, the Disposal is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

As at the date of the SPA, the Purchaser was a director of the Target Company, an indirect wholly-owned subsidiary of the Company, the Purchaser was therefore a connected person of the Company at subsidiary level. As such, the Disposal constituted a connected transaction of the Company at subsidiary level under Chapter 20 of the GEM Listing Rules. The Board has approved the Disposal and the independent non-executive Directors have confirmed that the terms of the SPA and the Disposal contemplated thereunder are fair and reasonable, on normal or better commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Disposal is subject to the reporting and announcement requirements but is exempt from the Shareholder's approval requirement (in respect of the connected transaction at subsidiary level) under Chapter 20 of the GEM Listing Rules.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholders or any of their respective associates have a material interest in the Disposal. Should the Disposal be put forward to the Shareholders to approve at a general meeting of the Company, no Shareholder would be required to abstain from voting for the resolution to approve the Disposal. The Company has obtained a written approval for the Disposal from Medinet International Limited, the controlling Shareholder holding 23,400,000 Shares, representing approximately 56.25% of the entire issued share capital of the Company, pursuant to Rule 19.44 of the GEM Listing Rules in lieu of a resolution to be passed at a general meeting of the Company. Accordingly, the Company is exempted from the requirement to convene a shareholders' meeting for the purpose of approving the Disposal pursuant to Rule 19.44 of the GEM Listing Rules.

RECOMMENDATION

For the reasons set out above, the Directors consider that the terms of the SPA and the Disposal contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Notwithstanding that no general meeting of the Company will be convened to approve the Disposal, the Board would recommend that Shareholders vote in favour of the relevant ordinary resolution regarding the Disposal if the Company were to convene a general meeting for the approval of the same.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

For and on behalf of the Board
MediNet Group Limited

A handwritten signature in dark ink, appearing to be 'Nelson Chan', written over a faint, stylized graphic that resembles a large, open 'C' or a partial circle.

Mr. Chan Chi Wai, Nelson
Chairman and Executive Director