



19 August 2019

Aberdeen Restaurant Enterprises Limited
37/F., The Centrium
60 Wyndham Street
Central, Hong Kong

To the Independent Shareholders

Dear Sirs,

**PROPOSED PRIVATISATION OF
ABERDEEN RESTAURANT ENTERPRISES LIMITED
BY
MELCO LEISURE AND ENTERTAINMENT GROUP LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE**

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Shareholders with respect to the Proposal, details of which are set out in the Letter from the AREL Board and the Explanatory Statement contained in the Scheme Document dated 19 August 2019 to the AREL Shareholders, of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined elsewhere in the Scheme Document unless the context requires otherwise.

On 5 June 2019, the Offeror requested the AREL Board to put forward the Proposal to the Scheme Shareholders regarding a proposed privatisation of AREL by way of the Scheme involving the cancellation of all the Scheme Shares, as a result of which it is intended that the Offeror and MIDL's wholly-owned subsidiaries, Melco Nominees and Melco Services, will hold 100% of the issued share capital of AREL.

The Court Meeting will be convened at the direction of the Court for the purpose of considering and, if thought fit, passing an appropriate resolution to approve the Scheme (with or without modifications). Insofar as the sanction of the Scheme by the Court is concerned, such resolution will be passed if the Independent Shareholders representing at least 75% of the voting rights of the Independent Shareholders present and voting, either in person or by proxy, at the Court Meeting vote in favour of the Scheme and the votes cast against the Scheme at the Court Meeting do not exceed 10% of the total voting rights attached to all disinterested shares (as defined in Section 674 of the Companies Ordinance) in AREL. Insofar as the approval of the Scheme under the Takeovers Code is concerned, the Scheme will be considered to have been approved under the Takeovers Code if (i) the Scheme is approved (by way of poll) by at least 75% of the votes attaching to the Scheme Shares of the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) against the resolution at the Court Meeting is not more than 10% of all the Scheme Shares held by all of the Independent Shareholders. Based on 5,592 AREL Shares held by the Independent Shareholders as at the Latest Practicable Date, more than 10% of such AREL Shares would be 560 AREL Shares. Only Independent Shareholders may vote at the Court Meeting on the resolution to approve the Scheme. The Offeror and MIDL's wholly-owned subsidiaries, Melco Nominees and Melco Services, and any other persons acting in concert with the Offeror will not vote at the Court Meeting on the resolution to approve the Scheme.

In addition to the resolution required to sanction the Scheme at the Court Meeting, the Scheme also involves a reduction of issued share capital as one of its terms. Under the Companies Ordinance and the Articles, the reduction of issued share capital is required to be approved by a special resolution of AREL Shareholders. Such special resolution will be proposed at the EGM, which is being convened to be held immediately following the Court Meeting for the purpose of considering and, if thought fit, passing a special resolution to approve the reduction of issued share capital of AREL and the cancellation of the Scheme Shares and to approve and give effect to the Scheme. The special resolution will be passed provided that it is approved by a majority of at least 75% of the votes cast by AREL Shareholders present and voting, in person or by proxy, at the EGM. All AREL Shareholders will be entitled to attend and vote at the EGM.

As at the Latest Practicable Date, the AREL Shares were made up of 8,060 Class A AREL Shares and 33,930 Class B AREL Shares. Under the Articles, AREL Shareholders holding Class A AREL Shares and Class B AREL Shares have the same rights. Accordingly, Class A AREL Shares and Class B AREL Shares are treated equally under the Scheme and will vote as a single class of Scheme Shares at the Court Meeting to be convened to approve the Scheme.

As at the Latest Practicable Date, the Independent Shareholders were interested in 5,592 AREL Shares, made up of 3,399 Class A AREL Shares and 2,193 Class B AREL Shares (together representing approximately 13.32% of the issued share capital of AREL as at the Latest Practicable Date), and the Offeror and persons acting in concert with it were interested in 36,398 AREL Shares, made up of 4,661 Class A AREL Shares and 31,737 Class B AREL Shares (together representing approximately 86.68% of the issued share capital of AREL as at the Latest Practicable Date).

Mr. Evan Andrew Winkler and Mr. Chung Yuk Man, Clarence, being AREL Directors, concurrently serve on the respective boards of the Offeror and its holding company, MIDL. Mr. Leung Hoi Wai, Vincent, also an AREL Director, is a director appointed to the AREL Board by an affiliate of the Offeror and is an executive of MIDL. It is therefore impossible for AREL to form an independent board committee to advise the Independent Shareholders on the Proposal pursuant to Rule 2.1 of the Takeovers Code. We, Crescendo Capital Limited, have been appointed by the AREL Board pursuant to Rule 2.8 of the Takeovers Code as the independent financial adviser to advise the Independent Shareholders as to whether the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned and whether the Independent Shareholders should accept the Proposal.

We are not associated with AREL, the Offeror or their respective associates and do not have any shareholding in any member of AREL or right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of AREL. Save for acting as an independent financial adviser in this appointment and an independent financial adviser of MIDL relating to a possible connected transaction, we have not acted as a financial adviser or an independent financial adviser to AREL and its associates in the past two years. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fee or benefit from AREL, the Offeror or their respective associates. We are not aware of any relationship or interest between us and AREL or other parties that would be reasonably considered to affect our independence to act as an independent financial adviser to the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the AREL Directors, management of AREL and the Offeror and have assumed that such information and statements, and representations made to us or referred to in the Scheme Document are true, accurate and complete in all material respects as of the Latest Practicable Date. Should there be any material change in such information, statements or representations after the Latest Practicable Date (up to the end of the Offer Period), the AREL Shareholders would be notified of such changes as soon as possible. The AREL Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to the Offeror and/or MIDL (if any)), and confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document (other than opinions expressed by the Offeror and/or MIDL (if any)) have been arrived at after due and careful consideration and there are no other facts that are not contained in the Scheme Document, the omission of which would make any such statement contained in the Scheme Document misleading. The directors of the Offeror have jointly and severally accepted full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to AREL and/or MIDL (if any)), and confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document (other than opinions expressed by AREL and/or MIDL (if any)) have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading. The directors of MIDL have jointly and severally accepted full responsibility for the accuracy of the information contained in the Scheme Document relating to MIDL and confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document by MIDL have been arrived at after due and careful consideration and there are no other facts relating to MIDL not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Scheme Document and to provide a reasonable basis for our recommendation. We have no reasons to suspect that any material information has been withheld by the AREL Directors, management of AREL or the Offeror, or is misleading, untrue or inaccurate, and consider that the information provided to us may be relied upon in formulating our opinion. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of AREL and the related subject of, and parties to, the Proposal. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. AREL Shareholders should note that subsequent developments (including any material change in the market and economic conditions) may affect and/or change this opinion and the AREL Shareholders will be notified of any material change as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We have not considered the tax implications on the Independent Shareholders arising from acceptances or non-acceptances of the Proposal as these depend on their individual circumstances. It is emphasized that we will not accept any responsibility for any tax effect on, or liability of, any person resulting from his or her acceptance or non-acceptance of the Proposal. Independent Shareholders who are in any doubt as to their tax positions, or who are subject to overseas tax or Hong Kong taxation on securities dealings, should consult their own professional advisers without delay.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Proposal, we have considered the following principal factors and reasons:

1. Background to, and principal terms of, the Proposal

On 5 June 2019, the Offeror requested the AREL Board to put forward the Proposal to the Scheme Shareholders regarding a proposed privatisation of AREL by way of the Scheme involving the cancellation of all the Scheme Shares, as a result of which it is intended that the Offeror and MIDL's wholly-owned subsidiaries, Melco Nominees and Melco Services, will hold 100% of the issued share capital of AREL.

As at the Latest Practicable Date, the Independent Shareholders were interested in 5,592 AREL Shares, made up of 3,399 Class A AREL Shares and 2,193 Class B AREL Shares (together representing approximately 13.32% of the issued share capital of AREL as at the Latest Practicable Date), and the Offeror and persons acting in concert with it were interested in 36,398 AREL Shares, made up of 4,661 Class A AREL Shares and 31,737 Class B AREL Shares (together representing approximately 86.68% of the issued share capital of AREL as at the Latest Practicable Date).

The Scheme provides that the Scheme Shares be cancelled in exchange for the payment to each Scheme Shareholder of:

for each Scheme Share HK\$8,895.76 in cash

The Cancellation Price was determined based on the audited consolidated net asset value per AREL Share of approximately HK\$8,895.76 as at 31 December 2018. Such audited consolidated net asset value per AREL Share was calculated based on AREL's audited consolidated statement of financial position as at 31 December 2018, in which AREL's investment properties are stated at fair value determined in accordance with a valuation carried out by an independent qualified professional valuer not connected with AREL. The Cancellation Price will not be increased and the Offeror does not reserve the right to do so.

As at the Latest Practicable Date, there were 41,990 AREL Shares in issue and the Scheme Shareholders are interested in 5,592 AREL Shares, representing approximately 13.32% of the issued share capital of AREL as at the Latest Practicable Date. There were no outstanding options, warrants, derivatives or convertible securities issued by AREL as at the Latest Practicable Date. At the Cancellation Price, the Proposal values the entire issued share capital of AREL at approximately HK\$373,532,962. The maximum amount of cash consideration required to effect the Proposal will be approximately HK\$49,745,089.92.

The Proposal is conditional upon the fulfillment or waiver, as applicable, of the Conditions as described in the Explanatory Statement contained in the Scheme Document. All Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and AREL may agree and the Court may allow), otherwise the Proposal will lapse.

Further details of the terms and conditions of the Proposal, including the procedures for the acceptance, are set out in the Letter from the AREL Board to the AREL Shareholders and Explanatory Statement contained in the Scheme Document.

2. Binding effect of the Scheme

Notwithstanding the fact that there may be a dissenting minority, if the Scheme is approved at the Court Meeting in accordance with the requirements of Section 674 of the Companies Ordinance and Rule 2.10 of the Takeovers Code, and is sanctioned by the Court under Section 673 of the Companies Ordinance and the other Conditions are either fulfilled or (to the extent permitted) waived, the Scheme will become binding on AREL and all Scheme Shareholders.

If the Scheme becomes effective and binding as aforesaid:

- (i) all the Scheme Shares will be cancelled, whereupon the issued share capital of AREL shall be reduced from HK\$25,075,000 to HK\$20,576,268 and all share certificates representing holdings of those Scheme Shares will cease to have effect as documents of title;

- (ii) the issued share capital of AREL will then be increased by the allotment and issuance to the Offeror of 3,399 new Class A AREL Shares and 2,193 new Class B AREL Shares, which are equal to the respective numbers of Class A AREL Shares and Class B AREL Shares cancelled;
- (iii) on the Effective Date, the credit amount of HK\$4,498,732 which will arise in AREL's books of account as a result of the said reduction of issued share capital will be applied in paying up in full the abovementioned 3,399 new Class A AREL Shares and 2,193 Class B AREL Shares (equal to the respective numbers of Class A AREL Shares and Class B AREL Shares cancelled) which will be allotted and issued, credited as fully paid, to the Offeror; and
- (iv) the Offeror will pay the Cancellation Price of HK\$8,895.76 per Scheme Share to the Scheme Shareholders for each Scheme Share held by them on the Record Date prior to the cancellation of the Scheme Shares.

As a result, the Offeror and MIDL's wholly-owned subsidiaries, Melco Nominees and Melco Services, will hold 100% of the issued share capital of AREL.

The tables below set out the shareholding structure of AREL (i) as at the Latest Practicable Date; and (ii) immediately following the implementation of the Proposal and after the cancellation of the Scheme Shares:

As at the Latest Practicable Date

	Number of Class A AREL Shares held		Number of Class B AREL Shares held		Number of shares held (Class A AREL Shares and Class B AREL Shares in aggregate)		% of issued share capital (approximate)
	Number of Class A AREL Shares held	% of Class A AREL Shares held	Number of Class B AREL Shares held	% of Class B AREL Shares held	Class A AREL Shares	Class B AREL Shares	
Offeror and its concert parties							
Offeror	4,660	57.82%	31,736	93.53%	36,396		86.68%
Melco Nominees	-	-	1	0.01%	1		0.00%
Melco Services	1	0.01%	-	-	1		0.00%
	<u>4,661</u>	<u>57.83%</u>	<u>31,737</u>	<u>93.54%</u>	<u>36,398</u>		<u>86.68%</u>
Scheme Shareholders							
	<u>3,399</u>	<u>42.17%</u>	<u>2,193</u>	<u>6.46%</u>	<u>5,592</u>		<u>13.32%</u>
	<u>8,060</u>	<u>100.00%</u>	<u>33,930</u>	<u>100.00%</u>	<u>41,990</u>		<u>100.00%</u>

Immediately following the implementation of the Proposal and after the cancellation of the Scheme Shares

AREL Shareholders	Number of Class A AREL Shares held		Number of Class B AREL Shares held		Number of shares held (Class A AREL Shares and Class B AREL Shares in aggregate)	% of issued share capital (approximate)
	Class A AREL Shares held	% of Class A AREL Shares held	Class B AREL Shares held	% of Class B AREL Shares held	AREL Shares in aggregate	
Offeror and its concert parties						
Offeror	8,059	99.99%	33,929	100.00%	41,988	100.00%
Melco Nominees	-	-	1	0.00%	1	0.00%
Melco Services	1	0.01%	-	-	1	0.00%
	<u>8,060</u>	<u>100.00%</u>	<u>33,930</u>	<u>100.00%</u>	<u>41,990</u>	<u>100.00%</u>
Scheme Shareholders	-	-	-	-	-	-
	<u>8,060</u>	<u>100.00%</u>	<u>33,930</u>	<u>100.00%</u>	<u>41,990</u>	<u>100.00%</u>

3. Information on AREL

AREL is a public company which was incorporated in Hong Kong with limited liability on 27 October 1970. Its securities are not listed or traded on any securities exchange. AREL and its subsidiaries (collectively, the “AREL Group”) is principally engaged in (i) restaurant business, trading as “Jumbo Kingdom”, in Aberdeen, Hong Kong; and (ii) property investment business.

Set out in the table below is a summary of the audited consolidated financial information of AREL for the two years ended 31 December 2017 and 2018 as extracted from the audited financial statements of AREL as set out in Appendix I to the Scheme Document.

	For the year ended 31 December	
	2018 HK\$'000	2017 HK\$'000
Revenue	82,532	88,508
Gross profit	59,174	63,342
Profit before tax	23,392	72,157
Profit for the year attributable to the owners of AREL	<u>23,380</u>	<u>72,162</u>

As at
31 December
2018
HK\$'000

Non-current assets	358,418
Current assets	93,775
Current liabilities	(64,310)
Net current assets	29,465
Non-current liabilities	(14,350)
Net assets	373,533
Equity attributable to the owners of AREL	373,289

For the year ended 31 December 2018, the AREL Group recorded a revenue of approximately HK\$82.5 million, of which approximately 93.0% (2017: 93.9%) were derived from the catering services, approximately 0.4% (2017: 0.3%) were derived from the sales from souvenir shop and approximately 6.6% (2017: 5.8%) were derived from the property investment business. On the contrary to an increase of approximately 11.6% in the corporate events banquet sales, the tour group sales declined by approximately 14.3% for the year and resulting in a decrease of approximately 6.8% in the revenue of the AREL Group for the year ended 31 December 2018. Given the decrease in revenue, a commensurate decrease in gross profit of approximately 6.6% was recorded by the AREL Group for the year ended 31 December 2018. Further impacted by a reduction in increase in fair value of investment properties of approximately HK\$48 million for the year ended 31 December 2018, the profit before tax decreased from approximately HK\$72.2 million for the year ended 31 December 2017 to approximately HK\$23.4 million for the year ended 31 December 2018. The profit for the year ended 31 December 2018 attributable to owners of AREL amounted to approximately HK\$23.4 million as compared to approximately HK\$72.2 million for the year ended 31 December 2017. Had the changes in the fair values of the investment properties been excluded, losses before tax of approximately HK\$12.6 million and HK\$11.8 million would be recorded for the years ended 31 December 2018 and 2017 respectively.

As at 31 December 2018, the non-current assets of the AREL Group amounted to approximately HK\$358.4 million, which mainly comprised property, plant and equipment of approximately HK\$6.9 million, investment properties of approximately HK\$310.0 million, loan to ultimate holding company of approximately HK\$14.1 million and loan to immediate holding company of approximately HK\$27.5 million. The current assets of the AREL Group as at 31 December 2018 amounted to approximately HK\$93.8 million, which mainly consisted of inventories of approximately HK\$1.5 million, loan to ultimate holding company of approximately HK\$5.0 million, trade receivables of approximately HK\$1.7 million, prepayments, deposits and other receivables of approximately HK\$4.1 million, bank deposits with original maturity over three months of approximately HK\$40.0 million and cash and bank balances of approximately HK\$39.7 million. The current liabilities of the AREL Group as at 31 December 2018 amounted to approximately HK\$64.3 million, which mainly included trade and other payables of approximately HK\$59.3 million and interest-bearing bank borrowings of approximately HK\$5.0 million. As at 31 December 2018, the non-current liabilities of the AREL Group, being interest-bearing bank borrowings, amounted to approximately HK\$14.4 million. As at 31 December 2018, net current assets and net assets attributable to owners of AREL amounted to approximately HK\$29.5 million and approximately HK\$373.3 million respectively. As at 31 December 2018, the gearing of the AREL Group, as expressed in the ratio of total liabilities to total assets, was approximately 0.17.

4. Reasons for and benefits of the Proposal and future prospect of AREL

As set out in the Explanatory Statement, AREL has not paid any dividend in recent years. The Proposal, if becomes effective, gives the Independent Shareholders the opportunity to realise their investment in a non-publically traded share at a fixed-price cash consideration.

With reference to “Statistical Digest of the Services Sector 2019 Edition” and “Report on Quarterly Survey of Restaurant Receipts and Purchases 1st Quarter 2019” published in May 2019 by Census and Statistics Department of the Hong Kong Government, the value of total receipts of the restaurants sector in 2018 was HK\$119.6 billion, representing an increase of 6.0% in value and 3.1% in volume compared with 2017, among which the total receipts of Chinese restaurants increased by 4.8% in value and 2.1% in volume. The number of general restaurant licences increased by 5.6% to around 11,200 in 2018. For the first quarter of 2019, the value of total receipts of the restaurants sector was provisionally estimated at HK\$31.5 billion, representing an increase by 3.0% over a year earlier while the provisional estimate of the value of total purchases by restaurants increased by 3.1% to HK\$10.0 billion. On contrary to the general rising trend of the overall restaurant sector, the total receipts of Chinese restaurants for the first quarter of 2019 decreased by 0.6% in value and 2.7% in volume as compared with the first quarter of 2018.

According to the report namely “2018 Manpower Update Report of Catering Industry” published in 2018 by The Hotel, Catering and Tourism Training Board of the Vocational Training Council (the “HOTB”), which is appointed by the Hong Kong Government to be responsible for, among others, determining the manpower situation and training needs on the hospitality industry which encompasses the catering, hotel and tourism sub-sectors, the catering industry is expected to have a positive future in view of the anticipated increase in the number of tourists and business arrivals in Hong Kong, together with the changing lifestyles and eating habits of the locals. However, manpower shortage, especially at the operational level, has always been the most critical issue for the industry. With the statutory minimum wage (the “SMW”) in force, the catering industry lost manpower to other industries such as security services and property management, as jobs in those industries are perceived to be relatively less demanding. Furthermore, there will be cost implications and intensified manpower supply concerns if standard working hours and overtime paid are to be enforced.

According to the Labour Department of the Hong Kong Government, the SMW has come into force since 1 May 2011 and the SMW rate is reviewed at least every two years in accordance with the Minimum Wage Ordinance (Cap. 608 of the Laws of Hong Kong). With effect from 1 May 2019, the SMW rate has raised from \$34.5 per hour to \$37.5 per hour. Given this policy trend, it is expected that the SMW rate would further increase after the next review.

Given a downturn in the total receipts of Chinese restaurants for the first quarter of 2019, the potential increase in the SMW and the problem of labour shortage, which may pose an upward cost pressure to the AREL Group, and keen competition in the catering industry as indicated by the increasing number of general restaurant licences, we are of the view that the business environment of the Chinese restaurant industry will be challenging in the coming years.

Having considered (i) that the profits recorded by the AREL Group for the years ended 31 December 2018 and 2017 were mainly attributable to the recognition of the increase in fair value of investment properties, which were not related to the operating performance of the core business of the AREL Group and the exclusion of which would lead to a loss for the years ended 31 December 2018 and 2017; and (ii) the limitation on significant improvement of the Chinese restaurant business of the AREL Group posed by the rising labour costs, we are uncertain as to whether the AREL Group can sustain its profitability in such a competitive and challenging business environment in future. Therefore, we are of the view that the Scheme may present a good opportunity for the Scheme Shareholders to realise their investments in AREL at the Cancellation Price, having taken into account there is a great uncertainty on when and whether AREL will distribute dividends to its shareholders, not to mention the AREL Shares are non-listed and an open market for sale of such shares is absent.

5. Cancellation Price

The Cancellation Price of HK\$8,895.76 per Scheme Share is equal to the audited consolidated net asset value of the AREL Group per AREL Share as at 31 December 2018, calculated based on AREL's audited consolidated net asset value of approximately HK\$373.5 million as at 31 December 2018 and 41,990 AREL Shares in issue as at the Latest Practicable Date.

To evaluate the fairness and reasonableness of the Cancellation Price, we have considered the commonly adopted comparison approaches in evaluation of a company, namely price-to-earnings approach, net assets approach and dividends approach. However, given that AREL had not declared any dividend to the AREL Shareholders for the five years ended 31 December 2018, we consider that the dividends approach is not applicable for assessing the value of the AREL Group and thus only the price-to-earnings approach and the net assets approach were adopted in assessing the value of the AREL Group.

Based on the audited net profit of the AREL Group attributable to owners of AREL for the year ended 31 December 2018 of approximately HK\$23.4 million and 41,990 AREL Shares in issue as at the Latest Practicable Date, the net profit attributable to owners of AREL per AREL Share amounted to approximately HK\$557. Therefore, the price-to-earnings ratio (the "PER") of the AREL Group implied by the Cancellation Price of HK\$8,895.76 per Scheme Share is approximately 15.97 times. Based on the audited consolidated net asset value of the AREL Group attributable to the owners of AREL as at 31 December 2018 of approximately HK\$373.3 million and 41,990 AREL Shares in issue as at the Latest Practicable Date, the net asset value attributable to owners of AREL per AREL Share amounted to approximately HK\$8,890.21. Accordingly, the price-to-book ratio (the "PBR") of the AREL Group implied by the Cancellation Price of HK\$8,895.76 per Scheme Share is approximately 1.00 times.

We have compared the PER and the PBR of the AREL Group implied by the Cancellation Price with those of other companies, which (a) are currently listed on the Stock Exchange; and (b) have over 50% of their turnover derived from operations of Chinese restaurants in Hong Kong for their respective latest financial year. Based on the abovementioned criteria, we have, on our best effort, identified nine comparable companies (the "Comparables") as valuation benchmarks. We consider such Comparables represent an exhaustive list of relevant comparable companies based on the said criteria, and are fair and representative samples for assessing the fairness and reasonableness of the Cancellation Price as their core business are similar to the business of the AREL Group and their major turnover was mainly derived from the operation of Chinese restaurants in Hong Kong for their respective latest financial year. Set out below is a comparison of the PER and the PBR of the AREL Group as implied by the Cancellation Price and the Comparables as at the Latest Practicable Date.

PERs and PBRs of the Comparables and the AREL Group

Company name (Stock code)	Principal business activities	Market capitalization <i>HK\$ million</i>	PER as at the Latest Practicable Date <i>times</i>	PBR as at the Latest Practicable Date <i>times</i>
Tao Heung Holdings Limited (573)	Food catering services through chain restaurants, operation of bakeries and the sales of foods and other products	1,342	11.53	0.80
G-Vision International (Holdings) Limited (657)	Operation of restaurants	113	N/A	1.41
Fulum Group Holdings Limited (1443)	Owning of trademarks, the trading of kitchen utensils, the production, sales and distribution of food products and the provision of management services through its subsidiaries	507	19.89	0.54
Palace Banquet Holdings Limited (1703)	Provision of Cantonese dining services including the provision of Cantonese food, dim sum and seasonal food and banquet services	240	6.36	0.96
Li Bao Ge Group Limited (1869)	Operation of a chain of Chinese restaurants	244	107.87 <i>(Note)</i>	1.98
LH Group Limited (1978)	Chinese Cuisine segment engaged in the operation of Chinese restaurants and Asian Cuisine Franchised Brands segment engaged in the operation of Asian cuisine restaurants	520	14.77	1.27

Company name (Stock code)	Principal business activities	Market capitalization <i>HK\$ million</i>	PER as at the Latest Practicable Date <i>times</i>	PBR as at the Latest Practicable Date <i>times</i>
Chinese Food and Beverage Group Limited (8272)	Catering services of Chinese restaurants in Hong Kong, operation of a Michelin One Star restaurant and operate Fook Lam Moon restaurant in Macau and a Fook Lam Moon Fine Foods gourmet shop	20	0.23	1.93
Dragon King Group Holdings Limited (8493)	Operation and management of restaurants	96	N/A	2.22
Top Standard Corporation (8510)	Operation and management of restaurants	132	N/A	11.07
Minimum			0.23	0.54
Maximum			19.89	11.07
Average			10.56	2.46
Median			11.53	1.41
the AREL Group	Chinese restaurant business		15.97	1.00

Source: the website of the Stock Exchange

Note: The PER of Li Bao Ge Group Limited was significantly higher than the PERs of other Comparables. Therefore, such PER was considered an outlier and was excluded for comparison purposes.

As shown in the above table, the PERs of the Comparables ranged from approximately 0.23 times to 19.89 times, with an average of approximately 10.56 times and a median of approximately 11.53 times. The implied PER of the AREL Group of approximately 15.97 times falls within the range of the PERs of the Comparables and is higher than the average PER and the median PER of the Comparables. The PBRs of the Comparables ranged from approximately 0.54 times to 11.07 times, with an average of approximately 2.46 times and a median of approximately 1.41 times. The implied PBR of the Group of approximately 1.00 times falls within the range of the PBRs of the Comparables but is lower than the average PBR and the median PBR of the Comparables.

AREL Shareholders should note that each of the Comparables may not be entirely comparable to the AREL Group in terms of market capitalization, geographical spread of activities, scale of operations, asset base, cash position, debt structure, minority interest, risk profile, track record, composition of their business activities, future prospects and other relevant criteria, in particular, AREL only operates a single restaurant while the Comparables operate multiple restaurants. All these factors may affect the valuation of a company as indicated by the varied range of result in our comparison. Notwithstanding the foregoing, we consider that the analysis on the Comparables can still provide a meaningful reference to the AREL Shareholders as the Comparables are involved in the business comparable to the AREL Group, and therefore can provide a general overview on their market valuation with respect to their corresponding profitability and book value for comparison purpose. Accordingly, we consider the trading statistics of the Comparables can serve as a benchmark for assessing the reasonableness and fairness of the Cancellation Price and provide an appropriate basis in forming our opinion on the Proposal. Meanwhile, we have also considered the results of the above comparison together with all other factors stated in this letter as a whole.

Due to the aforementioned limitation in comparison approach, we have also considered assessing the value of the AREL Group by the income approach. However, given valuations using income approach with discounted cash flows method involve various subjective assumptions and parameters which may largely affect the value of the subject, we consider that it is inappropriate to use the income approach to assess the value of the AREL Group.

Based on the above analysis and taking into consideration that (i) the Cancellation Price is the same as the audited consolidated net asset value per AREL Share as at 31 December 2018; (ii) the implied PER and PBR of the Cancellation Price fall within the range of the PERs and the PBRs of the Comparables respectively; (iii) the implied PER of the Cancellation Price is higher than the average PER and the median PER of the Comparables; and (iv) the securities of AREL are not listed or traded on any securities exchange, and thus the Independent Shareholders might not be able to realise their investments in the AREL Group readily, we consider that the Cancellation Price is fair and reasonable so far as the Independent Shareholders are concerned.

6. Information on the Offeror and its intention regarding AREL

As disclosed in the Explanatory Statement, the Offeror is a company incorporated in the British Virgin Islands and is an investment holding company. The Offeror, Melco Nominees and Melco Services are all wholly-owned subsidiaries of MIDL, which has its shares listed on the Stock Exchange. MIDL, through its subsidiaries, is principally engaged in leisure, gaming and entertainment and other investments. The Offeror, Melco Nominees and Melco Services held approximately 86.68% of the issued share capital of AREL as at the Latest Practicable Date.

With reference to the Explanatory Statement, it is the intention of the Offeror for AREL to maintain its existing business upon the successful privatisation of AREL. The Offeror has no plan to introduce any material changes to the business and/or assets of AREL, to redeploy its fixed assets or to discontinue the employment of employees of AREL as a result of the Proposal.

Given that the Offeror (i) intends to continue the existing business of AREL upon the successful privatization of AREL; and (ii) had no plans to introduce any material changes to the business and/or assets of AREL, to redeploy its fixed assets or to discontinue the employment of employees of AREL as a result of the Proposal, we do not expect that there would be any material change in AREL's business as a result of the Proposal.

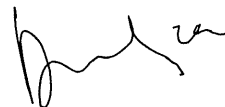
RECOMMENDATION

Having considered the principal factors and reasons stated above, in particular (i) the AREL Group would have recorded net losses for the years ended 31 December 2018 and 2017 had the increases in fair value of the investment properties been excluded; (ii) the future prospects of the AREL Group remain uncertain in view of the historical performance of the AREL Group and the challenging business environment of the Chinese restaurants industry in Hong Kong; (iii) the implied PER and PBR of the Cancellation Price fall within the range of the PERs and the PBRs of the Comparables respectively and the implied PER of the Cancellation Price is higher than the average PER and the median PER of the Comparables; and (iv) the Proposal provides a viable exit opportunity for the Independent Shareholders to realise their investments in the non-publicly traded AREL Shares, we are of the view that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Therefore, we recommend the Independent Shareholders to vote in favour of the Scheme at the Court Meeting and the EGM.

Those Independent Shareholders who, having regard to their own circumstances, wish to retain some or all of their investments in the AREL Shares and/or are confident in the future prospects of the AREL Group or otherwise are reminded to closely monitor the development of AREL and any announcement of AREL in this regard.

As different Independent Shareholders would have different investment criteria, objectives and/or circumstances, we recommend any Independent Shareholders who may require advice in relation to any aspect of the Scheme Document, or as to the action to be taken, to consult a solicitor, professional accountant, tax adviser or another professional adviser. Independent Shareholders are also strongly recommended to read carefully the terms and the procedures for acceptance of the Proposal as set out in the Scheme Document and its appendices.

Yours faithfully,
For and on behalf of
Crescendo Capital Limited


Amilia Tsang
Managing Director


Helen Fan
Director

Notes:

- (i) Ms. Amilia Tsang is a licensed person under the SFO permitted to engage in Type 6 (advising on corporate finance) regulated activity and has over 15 years of experience in corporate finance.
- (ii) Ms. Helen Fan is a licensed person under the SFO permitted to engage in Type 6 (advising on corporate finance) regulated activity and has over 11 years of experience in corporate finance.