THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Nan Hai Corporation Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

南海控股有限公司*

NAN HAI CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 680)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF (1) THE SALE SHARES AND (2) THE SALE PREFERENCE SHARES AND NOTICE OF SPECIAL GENERAL MEETING

Financial Adviser to the Company

ANGLO CHINESE 英高
CORPORATE FINANCE, LIMITED

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Lego Corporate Finance Limited
力高企業融資有限公司

A letter from the board of directors of Nan Hai Corporation Limited (the "**Company**") is set out on pages 7 to 50 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 51 to 52 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 53 to 70 of this circular.

A notice convening the special general meeting of the Company to be held at the Atrium, 39/F, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on 13 September 2016, at 10:00 a.m. is set out on pages 158 to 159 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

* *For identification purpose only*

25 August 2016

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Accounts"	the consolidated audited accounts of the Target Group for the financial year ended 31 March 2015, comprising a consolidated balance sheet and profit and loss account, notes, directors' and auditors' reports
"Acquisition"	the acquisition of the Sale Shares and the Sale Preference Shares by the Purchasers pursuant to the Amended SPA
"Advance"	the aggregate amount of the advance made by the Vendor, its shareholders and their respective affiliates and certain other parties to the Target Group (after taking into account of all payments and repayments by any member of the Target Group) owing by the Target Group to the Vendor, its shareholders and their respective affiliates and certain other parties as at Completion
"Amended SPA"	the SPA as amended by the Supplemental Agreement and the Second Supplemental Agreement
"Board"	the board of Directors
"Business"	the business of product development, manufacturing and global distribution of a wide range of botanic-based personal care products comprising: fragrances, bath and shower gels, soaps, home spa products, body lotions, hand therapies, home fragrances, gifts and food; and all other activities including those ancillary or incidental to or in connection with such business as carried on by the Target Group as at the date of the SPA; and which are sold through four principal sales channels namely, retail, wholesale, export distribution and e-commerce
"Business Days"	any day (other than a Saturday, Sunday, public holiday or any day on which a tropical cyclone warning signal number 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks in Hong Kong are open for general commercial business

"Business Information"	all data or information (whether technical, commercial, financial or of any other type) in any form acquired under, pursuant to or in connection with the SPA and any information used in or relating to the Business, including information relating to the Target Group's products (bought, manufactured, produced, distributed or sold), services (bought or supplied), operations, plans, strategy, product information, know-how, design rights, trade secrets, market opportunities, customer lists, commercial relationships, marketing, sales materials and general business affairs which are confidential to the Target Group
"Business Valuation Report"	the business valuation report dated 25 August 2016 issued by an independent professional valuer, Norton Appraisals Limited, on the fair value of 100% equity interest in the Target Company
"Bye-Laws"	the bye-laws of the Company as may be amended from time to time
"Company"	Nan Hai Corporation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the Stock Exchange (stock code: 680)
"Completion"	completion of the sale and purchase of the Sale Shares and the Sale Preference Shares pursuant to the Amended SPA
"Completion Date"	30 September 2016 pursuant to the Second Supplemental Agreement
"Conditions"	the conditions precedent to Completion
"Crabtree & Evelyn, Ltd. Shares of Redeemable Preferred Stock"	180,677 shares of redeemable preferred stock with US$100 par value each in Crabtree & Evelyn, Ltd., a company incorporated under the laws of the State of Connecticut, USA and an indirect wholly-owned subsidiary of the Target Company, representing 100% of all the issued redeemable preferred stock in Crabtree & Evelyn, Ltd.
"Crabtree & Evelyn (Overseas) Limited Redeemable Preference Shares"	4,705,500 redeemable preference shares of GBP0.10 each in Crabtree & Evelyn (Overseas) Limited, a company incorporated in the UK and an indirect wholly-owned subsidiary of the Target Company, representing 100% of all the issued redeemable preference shares in Crabtree & Evelyn (Overseas) Limited

"Deposit"	the deposit of US$8.75 million payable by the Purchasers to the Vendor pursuant to the SPA (payable by GGC and OBL in the proportion of 70% and 30% respectively)
"Director(s)"	director(s) of the Company
"Due Diligence Review"	a review of the legal, financial, taxation, corporate, operations and affairs, contractual, property and trading positions of the Target Group carried out by the Purchasers during a period of three (3) months from the date of the SPA
"Enlarged Group"	the Group and the Target Group
"GBP"	the Great Britain pounds, the lawful currency of the UK
"GGC"	Glory Grace Corporation Limited, an indirect wholly-owned subsidiary of the Company, with limited liability incorporated and existing under the laws of Hong Kong
"Group"	the Company and its subsidiaries (including Sino-i Technology Limited)
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"HK$"	the Hong Kong dollars, the lawful currency of Hong Kong
"Independent Board Committee"	an independent committee of the Board which comprises all independent non-executive Directors who are Prof. Jiang Ping, Mr. Lau Yip Leung and Mr. Xiao Sui Ning on the date of this circular
"Independent Financial Adviser" or "Lego"	Lego Corporate Finance Limited, a corporation licensed to carry out type 6 regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders
"Independent Shareholders"	the Shareholders other than LIM and his associates who shall abstain from voting at the SGM under the requirements of the Listing Rules
"Latest Practicable Date"	22 August 2016, being the latest practicable date prior to the bulk-printing of this circular for the purpose of ascertaining certain information contained in this circular
"LIM"	Mr. Lim Siew Choon, a Malaysian Tan Sri, of Level 21, Pavilion Tower, 75, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange as amended, varied and/or supplemented from time to time
"Long Stop Date"	15 September 2016 pursuant to the Second Supplemental Agreement
"Macau"	The Macau Special Administrative Region of the PRC
"Management Accounts"	the unaudited consolidated balance sheet and profit and loss account of the Target Group commencing on 1 April 2015 and ended on 31 October 2015
"OBL"	Orange Blossom Limited, an investment holding company, with limited liability incorporated and existing under the laws of the Cayman Islands
"PRC"	The People's Republic of China, and for the purpose of the Amended SPA excluding Hong Kong, Macau and Taiwan
"Purchasers"	GGC and OBL
"Purchasers' Claim"	a claim (for any liabilities, losses, damages, compensation or any other relief) by any Purchaser under any warranty or otherwise in connection with the Amended SPA or any other Transaction Documents in respect of any event, matter or circumstance which is inconsistent with, contrary to, or involves, relates to or otherwise is a breach of, any warranty, agreement, undertaking, obligation or covenant or indemnity of the Vendor contained in the Amended SPA or any other Transaction Documents
"Relevant Competition Authority"	any governmental, national or supranational competition or antitrust body or authority which is responsible for enforcing antitrust laws or monitoring anti-competitive mergers and business practices and has jurisdiction over the sale and purchase contemplated under the Amended SPA, including without limitation the USFTC and USDOJ
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Preference Shares"	Crabtree & Evelyn (Overseas) Limited Redeemable Preference Shares; and Crabtree & Evelyn, Ltd. Shares of Redeemable Preferred Stock, which are beneficially owned by the Vendor

"Sale Shares"	the 114,249,495 ordinary shares of US$1.00 each, comprising the whole of the issued share capital of the Target Company as at the date of the SPA and at Completion, which are issued and fully paid and are beneficially owned by the Vendor
"Second Supplemental Agreement"	the supplemental agreement dated 17 June 2016, to the SPA, entered into between and among the Company, the Purchasers, LIM, and the Vendor. Please refer to the section headed "The Second Supplemental Agreement" of the letter from the Board in this circular for further details
"SFO"	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Acquisition and the transactions contemplated under the Amended SPA
"Share(s)"	ordinary shares of HK$0.01 each in the share capital of the Company or if there has been a sub-division, consolidation, reclassification of or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company
"Shareholders"	registered holders of the Shares
"SPA"	the sale and purchase agreement dated 15 December 2015 in relation to the Sale Shares and the Sale Preference Shares, entered into between and among the Purchasers; the Vendor; LIM and the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement dated 16 March 2016, to the SPA, entered into between and among the Company, the Purchasers, LIM and the Vendor. Please refer to the section headed "The Supplemental Agreement" of the letter from the Board in this circular for further details
"Target Company"	CE Holdings Limited, an international business company limited by shares incorporated and existing under the laws of the British Virgin Islands
"Target Group"	the Target Company and its subsidiaries as at the date of the SPA

"Transaction Consideration"	the total consideration, being US$165,000,000, payable by the Purchasers to the Vendor for the Sale Shares and the Sale Preference Shares pursuant to the Amended SPA
"Transaction Documents"	the SPA, the disclosure letter and tax covenant and other agreement(s) or document(s) entered into on or after the date of the SPA among any of the parties in connection with the SPA, which include the Supplemental Agreement and the Second Supplemental Agreement
"UK"	The United Kingdom of Great Britain and Northern Ireland
"USA" or "US"	The United States of America
"US$"	US dollar, the lawful currency of the USA
"USDOJ"	the US Department of Justice
"USFTC"	the US Federal Trade Commission
"Vendor"	C & E Capital Ltd., a company with limited liability incorporated and existing under the laws of the British Virgin Islands
"%"	per cent.

For the purpose of this circular, unless otherwise indicated, the exchange rates of RMB0.84 = HK$1, US$1 = HK$7.75 and RMB6.51 = US$1 have been used for currency translation, where applicable. Such exchange rates are for the purpose of illustration only and do not constitute a representation that any amounts in HK$, RMB or US$ have been, could have been or may be converted at such or any other rates.

南海控股有限公司*
NAN HAI CORPORATION LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 680)

Executive Directors:
Mr. Yu Pun Hoi *(Chairman)*
Ms. Chen Dan
Ms. Liu Rong

Non-executive Directors:
Mr. Wang Gang
Mr. Lam Bing Kwan

Independent non-executive Directors:
Prof. Jiang Ping
Mr. Lau Yip Leung
Mr. Xiao Sui Ning

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal place of business in Hong Kong:
12/F, The Octagon
No. 6 Sha Tsui Road
Tsuen Wan
New Territories
Hong Kong

25 August 2016

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF (1) THE SALE SHARES AND (2) THE SALE PREFERENCE SHARES

INTRODUCTION

References are made to the announcements dated 15 December 2015, 4 March 2016, 16 March 2016, 22 April 2016, 26 May 2016, 16 June 2016 and 17 June 2016 of the Company in relation to the acquisition of the Sale Shares and the Sale Preference Shares by the Purchasers under the SPA, the extension of long stop date of the SPA, the Supplemental Agreement, delay in despatch of the circular, possible extension of the Long Stop Date and further delay in despatch of circular, update on the status of the major and connected transaction, and the Second Supplemental Agreement respectively.

* *For identification purpose only*

On 15 December 2015 (after trading hours), the Purchasers, the Vendor, the Company and LIM entered into the SPA, pursuant to which the Purchasers conditionally agreed to acquire and the Vendor conditionally agreed to sell (i) the Sale Shares; and (ii) the Sale Preference Shares at US$175 million (equivalent to approximately HK$1,356.25 million) (subject to adjustment), which shall be satisfied by internal resources or borrowings of GGC and OBL respectively and be settled by way of cash.

On 4 March 2016 (after trading hours), the Purchasers extended the long stop date of the SPA to 16 June 2016 by notice in writing to the Vendor pursuant to the SPA.

On 16 March 2016 (after trading hours), the Company, the Purchasers, LIM and the Vendor entered into the Supplemental Agreement with respect to the adjustment of the consideration, from US$175 million to US$165 million. Save and except for the aforesaid adjustment of the consideration, all other terms and conditions of the SPA remain unchanged.

On 17 June 2016 (after trading hours), the Company, the Purchasers, LIM and the Vendor entered into the Second Supplemental Agreement, pursuant to which all the parties thereto agreed to extend the Long Stop Date and the Completion Date from 16 June 2016 to 15 September 2016 and from 30 June 2016 to 30 September 2016, respectively.

The purposes of this circular are to provide you with further information on the SPA, the Supplemental Agreement and the Second Supplemental Agreement and the transactions contemplated thereunder, financial information relating to the Company and the Target Group, the Business Valuation Report, the letter of recommendation from the Independent Board Committee and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Amended SPA and the transactions contemplated thereunder as well as the notice of SGM.

THE SUPPLEMENTAL AGREEMENT

On 16 March 2016 (after trading hours), the Company, the Purchasers, LIM and the Vendor entered into the Supplemental Agreement with respect to the adjustment of the Transaction Consideration, from US$175 million to US$165 million.

Having made reference to, amongst other aspects, the findings from the Due Diligence Review, the Directors have considered the potential impact of (1) additional costs and capital expenditure for the brand's maintenance and development; (2) additional costs and capital expenditure into the Target Group's infrastructure and systems (e.g. ERP and other I.T. systems); and (3) certain time required for the Target Group to return to profitability.

Please refer to the subsection headed "Business plan" in the letter from the Board for further details of costs and capital expected to be spent by the Target Group for brand's maintenance and development, and infrastructure and systems.

In view of the factors above, the Directors consider that the extent of adjustment to the Transaction Consideration is fair and reasonable, and is in the interests of the Company and the Shareholders as a whole.

Save and except for the aforesaid adjustment of the Transaction Consideration, all other terms and conditions of the SPA remain unchanged.

THE SECOND SUPPLEMENTAL AGREEMENT

On 17 June 2016 (after trading hours), the Company, the Purchasers, LIM and the Vendor entered into the Second Supplemental Agreement.

As disclosed in the announcement of the Company dated 26 May 2016, 16 June 2016 and 17 June 2016, additional time was required for the Company to prepare and finalise certain information including financial information for the circular. All parties to the Second Supplemental Agreement agreed the extension of the Long Stop Date and the Completion Date respectively from 16 June 2016 to 15 September 2016 and from 30 June 2016 to 30 September 2016.

Save and except for the abovementioned extension of the Long Stop Date and the Completion Date, all other terms and conditions of the SPA (as amended by the Supplemental Agreement) remain unchanged.

THE AMENDED SPA

The principal terms of the SPA are set out in the announcement of the Company dated 15 December 2015. Apart from the adjustments of the Transaction Consideration under the Supplemental Agreement and the extension of the Long Stop Date and the Completion Date under the Second Supplemental Agreement as set out above, all other terms and conditions of the SPA remain intact and unchanged. The principal terms of the Amended SPA, are as follows:

Date: 15 December 2015 (after trading hours)

Parties:

(i) GGC and OBL as the Purchasers;

(ii) C & E Capital Ltd. as the Vendor;

(iii) LIM as a guarantor of the Vendor; and

(iv) The Company as a guarantor of GGC

Acquisition:

(i) the Purchasers conditionally agreed to acquire and the Vendor as beneficial owner conditionally agreed to sell the Sale Shares (79,974,647 representing approximately 70% of the Sale Shares and 34,274,848 representing approximately 30% of the Sale Shares are to be acquired by GGC and OBL respectively) upon Completion free from encumbrances and together with all rights from the date of the SPA and thereafter attaching or accruing thereto including but not limited to all rights to any dividends paid, declared or made in respect of thereof after Completion; and

(ii) the Purchasers conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Preference Shares (3,293,850 representing 70% of the Crabtree & Evelyn (Overseas) Limited Redeemable Preference Shares and 126,474 representing approximately 70% of Crabtree & Evelyn, Ltd. Shares of Redeemable Preferred Stock are to be acquired by GGC; and 1,411,650 representing 30% of the Crabtree & Evelyn (Overseas) Limited Redeemable Preference Shares and 54,203 representing approximately 30% of the Crabtree & Evelyn, Ltd. Shares of Redeemable Preferred Stock are to be acquired by OBL) upon Completion free from encumbrances and together with all rights from the date of the SPA and thereafter attaching or accruing thereto including but not limited to all rights to any dividends paid, declared or made in respect of thereof after Completion.

Consideration:

The Transaction Consideration is in aggregate US$165,000,000 and will be satisfied by the Purchasers as to:

(i) The Purchasers (or the affiliates of the Purchasers) shall pay the Deposit to the Vendor as deposit and part payment of the Transaction Consideration within seven (7) Business Days after the date of the SPA or any other later date to be mutually agreed in writing by the Vendor and the Purchasers; and

(ii) The balance of the Transaction Consideration shall be payable by the Purchasers (or the affiliates of the Purchasers) to the Vendor in full upon Completion.

Among the Transaction Consideration of US$165,000,000, the amount payable by GGC and OBL shall be US$115,500,000 and US$49,500,000 respectively.

Conditions precedent to Completion: Completion is conditional upon the following Conditions having been satisfied:

(a) the passing of the necessary resolutions by the Shareholders (other than those who are required to abstain from voting by any applicable law or regulation including the Listing Rules and the incorporation documents of the Company) at a special general meeting of the Company approving the execution, delivery and performance of the Amended SPA and the other Transaction Documents and the transactions contemplated hereunder and thereunder;

(b) in relation to the antitrust laws enforced by the USFTC and the USDOJ (if applicable):

(i) all necessary notifications and filings required under the federal premerger notification program in respect of the sale and purchase contemplated under the Amended SPA having been made;

(ii) all applicable waiting periods having passed, expired or been officially terminated; and

(iii) no injunction having been granted by any federal district court to prohibit consummation of the sale and purchase contemplated under the Amended SPA;

(c) in relation to the antitrust laws enforced by any Relevant Competition Authority other than USFTC and the USDOJ (if applicable):

(i) all necessary filings and notifications having been done; and

(ii) all necessary consents and approvals having been obtained;

(d) the Company having obtained the clearance/approval from the Stock Exchange for issuing the circular in respect of the execution, delivery and performance of the Amended SPA and the other Transaction Documents and the transactions contemplated hereunder and thereunder; and

(e) no written notice from the Purchasers having been received by the Vendor, on or before the date falling on the expiration of three (3) months from the date of the SPA, that the Purchasers are not satisfied at their absolute discretion with the results of the Due Diligence Review.

Each of the Purchasers shall use its reasonable endeavors to procure the fulfillment of all the Conditions set out in paragraphs (a) to (d) above before the Long Stop Date. None of the Conditions may be waived.

Pre-completion Undertakings: The Vendor covenants with each of the Purchasers, among other things, the following:

(a) it shall not further dispose of any interest in or create any new encumbrances over the Sale Shares and the Sale Preference Shares from the date of the SPA.

(b) from the date of the SPA up to Completion, it shall procure each member of the Target Group shall not do, take or carry out any action without the prior written consent of the Purchasers (such consent shall not be unreasonably withheld or delayed) except for transactions contemplated under the SPA or in the ordinary and usual course of business or day-to-day operations.

(c) it shall procure the Target Group to provide the Purchasers full access to the Target Group's properties, books and records, books of accounts, incorporation documents, bank accounts details, licenses, agreements and such other documents which are material to the Target Group's management and operation, and guarantees and security documents.

(d) it shall notify the Purchasers in writing at least six (6) Business Days prior to the Completion Date the particulars of the amounts in relation to the Advance which shall be paid by the Purchasers in form of shareholder's loan or otherwise as the Purchasers may think necessary, upon Completion, provided that:

   (i) the Purchasers shall have right to verify such particulars of the amounts;

   (ii) the Advance shall not exceed US$46 million; and

   (iii) each of the Vendor and the Purchasers shall discuss in good faith (where necessary) and agree such particulars of the amounts by no later than two (2) Business Days prior to the Completion Date.

for the avoidance of doubt, the total outstanding amount of Advance shall be payable by GGC and OBL in the proportion of 70% and 30% respectively.

As at 31 July 2016, being the date of the latest management accounts of the Target Group, the aggregate amount of the Advance was approximately US$34.5 million.

Completion: Subject to the Purchasers' satisfaction of the Conditions, Completion shall take place on the Completion Date.

At Completion, the Vendor and the Purchasers shall comply with such completion obligations as follows:

The Vendor's completion obligations:

The Vendor shall deliver or caused to be delivered to the Purchasers all of the documents referred to in paragraphs (1) to (4) below in form and substance reasonably satisfactory to the Purchasers:

(1) constitutive and registration documents — certificate of good standing and certificate of incumbency in respect of both the Vendor and the Target Company;

(2) documents releasing/discharging the Sale Shares and the Sale Preference Shares from mortgage and encumbrance, share certificates of the Sale Shares and the Sale Preference Shares, instrument of transfer of each of the Sale Shares and the Sale Preference Shares, the contract note of each of the Sale Shares and the Sale Preference Shares, tax covenant duly executed by the Vendor, change of administrator of the Target Company, letters of resignation by such directors, company secretaries and/or officers of each member of the Target Group;

(3) minutes of board meeting of the Vendor approving the entering into, execution and performance of the Amended SPA, tax covenant and all documents incidental thereto; and

(4) the Vendor shall procure a board meeting to be held by each relevant member of the Target Group at which resolutions shall be passed — (i) to approve the Purchasers or their respective nominees for registration as the holders of the Sale Shares and the Sale Preference Shares and the issue of new share certificates to each of the Purchasers and/or their respective nominees for the Sale Shares and the Sale Preference Shares, (ii) to note the resignation of the directors, company secretaries and/or officers of each member of the Target Group and to appoint new directors, company secretaries and/or officer of each relevant member of the Target Group, and (iii) revocation of all authorities to bankers of each member of the Target Group relating to bank accounts and procure the giving of authority to such persons as the Purchasers may nominate to operate the same.

If such obligations are not fully complied with on Completion, the Purchasers may at their sole discretion:

(a) waive, in writing, all or any of the compliance of such completion obligations; or

(b) defer Completion to a date not more than fourteen (14) days after the Completion Date; or

(c) proceed to Completion so far as practicable (without prejudice to their rights under the Amended SPA); or

(d) rescind the Amended SPA, and the Purchasers shall be entitled to: (i) take any action against the Vendor and/or LIM for damages and/or for specific performance of the Amended SPA; or (ii) the Deposit paid by the Purchasers shall be refunded to the Purchasers without interest within five (5) Business Days, and thereupon the Purchasers shall have no further claim of whatsoever nature against the Vendor and/or LIM (otherwise than due to the default of the Purchasers or due to the non-satisfaction of the Conditions by the Purchasers on the Long Stop Date).

The Purchasers' completion obligations:

(1) The Purchasers shall pay the remaining balance of Transaction Consideration (after deduction of the Deposit);

(2) The Purchasers shall settle the amount of the Advance as at Completion in full in the form of an advance or shareholders' loan or otherwise as the Purchasers may think necessary;

(3) The Purchasers shall deliver or cause to be delivered to the Vendor all of the following documents referred to in paragraphs (i) to (iv) below in form and substance reasonably satisfactory to the Vendor:

(i) constitutive and registration documents — certificate of continuing registration of GGC, and certificate of good standing and incumbency of OBL;

(ii) the tax covenant duly executed by the Purchasers;

(iii) minutes of board meeting of each of the Purchasers and the shareholders of the Company approving the entering into, execution and performance of the Amended SPA, the tax covenant and all documents incidental thereto; and

(iv) written confirmation from the Purchasers that the Conditions have been satisfied by 5:00 p.m. on the Long Stop Date.

If the Purchasers fail to pay the Deposit or complete the purchase in accordance with the terms and conditions of the Amended SPA (otherwise than due to the default of the Vendor or due to the non-satisfaction of the Conditions on the Long Stop Date), then the Vendor shall be entitled to (a) take any action against the Purchasers and/or the Company for damages and/or for specific performance of the Amended SPA; or (b) rescind the Amended SPA and the Vendor shall forfeit the Deposit as liquidated damages, and thereupon the Vendor shall have no further claim against any of the Purchasers and/or the Company.

If the Vendor fails to complete the sale in accordance with the terms and conditions of the Amended SPA (otherwise than due to the default of the Purchasers or due to the non-satisfaction of the Conditions on the Long Stop Date), then the Purchasers shall be entitled to (a) take any action against the Vendor and/or LIM for damages and/or for specific performance of the Amended SPA; or (b) rescind the Amended SPA and the Deposit shall be refunded to the Purchasers within five (5) Business Days, and thereupon the Purchasers shall have no further claim against the Vendor and/or LIM.

Upon Completion, the Target Company will become a subsidiary of the Company and its financial results will be consolidated into the financial results of the Company.

Liability of the Vendor: The liability of the Vendor in respect of any Purchasers' Claim shall be limited (save and except such limitation on the liabilities of the Vendor shall not apply in the event of fraud on the part of the Vendor) as follows:

(a) The Vendor shall be under no liability in respect of any Purchasers' Claim unless the Vendor shall have received written notice from the Purchasers prior to the date falling twelve (12) months after the Completion Date, and any such Purchasers' Claim shall be deemed to have been waived at the expiration of eighteen (18) months after the Completion Date unless proceedings in respect of any such Purchasers' Claim shall have been commenced against the Vendor.

(b) No liability shall attach to the Vendor unless the aggregate amount thereof (excluding any cost and expenses incurred in ascertaining the existence or the amount thereof) shall exceed US$3 million (or the equivalent thereof) in which case the Vendor shall be liable for the full amount thereof.

(c) The Vendor shall have no liability in respect of any individual matter unless the liability of the Vendor in respect thereof shall exceed an amount of US$0.3 million (or the equivalent thereof) (excluding any cost and expenses incurred in ascertaining the existence or the amount thereof); and for the avoidance of doubt any such individual matter shall be disregarded for the purpose of the paragraph (b) above, and the Purchasers agree and undertake not to make any Purchasers' Claim in respect of any such individual matter.

(d) The aggregate amount of the liability of the Vendor (including the reasonable costs and expenses properly incurred in ascertaining the existence or the amount thereof) shall not exceed the amount of US$52.5 million (equivalent to approximately HK$406.88 million) or the amount of the Transaction Consideration and the Advance actually paid and settled by the Purchasers (whichever is lower) save and except that such aggregate amount of limitation of the liability shall be automatically adjusted upwards to the aggregate amount of the Transaction Consideration and the Advance actually paid and settled by the Purchasers in the event that the Vendor shall be in breach of its obligation under the Amended SPA to transfer of the Sale Shares and/or the Sale Preference Shares to the Purchasers upon Completion to enable the Purchasers to be registered as the holders of the Sale Shares and the Sale Preference Shares, or otherwise fail to complete the sale in accordance with the terms and conditions of the Amended SPA (otherwise than due to the default of the Purchasers or due to the non-satisfaction of the Conditions by 5:00 p.m. on the Long Stop Date).

In view of the Due Diligence Review carried out by the Company, the risk of breach of obligations other than the transfer of the Sale Shares and the Sale Preference Shares under the Amended SPA by the Vendor is relatively low. After amicable negotiation between the Purchasers and the Vendor, parties eventually reached a commercial decision in setting a limit of 30% of the pre-adjusted Transaction Consideration (i.e. 30% of US$175 million, being US$52.5 million) on the liability of the Vendor subject to its non-breach of transfer of the Sale Shares and/or the Sale Preference Shares under the SPA.

Since the potential liability of the failure in transfer of the Sale Shares and/or the Sale Preference Shares is limited to the aggregate amount of the Transaction Consideration and the Advance paid by the Purchasers, i.e. the total sum that the Purchasers shall pay under the Amended SPA, the Board has formed a view that it is fair and reasonable for having the liability of the Vendor limited to the aggregate amount of the Transaction Consideration and the Advance (if any) paid save and except the event of fraud under which the liability of the Vendor should be unlimited.

Guarantor of the Vendor: LIM unconditionally and irrevocably guarantees to the Purchasers as a primary obligor and not merely as a surety the due and punctual performance and observance by the Vendor of all its obligations arising out of or in connection with, and the punctual discharge of all the liabilities of the Vendor under or pursuant to the Amended SPA and all other Transaction Documents.

The guarantee given by LIM shall be a continuing guarantee, which shall remain in full force and effect until all the obligations of the Vendor under the Amended SPA and each Transaction Document shall have been performed or satisfied and is in addition to, and without prejudice to, and not in substitution for, any rights or security which the Purchasers may have for the performance and observance of the obligations, commitments, undertakings and warranties of the Vendor under or in connection with the Amended SPA and each Transaction Document.

The Purchasers may enforce the guarantee without first being required to take any proceedings, to make demand or to take any other steps against the Vendor or any other person.

The total liability of LIM under the Amended SPA and the tax covenant shall not exceed the aggregate amount of the liability of the Vendor under the Amended SPA (for the avoidance of doubt, the total liability of the Vendor and LIM under the Amended SPA and the tax covenant shall not exceed the aggregate amount of the liability of the Vendor under the Amended SPA).

Guarantor of GGC: The Company unconditionally and irrevocably guarantees to the Vendor as a primary obligor and not merely as a surety the due and punctual performance and observance by GGC of all its obligations arising out of or in connection with, and the punctual discharge of all the liabilities of GGC under or pursuant to the Amended SPA and all other Transaction Documents.

The guarantee given by the Company shall be a continuing guarantee, which shall remain in full force and effect until all the obligations of the GGC under the Amended SPA and each Transaction Document shall have been performed or satisfied and is in addition to, and without prejudice to, and not in substitution for, any rights or security which the Vendor may have for the performance and observance of the obligations, commitments, undertakings and warranties of GGC under or in connection with the Amended SPA and each Transaction Document.

The total liability of the Company shall not exceed the amount of US$52.5 million (equivalent to approximately HK$406.88 million) save and except that such total liability limitation shall be automatically adjusted upwards to 70% of the aggregate amount of the Transaction Consideration and the Advance in the event of failure to settle the Transaction Consideration and the outstanding amount of the Advance in full, or otherwise fail to complete the purchase in accordance with the terms and conditions of the Amended SPA (otherwise than due to the default of the Vendor or due to the non-satisfaction of the Conditions by 5:00 p.m. on the Long Stop Date).

The role of the Company in the proposed transaction is a guarantor of the GGC for ensuring its due and punctual performance and observance of all its obligations under the Amended SPA and all other Transaction Documents. Similar to the situation of the Vendor that the most critical obligation of GGC is to pay 70% of the Transaction Consideration and Advance (if any) to the Vendor upon Completion. Other than the aforesaid payment obligation, the chance of breach of any other provision under the Amended SPA by GGC should be very low. After amicable negotiation between the Purchasers and the Vendor, parties eventually reached a commercial decision in setting a limit on the additional liability of GGC under the SPA, which should be same as the limit on the liability of the Vendor, i.e. US$52.5 million.

Restrictive Covenants and Protection of Goodwill:

In order to ensure the Purchasers, among other things, to obtain the full benefit and value of the goodwill and relationships of the Target Group and the Business, the Vendor undertakes to each of the Purchasers that except with the Purchasers' prior written consent, it shall not, and shall procure its affiliate not to, whether by itself, through its employees or agents or otherwise and whether on its own account or in conjunction with others whether directly or indirectly:

(a) for a period of twelve (12) months after the Completion Date be financially or otherwise concerned with, engaged or interested in, or connected with, any business, in competition with any member of the Target Group or any part of the Business carried on by the Target Group as at the Completion Date or at any time prior to the Completion Date in any geographical area in which any member of the Target Group carried on the Business or any part of it as at the Completion Date;

(b) for a period of twelve (12) months after the Completion Date, solicit, entice, employ, seek to employ, conclude any contract for services with, offer or procure or facilitate the making of such offer by any other person, any person who was an officer or employed in a significant technical/skilled or managerial or above position by any member of the Target Group at any time from the date of the SPA up to the Completion Date (save and except any person who responds to a recruitment advertisement or whose employment with the Target Group has ceased, provided that such response or cessation was not solicited or induced directly or indirectly by the Vendor or its affiliate);

(c) disclose to any third party any Business Information, save and except where such disclosure is permitted under certain provisions of the Amended SPA; or

(d) at any time after the Completion Date, use any trade mark, trade name or domain name, design or logo, including the expressions of "Crabtree & Evelyn" or "Crabtree & Evelyn London" or any email address used by any member of the Target Group at any time prior to the Completion Date or any other name which, in the reasonable opinion of the Purchasers, is intended or likely to be confused with such trade or domain name or email address.

Basis of the Transaction Consideration

The Transaction Consideration was determined after arm's length negotiations between the Purchasers and the Vendor with reference to the following factors:

(a) a preliminary view of the valuation on the entire equity interest of the Target Company;

(b) the Accounts and the Management Accounts;

(c) the reasons and benefits of the Acquisition as stated under the section headed "Reasons for and benefits of the Acquisition under the Amended SPA" in the letter from the Board in this circular; and

(d) the additional costs and capital expenditure for the brand's maintenance and development, and infrastructure and systems.

Based on the valuation of the Target Group in the Business Valuation Report, the fair value of the Target Group was US$187,800,000 as at 31 March 2016. Key assumptions adopted in the valuation are set out on pages 144 to 145 of Appendix V — Valuation Report of the Target Group to this circular.

Norton Appraisals Limited possesses extensive experience in providing various valuation projects on real estate and businesses for the purposes of acquisition, disposal, financial reporting, and initial public offerings. The Company also knows that it has an extensive client base including many well-known public companies listed on the Main and Growth Enterprise Market boards of the Stock Exchange, and that it has provided services on valuation of companies operating in a variety of industries such as tinplate manufacturing, real estate development, property management, movie production, mortgage financing services, consumer financing services, hedge fund management, transportation, retail, mobile applications, oil bunkering, oil station, online apparel platform, and forestry.

In addition, the Company has reviewed the service proposal provided by Norton Appraisals Limited in respect of the Business Valuation Report and is satisfied with their proposed timetable, qualification of the responsible staff and service fee. As such, the Company selected it as the independent valuer for the Acquisition.

The Directors notice that the Transaction Consideration is considerably higher than the Target Group's net assets as at 31 March 2016 at approximately US$54.2 million and have performed an analysis on the comparable companies in the Business Valuation Report (individually the "**Comparable Company**" and collectively the "**Comparable Companies**") to determine its reasonableness. Results of such analysis show that, besides those recorded a net liability as at their respective latest financial report dates, shares of each of the Comparable Companies were traded at a price-to-book multiple (calculated as market capitalisation as at 29 July 2016 over net book value as at the latest financial reporting date) of above one, with an average and median of approximately eight and four respectively. The Directors believe that it is due to the fact that cosmetics and personal care products brand owners do not generally require large amount of fixed assets for their operations and their values are embedded in their reputation of high quality products, brands, and distribution networks.

The Target Group has been loss making for the two financial years ended 31 March 2016 mainly because of: (i) the decrease in revenue due to the lessening of brand and product desirability and the increasing use of promotion and discounting by each of the countries in which it operated in an attempt to increase revenue; and (ii) selling and distribution expenses and general and administrative expenses are comparatively more rigid and decreased at a lesser rate than the drop in revenue. The Directors believe that based on the Company's strong customer base, extensive distribution network in the PRC, solid financial strength, and team of experienced management on overseeing sizeable operations, the Company will be able to implement the business plan as described in the sub-section headed "Business plan" in this letter from the Board and thus improve the Target Group's financial performances in the foreseeable future after Completion.

Having considered the above, the Directors consider that the Transaction Consideration is fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE TARGET GROUP

Business

The Target Company's goal is to establish its Crabtree & Evelyn brand as a globally respected personal care product brands. Traditionally a strong gift business, the Target Company is also positioning itself to capture a greater share of the self-purchase and indulgence market.

Products

The Target Group is renowned for its premium gift sets in luxurious packaging for all festivities and holiday seasons. It designs, manufactures and sells a wide range of products across five major categories:

- Bath and body — shower gel, body lotion, shampoo and conditioners, soap, salt, soaks and oils, shave cream, foot and lip care
- Hand therapy — hand creams, hand washes, antibacterial hand gels, scrubs, and nail care
- Fragrance — fragrances for both men and women
- Home — scented candles, fragrance spray and diffusers, fragrance oils
- Fine foods — teas, preserves, jams, cookies and biscuits

The Target Group is engaged in manufacturing and global distribution of a wide range of botanic-based personal care products under the trade mark, trade name, design or logo, including the expressions of "Crabtree & Evelyn" or "Crabtree & Evelyn London". The Target Company's products are sold in over 40 countries through more than 4,000 points of sales, including wholly-owned branded retail stores, distributor stores, specialty retailers and department stores, e-commerce and travel retail (in-flight sales, duty free shops and hotels).

Distribution channels

The Target Group sells its Crabtree & Evelyn products through distribution channels which can be grouped into three categories:

Direct sales: Comprising sales of its products directly by the Target Group to end customers. These sales are made mainly through its wholly-owned branded retail stores and also include sales through e-commerce.

Distribution: Comprising sales of its products to resellers, including distributor stores, specialty retailers and department stores.

Intermediaries: Comprising sales of its products to intermediaries such as in-flight sales, duty free shops and hotels.

Direct Sales

Retail stores

The Target Group mainly sells its products directly to end customers through retail stores which are managed and operated by the Target Group. All of the premises for its retail stores are leased instead of owned by the Target Group and shared a standardized decoration.

The table below shows the average number of the Target Group's own retail stores for the three financial years ended 31 March 2016:

	Financial year ended 31 March		
	2014	**2015**	**2016**
Geographic locations			
Hong Kong	27	27	29
Singapore	13	12	13
Malaysia	16	16	15
Canada	17	17	16
United States	80	75	73
Australia	25	23	20
United Kingdom	36	27	26
Germany	10	10	5
Austria	1	1	1
PRC	0	1	0
Total	225	209	198

As these retail stores are directly managed and operated by the Target Group, it is able to control directly the marketing and promotion of its products and brand to its customers. In general, products sold in the Target Group's retail stores are direct to its end customer.

In order to enhance customers' loyalty, the Target Group had launched a VIP program to encourage recurring consumptions. Customers who have spent a minimum amount in a single receipt would be qualified as a VIP and discounts would be given to their purchases subsequent to admission.

E-commerce

Crabtree & Evelyn products are available for purchase through the Target Group's websites in United States, Canada, United Kingdom, Germany, Australia and Hong Kong.

Distribution

A portion of Crabtree & Evelyn products are sold to third party distributors who operate their own department stores, pharmacies and specialty stores, especially in areas where the Target Group does not have any plan to set up its own retail stores due to its lack of local expertise and market knowledge.

The Target Group typically grants these distributors an exclusive right to retail Crabtree & Evelyn products in certain geographical locations for a limited number of years which would be subject to mutual agreement for any renewal upon expiry.

In order to manage its distributors and uphold the reputation of the Crabtree & Evelyn products, the Target Group would send its staff to maintain regular contact with its distributors by both physical visits and electronic communications, keeping track of their purchase orders and inventory level.

Revenue attributable to the Target Group's global top five distributors for the three years ended 31 March 2016 are as follows:

	For the year ended 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Distributor 1	2,432	3,996	3,581
Distributor 2	1,441	1,153	1,280
Distributor 3	1,088	944	1,132
Distributor 4	799	1,205	898
Distributor 5	1,116	1,484	254
Total	6,876	8,782	7,145

Intermediaries

A small portion of the Target Group's revenue has been generated by selling its products to intermediaries such as in-flight sales, duty free shops and hotels.

Production

The Target Group has its own manufacturing and research and development ("R&D") facilities in Woodstock, Connecticut, USA which is capable of mixing, liquid filling operations and gift assembly. For the year ended 31 March 2016, it manufactured approximately 90% of Crabtree & Evelyn products at its own manufacturing plants, whilst the rest were manufactured by sub-contractors located in United States, Great Britain, Switzerland, PRC and Scotland. Finished products are mainly packaged and their quality are tested at the Woodstock, Connecticut facility.

As at the Latest Practicable Date, the Target Group had 18 subcontractors: 12 in the United States, three in Great Britain, one in Switzerland, one in the PRC and the remaining one in Scotland. Given the subcontractors' cost effectiveness and experience in making personal care goods, the Target Group considers it more commercially sound to outsource its production than to invest in the equipment and facility required for its production.

Set forth below are the details of the Target Group's major subcontractors for the latest financial year ended 31 March 2016:

Subcontractor	Location	Services provided	Years of relationship with the Target Group	Amount of subcontracting fee for the latest financial year ended 31 March 2016 *(US$'000)*
Subcontractor 1	United States	Milled soap	20+	1,489
Subcontractor 2	United States	Alcohol based filling	30+	1,145
Subcontractor 3	Scotland	Milled soap	4	821
Subcontractor 4	United States	Drawer liners	30+	427
Subcontractor 5	United States	Nail polish	4	276

Raw material

The following are the key ingredients used in the Target Group's products:

Ingredient	Major source of supply
Shea butter	The Target Group sources most of its shea butter directly from a public company listed on the Stockholm Stock Exchange manufacturing and selling specialty vegetable oils and fats in Europe and the Americas.
Oil	The Target Group sources most of its extract oils from a US based developer and manufacturer of custom fragrances, flavours, national aromatic extracts, artified orangic botanical extracts and natural deodorants for personal care and cosmetics products.
Perfume bases	The Target Group sources most of its perfume base from four perfumers — a German listed company, a US based specialty chemicals supplier, a US based fragrances provider and a US based fragrances and consumer products producer.
Soap chips	The soap chips used in the Target Group's products are sourced by the subcontracted soap manufacturers.
Other ingredients	The Target Group sources its other key ingredients from proprietary manufacturers and distrubutors.

Set forth below are the details of the Target Group's major suppliers for the latest financial year ended 31 March 2016:

Supplier	Location	Raw material provided	Years of relationship with the Target Group	Amount of purchase for the latest financial year ended 31 March 2016 *(US$'000)*
Supplier 1	United States	Polylaminate tubes	3	1,803
Supplier 2	United States	Various raw ingredients	20+	1,436
Supplier 3	United States	SK-influx®	5	1,320
Supplier 4	United States	Plastic bottles/caps	16	1,251
Supplier 5	United States	Printed cartons	20+	907

Business plan

Distribution channels

1. Similar to other companies in the personal and beauty goods industry, the Target Group currently relies on self-operated retail stores in selling its products worldwide. After Completion, the Company will work with the Target Group's management team on siting of shops and decide, based on the consideration of impact on the Target Group's brand created by this distribution channel, whether to maintain or expand the scale of this retail distribution channel. Besides, the Company intends to assist the Target Group to enter into other markets with large market opportunities, such as the PRC, and expand the brand's influence in those markets by opening new self-operated retail stores.

   The Company's current plan is to help the Target Group enter into the PRC market and open ten new self-operated store in several first-tier cities by the end of 2017. The Directors believe that within the next five years subsequent to the Completion, the Crabtree & Evelyn brand would have gained sufficient customer recognition in the PRC and at that point, the Target Group will start to penetrate into other major cities.

2. Given the increasing influence of e-commerce on global retail markets, the Company intends to assist the Target Group to explore sales channel on the internet to reach its target customers in markets where it currently or intends to operate. It is the Company's current intention to initiate the operation of e-commerce business for Crabtree & Evelyn products in PRC by the end of 2017. Also, given Dadi Cinema's extensive distribution

network and existing membership system, the Directors believe that the Company will be able to promote Crabtree & Evelyn products effectively and expand its sales through digital channels at a fast pace.

Product development and inventory control

Leveraging on the strong Crabtree & Evelyn brand, the Target Group will continue its focus on product innovation and development to increase the brand awareness and in turn, the overall revenue.

The Company will also re-examine the Target Group's existing working capital management and intend to minimising the total costs of maintaining inventory while maximising the ability to provide customers with product in a timely manner.

Appointment of new director

Ms. Yu Xin, the general manager of 廣東大地影院建設有限公司 (Guangdong Dadi Cinema Construction Limited) of the Group, will be appointed as one of the directors of the Target Company, responsible for formulating strategic policies for and supervising the management of the Target Group.

The Group intends to rely on the existing team of the Target Group to manage the business. The general manager of the Target Company will prepare and provide management report to the Board for performance review of the Target Company on a quarterly basis, while other remaining members of the existing management team will focus on the operation of the business.

Capital expenditure

The Target Group will rely on its own internal resources and/or additional financial support from the Company for any future capital expenditure. The Target Group currently expects to complete the upgrade of the its ERP system and commence the use of SAP system which aims to improve its existing inventory control and financial management. In addition, the Target Company will likely increase its spendings on marketing and promotion activities in order to strengthen its market recognition and acceptability of its products. The Directors believe that in the next five years, the Target Group will devote adequate resources for the opening of new retail stores, brand building, I.T. system and ERP system and development of new products.

In view of the proposed business plan disclosed above, the Directors believe that the Target Group's business performance will be improved because:

- entering into China's market would boost the Target Group's sales volume as China is still regarded as having the largest customer base in the world and Chinese consumers have preference for imported brand products. As a result, the Target Group would be likely to benefit from the economies of scale and assuming other factors unchanged, increase its operating profit margin.

- commencing the operation of e-commerce would, in addition to increase sales revenue, save the Target Group from incurring rental expenses and staff costs.

- focusing on product innovation and brand building would allow the Target Group to position its products to be more high-end and to charge a premium for its products.

Senior management

Name	**Age**	**Position**
Paul Harris	69	Global Chief Executive Officer
Gan Vi King	45	Acting Global Chief Financial Officer
Isabelle Regis	49	Global Chief Marketing Officer
Gajan Haas	42	Global Head of Research & Development
David Stern	53	Chief Executive Officer — Americas
Steve Bluff	48	Acting Country Head — EMEIA (Europe, Middle East, India and Africa)
Jennie Kontopoulos	44	Country Manager — Australia
Dennis Tam	56	Acting Country Head — Hong Kong
Wang Whee Min	45	Country Head — Singapore & Malaysia

Biographies

Paul Harris, Global Chief Executive Officer

Paul Harris had a professional career spanning over 40 years with involvement in a wide variety of industries including; global premium brand acquisition, turnaround management and expansion; retail investment development, marketing and management of some of the largest urban and suburban integrated centers in new township projects in Asia; as well as resources mining and onshore and offshore oil and gas production facilities.

During this time he has lived and worked in the major markets of Asia, Middle East, North Africa, United Kingdom, Europe and Australasia.

Resided in Asia for the last 30 years, Mr. Harris has acted in the capacity of a shareholder, a managing or executive director of medium to large private and public companies operating in the major markets of Hong Kong, Singapore, Indonesia, Taiwan, Thailand, Malaysia, China and Vietnam. Areas of involvement included equity investment, financial restructuring, corporate finance and direct liaison with credit rating agencies and major securities companies in Asia, Europe and North America.

Mr. Harris joined Crabtree and Evelyn in 2012 as a director of Crabtree & Evelyn Holdings Limited and its related North American, European and Australasian operating subsidiaries when the Target Group was planning and implementing a corporate turnaround, rebranding, market repositioning and business expansion programme.

Gan Vi King, Acting Global Chief Financial Officer

Gan Vi King was appointed as the global financial controller of the Target Group on 1 March 2014 and has assumed the acting role of the global chief financial officer since 1 December 2015.

He is a Fellow of the Association of Chartered Certified Accountants, United Kingdom and a Chartered Accountant of the Malaysian Institute of Accountants. He started his career in an established professional accounting firm and subsequently served in various senior positions in private and public listed companies for the past 22 years, including overseeing global operations, acquisitions and investments portfolios with experience in the Americas, Europe and Asian region. Having worked in a diverse range of business sectors, he brings with him valuable experience in audit, accounting, global finance, general management, corporate and strategic planning.

Isabelle Regis, Global Chief Marketing Officer

Isabelle Regis is the global chief marketing officer at Crabtree & Evelyn, a position she assumed in June 2015. She has over 20 years of experience in the beauty industry. Prior to joining Crabtree & Evelyn, she worked in France, UK, US and Germany for works at L'Oreal, Coty, Avon and Douglas Perfumeries, on brand building.

In her different roles and increased responsibilities, she gained strategic insights into both fast moving consumer goods as well as prestige brands and substantial experience on building strategic retail partnerships, driving the activation of store networks, as well as engaging directly with consumers through direct marketing and its transformation into a digital and social media channel.

Gajan Haas, Global Head of Research & Development

Gajan Haas graduated from Cornell University in 1997 with a bachelor degree in Biological Sciences/Biochemistry. He began his career in the personal care industry since August 1997 with 19 years tenure in this industry, working as a formulating chemist on skin care, body care fragrances, fine fragrances, sun care, color cosmetics, hair care etc. He carries with him great knowledge with global marketing and product trends including in-depth understanding of global regulatory requirements for a product launch. In the past, he has developed and launched several successful antiaging and other face care treatment products.

At Crabtree & Evelyn, he has worked on several body care new fragrance development, face care treatment products, home care and including the Target Group's well known hand care product ranges. He leads a talented and multi-faceted R&D team with experiences from various aspects of the industry in the research lab new innovations and technologies.

David Stern, Chief Executive Officer Americas

David Stern is currently the chief executive officer of the Americas. He has extensive experience in the beauty and personal products industry. He began his career in retailing at RH Macy & Company in New York, and after earning a dual MBA in marketing & finance at Columbia University joined Unilever in brand management. Over his 11 years career at Unilever, he held a series of senior positions, including several brand and management positions, global category manager for the household and dish categories, vice president of global interactive marketing and e-commerce, and chief executive officer of a product/media joint venture with iVillage in New York. After leaving Unilever, he founded and led Endeavors, Inc in the USA, a personal products company that created and brought 11 brands and over 200 products to the market via mass and direct selling channels. In 2008, he joined Kao Brands, where he served as the global chief marketing officer, senior vice president of strategy and innovation, and the regional executive officer for Kao's mass business outside Japan, responsible for a global brand portfolio that included John Frieda, Curél and Bioré.

Prior to joining the Target Group, he was the president and chief executive officer of Ouidad, a leading salon hair care company focused on curly hair expertise whose products were distributed via two owned salons, over 500 partner salons, and the major masstige retailers in North America.

Steve Bluff, Acting Country Head EMEIA (Europe, Middle East, India and Africa)

Steve Bluff is currently acting as the country head for Europe, Middle East, India and Africa. He joined the Target Group in July 2015 as the commercial director managing the Crabtree & Evelyn UK Wales operations.

He is an experienced retail and commercial director having held senior positions across UK, European and US based consumer businesses. He started his retail trading career with a management training programme in House of Fraser, a premium UK department store group.

Jennie Kontopoulos, Country Manager — Australia

Jennie Kontopoulos joined the Target Group in August 2010 as the national retail manager. Since then she has taken on a range of different roles and responsibilities including the national retail & brand manager and the head of leadership team. She was appointed to her current position as the country manager in January 2015.

She carries with herself over 20 years' experience in management. During this time, she has been accountable for over 45 retail stores and responsible for the area and state managers, overall operations in management, co-ordination, training and marketing.

Dennis Tam, Acting Country Head — Hong Kong

Dennis Tam has extensive and professional experience in financial management, operations and accountancy.

Prior to joining Crabtree & Evelyn, he held a few senior management positions in multinational companies. He was the regional finance director of Reader's Digest Asia Limited, and senior financial controller of Hermes-Otto International Limited. In August 2012, he joined Crabtree & Evelyn (Hong Kong) Limited and was appointed as the financial controller. He was promoted to the chief financial officer position in April 2014. In April 2015, he has been appointed as the acting country head in addition to his chief financial officer role, and is responsible for sales and operation management as well as business strategy.

He obtained a postgraduate diploma in Business from the Heriot-Watt University, UK. He has been a fellowship member of both the Association of Chartered Certified Accountants, UK and the Hong Kong Institute of Certified Public Accountants.

Wang Whee Min, Country Head — Singapore and Malaysia

Wang Whee Min started her career in the beauty industry in 1998 as an area manager at YSL focusing on the travel retail business in South East Asia. In less than a year, she was given the additional role of a key account manager representing YSL in its business with the DFS Group on a global level. She subsequently moved to Unilever Cosmetics Inc where she managed both the domestic markets and travel retail business in Singapore, Malaysia, Thailand, Hong Kong, Taiwan, Indonesia and Philippines for Calvin Klein and other Unilever Cosmetics brands such as Vera Wang and Karl Lagerfeld.

In 2004, she joined Molton Brown as their general manager (Asia Pacific) where she launched the brand in Singapore, Thailand, Hong Kong, Taiwan and Australia, opening 11 point of sales in slightly less than 2 years. After her time in Molton Brown, she launched her own brand of Korean manufactured cosmetics — HANA and her clients include Nuance Watson and The Valiram Group.

In 2012, she joined SUTL as the general manager, leading the Nike retail and nydc café business in Singapore and Vietnam. Under her stewardship, SUTL became Nike's largest retail partner in Singapore, opening their flagship store in Shaw Centre.

In 2015, she joined Crabtree & Evelyn first as the country head in Singapore, and in 2016 as the head of Malaysia.

RISK FACTORS

Risks relating to the Target Group

The Target Group is currently principally reliant upon one brand, namely Crabtree & Evelyn. If The Target Group is unable to protect and promote its brand, or if the Target Group is subject to product liability claims, its financial performances may be adversely affected.

The Target Group derives almost all of its revenue from sales of its Crabtree & Evelyn brand of products. Its financial performances therefore depend significantly on its ability to protect and promote its Crabtree & Evelyn brand in markets it currently operates and those it intends to enter into. Promoting and maintaining its brand also depends, in part, on securing the cooperation of distributors and wholesalers and controlling the distribution of its Crabtree & Evelyn products through its wholesale channels. If the Target Group fails to ensure the distribution or use of Crabtree & Evelyn products by third party distributors or in the case of non-compliance by such third party distributors with its policies, the Crabtree & Evelyn brand may deteriorate and the Target Group may fail to sell its Crabtree & Evelyn products at acceptable prices and/or volumes, and, as a result, its results of operation may be adversely affected.

Any failure to develop and introduce new products may adversely affect the Target Group's business.

Success of the Target Group's business depends, to some extent, on whether it can continuous develop and introduce new products to the market. The acceptability of its new product by customers depends on, including but not limited to, identifying market demand and consumers' preferences, quality and price of the new product, and the effectiveness of promotion. On the other hand, the introduction of new products requires substantial investment on research and development. Due to the rapid changing consumer preferences, the Target Group may not be able to accurately anticipate market trends and introduce new products in a timely manner.

If the Target Group is not able to introduce new products in the future that will attract sufficient demand or selling any these products profitably or if any of the Target Group's new products is not well received by the market due to any other reasons, the Target Group's operational results and financial condition may be adversely affected.

Marketing activities are crucial to the success of the Target Group's products, and if the Target Group fails to effectively implement its marketing campaigns, the brand recognition and reputation of the Target Group's products may be materially adversely affected.

The success of the Target Group's products depend significantly on the effectiveness of the Target Group's marketing activities. However, the Target Group's ability to maintain or develop its marketing capability can be adversely affected by various factors, such as the Target Group's ability to accurately effectively manage media resources and identify the target customers. Any factor adversely affecting the effectiveness of the Target Group's marketing capabilities may have an adverse effect on the brand recognition and reputation of its products. In addition, any significant unexpected increase in the Target Group's marketing expenses may adversely impact the financial performances of the Target Group.

The Target Group develops and manufactures most of its products at its own manufacturing plants in Woodstock, Connecticut, USA. Its operations and financial performance may be adversely affected if there is any major disruptions, damage or destruction at its manufacturing plants in Woodstock, Connecticut, USA.

The Target Group develops and manufactures most of its products at its manufacturing plants in Woodstock, Connecticut, USA. The risk of any occurrence of significant breakdown of production at its manufacturing facilities due to equipment breakdowns, power failures, weather conditions, fire or explosion or other natural disasters could cause significant disruptions in its operations or delay its delivery of products. Its current insurance coverage may not be sufficient to cover all of its potential losses due to any breakdown caused by fire or explosion.

If any manufacturing facilities were to be damaged or cease operations, the Target Group would experience a temporary loss of its manufacturing capacity and disable it to provide its products to its customers, which could adversely affect its operation and financial performances.

Any shortages in supply or delays in delivery of the Target Group's raw materials may affect its production schedule and delivery of its products to customers.

The Target Group depends on suppliers of raw materials, such as shea butter, oil, perfume bases soap chips and other ingredients for its production. Its production volume and costs are heavily dependent on its ability to source its raw materials on time and at acceptable prices. If the supply of such ingredients are affected by natural disasters, adverse weather conditions, diseases, pest infestations, disruptions in logistics, labour strikes, work stoppages or any other factors, the Target Group may not be able to source alternative supply of such ingredients in acceptable quality, prices and quantities, and its results of operation may be adversely affected.

Fluctuations in the value of the currencies of the countries in which the Target Group derive revenues against the US$, its reporting currency, could adversely affect its financial performance.

The Target Group's reporting currency is US$ but it sells its products in over 40 countries. For the three financial years ended 31 March 2016 the Target Group mainly operated in US, UK and Hong Kong with most of the transactions settled in US$, British Pound and HK$ respectively.

The Target Group do not have any control, including, but not limited to, currency exchange fluctuations. The effect of currency exchange fluctuations is impossible to predict with any degree of certainty and this may materially and adversely affect the Target Group's operations and financial performance.

The Target Group's ability to operate effectively are dependent on its ability to retain key management and other personnel. The Target Group may not be able to recruit additional or replacement personnel for its operation.

Commitment of the Target Group's management team has been a key element of its effective operation. Its future success is also significantly dependent upon the continued service of its key executives and its ability to attract and retain personnel who have adequate and relevant experience and expertise. If the Target Group experiences any material changes to the structure of its management team, the Target Group may not be able to identify and recruit suitable replacements, which might disrupt its business and operation and its competitiveness may be adversely affected.

Risks relating to the personal care products industry

The risk of product liability claims may materially adversely affect the Target Group's business.

The Target Group is subject to product liability claims or product recalls or even exposure to lawsuits if its products are found to have resulted in side effects or injury for human uses. Despite the internal quality control the Target Group has in place to monitor quality of its products, contamination of ingredients used in its products may occur due to reasons unknown to the Target Group or out of its control. The occurrence of such problems may result in product recalls which will cause serious damage to the Target Group's reputation and the Crabtree & Evelyn brand. The Target Group cannot assure that such incidents will not occur in the future. In addition, adverse publicity about these types of concerns relating to its brand may discourage consumers from purchasing its products. If consumers lose confidence in its brand, The Target Group might experience losses in revenue, resulting in financial losses which The Target Group may not be able to recover.

The Target Group operates in markets which are highly competitive with well-established competitors. If it is unable to remain competitive in those markets, the Target Group might experience losses in revenue and its financial performance could be adversely affected.

Intensity of competition the Target Group faces can have a material impact of the demand and acceptability of its products. Several key competitors are operating in the same markets in which the Target Group currently participates, and the competition within these markets may be further intensified due to the entry of new international and local brands and increased numbers of manufacturers of personal care products. As a result of increased competition, the Target Group's revenue and financial results may be significantly adversely affected.

INDUSTRY OVERVIEW

The personal care products industry aims to help people look better and feel better about themselves. It develops, manufactures, and sells personal care, beauty, and hygiene products including cosmetics, sunscreen, razors, shaving cream, deodorant, soaps and other products for bathing, hair care products, skin care products, nail and cuticle care products, fitness products, and many other items. Products are generally sold in retail stores, door-to-door, by mail order, and online.

European Union*(Note 1)*

Personal care, sanitary and cosmetics products are used by over 500 million consumers daily in Europe. Products range from hygiene products such as soap, shampoo, deodorants and toothpaste to luxury cosmetics items such as perfumes and make-up products. This industry in Europe is worth approximately £57 billion and Europe is well recognised as a world leader in this industry and is a dominant exporter of cosmetics. The overall value of the UK's cosmetics market is worth around £8,381 million according to its 2014 retail sales prices.

The personal care and cosmetic sector is made up of both large and small companies with over 4,400 SMEs in Europe. The SME segment is estimated to be 30% of the market, but in some European Union States this can be up to 98%. The product portfolio ranges from over 20,000 products for large companies to around 160 for smaller companies.

Cosmetics and personal care products manufactured by European brand are credited with having the highest level of safety in the world. Also, European brands are taking the lead on abandonment of animal testing, while promoting innovation and competitiveness. European cosmetic and personal care market nowadays is driven by new product developments, with new colour pallets, skin-specific treatments, anti-ageing products and unique formulas as consumers constantly demand greater number of choices.

US*(Note 2)*

The US is the largest cosmetics and skincare market in the world, and its total revenue is expected to exceed US$62 billion in 2016. The cosmetics and skincare industry can be broken down into smaller segments including make-up, skin care and lotions, hair products, and fragrances and perfumes.

North America remains important to the global cosmetics and personal care market. Currently worth US$78.1 billion, it is expected to reach US$89.5 billon by 2019 with a significant boost from the luxury and make up sectors, according to Euromonitor International. The cosmetics and personal care market can be broken down in to smaller segments including mark-up, skin care and lotions, hair products, and fragrances and perfumes.

Skincare is the largest category in the cosmetics industry, accounting for nearly 35.3% of the U.S. market in recent year. Hair care products represent a large segment of the beauty market too, with sales reaching US$11.6 billion in the U.S. in recent year.

On the other hand, a considerable area of growth is noticeable from within the premium segment with significant percentage increase across many sectors including premium creams and lipsticks, premium skin care and also mascaras. The largest percentage of year-on-year growth in the U.S. for 2014–2015 came from premium foundations/concealers, increasing from 3% in 2013–2014 to 14.2%.

Colour cosmetics has also made huge advances, with the US contributing to approximately 25% of all global value sales. The US market was worth approximately US$14 billion in 2015 with a year-on-year growth of about 7%.

Hong Kong*(Note 3)*

Hong Kong's cosmetics, toiletries and skincare market is dominated by foreign brands as it has very limited local manufacturers. In terms of total import amount, France is Hong Kong's largest supplier, followed by US, PRC, Japan and South Korea. In 2014, imports of cosmetics, toiletries, and skincare products from US alone amounted to HK$474 million while the total size amounted to US$2 billion. Import of cosmetic, personal care and skincare products from Korea has been experiencing double-digit growth for the past few years and in 2015, the increase was 73% resulting in Korea being Hong Kong's second largest source of imports after France.

With the large number of mainland Chinese tourists coming to Hong Kong each year, cosmetic and skincare products market in Hong Kong has been expanded rapidly over recent years. A survey conducted by a renowned international market research revealed that cosmetic and skincare products were among the top shopping purchases among mainland Chinese tourists, followed by electronics/photographic products, clothing, and jewellery and watches. Despite there is a slower rate of spending from mainland Chinese tourists to Hong Kong, it is expected that imports of these products will continue to grow.

USD'000	**2014**	**2015**	**2016 (estimated)**	**2017 (estimated)**
Total Market Size	2,014,282	2,125,004	1,987,563	1,846,586
Total Local Production	100,602	105,632	109,857	116,449
Total Exports	1,656,649	1,820,535	2,038,999	2,304,069
Total Imports	3,570,329	3,839,907	3,916,705	4,034,206

Australia*(Note 4)*

Given Australia's small population of approximately 23 million people, demand for cosmetics and toiletries is estimated at US$2.8 billion. Almost half of such demand is satisfied by imported goods with the U.S. sharing a 30% of the import market.

Australia's median age is around 37 years and the median age has increased by some 4.7 years over the past two decades. Ageing population is one of the key factors in driving Australian's increasing concerns over wellness matters and increased demand for products that prolong a youthful appearance.

PRC(*Note 5*)

Driven by increasing personal income and continuous improvement of living conditions, PRC's cosmetic market has been expanding rapidly over the last two decades but yet is still far from reaching saturation because of its large number of potential cosmetic customers.

The table below shows the retail sales of cosmetic products in recent years:

RMB'billion	**2012**	**2013**	**2014**	**2015**
Retail sales	134.0	162.5	182.5	204.9

Despite China is regarded as having the largest customer base in the world, its per capita spending on cosmetics is relatively low at around US$15. Besides Chinese's citizens own spending power, factors that affect consumer spending preference include brand, price and quality. Consumers that prefer to purchase imported brand products are mostly young to middle-aged women who are considered high-income earners living in second or first tier cities.

China's imports of major cosmetic products in 2015 are shown in the table below:

Types of products	**2015** *(US$ million)*	**Year-on-year change**
Perfumes and toilet waters	186	–2.4%
Lip make-up preparations	148	52.1%
Eye make-up preparations	95	20.7%
Powders, whether or not compressed	87	4.5%
Other (including preparations for the care of the skin, suntan preparations, etc.)	2,722	41.5%
Shampoos	128	107.2%
Preparations for permanent waving	3	21.0%
Hair lacquers	9	5.0%
Other	98	67.3%
Personal deodorants and antiperspirants	4	–29.6%

Competition between local and foreign brands in this segment is fierce with prices and the market demand for middle grade products is on the rise. Although products manufactured by domestic brands are more price competitive than imported ones, the attraction for higher quality, reputable brand products is solid. Creams and lotions have the largest sales volume followed by facial wash creams and bath creams.

Note 1: with reference to EurActiv.com PLC

Note 2: with reference to Personal Care Magazine

Note 3: with reference to the U.S. Department of Commerce's Export.gov

Note 4: with reference to *Cosmetics & Toiletries Market Overview 2015* published by *U.S. Commercial Service Hong Kong*

Note 5: with reference to Hong Kong Trade Development Council

Market competition/major market players

The personal care and cosmetics sector comprises a broad mix of companies from household names including Procter and Gamble, Avon and Estée Lauder, to a large number of nimble and small enterprises, often characterized by women and minority owners.

Major competitors to the Target Group include L'Occitane, a well-known brand on designing, manufacturing and marketing a wide range of cosmetics and well-being products based on natural and organic ingredients; The Body Shop, a British cosmetics, skin care and hair products company presence in over 40 countries; Kiehl's, an American cosmetics brand retailer with over 250 retail stores worldwide; and Jurlique, an international brand manufacturing skin care, cosmetics, and aromatherapy products.

Entry barriers

It takes considerable amount of effort and investment to invent and develop a large variety of well accepted products.

New entrants need to spend a considerable amount of time and investment on gaining in-depth knowledge of the functions, safety and production process of different kinds of personal care products. Also, building and maintaining relationships with reliable suppliers is crucial for stable production of their products.

Establishment of an effective and wide coverage distribution network can be costly

Personal care products are generally sold through retail distribution network and establishment of distribution network requires large amount of investment. New entrants need to invest heavily in terms of time and resources in opening its self-operated stores or sourcing qualified distributors in different regions. In addition, the new entrants would require a long time to develop a team of experienced personnel in order to manage a mature and stable distribution network.

Brand recognition raises difficulties for new entrants

Because personal care products are to be consumed by human beings, consumers would most likely choose more recognisable brands over less known ones as products of poor quality might adversely affect their health directly. It would take years of investment and flawless quality control on products to build a brand with reliable reputation, which constitutes a barrier for potential entrants.

Prospect and challenges of the cosmetics and personal care products industry worldwide

Prospect

The cosmetics and personal care industry is expected to record gains across the globe over the years to come, with particularly strong growth expected for sun protection and anti-aging products as consumers become increasingly aware of the adverse effect created by exposure to sun and more concerned with preserving a youthful appearance. Emerging countries represent huge potential for international companies, offering better quality products than locally produced goods to populations with rising income levels.

Challenges

Competition is fierce in the personal care products industry and is dominated by several reputable brands. Due to the increasing demand for healthy and anti-aging products, it is expected that there will be more new entrants in this market in the future. With more new entrants especially those pharmaceutical or luxury products manufacturers with strong distribution and marketing capability, the existing players in personal care products market may face fiercer competition in the future.

GOVERNMENTAL REGULATIONS

The Target Group's business and operations are subject to certain laws and regulations, including laws and regulations specifically relating to cosmetic products and rules covering general consumer protection and product safety. Compliance with the applicable laws and regulations is monitored by governmental and regulatory authorities.

Laws and regulations specific to the cosmetics industry

Some countries in which the Target Group operate and intend to operate have passed laws and regulations directly relating to the cosmetics industry and which are applicable to the Group. The principal objective of these regulations is to ensure that cosmetic products placed on the market are safe. The principal regulations to which the Target Group are subject in the major markets in which the Target Group operate, namely the European Union, the United States, Australia, Hong Kong and PRC, are summarised below.

European Union

The Target Group's business and operations in those countries which are Member States of the European Union are subject to the regulatory framework set out by the EU Cosmetics Regulation (EC) 1223/2009, adopted on 30 November 2009. The key provisions mentioned in these two texts applicable to the Target Group are summarised below:

- Composition and presentation. The Cosmetics Directive requires that a cosmetic product sold in the European Union must not cause damage to human health when applied under normal or reasonably foreseeable conditions of use, taking account, in particular, of the product's presentation, its labelling, any instructions for its use and disposal as well as any other indication or information provided by the manufacturer, distributor or retailer of such product. The provision of warnings to cosmetics products shall not exempt any person from compliance with the other requirements laid down in the Directive. The Cosmetics Directive further sets out a list of substances which cannot — or only under certain restrictions and conditions — be included in the composition of cosmetic products It also contains a list of colorings, preservatives and UV filters permitted in cosmetic products.

- Labelling and packaging. Pursuant to the Cosmetics Directive, the container and packaging of cosmetic products marketed in the European Union are generally required to bear, in indelible, easily legible and visible lettering, certain specified information, including the name and address of the manufacturer or distributor, the nominal content of the product at the time of packaging given by weight or by volume, the date of minimum durability, particular precautions for use and a list of the ingredients.

United States

In the United States the Target Group are subject to the Federal Food, Drug and Cosmetic Act (the "FDCA"), the Fair Packaging and Labeling Act (the "FPLA") and certain regulations published by the Food and Drug Administration (the "FDA"), which are codified in Title 21 of the Code of Federal Regulations ("21 CFR"). The key provisions which are applicable to the Target Group are summarised below:

- FDCA. Under the FDCA, the introduction or delivery for introduction into interstate commerce of adulterated or misbranded cosmetics is prohibited and may result in regulatory action by the FDA. A cosmetic is "adulterated" if it contains or its container is made of any poisonous or noxious substance which will injure a user who follows the instructions stated thereon or uses the cosmetic under customary or usual conditions, if it contains any filthy, putrid or decomposed substance, if it has been prepared, packed or held in unsanitary conditions or if it contains a prohibited colour additive. A cosmetic is "misbranded" if its labelling is false or misleading, required words or statements are not prominently displayed, or if its package does not contain a label stating the manufacturer's name and place of business and an accurate statement of the quantity of contents. Cosmetics and their ingredients are not subject to premarket approval by the FDA (with the exception of colour additives) but they must be tested to assure safety, otherwise a specific warning is required.

- FPLA. The FPLA requires that any consumer commodity, which includes cosmetics, has a label stating the identity of the commodity and the name and place of business of the manufacturer, packer or distributor. The label should also clearly and accurately state the net quantity of the contents with no qualifying words or phrases. If these requirements are not followed, the cosmetics will be deemed to be misbranded under the FDCA.

- 21 CFR. The provisions of 21 CFR which are relevant to the Target Group's business contains a number of requirements. They detail certain ingredients which, if included in cosmetics, would mean that those cosmetics are considered adulterated under the

FDCA, as well as requirements for packaging of certain types of cosmetics to avoid them being considered adulterated under the FDCA. Further detail on the labelling requirements under the FDCA are outlined, including prominence of statements, declaration of ingredients, exemptions, requirements of what to include on the principal display panel of a package, product warnings and the fact that a misleading label will render a cosmetic misbranded.

Hong Kong

Cosmetics and skincare products in Hong Kong are governed by Chapter 456 Consumer Goods Safety Ordinance. It is required that a person shall not supply, manufacture or import consumer goods unless the goods comply with the general safety requirement for consumer goods, or the goods must meet the approved standard if applicable. There are no strict regulations imposed on the import of cosmetics and skincare products in Hong Kong. No import licence is required.

There is a prerequisite for all pharmaceuticals, cosmetics and skincare products to list the contents on the outer package of the product. The information should be in English and Chinese. Other information that must be included on the label:

- brand name
- product name
- weight or volume
- name and address of manufacturer or packer
- statement of advice/cautions or instruction for use
- expiry date or "best before" date.

Australia

Cosmetics and skincare products must comply with both the Industrial Chemicals (Notification and Assessment) Act 1989 and the Cosmetics Standard 2007. In addition, all suppliers of cosmetic products in Australia must comply with the Australian Competition and Consumer Commission's mandatory standard for cosmetics labelling.

PRC

In the People's Republic of China, the sale of cosmetics is generally regulated by the China Food and Drug Administration ("CFDA") and provincial food and drug administrations ("Provincial FDAs"). Cosmetics are subject to a number of regulations. Currently, the main regulation is the *Regulations Concerning the Supervision of the Hygiene of Cosmetics* ("RCSHC") and it is supported by a series of subsidiary rules that govern labelling, hygiene requirements, restricted substances in cosmetics products, and methods of testing.

China law defines a cosmetic product as follows: Chemical products for daily use intended to be applied on any surface of human body (such as skin, hair, nails, oral, lips etc.) through spreading, spraying or other similar means for the purpose of cleaning, elimination of unpleasant odor, protection of skin, appearance beautification and dressing/prettification.

Soap, toothpaste, mouthwash and other dental care products are excluded cosmetic products are divided into two categories: non-special-use cosmetics ("non-SUC") and special use cosmetics ("SUC"). Non-SUC include traditional skin care products, hair care products, make-up and fragrances. SUC refer to whitening products, deodorants, sunscreens, slimming products, and freckle-removing products.

Before being used, marketed or imported into China, all cosmetic products must get approval from the CFDA or Provincial FDAs. The requirements for getting approval differ depending on whether the products are SUCs or non-SUCs and on whether the products are imported or made domestically.

General consumer protection and product safety and environmental protection regulations

In addition to the cosmetics industry-related rules, the Target Group are subject to general consumer protection, product safety and environmental protection rules in the jurisdictions the Target Group operate in. These are rules which generally apply to a business involving the manufacturing and distribution of consumer products and which are not specific to the cosmetics industry. The principal general product safety and environmental protection regulations to which the Target Group are subject in the major markets in which the Target Group operate, namely the European Union, the United States, Hong Kong, Australia and PRC, are summarised below.

European Union

There is extensive European Union legislation governing consumer protection, product safety and product liability implemented at national level in all Member States. For example, the General Product Safety Directive 2001/9S/EC (the "GPSD") is designed to apply a high level of product safety for all products. The GPSD provides that producers are obliged to place only safe products on the market. In determining whether a product is considered safe under the GPSD, various factors are taken into account including the following: (i) national safety standards, (ii) guidelines from the European Commission on product safety, (iii) product safety codes of good practice in force in the sector concerned, (iv) the state of the art and technology and (v) reasonable consumer expectations concerning safety. The GPSD further provides that national governments must appoint local authorities to carry out market surveillance to ensure that safety standards are implemented.

United States

Many federal agencies regulate products in the United States, and state and local governments may impose additional regulations on product manufacturers and retailers. Federal agencies that play a role in regulating the manufacture, distribution advertising, and recalls of products include: the Consumer Product Safety Commission; the Food and Drug Administration; the Occupational Safety and Health Administration; and the Federal Trade Commission.

Hong Kong

Various ordinances and regulations impose criminal liability for unsafe products on manufacturers, retailers or suppliers. The main governing statute is the Consumer Goods Safety Ordinance (the "Ordinance") which requires manufacturers, importers and suppliers of consumer products to comply with a general safety requirement and any approved standard that applies to that product. The Ordinance also imposes criminal penalties for a breach of safety requirements.

Australia

Products sold in Australia are subject to the Australian Consumer Law, which imposes liability on the manufacturer (and in some cases, a supplier) of consumer goods where products have safety defects or do not otherwise meet the standards consumers are generally entitled to expect (which are set out in the legislation).

PRC

The State's Administration for Supervision of Product Quality ("ASPQ") and its local administrative agencies are responsible for the supervision and administration of product quality. The ASPQ has the power to seize illegal products and revoke the registered business license of the offender. It also can impose a fine up to three times the value of illegal products. Voluntary recalls can be made. Criminal sanctions include fines, confiscation of personal property, imprisonment and even the death penalty for a person who manufactures or knowingly sells a defective product which causes severe consequences.

Personal Data Privacy and Electronic Marketing

Through the Target Group's retailing activities in physical stores and online the Target Group collect personal data relating to the Target Group's customers. This data is subject to various regulations in the countries where the Target Group operate concerning how the Target Group can collect and use this personal data.

European Union

The Data Protection Directive (officially Directive 95/46/EC) is the main regulation that concerns the processing of personal data. In general, the regulation requires that consent be given by an individual before his or her personal data may be processed. It requires that personal data only be processed for specific and explicit legitimate purposes. It also restricts the transfer of personal data outside the European Union unless certain requirements are met.

In addition to the Data Protection Directive, various regulations in the individual countries of Europe regulate electronic marketing (e.g. marketing via email). The United Kingdom, for example, has implemented the Privacy and Electronic Communications Regulations. These regulations generally require consent from an individual before that individual may be sent electronic communications.

United States

The United States has tens of federal laws relating to privacy or data security and hundreds of such laws among its states and its territories. These laws are too diverse to summarize. In addition, companies that fail to implement reasonable minimal data security measures, fail to live up to promises in privacy policies, or frustrate consumer choices about processing or disclosure of personal data are potentially subject to investigation and punishment by the Federal Trade Commission.

The CAN-SPAM Act is a federal law that applies labelling and opt-out requirements for all commercial email messages. Generally, a company may send commercial emails to any recipient so long as the recipient has not opted out of receiving such emails.

Hong Kong

The Personal Data (Privacy) Ordinance regulates the collection and handling of personal data. In general, the Ordinance is based on six core principles that relate to the lifecycle of a piece of personal data:

- Data Collection: Personal data must be collected in a lawful and fair way for a purpose directly related to the data user; data subjects must be notified of the purpose and classes of persons to whom data may be transferred; and data collection should not be excessive.

- Accuracy and Retention: Personal data must be accurate and should not be kept for a period longer than necessary to fulfill the purpose for which it is used.

- Data Use: Personal data must be used for the purpose for which the data was collected.

- Data Security: Data users must take practical steps to safeguard personal data from unauthorized or accidental processing, erasure, loss, or use.

- Openness: A data user must make personal data policies and practices known to the public regarding the personal data it holds and how the data is used.

- Data Access and Correction: A data subject must be given access to his or her personal data and allowed to make corrections.

The Ordinance also has provisions relating to electronic marketing. Data processors who wish to use personal data for direct marketing just make specific disclosures to the data subject and must obtain the data user's consent.

Australia

Data protection in Australia is currently made up of a mix of Federal and State/Territory legislation. The Federal Privacy Act 1988 and its Australian Privacy Principles (APPs) apply to private sector entities with an annual turnover of at least AUS $3 million. An organisation must not collect personal information unless the information is reasonably necessary for one or more of its business functions or activities.

Under the Privacy Act, organizations must also take steps to ensure that the personal information that the organization collects is accurate, up-to-date and correct. Furthermore, at or before the time personal information is collected, or as soon as practicable afterwards, an organization must take reasonable steps to make an individual aware of, among other things, its identify, why it is collecting information, to whom it might give the personal data, and information relating to its privacy policy.

The sending of electronic marketing is regulated by the SPAM Act 2003. A commercial electronic message may not be sent without the prior consent. In addition, each electronic message must contain an unsubscribe mechanism.

PRC

There is not currently a comprehensive data protection law in PRC, but the following pronouncements form the backbone of data protection laws in China: The Decision on Strengthening Online Information Protection and The Guideline for Personal Information Protection.

FINANCIAL EFFECT OF THE ACQUISITION UNDER THE AMENDED SPA

Upon Completion, the Target Company will become a subsidiary of the Company and accordingly, the assets, liabilities and financial results of the Target Group will be consolidated into the financial statements of the Company.

Effect on assets and liabilities

The Group had audited total assets, total liabilities and net assets of approximately HK$17,469 million, HK$13,553 million and HK$3,916 million respectively as at 31 December 2015. As set out in Appendix IV to this circular, the assets and liabilities of the Group and the Target Group are combined using their existing book values from the Group's perspective. As shown in Appendix IV to this circular, the unaudited pro forma total assets value, total liabilities value and net assets value of the Enlarged Group as if Completion had taken place on 31 December 2015 were approximately HK$18,620 million, HK$14,346 million and HK$4,274 million, respectively. Further details of the unaudited pro forma financial information of assets and liabilities of the Enlarged Group are set out in Appendix IV to this circular.

Effect on earnings

Based on the consolidated statement of comprehensive income of the Target Group for the three years ended 31 March 2014, 2015 and 2016 as set out in Appendix II to this circular, the revenue of the Target Group was approximately US$208.6 million, US$178.7 million and US$143.9 million, respectively, and the net profit after tax of the Target Group was approximately US$0.8 million, a net loss after tax of US$23.1 million and a net loss after tax of US$19.7 million, respectively, for each of the three years ended 31 March 2014, 2015 and 2016. As such, it is expected that, after Completion of the Acquisition, the Target Group would contribute positively to the revenue but adversely to the net income after tax of the Enlarged Group.

Further information regarding the financial position and financial performance, as well as the management discussion and analysis of the Target Group can be found in Appendix II and III to this circular respectively.

REASONS FOR AND BENEFITS OF THE ACQUISITION UNDER THE AMENDED SPA

The Company is currently engaged in three main businesses, namely culture and media services, property development and corporate IT application services.

As stated in the annual report of the Company for the year ended 31 December 2015, in addition to consolidating its existing three businesses to achieve more outstanding performances, the Group will continue to sow seeds in the businesses of "New Media" and "Innovative Business" and will be sparing no effort to facilitate resource sharing and strategic synergy in cross-business fields and make them as the fourth and fifth business segments of the Group in the following two to three years.

During the financial year ended 31 December 2015, the Group launched its "Innovative Business" by establishing Dadi Innovation (HK) Limited and invested in a chain catering business through the establishment of Dadi Catering (HK) Limited, a company which aims to offer healthy, innovative and good value for money light meals and memorable dining experience based on a strong food R&D and supply chain management system.

As the world's second largest economy, the PRC has maintained a high gross domestic product ("GDP") growth rate over the past decade and its total household wealth has also increased significantly. As per the Global Wealth Report 2015 released by Credit Suisse in October 2015, which reveals that (1) the total wealth PRC is 22.8 trillion US dollars, which is behind the USA, the world's wealthiest country having 85.9 trillion US dollars; and (2) the number of middle class adults in the PRC are 109 million, which is the largest among other major countries. In view of the above data, the high potentiality in consumption in the PRC is embedded.

In view of the favourable macro environment, the Company has been actively developing its business in the segments of culture and media services, property development and IT applications. The Company has successfully developed and operated the nationwide cinema brand of "Dadi Cinema" in the PRC since its start-up in 2007. The Company has 286 cinemas in operation and more than 300 cinemas which have signed leasing agreements but yet been in operation on a nationwide base and about 72 million viewing times as at 31 December 2015, who have contributed over RMB2 billion in box office (increased by approximately 47% as compared with the corresponding period in 2014). Given accumulated significant management experience in retail-chain operations and developing retail terminals, information technology management and standard operational procedures through cinema and IT businesses on a nationwide base in the PRC, the Company aims at expanding its retail businesses by stepping towards globalisation.

As a manufacturer and distributor of a brand that has over 40 years of history and heritage in offering quality personal care products and everyday luxury lifestyle, its products are sold in over 40 countries through more than 4,000 points of sales, including almost 200 wholly-owned branded retail stores of which 29 stores are in Hong Kong. The maturity of the Target Group's global retail distribution and online sales network are viewed as a significant enlargement to the Company's retail-chain business, operations and globalisation intentions. It is expected that the Acquisition will benefit the Company's expansion beyond its media platform to create a retail and entertainment integrated ecosystem. Also, the integration of the Target Group and the Company's existing cinema and catering businesses would likely create a synergy effect through: (i) utilising each business's distribution venue for promotional activities; (ii) direct marketing to each business's existing customers; (iii) sharing of administrative expenses; and (iv) enhancing the Enlarged Group's global market awareness. Although the Target Group's performance in the past financial year has declined, especially in the North East Asia and North America markets, the Board is confident that with a series of restructuring initiatives as set out in the sub-section headed "Business Plan" in the Letter from the Board, including integration of resources, remodeling of the brand, supply chain optimization, development of new product lines and implementation of an effective strategy in the PRC, the Target Group is expected to have its business performance improved, especially after integrating with the nationwide distribution network of Dadi Cinema, which in turn will be beneficial to the Company and the Shareholders as a whole.

Together with the establishment of Dadi Catering (HK) Limited and its commencement of business in 2016, the Acquisition will further diversify the Group's business segments into catering and retailing and enhance the Group's exposure to a greater number of retail customers. Further, the Directors believe these would help the Group to lessen its reliance on its current business segments which are subject to its own seasonality and also, would create a promotional effect, especially by the extensive global distribution network of the Target Group, on the Company's reputation.

IMPLICATIONS OF THE ACQUISITION UNDER THE LISTING RULES

As at the Latest Practicable Date, LIM, one of the shareholders of the Vendor, holds approximately 12.85% of the total issued share capital of the Company and is therefore a connected person of the Company as defined under Chapter 14A of the Listing Rules. As some of the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) in respect of the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules and is therefore subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under the Listing Rules.

As such, the Amended SPA and the transactions contemplated thereunder shall be subject to the approval of the Independent Shareholders by way of poll vote at the SGM, and LIM and his associates shall abstain from voting.

Save and except LIM as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the other ultimate beneficial owners of the Vendor are third parties independent of the Company and connected persons of the Company as at the Latest Practicable Date.

GENERAL

The SGM will be convened for the purpose of the Independent Shareholders to consider and, if thought fit, to approve the Amended SPA and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, LIM and his associates are interested in an aggregate of 8,819,673,777 Shares (representing approximately 12.85% of the total issued share capital of the Company) as at the Latest Practicable Date, and are in control of or are entitled to exercise control over the voting rights of the Shares held by them. They are required to abstain from voting at the SGM. Save for LIM and his associates shall abstain from voting at the SGM, no Shareholder is required to abstain from voting on the resolutions to be proposed at the SGM.

The Independent Board Committee has been established to advise the Independent Shareholders on the fairness and reasonableness of the terms of the Amended SPA and the transactions contemplated thereunder. The Independent Financial Adviser has been appointed to make recommendations to the Independent Board Committee and the Independent Shareholders in respect of the same.

GENERAL INFORMATION RELATING TO THE PARTIES TO THE SPA

Purchasers

GGC is an indirect wholly-owned subsidiary of the Company, which is primarily used for investment holding purpose.

OBL is an investment holding company, which is ultimately 100% owned by an independent third party of the Company.

Vendor

C & E Capital Ltd. is the holding company of the Target Company, which is primarily used as the investment holding vehicle of the Target Company by the shareholders of the Vendor. To the best of the knowledge, information and belief of the Board after making reasonable enquiry, other than LIM who together with his associate indirectly owns 40% of all the issued shares of the Vendor, the other ultimate beneficial owners of the Vendor are third parties independent of the Company and not the connected persons of the Company.

The original acquisition cost for the 100% equity interest in the Target Company to the Vendor in 2012 was approximately Malaysian Ringgit 471.6 million or approximately US$157.2 million.

The Company

The Company is an investment holding company whose securities are listed and traded on the Main Board of the Stock Exchange. The Group is principally engaged in (i) culture and media services (mainly in cinemas business on a nationwide basis in the PRC in addition to film distribution and other media related businesses); (ii) property development; and (iii) corporate IT application services (through its listed subsidiary, Sino-i Technology Limited (stock code: 250), a company having its shares listed and traded on the Main Board of the Stock Exchange) as at the Latest Practicable Date.

LIM

LIM is a Malaysian entrepreneur, and has been the executive chairman of Malton Berhad since 2001. Malton Berhad is a listed company in Malaysia, whose main business is property development.

SGM

A notice convening the SGM to be held at the Atrium, 39/F, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong at 10:00 a.m. on 13 September 2016 is set out on pages 158 to 159 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the form of proxy and return it to the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjourned meeting should you so wish.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 51 to 52 of this circular which contains its recommendation to the Independent Shareholders on the Amended SPA and the transactions contemplated thereunder.

Your attention is also drawn to the letter from the Independent Financial Adviser on pages 53 to 70 of this circular which contains, among other matters, its advice to the Independent Board Committee and the Independent Shareholders regarding the transactions contemplated under the Amended SPA.

The Directors consider the terms of the Amended SPA and the transactions contemplated thereunder to be fair and reasonable and the Amended SPA and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Amended SPA and the transactions contemplated thereunder.

PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Pursuant to bye-law 70 of the Bye-Laws, a resolution put to the vote of a general meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

(i) the chairman of the meeting; or

(ii) at least three members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) any member or members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

According to the amended rule 13.39(4) of the Listing Rules which became effective on 1 January 2009, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the Company will procure that the chairman of the SGM shall demand voting on the resolutions set out in the notice of SGM be taken by way of poll.

FURTHER INFORMATION

Your attention is drawn to the "Letter from the Independent Board Committee" as set out on pages 51 to 52 of this circular, the "Letter from the Independent Financial Adviser" as set out on pages 53 to 70 of this circular and the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Nan Hai Corporation Limited
Chen Dan
Director

The following is the text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders prepared for the purpose of inclusion in this circular.

南海控股有限公司*
NAN HAI CORPORATION LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 680)

25 August 2016

To the Independent Shareholders,

Dear Sirs

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
(1) THE SALE SHARES AND
(2) THE SALE PREFERENCE SHARES**

We refer to the circular of the Company to the Shareholders dated 25 August 2016 (the "**Circular**"), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Amended SPA and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 53 to 70 of the Circular. Your attention is also drawn to the "Letter from the Board" of the Circular and the additional information set out in appendices to the Circular.

* *For identification purpose only*

Having considered the terms of the Amended SPA and the transactions contemplated thereunder and the advice of the Independent Financial Adviser, we consider that the Amended SPA and the transactions contemplated thereunder are fair and reasonable as far as the Independent Shareholders are concerned and the Amended SPA are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Amended SPA.

Yours faithfully,
The Independent Board Committee

Prof. Jiang Ping **Mr. Lau Yip Leung** **Mr. Xiao Sui Ning**

Independent non-executive Directors

The following is the full text of the letter of advice from Lego, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the terms of the Acquisition which have been prepared for the purpose of inclusion in this circular.

Lego Corporate Finance Limited
力高企業融資有限公司

25 August 2016

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF (1) THE SALE SHARES AND (2) THE SALE PREFERENCE SHARES

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular dated 25 August 2016 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 15 December 2015, the Company, the Purchasers, the Vendor and LIM entered into the SPA, pursuant to which the Purchasers conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares and the Sale Preference Shares at the Transaction Consideration, being US$175 million, which shall be settled by way of cash. On 16 March 2016, the Company, the Purchasers, the Vendor and LIM entered into the Supplemental Agreement with respect to the adjustment of the Transaction Consideration pursuant to which the Transaction Consideration has been reduced from US$175 million to US$165 million. Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company.

LIM, one of the shareholders of the Vendor, holds approximately 12.85% of the total issued share capital of the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. As some of the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) in respect of the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules and is therefore subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under the Listing Rules. As such, the Amended SPA and the transactions contemplated thereunder shall be subject to the approval of the Independent Shareholders by way of poll at the SGM, in which LIM and his associates shall abstain from voting.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Prof. Jiang Ping, Mr. Lau Yip Leung and Mr. Xiao Sui Ning, has been established to advise the Independent Shareholders as to whether the terms of the Amended SPA and the transactions contemplated thereunder are fair and reasonable so far as the Company and Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote in respect of the relevant resolution(s) to be proposed at the SGM to approve the Amended SPA and the transactions contemplated thereunder. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego did not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Lego. In the last two years, there was no engagement between the Group and Lego. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the terms of the Amended SPA and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the Latest Practicable Date.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or the Target Company or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Acquisition

1.1 Information on the Group

The Company is an investment holding company whose securities are listed and traded on the Main Board of the Stock Exchange. The Group is principally engaged in (i) culture and media services (mainly in cinemas business on a nationwide basis in the PRC in addition to film distribution and other media related businesses); (ii) property development; and (iii) corporate IT application services (through its listed subsidiary, Sino-i Technology Limited (stock code: 250), a company having its shares listed and traded on the Main Board of the Stock Exchange) as at the Latest Practicable Date.

The following table is a summary of the audited financial information of the Group for the financial years ended 31 December 2013, 2014 and 2015, as extracted from the annual report of the Company for the year ended 31 December 2014 (the "**2014 Annual Report**") and the annual report of the Company for the year ended 31 December 2015 (the "**2015 Annual Report**").

	For the year ended 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	2,318,601	3,153,015	4,200,117
— Culture and media services	*1,516,615*	*2,200,039*	*3,152,970*
— Property development	*79,526*	*127,806*	*192,051*
— Corporate IT application services	*683,401*	*784,763*	*808,287*
— Other segments	*39,059*	*40,407*	*46,809*
Gross profit	1,514,056	2,074,850	2,607,024
Profit/(Loss) for the year	852,562	(746,979)	255,430

	As at 31 December 2013	As at 31 December 2014	As at 31 December 2015
	HK$'000	*HK$'000*	*HK$'000*
Cash and cash equivalents	512,957	279,877	803,694
Bank and other borrowings	4,793,080	5,458,089	10,027,083
Total assets	12,662,510	12,661,095	17,469,258
Net assets	4,690,891	3,822,343	3,916,565

As set out in the table above, revenue of the Group amounted to approximately HK$3,153.0 million for the year ended 31 December 2014, representing an increase of approximately 36.0% as compared to that of approximately HK$2,318.6 million for the prior year. According to the 2014 Annual Report, the increase in turnover was mainly attributable to the strong growth in revenue from the culture and media segment. Driven by the rapid development of film industry in the PRC, film market in the PRC was the second largest film market worldwide in 2014 and has reflected in the rapid growth in new cinemas and audiences in 2014. In this regard, the Group actively seized the opportunity to continuously expand its presence in the second and third-tier cities in the PRC and aimed at those first-tier cities with room for development and certain potential third and fourth-tier cities and towns. During the year ended 31 December 2014, the Group set up additional 42 cinemas with 229 screens in several cities in the PRC and at the same time improved the overall profitability of the cinemas by performing a comprehensive operation assessment on cinemas in operation and closed those with poor performance. Nonetheless, the Group was loss making for the year primarily due to the combined effect of (i) restructuring of the culture and media segment as discussed above; (ii) construction of flagship property project of the Group which had yet contributed any income for the property development segment; and (iii) increase in research and development and amortisation on intangible assets for the corporate IT application services segment.

Revenue of the Group increased by approximately 33.2% to approximately HK$4,200.1 million for the year ended 31 December 2015. According to the 2015 Annual Report, the increase was primarily attributable to the growth in the culture and media segment which recorded significant increase in box office and gross profit. In addition to rapidly expanding its market coverage, the Group continued to strengthen its cooperation with well-known commercial real estate developers to continuously improve the quality of its projects. By implementing informatisation and standardisation strategies, cinema business of the Group further improved its operational efficiency, enhanced service quality and achieved cost efficiency, which in turn led to a segment turnaround to a net profit before tax of approximately HK$230.5 million for the year ended 31 December 2015. Profit of the Group also achieved a turnaround due to the combined effect with the gains arising from the changes in fair values of investment properties under the property development segment and the disposal gain from the disposal of 20% equity interest in Loongson Technology Co., Ltd.

As at 31 December 2015, the Group had cash and cash equivalents of approximately HK$803.7 million, representing an increase of approximately 187.2% as compared to the previous year. On the other hand, the Group had bank and other borrowings of approximately HK$10,027.1 million as at 31 December 2015, representing an increase of approximately 83.7% as compared to that of approximately HK$5,458.1 million at 31 December 2014. Nonetheless, accordingly to the announcement of the Company dated 4 August 2016, phase 3 of the Group's flagship project launched its sale in April 2016 and generated an accumulated sales amount of approximately RMB10.1 billion as at 4 August 2016. In this regard, the Directors expected that the cash position of the Group will be improved.

As confirmed by the Directors, the Group has begun to tap into new business segments such as new media and innovative business, which intend to capture the growth of "quality life" in the business environment as manifested in the service industry. In addition to consolidating its existing three main businesses to achieve more outstanding performance, it is expected that the Group will continue to expand the businesses of news media and innovative business in the coming year, aiming to establish the fourth and fifth business segments of the Group within two to three years.

1.2 Information on the Target Group

The Target Group is engaged in the manufacturing and global distribution of a wide range of botanic-based personal care products under the trade mark, trade name, design or logo, including the expressions of "Crabtree & Evelyn" or "Crabtree & Evelyn London". The Target Group's products are sold in over 40 countries through more than 4,000 points of sales, including wholly-owned branded retail stores, distributor stores, specialty retailers and department stores, e-commerce and travel retail (in-flight sales, duty free shops and hotels).

Set out below are the audited consolidated financial information of the Target Group for the three years ended 31 March 2016 as extracted from the accountants' report of the Target Group on Appendix II to the Circular:

	For the year ended 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Revenue	208,560	178,709	143,895
Gross profit	140,931	114,601	91,564
Net profit/(loss) after tax	768	(23,131)	(19,722)

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Net assets	96,275	72,547	54,202

As advised by the Directors, the Target Group's results suffered a significant decline for the year ended 31 March 2015 as compared to the year ended 31 March 2014 due to several reasons. In particular, turnover for the Target Group has decreased by 14.3% from approximately US$208.6 million for the year ended 31 March 2014 to approximately US$178.7 million for the year ended 31 March 2015, which was primarily attributable to the declining retail performance in North East Asia and North America markets. Moreover, the Target Group also recorded one-off costs in an aggregate sum of approximately US$10.8 million for the year ended 31 March 2015, mainly due to (i) loss on foreign currency of approximately US$5.4 million; (ii) write-off on investment costs of approximately US$1.7 million; (iii) provisions for impairment on onerous leases of approximately US$1.4 million; (iv) loss on sale of fixed assets of approximately US$0.9 million; (v) restructuring costs of approximately US$0.7 million; and (vi) other items of approximately US$0.7 million.

For the year ended 31 March 2016, the Target Group recorded further decrease in revenue by approximately 19.5% to approximately US$ 143.9 million. To the best of the knowledge of the Directors, the continuous decrease in revenue during the three years ended 31 March 2016 was mainly due to the lessening of brand and product desirability, increase in seasonality and dependence of the Christmas period for peak sales, and the increasing use of promotion and discounting by each of the countries in an attempt to increase revenue. For the two years ended 31 March 2016, the Target Group maintained the retail store portfolio to allow time to introduce increased in-sales performance and productivity and to reduce the then loses attributable to the retail sales channel. However, insufficient improvement was achieved and hence closure of major loss-making stores was implemented in 2016. The average number of the Target Group's own retail stores has decreased from 225 for the year ended 31 March 2014 to 209 for the year ended 31 March 2015, and further decreased to 198 for the year ended 31 March 2016. In this regard, we noted that the loss after tax of the Target Group narrowed by approximately 14.7% for the year ended 31 March 2016 as compared to the prior year.

After Completion, the Company will work with the Target Group's management team on siting of shops and decide whether to maintain or expand the scale of its retail distribution channel. Besides, the Company intends to assist the Target Group to enter into other markets with large market opportunities, such as the PRC, through the synergy effect following the integration of the Target Group and the Company's existing businesses, including (i) utilising each business' s distribution venue for promotional activities; (ii) direct marketing to each business' s existing customers; and (iii) enhancing the Enlarged Group's global market awareness, and expand the brand's influence in those markets by opening new self-operated retail shops. The Company's current plan is to help the Target Group enter into the PRC market and open ten new self-operated store in several first-tier cities by the end of 2017. The Directors believe that within the next five years subsequent to the Completion, the Crabtree & Evelyn brand would have gained sufficient customer recognition in the PRC and at that point, the Target Group will penetrate into other major cities. In light of the above, the Directors expect that the performance of the Target Group may improve following the completion of the reorganisation of the retail network and implementation of the business plan as detailed in the Letter from the Board.

1.3 Information on the Vendor

C & E Capital Limited is the holding company of the Target Company, which is primarily used as the investment holding vehicle of the Target Company by the shareholders of the Vendor. To the best of the knowledge, information and belief of the Board after making reasonable enquiry, other than LIM who together with his associate indirectly owns 40% of all the issued shares of the Vendor, the other ultimate beneficial owners of the Vendor are third parties independent of the Company and not the connected persons of the Company.

1.4 Information on the Purchasers

GGC is an indirect wholly-owned subsidiary of the Company which is primarily used for investment holding purpose.

OBL is an investment holding company which is ultimately 100% owned by an independent third party of the Company.

1.5 Information on LIM

LIM is a Malaysian entreprenur and has been the executive chairman of Malton Berhad since 2001. Malton Berhad is a listed company in Malaysia, whose main business is property development.

2. Overview of the personal care product industry

As disclosed in the section headed "The beauty and personal care market" in the Business Valuation Report, the cosmetics and personal care industry is generally classified into several product segments, including but not limited to skin care, hair care, bath and shower, men's grooming and fragrances. According to the Global Wealth Report 2015 published by Credit Suisse in October 2015[(1)], total global wealth has reached US$250 trillion in 2015, in which the PRC accounted for approximately US$22.8 trillion, representing the second wealthiest country in the world. Increasing global wealth and the emergence of middle classes in emerging economies has offered opportunities and growth potential to the cosmetic market based on the growing perception among consumers, particularly in countries with emerging economies, that personal appearance is important to achieving social, professional and financial success. With the increase in middle classes and that the consumers are seeking healthier alternatives in order to live longer and healthier lives, there are greater demand for these kinds of cosmetics and personal care products, in particular natural and organic products.

The cosmetics sector in the PRC has also been growing at a fast pace in tandem with the rapid development of the Chinese economy in recent years. In particular, with reference to the press releases published by the National Bureau of Statistics of China[(2)], increasing trend had been noted in the retail transaction amount of cosmetics products in recent years, which increased from approximately RMB182.5 billion for the year ended 31 December 2014 to approximately RMB204.9 billion for the year ended 31 December 2015.

As disclosed in the Letter from the Board, the Directors expect that cosmetics and personal care industry will record gains across the globe over the years to come, with particularly strong growth expected for sun protection and anti-aging products, which were also featured in certain body lotion and hand creams of the Target Group. It is anticipated to see huge potential in emerging countries for international companies to offer better quality products than locally produced goods to populations with rising income levels. For more details of the personal care products industry in each of the countries the Target Group primarily operates in, please refer to the section headed "Industry overview" in the Letter from the Board.

Sources:

1. *Global Wealth Report 2015 published by Credit Suisse in October 2015*

   https://www.credit-suisse.com/je/en/about-us/research/research-institute/global-wealth-report.html

2. *Press releases published by National Bureau of Statistics of China*

   http://www.stats.gov.cn/tjsj/zxfb/

3. Reasons for and benefits of the Acquisition

As discussed in the paragraph headed "Overview of the personal care product industry" above and the Letter from the Board, the PRC was the second wealthiest country in 2015 and has the largest number of middle-class adults. According to the Thirteenth Five-Year Plan released by the PRC government, the PRC government aims to maintain a growth rate of 6.5% on the national gross domestic products as well as the per capita income of both urban and rural households for the period from 2016 to 2020. On such basis, it is expected that domestic consumption and retail market in the PRC would continue to grow in the coming years.

In this regard and as stated in the paragraph headed "Information on the Group", we understand from the Directors that the Group has been actively developing its business in the segments of culture and media services, property development and corporate IT applications while at the same time begun to tap into new business segments such as new media and innovative business. With reference to the 2014 Annual Report and 2015 Annual Report, the Group has successfully developed and expanded its nationwide cinema brand and become one of the leading mainstream branded cinema operators in the PRC, which resulted in a turnaround in the culture and media service segment from loss to profit for the year ended 31 December 2015 after the Group performed a comprehensive operation assessment on cinemas in 2014. As at 31 December 2015, the Group operated 286 cinemas and 1,481 screens, with its network spreading over 28 provinces and 140 cities in the PRC. As confirmed by the Directors, given that the Group has accumulated significant management experience in retail-chain operations and developing retail terminals, information technology management and standard operational procedures through cinema and IT businesses on a nationwide base in the PRC, the Company aims at expanding its retail businesses by stepping towards globalisation.

In addition to the operation of the cinema chain business, we noted from the website of the Company and our discussion with the Directors that the Group has been operating information technology service chain business in more than 80 cities across the PRC and has diversified its business into catering chain business in 2015. As such, the management of the Group has accumulated extensive experience in developing retail terminals, information technology management and standard operational procedures through operating cinema and information technology service businesses on a nationwide base. The Directors consider that these experiences and skills, including but not limited to the skills for retail site selection, human resources management, costs and inventory control and customer relations management, are generally applicable to the operation of chain business targeting mass market despite the difference in industry. Hence, we concur with the Directors that the management of the Group possess extensive chain operation experience and may be able to assist the Target Group in establishing its retail distribution network, particularly in the PRC. As confirmed by the Directors, the senior management of the Target Group will be retained to continue to focus on its day-to-day business operation while the Group will appoint Ms. Yu Xin, the general manager of 廣東大地影院建設有限公司 (Guangdong Dadi Cinema Construction Limited) ("**Dadi Cinema**") with 10 years' experience in financial management in addition to in-depth experience and knowledge in media and culture sector, as one of the directors of the Target Company to be responsible for formulating strategic policies for and supervising the management of the Target Group. For the biographies of the senior management, please refer to the section headed "Senior management" in the Letter from the Board. Having considered the experiences of the existing management team of the Target Group as well as the financial and chain business management experience of the management of the Group, we concur with the Directors that the Company would be able to effectively apply its management expertise at the enterprise level and improve the financial performance of the Target Group.

As extracted from the Letter from the Board, the Target Group is a renowned manufacturer and distributor that offers quality personal care products and luxury lifestyle through its network of more than 4,000 points of sales located around the world. As disclosed in the section headed "Business plan" in the Letter from the Board, the Board is intended to implement a series of restructuring initiatives, which includes, among others, (i) assisting the Target Group to enter into other markets with large market opportunities and expanding the brand's influence in such markets by opening new self-operated retail stores; (ii) initiating the operation of e-commerce business for Crabtree & Evelyn products in the PRC; (iii) leveraging on the strong Crabtree & Evelyn brand and focusing on product innovation and development to increase the brand awareness; (iv) increasing spending on marketing and promotion activities in order to strengthen its market recognition and acceptability of its products; and (v) upgrading the ERP system and commencement of the use of SAP system to improve its existing inventory control and financial management. Although the Target Group has been suffering from operating loss and shrank in revenue, especially in the North East Asia and North America markets, during the two financial years ended 31 March 2016, the Directors believe that the Target Group is expected to have its business performance improved and turnaround its current business from loss-making to profit-making after taking into account that (i) entering into the PRC market would boost the Target Group's sales volume as the PRC is still regarded as having the largest customer base in the world and Chinese customers generally have preference for imported brand products, as such the Target Group would be likely to benefit from the economies of scale and hence improving its operating profit margin; (ii) commencement of the operation of e-commerce would increase sales revenue and save the Target Group from incurring rental expenses and staff costs; and (iii) focusing on product innovation and brand building would allow the Target Group to position its products to be more high-end and to charge higher premium for its products. In light of the reasons as discussed above as well as the skills and experiences of the Group in operating chain business, we concur that the Directors have reasonable ground to expect the Target Group may have its business performance improved and turnaround its current business from loss-making to profit-making.

According to the 2015 Annual Report, the Company has introduced the "Film +" strategy which involves the integration of resources and enhancement in cross-industry collaboration with the culture and media segment of the Company, with a target to create an ecosystem of theatre experience integrated with diversified operation of "Film + Innovative Retail", "Film + Innovative Catering" and "Film + Innovative Internet" to explore the consumption capabilities of the massive movie-going crowd. In this regard, the Acquisition is in line with the business strategy of "Film + Innovative Retail" for the existing cinema business of the Group. Furthermore, we understand from the Directors that they aim to make use of the membership system of Dadi Cinema and services network of the Group to further implement marketing plans and cross-selling of products in order to expand business of the Target Group. With access to equity and debt financing in the capital markets through the Company's listed platform, the Directors are of the view that it is in the interest of the Group to leverage the recognition of the brand to solidify the brand's presence in the PRC retail market. In this regard, the Group is anticipated to achieve sustainable growth in turnover and improvement in profitability.

We noted that the net assets of the Target Group as at 31 March 2016 was approximately US$54.2 million, which is lower than the Transaction Consideration and the Target Group has been loss-making for the years ended 31 March 2015 and 2016. Nonetheless, we were advised by the Directors that since cosmetics and personal care products brand owners do not generally require large amount of fixed assets for their operations and their values are rather embedded in their reputation of high quality products, brands, and distribution networks, it is common for cosmetics and personal care products company to be asset-light. In addition, while the Target Group has been loss making for the years ended 31 March 2015 and 2016, the Directors consider that the Target Group is expected to have its business performance improved and turnaround to profit-making following the implementation of the business plan as detailed in the Letter from the Board.

Having considered (i) the outlook of the personal care products industry; (ii) the expected growth in the PRC economy; (iii) the existing business as well as the business strategies of the Group; (iv) the Group has accumulated significant management experience in chain business operations as evidenced by the segment turnaround in 2015; and (v) the Target Group is a renowned manufacturer and distributor with sophisticated network established globally, although the Target Group has been loss making for the two preceding financial years and that the Transaction Consideration is greater than the net asset value of the Target Group as at 31 March 2016, we concur with the Directors that the Acquisition is in line with the business strategy of the Group and is in the interests of the Company and the Shareholders as a whole.

4. Terms of the Amended SPA

Set out below are the principal terms of the Amended SPA:

Date: 15 December 2015 (after trading hours)

Parties:

(i) GGC and OBL as the Purchasers;

(ii) C & E Capital Limited as the Vendor;

(iii) LIM as guarantor of the Vendor; and

(iv) the Company as guarantor of GGC

Acquisition:

(i) the Purchasers conditionally agreed to acquire and the Vendor as beneficial owner conditionally agreed to sell the Sale Shares (79,974,647 representing approximately 70% of the Sale Shares and 34,274,848 representing approximately 30% of the Sale Shares are to be acquired by GGC and OBL respectively) upon Completion free from encumbrances and together with all rights from the date of the SPA and thereafter attaching or accruing thereto including but not limited to all rights to any dividends paid, declared or made in respect of thereof after Completion; and

(ii) the Purchasers conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Preference Shares (3,293,850 representing 70% of the Crabtree & Evelyn (Overseas) Limited Redeemable Preference Shares and 126,474 representing approximately 70% of Crabtree & Evelyn, Ltd. Shares of Redeemable Preferred Stock are to be acquired by GGC; and 1,411,650 representing 30% of the Crabtree & Evelyn (Overseas) Limited Redeemable Preference Shares and 54,203 representing approximately 30% of the Crabtree & Evelyn, Ltd. Shares of Redeemable Preferred Stock are to be acquired by OBL) upon Completion free from encumbrances and together with all rights from the date of the SPA and thereafter attaching or accruing thereto including but not limited to all rights to any dividends paid, declared or made in respect of thereof after Completion.

Consideration:

The Transaction Consideration is in aggregate US$165,000,000 and will be satisfied by the Purchasers as to:

(i) the Purchasers (or the affiliate of the Purchasers) shall pay the Deposit to the Vendor as deposit and part payment of the Transaction Consideration within seven Business Days after the date of the SPA or any other later date to be mutually agreed in writing by the Vendor and the Purchasers; and

(ii) the balance of the Transaction Consideration shall be payable by the Purchasers (or the affiliates of the Purchasers) to the Vendor in full upon Completion.

Among the Transaction Consideration of US$165,000,000, the amount payable by GGC and OBL shall be US$115,500,000 and US$49,500,000 respectively.

Completion:	Subject to the Purchasers' satisfaction of the Conditions, Completion shall take place on the Completion Date.

Details with regard to the other terms of the Amended SPA are included under the section headed "The Amended SPA" in the Letter from the Board to the Circular.

The Supplemental Agreement

On 16 March 2016 (after trading hours), the Company, the Purchasers, LIM and the Vendor entered into the Supplemental Agreement with respect to the adjustment of the Transaction Consideration from US$175 million to US$165 million.

The Second Supplemental Agreement

On 17 June 2016 (after trading hours), the Company, the Purchasers, LIM and the Vendor entered into the Second Supplemental Agreement, pursuant to which all the parties thereto agreed to extend the Long Stop Date and the Completion Date from 16 June 2016 to 15 September 2016 and from 30 June 2016 to 30 September 2016, respectively.

The Transaction Consideration

As stated in the Letter from the Board, the Transaction Consideration was determined after arm's length negotiations between the Purchasers and the Vendor with reference to (a) a preliminary view of the valuation on the entire equity interest of the Target Company; (b) the Accounts and the Management Accounts; (c) the reasons and benefits of the Acquisition as stated under the section headed "Reasons for and benefits of the Acquisition under the Amended SPA" in the Letter from the Board; and (d) the additional costs and capital expenditure for the brand's maintenance and development, and infrastructure and systems.

As stated in the paragraph above, the Purchasers and the Vendor entered into the Supplemental Agreement to adjust the Transaction Consideration from US$175 million to US$165 million, having made reference to, amongst other aspects, the findings from the Due Diligence Review and the potential impact of (1) additional costs and capital expenditure for the brand's maintenance and development; (2) additional costs and capital expenditure into the Target Group's infrastructure and systems (e.g. ERP and other I.T. systems); and (3) certain time required for the Target Group to return to profitability.

We were given to understand that the Company has performed comparable analysis with respect to the percentage of advertising and promotional expenses to total revenue ("**Advertising-to-Revenue ratio**") of companies engaging in similar line of business in the industry. We have sought and reviewed the analysis and noted that the Advertising-to-Revenue ratio of the Target Group for the three latest financial years were below the average of the comparable companies in the industry, indicating that the Target Group has been spending relatively low advertising and promotional expenses. In evaluating the comparable analysis, we have discussed with the Company in relation to the selection criteria and independently looked into the financial results of the comparable companies and noted similar results. As such, we concur with the Directors' view that the Target Company is likely to increase its spending on advertising campaign and promotion activities in order to strengthen its market recognition and increase brand awareness for Crabtree & Evelyn products. In addition, upon our inquiry to the management of the Group, we understand that the Company has evaluated the Target Group's ERP system and we have, for the purpose of our due diligence, obtained and reviewed the engagement agenda for the evaluation of the ERP system of the Target Group, which includes, among others, suggested areas of improvement of the Target Group from its supply chain to sales and marketing. In light of the above, we concur with the Directors that additional expenses are required to streamline the Target Group's software system in order to enhance its existing internal control and management system. Having considered the future capital expenditure requirements of the Target Group, the Transaction Consideration has been adjusted accordingly.

Valuation

In order to assess the basis in determining the consideration for the Transaction Consideration, we have reviewed the Business Valuation Report prepared by Norton Appraisals Limited (the "**Valuer**") as contained in Appendix V to the Circular and discussed with the Valuer and Directors in respect of the valuation of the Target Group (the "**Valuation**"). For the purpose of our due diligence, we have reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer's qualification and experience in relation to the performance of the Valuation; and (iii) the steps taken by the Valuer when conducting the Valuation. From the mandate letter and other relevant information provided by the Valuer and based on our interview with the Valuer, we noted that the Valuer is a qualified asset appraisal firm to perform valuation works in Hong Kong. We have discussed with the Valuer in relation to their experiences and understood that Mr. Paul M. K. Wong, the director and the responsible person of the Valuer, is a registered professional surveyor and registered business valuer who possess sufficient qualifications and experience in similar transactions for a number of listed companies in Hong Kong. The Valuer has also provided valuation services for companies operating in a wide range of industries. The Valuer has confirmed that they are independent to the Group, OBL and the Vendor. We have reviewed the terms of the engagement of the valuation and noted that the scope of work is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuer. For the detailed biographies in relation to the experience of the Valuer, please refer to the section headed "Basis of the Transaction Consideration" in the Letter from the Board. Therefore, on such basis, we are satisfied with the terms of engagement of the Valuer as well as their qualification and experience for performing the Valuation, and we are of the view that the scope of work of the Valuer is appropriate.

We were given to understand that the Valuer has considered three generally accepted approaches in the valuation, namely the income-based approach, asset-based approach and market-based approach. As advised by the Valuer, given that the Target Group is engaged in the retail of consumer product and that the consumer market is highly competitive and changing in fast paces, it is too difficult to assume same market trends in forecasts and compile a reliable long-term forecasts for consumer products producers. In addition, income approach involves assumptions about the economy, industry, operation and achievement of business plan, which or a combination of which shall bring up a lot of uncertainties to the valuation result. As for the asset-based approach, it is not appropriate as the replacement costs of the assets ignore the future economic benefits of the business as a whole and the value of the brand, which is an intangible asset, is not taken into consideration. On the other hand, market-based approach adopts the publicly trading prices of comparable companies, delivering the market valuations compiled by various market participants in accordance with economy outlook, industry outlook, business nature, characteristics, historical experience about the business operation, risk/reward profile and market sentiment. In this regard, we concur with the Valuer that market approach is the most appropriate method in arriving the Valuation.

Reference to the Business Valuation Report, we noted that a total of 13 listed companies (the "**Comparable Companies**") have been selected for the Valuation. We noted that the selection criteria used in the Valuation include companies that (i) engage in manufacturing and distributing beauty and personal care products; (ii) their products have worldwide coverage; and (iii) at least 90% of their revenue come from beauty and health care products in their latest financial year. We have reviewed and discussed with the Valuer regarding the aforesaid selection criteria and we understand that only companies engaging in similar business segment to the Target Group were selected. In evaluating the selection criteria of the Valuer, we have independently searched for comparable companies to the Target Group and noted similar results. In addition, we have reviewed the particulars of the Comparable Companies, including their principal business activities and financial information based on their respective financial reports published. Despite the slight differences in primary products, we are of the view that the businesses of Comparable Companies are subject to similar economic and industry factors, market sentiment, risks and rewards profile. Moreover, we have tried to independently conduct a comparable analysis for companies listed on the Stock Exchange which are engaged in similar business to that of the Group and we only identified L'Occitane International S.A. (stock code: 973). In this regard, we have broadened our searches on Reuters for companies listed on other stock exchanges and we noted similar comparable companies as the Valuer. Hence, to avoid repetitiveness, we have adopted the results of the Valuer as the basis for our analysis. On such basis, we consider that the selection criteria are fair and reasonable for the purpose of comparison and the Comparable Companies are able to serve as good pricing indicators in determining the Valuation.

Upon our inquiry to the Valuer, we were informed that various multiples have been considered to deliver a fair valuation result. We understand that the most commonly used multiples such as price-to-earnings ratio and is not applicable as the Target Group was loss making for the latest financial year. As for price-to-book ratio, the Valuer considers that it may not be representative as it may not recognise intangible assets, including the value of trademarks and brand names and customer royalty, embedded in the business. On the other hand, the enterprise value to sales multiple ("**EV/S**") had taken into account the firm's debt and cash levels in addition to its market capitalisation and relates that value to the firm's cash profitability by wiping out the effect of surplus cash, amortisation of research and development expenditures, financial leverage and non-operating assets and liabilities of the Comparable Companies. In addition, since the Valuer considers that the Comparable Companies shared similar gross profit over the past year, the enterprise value to gross profit multiple ("**EV/GP**") has also been adopted. We understand from the Valuer that as both sales and gross profit are the most important operating figures in consumer market given that they are straightforward indicators of value of a brand as well as customer loyalty in light of that famous brands generally enjoy higher gross profit margin, the Valuer has derived the Valuation by taking the average of the valuation from the results of EV/GP and EV/S. The Valuer has further applied a lack of marketability discount of 30% to the Valuation results. Based on our enquiry, we understand from the Valuer that in determining the level of marketability discount, they have made reference to "2015 FMV Restricted Stock Study", which is widely considered as a benchmark reference in assessing marketability discount rate for private equity. We have reviewed the academic study report and noted that the average discount on transactions of restricted stocks is approximately 30%. The result from the Valuation was further cross checked with the analysis of comparable transactions, which included ten transactions (the "**Comparable Transactions**") selected with the criteria of (i) the target companies own brands or trademark of beauty and personal care products; (ii) their major source of revenues are derived from production and sales of beauty and personal care products; and (iii) the transactions took place within 30 months prior to the date of the Valuation, all of which were in line with the characteristics of that of the Acquisition. We note that the price-to-sales ratio (the "**P/S ratio**") of the Comparable Transactions ranged from approximately 1.1 times to 3.9 times with an average of approximately 2.3 times, whereas the Valuation indicated a P/S ratio of approximately 1.98 for the Acquisition, which is within the range of the Comparable Transactions. For further details in relation to the analysis of Comparable Transactions, please refer to the section headed "Comparable transactions analysis" in the Business Valuation Report. In the course of our assessments, we are not aware of any major factors which would cause us to doubt the fairness and reasonableness of the principal basis and assumptions. Based on the aforementioned due diligence work, we are of the opinion that the rationale behind the Valuation are acceptable and the Valuation was fairly and reasonably determined by the Valuer.

Having considered that (i) the reasons for and benefits of the Acquisition and that the Acquisition is in line with the business strategy of the Group; (ii) the Valuation was fairly and reasonably determined by the Valuer; and (iii) the Transaction Consideration represents a discount of approximately 12.1% to the Valuation, we are of the view that the Transaction Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

5. Possible financial effects of the Acquisition

As confirmed by the Directors, upon completion of the Acquisition, the Target Group will become non-wholly owned subsidiaries of the Company and their financial results will be consolidated into the financial statements of the Group.

(a) Net assets

With reference to the unaudited pro forma financial information of the Enlarged Group as contained in Appendix IV to the Circular, the Acquisition would lead to an increase in the net assets of the Group. Such increase is mainly attributable to (i) the the consolidation of the equity interest of the Target Group; and (ii) the increase in pro forma goodwill arising on the Acquisition of the Target Group, as mitigated by the decrease in cash and cash equivalents as the Transaction Consideration will be settled by way of cash.

(b) Earnings

Based on the consolidated statements of comprehensive income of the Target Group as set out in Appendix II to the Circular, it is expected that the Target Group would contribute positively to the revenue but adversely to the net income after tax of the Enlarged Group upon Completion. Nonetheless, after taking into account the outlook of the personal care product industry and the prospects of the Target Group as stipulated above, the Directors expected that the Acquisition will likely deliver a positive impact on the future earnings of the Group.

(c) Gearing

According to the 2015 Annual Report, the gearing ratio is calculated as net debt divided by the adjusted capital plus net debt, whereas net debt is calculated as the sum of bank and other borrowings and finance lease liabilities and loan from subsidiaries less the sum of pledged and restricted bank deposits, time deposits maturing over three months and cash and cash equivalents. Since the Company will satisfy the Transaction Consideration in cash, the Group's cash on hand would be reduced and the gearing ratio is expected to be increased upon Completion.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that although the Amended SPA is not conducted in the ordinary and usual course of business of the Company, the terms of the Amended SPA are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the SGM to approve the Amended SPA and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Joshua Liu
Managing Director

Mr. Joshua Liu is a licensed person registered with the SFC and a responsible officer of Lego to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 18 years of experience in the finance and investment banking industry.

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2013, 2014 and 2015, together with the relevant notes thereto are disclosed in the following documents:

- annual report of the Company for the year ended 31 December 2015 published on 22 April 2016 (pages 74 to 164);

  http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0422/LTN20160422638.pdf

- annual report of the Company for the year ended 31 December 2014 published on 22 April 2015 (pages 41 to 152);

  http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0422/LTN20150422760.PDF

- annual report of the Company for the year ended 31 December 2013 published on 16 April 2014 (pages 40 to 144); and

  http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0416/LTN20140416621.pdf

2. INDEBTEDNESS OF THE ENLARGED GROUP

The Group

Borrowings, secured

At 30 June 2016, the borrowings were as follows:

	As at 30 June 2016 *HK$'000*
Bank and other borrowings	3,897,607
Bank and other borrowings — guaranteed	7,187,641
Finance lease liabilities	923
Finance lease liabilities — guaranteed	94,331
	11,180,502

Convertible and exchangeable bonds

At 30 June 2016, the carrying value of the convertible and exchangeable bonds was HK$1,007,099,000.

Security and guarantees

At the close of business on 30 June 2016, the Group's borrowings were secured by way of charge over certain assets including property, plant and equipment, prepaid land lease payments under operating leases, financial assets at fair value through profit or loss, investment properties, properties under development and completed properties held for sale and bank deposits with a total net carrying value of approximately HK$8,289,715,000.

In addition, the Group's bank and other borrowings were secured by guarantees given by directors of the Company, the Company and certain subsidiaries and also secured by various share mortgages of certain subsidiaries.

Contingent liabilities

Guarantees given in connection with credit facilities granted to:

	As at 30 June 2016 *HK$'000*
Associates *(notes i, ii)*	3,311,371

Notes:

(i) There have been no material developments in pending litigation against Banco de Oro Unibank (branded as BDO). (formerly known as Equitable PCI Bank Inc. and then as Banco de Oro-EPCI Inc.) ("**Banco UniBank**"), a Filipino bank, and Waterfront Philippines Inc. ("**Waterfront**"), a Filipino company, as disclosed in the Group's annual audited financial statements for the year ended 31 December 2015. Due to the pending litigation, the Group is not able to obtain any updated indebtedness information from Banco Unibank. Given the foregoing limitation, it is estimated that the outstanding balance of the total indebtedness owing to Banco Unibank was approximately US$2,347,000 (equivalent to approximately HK$18,188,000) by reference to the unaudited financial statements of the associate as at 30 June 2016.

Up to the Latest Practicable Date, information of the outstanding balance of the indebtedness of the ICBC Loan (as defined in the Company's 2015 annual report) ("**ICBC Indebtedness**") disclosed in the Group's annual audited financial statements for the year ended 31 December 2015 for ascertaining the fair value of the guarantee for ICBC Indebtedness has yet been available. Given the foregoing limitation, it is estimated that there was no outstanding ICBC Indebtedness by reference to the published financial information of Acesite (Philippines) Hotel Corporation Inc. as at 31 March 2016.

(ii) A deed of covenants was executed among the Company, a subsidiary of the Company, Baitak Asian Shenzhen Peninsula Co., Ltd ("**Baitak**"), CITIC Real Estate (Hong Kong) Development Limited ("**CITIC**") and Listar Properties Limited ("**Listar**") in August 2013. As per the provisions of the deed of covenants, the Company and the subsidiary of the Company guarantee that both Baitak and CITIC can recover their total consideration in the acquisition of equity interest in Listar together with a return of 12% internal rate of return ("**IRR**") and 10% IRR respectively. The guarantees were considered by the Company's directors to be of no effect on the Group's liabilities as Listar is expected to be able to meet the aforesaid obligation, therefore, such guarantees were also considered as no commercial value.

Except for the above, the Group has some litigations as at 30 June 2016 which the Group considered that it would not incur a material outflow of resources as result of these litigations. For details, please refer to point 7 of Appendix VI.

The Target Group

Borrowings

At 30 June 2016, the borrowings were as follows:

	As at 30 June 2016
	HK$'000
Other borrowings,unsecured and unguaranteed	146
Finance lease liabilities, secured and unguaranteed	182
	328

Security and guarantees

At the close of business on 30 June 2016, the Group's borrowings were secured by way of charge over certain assets included in property, plant and equipment with a total net carrying value of approximately HK$178,000.

Contingent liabilities

At 30 June 2016, lawsuits and claims arising from the normal course of business were lodged against the Target Group which remains outstanding. In the opinion of the directors of the Target Group, sufficient insurance coverage is maintained to cover the losses, if any, arising from most of these lawsuits and claims. The ultimate liability under these lawsuits and claims would not have a material adverse impact on the financial position of the Target Group or no provision should be made.

Saved as aforesaid and apart from intra-group liabilities and normal accounts payable, the Enlarged Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 30 June 2016.

3. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Company is engaged in three main business segments: (i) culture and media services; (ii) property development; and (iii) corporate IT application services.

According to the Company's annual report for the year ended 31 December 2015, the Group is optimistic about China's macro-economy and the future development of its three main businesses, and is confident that it can achieve better performance in 2016.

In the coming year, the Group will continue to develop its three main businesses by adhering to its diversified core business strategy. The Group is committed to pursue the entire industry chain layout of the film industry through accelerated expansion of Dadi Cinema (HK) Limited by new incorporation and mergers and acquisitions. It will also speed up the development process of the existing property projects, and strive for the exploration of new property projects; and will further improve its operation and management level as well as its operational efficiency of corporate IT application services.

The Group had expanded into the media field by establishing Dadi News Media (HK) Limited and is striving to build new media with innovative models so as to assist in social reform and advancement by upholding its own ideas and beliefs. Its "HK01"news media will continue to provide comprehensive and in-depth analysis on various issues such as current events, society and lifestyle by means of online to offline model through multimedia platform at its websites, weekly magazine and physical premises. It is expected that "HK01" will realise distribution and advertising income from its weekly magazine and website and income from holding events at its physical premise as its main source of income. The Group will continue to devote more efforts and investment in this segment to successfully build up its industrial foundation and develop it as a new segment of the Group within two to three years.

The Group also is of the view that with the development of urbanisation in China, rising spending capability of the youth and the continuous growing middle class, the "town youth" has gradually become a huge reserve for the middle class. To achieve the Group's medium to long term strategy, the Group will continue to vigorously expand its cinema business, and develop various businesses to build an ecosystem for the service industry based on urbanisation and modern consumption models by leveraging on the well-established strong foundation of Dadi Cinema.

The Board believes that the Acquisition is favourable to the Group's development in long run and is confident that with a series of restructuring initiatives including integration of resources, remodeling of the brand, supply chain optimization, development of new product lines and implementation of an effective strategy in the PRC, the Target Group is expected to have its business performance improved, especially after integrating with the nationwide distribution network of Dadi Cinema, which in turn will be beneficial to the Company and the Shareholders as a whole.

Saved for the Acquisition and other transactions that have already been disclosed by the Company as at the Latest Practicable Date, the Company does not have any present intention, negotiation, agreement, arrangement or understanding (concluded or otherwise) to acquire or inject any new business or to dispose of, scale-down and/or terminate its existing businesses and/or its major operating assets.

4. WORKING CAPITAL SUFFICIENCY

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources available to the Enlarged Group (including its internally generated funds), the Enlarged Group, will have sufficient working capital to satisfy its present requirements and the requirements in the next 12 months from the date of this circular in the absence of unforeseen circumstances.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, the date to which the latest published audited consolidated financial statements of the Group were made up.

BDO Limited
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Hong Kong
Telephone: (852) 2541 5041
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25 August 2016

The Board of Directors
Nan Hai Corporation Limited

Dear Sirs,

We set out below our report on the financial information of CE Holdings Limited and its subsidiaries (hereinafter collectively referred to as the "Target Group") which comprises the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for each of the three years ended 31 March 2014, 2015 and 2016 (the "Relevant Periods"), and the consolidated statements of financial position of the Target Group as at 31 March 2014, 2015 and 2016 together with the notes thereto (the "Financial Information") prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the circular of Nan Hai Corporation Limited (the "Company") dated 25 August 2016 (the "Circular") in connection with the proposed acquisition of 70% of the equity interests of the Target Group at a cash consideration of US$115,500,000 (the "Acquisition").

CE Holdings Limited was incorporated in the British Virgin Islands with limited liability on 26 August 1998. The Target Group is principally engaged in the manufacturing, retail and distribution of botanic-based personal care and fragrance products, fine foods and home products.

The consolidated financial statements of the Target Group for the years ended 31 March 2014 and 2015 were prepared in accordance with International Financial Reporting Standards and were audited by Menzies LLP. For the purpose of this report, the directors of CE Holdings Limited have prepared the financial statements of the Target Group (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 March 2014, 2015 and 2016 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared based on the Underlying Financial Statements with no adjustments made thereon.

The audited financial statements of the entities that comprise the Target Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The principal entities that comprise the Target Group, together with details of their statutory auditors during the Relevant Periods, are set out in note 25 of Section II below.

DIRECTORS' RESPONSIBILITY

The directors of CE Holdings Limited are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of CE Holdings Limited determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures as we consider necessary on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Target Group and the Target Company as at 31 March 2014, 2015 and 2016 of the Target Group's financial performance and cash flows for each of the years then ended.

I. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

		Year ended 31 March		
		2014	2015	2016
	Notes	*US$'000*	*US$'000*	*US$'000*
Revenue	*5*	208,560	178,709	143,895
Cost of sales		(67,629)	(64,108)	(52,331)
Gross profit		140,931	114,601	91,564
Other gains and (losses)	*6*	1,499	(8,721)	(661)
Selling and distribution expenses		(97,653)	(96,952)	(83,569)
General and administrative expenses		(42,522)	(30,378)	(25,829)
Finance costs	*9*	(457)	(753)	(865)
Profit/(loss) before income tax	*7*	1,798	(22,203)	(19,360)
Income tax	*10*	(1,030)	(928)	(362)
Profit/(loss) for the year		768	(23,131)	(19,722)
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation and other comprehensive income for the year		(1,203)	(597)	1,377
Total comprehensive income for the year		(435)	(23,728)	(18,345)

Consolidated Statements of Financial Position

		As at 31 March		
		2014	**2015**	**2016**
	Notes	*US$'000*	*US$'000*	*US$'000*
Non-current assets				
Property, plant and equipment	*11*	32,367	25,184	21,594
Intangible assets	*12*	2,802	2,457	2,162
Deferred tax assets	*21*	392	401	399
Total non-current assets		35,561	28,042	24,155
Current assets				
Inventories	*13*	55,560	36,981	35,516
Trade and other receivables	*14*	35,903	32,386	26,124
Amount due from a related company		—	1,600	—
Amount due from holding company	*15*	12,439	14,166	39,980
Tax recoverable		532	314	344
Bank balances and cash	*16*	10,515	10,727	17,668
Total current assets		114,949	96,174	119,632
Current liabilities				
Trade and other payables	*17*	37,582	18,048	22,598
Amounts due to related companies		11,405	12,158	10,412
Amount due to holding company	*18*	4,446	21,019	56,255
Obligations under finance leases	*19*	56	42	25
Other borrowing	*20*	—	—	38
Current tax liabilities		438	179	96
Total current liabilities		53,927	51,446	89,424
Net current assets		61,022	44,728	30,208
Total assets less current liabilities		96,583	72,770	54,363
Non-current liabilities				
Obligations under finance leases	*19*	199	106	45
Deferred tax liabilities	*21*	109	117	116
Total non-current liabilities		308	223	161
Net assets		96,275	72,547	54,202
Capital and reserves				
Share capital	*22*	114,249	114,249	114,249
Reserves	*23*	(17,974)	(41,702)	(60,047)
Total equity		96,275	72,547	54,202

Statement of Financial Position

		As at 31 March		
		2014	**2015**	**2016**
	Notes	*US$'000*	*US$'000*	*US$'000*
Non-current assets				
Interests in subsidiaries	*25*	63,745	63,745	63,745
Current assets				
Amounts due from subsidiaries	*25*	50,212	48,618	48,529
Current liabilities				
Other payables		—	7	15
Amount due to holding company	*18*	—	24	35
Total current liabilities		—	31	50
Net current assets		50,212	48,587	48,479
Net assets		113,957	112,332	112,224
Capital and reserves				
Share capital	*22*	114,249	114,249	114,249
Reserves	*23*	(292)	(1,917)	(2,025)
Total equity		113,957	112,332	112,224

Consolidated Statements of Changes in Equity

	Share capital	Share premium	Preference shares	Exchange reserve	Accumulated losses	Total
	US$'000	*US$'000*	*US$'000* *(Note 23)*	*US$'000*	*US$'000*	*US$'000*
At 1 April 2013	114,249	6,695	18,813	1,459	(44,506)	96,710
Profit for the year	—	—	—	—	768	768
Exchange difference arising on translation	—	—	—	(1,203)	—	(1,203)
At 31 March 2014 and 1 April 2014	114,249	6,695	18,813	256	(43,738)	96,275
Loss for the year	—	—	—	—	(23,131)	(23,131)
Exchange difference arising on translation	—	—	—	(597)	—	(597)
At 31 March 2015 and 1 April 2015	114,249	6,695	18,813	(341)	(66,869)	72,547
Loss for the year	—	—	—	—	(19,722)	(19,722)
Exchange difference arising on translation	—	—	—	1,377	—	1,377
At 31 March 2016	114,249	6,695	18,813	1,036	(86,591)	54,202

Consolidated Statements of Cash Flows

	Year ended 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Operating activities			
Profit/(loss) before income tax	1,798	(22,203)	(19,360)
Adjustments for:			
Depreciation on property, plant and equipment	6,411	6,605	6,098
Amortisation of intangible assets	294	301	302
Loss on disposal of property, plant and equipment	230	877	165
Provision/(reversal) for impairment of property, plant and equipment	—	515	(499)
(Reversal)/provision for impairment of inventory	(3,427)	1,256	2,510
Provision/(reversal of provision) for impairment of trade receivables	661	(548)	(290)
Bank interest income	(45)	(38)	(22)
Finance costs	457	753	865
Operating profit/(loss) before working capital changes	6,379	(12,482)	(10,231)
(Increase)/decrease in trade and other receivables	(18,934)	4,065	6,552
(Increase)/decrease in inventories	(8,975)	17,323	(1,045)
Increase/(decrease) in trade and other payables	19,973	(19,534)	4,550
Cash used in operating activities	(1,557)	(10,628)	(174)
Income tax paid	(818)	(1,075)	(475)
Net cash used in operating activities	(2,375)	(11,703)	(649)
Investing activities			
Purchase of property, plant and equipment	(10,164)	(3,766)	(2,593)
Acquisition of intangible assets	(220)	(8)	—
Proceeds from disposal of property, plant and equipment	346	779	183
Interest received	45	38	22
Net cash used in investing activities	(9,993)	(2,957)	(2,388)

	Year ended 31 March		
	2014	2015	2016
	US$'000	*US$'000*	*US$'000*
Financing activities			
Proceeds from new borrowing	—	—	38
Capital element of finance lease payments	(34)	(107)	(78)
Interest paid to holding company	(457)	(753)	(865)
Advance from/(repayment to) the related company, net	11,405	(847)	(146)
(Repayment to)/advance from the holding company, net	(13,670)	14,846	9,422
Net cash (used in)/generated from financing activities	(2,756)	13,139	8,371
Net (decrease)/increase in cash and cash equivalents	(15,090)	(1,521)	5,334
Effect of foreign exchange rates on cash balances	(550)	1,733	1,607
Cash and cash equivalents at beginning of year	26,155	10,515	10,727
Cash and cash equivalents at end of year	10,515	10,727	17,668
Analysis of the balances of cash and cash equivalents			
Bank balances and cash	10,515	10,727	17,668

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

CE Holdings Limited (the "Target Company") was incorporated in the British Virgin Islands on 26 August 1998. The registered office of CE Holdings Limited is at R.G. Hodge Plaza 2nd Floor, P.O. Box 3152 Road Town, Tortola VG1110 Virgin Islands, British.

The principal activities of the Target Company and its subsidiaries (together the "Target Group") are manufacturing, retail and distribution of botanic-based personal care and fragrance products, fine foods and home products.

The directors consider that CE Holdings Limited's ultimate parent is C & E Capital Ltd., a company incorporated in the British Virgin Islands.

2.1. BASIS OF PRESENTATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in United States dollars ("US$") and all values are rounded to the nearest thousand ("US$'000") except when otherwise indicated.

For the purpose of preparation of the Financial Information, all HKFRS effective for the accounting period on or after 1 April 2015, together with the relevant transitional provisions, have been early adopted by the Target Group in the preparation of the Financial Information throughout the Relevant Periods.

2.2. NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

CE Holdings Limited has not applied the following revised standards and new interpretations, that have been issued but are not yet effective, in this Financial Information.

HKFRSs (Amendments)	Annual Improvement 2012–2014 Cycle[1]
Amendments to HKAS 1	Disclosure Initiative[1]
Amendments to HKAS 7	Disclosure Initiative[2]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[2]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods and Depreciation and Amortisation[1]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[1]
HKFRS 9 (2014)	Financial Instruments[3]
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between and Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[1]
Amendments to HKFRS 15	Classification to HKFRS 15 — Revenue from Contracts with Customers[3]
HKFRS 15	Revenue from Contracts with Customers[3]
HKFRS 16	Leases[4]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2017
3 Effective for annual periods beginning on or after 1 January 2018
4 Effective for annual periods beginning on or after 1 January 2019
5 Effective date is deferred

Amendments to HKAS 1 — Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

An entity's share of other comprehensive income from equity accounted interests in associates and joint ventures will be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

Amendments to HKAS 16 and HKAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to HKAS 27 — Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

HKFRS 9 (2014) — Financial Instruments

HKFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 (2014) includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 (2014) carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify that the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 — Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a subsidiary of an investment entity (including investment entities that account for their subsidiaries at fair value rather than consolidating them). An investment entity parent will consolidate a subsidiary only when the subsidiary is not itself an investment entity and the subsidiary's main purpose is to provide services that relate to the investment entity's investment activities. A non-investment entity applying the equity method to an associate or joint venture that is an investment entity may retain the fair value measurements that associate or joint venture used for its subsidiaries. An investment entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss should provide the disclosures related to investment entities as required by HKFRS 12.

HKFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Target Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Target Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Target Group's results of operations and financial position.

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases", introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the consolidated statement of cash flow. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The directors of the Target Company considered that it is not practicable to provide a reasonable estimate of the effect until the Target Group performs a detailed review.

The directors of the Target Company anticipate that the application of other new and revised HKFRSs will have no material impact on the consolidated financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The Financial Information comprises the financial statements of CE Holdings Limited and its subsidiaries (the "Target Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the Financial Information. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

A subsidiary is an investee over which CE Holdings Limited is able to exercise control. CE Holdings Limited controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

(b) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGU") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(c) Property, plant and equipment

The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Land and building	Over the shorter of the lease terms of land and 30 years
Leasehold improvements	3–10 years
Plant, machinery and office equipment	3–10 years
Motor vehicle	4–5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(d) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Target Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and buildings as a finance lease of property, plant and equipment.

(e) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in administrative expenses. The useful lives are as follows

Trademark	10 years
Others	5–10 years

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Target Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Target Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in cost of sales.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(iii) Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for non-financial assets below).

(f) Financial instruments

(i) Financial assets

The Target Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, unless the effect of discounting would be immaterial, in which case they are stated at cost, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Target Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Loans and receivables

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

(iii) Financial liabilities

The Target Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by CE Holdings Limited are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Target Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

(g) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method/first-in-first out method. Net realisable value represents the estimated costs necessary to make the sale.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, high liquid investments with original maturities of three months or less that are readily convertible into known amount of cash and which are subject to an insignificant risk of changes in value.

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

(i) Revenue recognition

Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(j) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or deductible for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(k) Foreign currency translation

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Target Group (i.e. US dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transaction took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Target Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

(l) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Target Group can no longer withdraw the offer of those benefits and when the Target Group recognises restructuring costs involving the payment of termination benefits.

(m) Impairment of non-financial assets

At the end of each reporting period, the Target Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets; and
- investments in subsidiaries

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(n) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Related parties

(a) A person or a close member of that person's family is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions apply:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Target Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of trade receivables

The Target Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payment. The Target Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Target Group would be required to revise the basis of making the allowance and its future results would be affected.

4. SEGMENT REPORTING

In the opinion of the management, the Target Group has one operating segment which is manufacturing, retail and distribution of botanic-based personal care and fragrance products, fine foods and home products.

(a) Geographic information

The following tables provide an analysis of the Target Group's revenue from external customers and non-current assets other than deferred tax assets (''Specified non-current assets'').

(i) Revenue from external customers

	Year ended 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Australia	21,507	19,149	13,897
Europe	40,429	42,539	30,169
Far East	53,922	37,262	31,116
North America	69,837	59,078	53,321
South East Asia	21,196	19,345	14,398
Other countries	1,669	1,336	994
	208,560	178,709	143,895

(ii) Specified non-current assets

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Australia	5,873	4,275	3,631
Europe	10,180	7,009	6,198
Far East	1,447	1,103	589
North America	15,103	13,474	12,062
South East Asia	2,566	1,780	1,276
	35,169	27,641	23,756

(b) Information about major customers

None of the Target Group's revenue was derived from a customer that individually contributed more than 10% of the Target Group's revenue for each of the reporting period.

5. REVENUE

Revenue, which is also the Target Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the Relevant Periods.

6. OTHER GAINS AND (LOSSES)

	Year ended 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Exchange gain/(loss)	667	(5,379)	(764)
Interest income	45	38	22
Loss on disposal of property, plant and equipment	(230)	(877)	(165)
(Reversal)/Impairment on property, plant and equipment	—	(515)	499
Project termination cost	—	(1,728)	(240)
Relocation cost	—	(236)	—
Sundry income/(expenses)	1,017	(24)	(13)
	1,499	(8,721)	(661)

7. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging the followings:

	Year ended 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Cost of inventories sold	67,629	64,108	52,331
Depreciation *(note 11)*	6,411	6,605	6,098
Auditors' remuneration			
— For audit services	314	339	373
— For non-audit services	1,389	39	70
	1,703	378	443
Employee benefit expense (excluding directors' remuneration *(note 8)*):			
— Wages and salaries	52,123	46,605	41,272
— Pension scheme contributions	3,897	4,085	4,174
	56,020	50,690	45,446
Provision/(reversal of provision) for impairment of trade receivables*	661	(548)	(290)

* Included in "General and administrative expenses" of the consolidated statements of comprehensive income

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

During the Relevant Periods, no fees, salaries, allowances and other benefits, discretionary bonuses, and pension scheme contribution were paid by the Target Group to the directors, including Tan Lewi Yong (the chairman), Lim Siew Choon and Low Mei Wan, Susan.

During the Relevant Periods, no remunerations were paid by the Target Group to the directors as an inducement to join or upon joining the Target Group or as compensation for loss of office. In addition, none of the directors waived or agreed to waive any remuneration during the Relevant Periods.

(b) Five highest paid employees

No directors, details of whose remuneration are set out in note 8(a) above, are included in the five highest paid employees during the Relevant Periods. Details of the remuneration of the five non-director, highest paid employees for the Relevant Periods are as follows:

	Year ended 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Salaries, allowances and benefits in kind	1,365	1,288	1,352
Pension scheme contributions	86	81	70
	1,451	1,369	1,422

9. FINANCE COSTS

	Year ended 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Interest expenses paid to holding company	449	753	865
Interest element of finance lease payments	8	—	—
	457	753	865

10. INCOME TAX

The amount of taxation in the consolidated statements of comprehensive income represents:

	Year ended 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Current tax			
— tax for the year	989	730	362
— under/(over) provision in respect of prior years	57	92	—
	1,046	822	362
Deferred tax *(note 21)*	(16)	106	—
Income tax	1,030	928	362

Hong Kong profit tax has been provided on the estimated assessable profits of subsidiaries operating in Hong Kong at 16.5% throughout the Relevant Periods.

Corporate profit tax has been provided on the estimated assessable profits of subsidiaries operating in other jurisdiction at the rates applicable in their respective jurisdiction throughout the Relevant Periods.

The income tax for the Relevant Periods can be reconciled to the profit/(loss) before income tax in the consolidated statements of comprehensive income as follows:

	Year ended 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Profit/(loss) before income tax	1,798	(22,203)	(19,360)
Tax calculated at the applicable domestic tax rates	414	(4,663)	(3,872)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(590)	(61)	(436)
Tax effect of expenses not deductible for tax purposes	133	446	411
Tax effect of revenue not taxable for tax purposes	—	—	42
Tax effect of tax losses not recognised	925	4,906	4,847
Utilisation of tax losses previously not recognised	(21)	(832)	(652)
Under/(over) provision in respect of prior years	57	92	—
Tax effect of deductible temporary differences not recognised	112	1,040	22
Income tax	1,030	928	362

11. PROPERTY, PLANT AND EQUIPMENT

	Land and building	**Leasehold improvement**	**Plant, machinery and office equipment**	**Motor vehicle**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Cost					
At 1 April 2013	14,047	18,950	27,085	533	60,615
Additions	90	4,638	5,276	415	10,419
Disposals	—	(2,300)	(1,933)	(50)	(4,283)
Exchange adjustment	174	110	84	(2)	366
At 31 March 2014 and 1 April 2014	14,311	21,398	30,512	896	67,117
Additions	—	2,384	1,382	—	3,766
Disposals	—	(5,392)	(3,149)	(45)	(8,586)
Exchange adjustment	(988)	(1,772)	(2,725)	(62)	(5,547)
At 31 March 2015 and 1 April 2015	13,323	16,618	26,020	789	56,750
Additions	—	879	1,714	—	2,593
Disposals	—	(2,196)	(1,830)	(251)	(4,277)
Exchange adjustment	(94)	(232)	(194)	(14)	(534)
At 31 March 2016	13,229	15,069	25,710	524	54,532

	Land and building	Leasehold improvement	Plant, machinery and office equipment	Motor vehicle	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Accumulated depreciation and impairment					
At 1 April 2013	6,441	12,155	13,113	259	31,968
Charge for the year	317	2,683	3,275	136	6,411
Write-off on disposals	—	(2,058)	(1,605)	(44)	(3,707)
Exchange adjustment	16	22	41	(1)	78
At 31 March 2014 and 1 April 2014	6,774	12,802	14,824	350	34,750
Charge for the year	299	2,641	3,509	156	6,605
Impairment losses recognised	—	515	—	—	515
Write-off on disposals	—	(4,815)	(2,102)	(13)	(6,930)
Exchange adjustment	(155)	(1,204)	(1,994)	(21)	(3,374)
At 31 March 2015 and 1 April 2015	6,918	9,939	14,237	472	31,566
Charge for the year	294	2,707	3,005	92	6,098
Reversal of impairment losses recognised	—	(499)	—	—	(499)
Write-off on disposals	—	(1,978)	(1,753)	(198)	(3,929)
Exchange adjustment	(14)	(148)	(132)	(4)	(298)
At 31 March 2016	7,198	10,021	15,357	362	32,938
Net book value					
At 31 March 2016	6,031	5,048	10,353	162	21,594
At 31 March 2015	6,405	6,679	11,783	317	25,184
At 31 March 2014	7,537	8,596	15,688	546	32,367

Notes:

The net carrying amount of the Target Group's property, plant and equipment included in the following amounts in respect of assets held under finance leases (Note 19):

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Motor vehicle	267	153	72

12. INTANGIBLE ASSETS

	Trademark	Goodwill	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
At 1 April 2013				
Cost	5,873	971	110	6,954
Accumulated amortisation	(3,994)	—	(86)	(4,080)
Net carrying amount	1,879	971	24	2,874
Year ended 31 March 2014				
Opening net carrying amount	1,879	971	24	2,874
Additions	—	—	220	220
Amortisation charge	(289)	—	(5)	(294)
Exchange adjustment	—	—	2	2
Closing net carrying amount	1,590	971	241	2,802
At 31 March 2014 and 1 April 2014				
Cost	5,873	971	340	7,184
Accumulated amortisation	(4,283)	—	(99)	(4,382)
Net carrying amount	1,590	971	241	2,802
Year ended 31 March 2015				
Opening net carrying amount	1,590	971	241	2,802
Additions	—	—	8	8
Amortisation charge	(289)	—	(12)	(301)
Exchange adjustment	—	—	(52)	(52)
Closing net carrying amount	1,301	971	185	2,457
At 31 March 2015 and 1 April 2015				
Cost	5,873	971	266	7,110
Accumulated amortisation	(4,572)	—	(81)	(4,653)
Net carrying amount	1,301	971	185	2,457
Year ended 31 March 2016				
Opening net carrying amount	1,301	971	185	2,457
Amortisation charge	(291)	—	(11)	(302)
Exchange adjustment	—	—	7	7
Closing net carrying amount	1,010	971	181	2,162
At 31 March 2016				
Cost	5,873	971	277	7,121
Accumulated amortisation	(4,863)	—	(96)	(4,959)
Net carrying amount	1,010	971	181	2,162

For the purpose of the annual impairment test, the carrying amount of trademark and goodwill is allocated to the same cash generating units ("CGU") and the recoverable amount of the CGU was determined based on value in use calculations, covering a detailed five-seven years financial budgets which was approved by management, cash flows are extrapolated using a royalty rate, which does not exceed the royalty rate for the business in which the CGU operates.

The key assumptions used for the value in use calculations for the year are as follows:

	2016	2015	2014
Royalty rate	3%	3%	3%
Branding marketing expense	0.5%	0.5%	0.5%
Discount rate	20%	20%	20%

The royalty rate and branding marketing expenses were estimated with reference to comparable franchise cases.

The discount rates used are pre-tax and reflect specific risks relating to the CGU.

Apart from the consideration described in determining the value in use calculation of the CGU above, the Target Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

13. INVENTORIES

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Raw materials	14,917	11,636	8,006
Finished goods	40,203	24,989	29,205
Others	2,615	3,787	4,246
	57,735	40,412	41,457
Less: provision for impairment	(2,175)	(3,431)	(5,941)
	55,560	36,981	35,516

14. TRADE AND OTHER RECEIVABLES

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Trade receivables (gross)	26,231	20,228	12,288
Less: provision for impairment	(838)	(290)	—
Trade receivables (net)	25,393	19,938	12,288
Other receivables	10,510	12,448	13,836
	35,903	32,386	26,124

The Target Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 60 days.

The movement in the provision for impairment of trade receivables are as follows:

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
At beginning of year	177	838	290
Provision/(reversal of provision) for the year *(note 7)*	661	(548)	(290)
At end of year	838	290	—

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period.

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Current	14,073	1,331	2,645
Less than 1 month	8,614	3,623	2,013
1 to 2 months	1,952	1,144	2,153
2 to 3 months	754	4,446	513
Over 3 months	—	9,394	4,964
	25,393	19,938	12,288

The ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Neither past due nor impaired	23,089	3,024	3,033
Less than 1 month past due	1,371	2,379	2,072
1 to 2 months past due	444	708	659
2 to 3 months past due	385	3,649	1,850
Over 3 months past due	104	10,178	4,674
	25,393	19,938	12,288

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track of record with the Target Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Target Group does not hold any collateral or other credit enhancements over these balances.

15. AMOUNT DUE FROM HOLDING COMPANY

Particulars of amount due from holding company are as follows:

	31 March 2014 US$'000	Maximum amount outstanding during the year US$'000	1 April 2013 US$'000
As at 31 March 2014			
Name			
C & E Capital Ltd.	12,439	14,739	1,892

	31 March 2015 US$'000	Maximum amount outstanding during the year US$'000	1 April 2014 US$'000
As at 31 March 2015			
Name			
C & E Capital Ltd.	14,166	14,166	12,439

	31 March 2016 US$'000	Maximum amount outstanding during the year US$'000	1 April 2015 US$'000
As at 31 March 2016			
Name			
C & E Capital Ltd.	39,980	39,980	14,166

The balance with holding company is unsecured, interest-free and repayable on demand.

16. BANK BALANCES AND CASH

The Target Group's cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

17. TRADE AND OTHER PAYABLES

	As at 31 March		
	2014	2015	2016
	US$'000	*US$'000*	*US$'000*
Trade payables	23,509	6,503	12,960
Other payables	5,934	3,402	3,573
Accruals	8,139	8,143	6,065
	37,582	18,048	22,598

Notes:

(a) For trade payables, the credit period granted by suppliers and contractors is normally 0 to 90 days.

The ageing analysis of trade payables, based on invoice date, as of the end of each of the Relevant Periods is as follows:

	As at 31 March		
	2014	2015	2016
	US$'000	*US$'000*	*US$'000*
0–30 days	7,839	4,149	4,255
31–60 days	5,872	1,536	3,172
61–90 days	5,171	318	1,747
Over 90 days	4,627	500	3,786
	23,509	6,503	12,960

18. AMOUNT DUE TO HOLDING COMPANY

The amount due to holding company as at 31 March 2014, 2015 and 2016 were unsecured, carried interest at prevailing bank interest rate and repayable on demand.

19. OBLIGATIONS UNDER FINANCE LEASES

The Target Group leases certain of its motor vehicles and these leases are classified as finance leases. The lease obligations are secured by the underlying leased assets.

Future lease payments under the finance leases are due as follows:

	Minimum lease payments	Interest	Present value of minimum lease payments
	US$'000	*US$'000*	*US$'000*
As at 31 March 2014			
Not later than one year	66	(10)	56
One year to two years	66	(8)	58
Later than two years but not later than five years	153	(12)	141
	285	(30)	255

	Minimum lease payments	Interest	Present value of minimum lease payments
	US$'000	*US$'000*	*US$'000*
As at 31 March 2015			
Not later than one year	46	(4)	42
One year to two years	47	(4)	43
Later than two years but not later than five years	65	(2)	63
	158	(10)	148

	Minimum lease payments	Interest	Present value of minimum lease payments
	US$'000	*US$'000*	*US$'000*
As at 31 March 2016			
Not later than one year	27	(2)	25
One year to two years	29	(2)	27
Later than two years but not later than five years	18	—	18
	74	(4)	70

The present value of future lease payments are analysed as:

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Current liabilities	56	42	25
Non-current liabilities	199	106	45
	255	148	70

Notes:

(a) The effective interest rates of the Target Group's obligations under finance lease liabilities as at 31 March 2014, 2015 and 2016 ranged from 4.1479% to 4.46% per annum.

(b) Obligations under finance leases was secured by the underlying assets as at 31 March 2014, 2015 and 2016.

20. OTHER BORROWING

As at 31 March 2016, other borrowing was unsecured, interest-bearing at 3.32% per annum and repayable within one year.

21. DEFERRED TAX ASSETS/(LIABILITIES)

	Accelerated tax depreciation	**Temporary difference on provision**	**Tax losses**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*
At 1 April 2013	(245)	539	52	346
Charge/(credit) to profit or loss	115	(78)	(53)	(16)
Exchange differences	11	(59)	1	(47)
At 31 March 2014 and 1 April 2014	(119)	402	—	283
Charge to profit or loss	52	54	—	106
Exchange differences	(39)	(66)	—	(105)
At 31 March 2015 and 1 April 2015	(106)	390	—	284
Charge/(credit) to profit or loss	8	(8)	—	—
Exchange differences	—	(1)	—	(1)
At 31 March 2016	(98)	381	—	283

For the purpose of presentation in consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Deferred tax assets	392	401	399
Deferred tax liabilities	(109)	(117)	(116)
	283	284	283

A deferred tax asset has not been recognised for the following:

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Unused tax losses	64,963	77,166	83,320

No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams.

22. SHARE CAPITAL

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Registered and fully paid	114,249	114,249	114,249

During the Relevant Periods, there was no movement in CE Holdings Limited's share capital.

23. RESERVES

The amounts of the Target Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity on page 81 of the Financial Information.

Note:

Preference shares includes redeemable preference shares of US$18,068,000 and US$745,000 issued by Crabtree & Evelyn, Ltd. and Crabtree & Evelyn (Overseas) Limited respectively (both of which is a wholly-owned subsidiary of CE Holdings Limited). The preference shares carry no voting rights.

The preference shares carry a right to dividend if a dividend is declared by the board of directors. Crabtree & Evelyn, Ltd. and Crabtree & Evelyn (Overseas) Limited has the right, but not the obligation, to redeem the preference shares from their holders at a pre-determined price.

The Target Company

	Exchange reserve	Accumulated losses	Total
	US$'000	*US$'000*	*US$'000*
At 1 April 2013	24	(284)	(260)
Loss for the year	—	(31)	(31)
Exchange difference arising on translation	(1)	—	(1)
At 31 March 2014 and 1 April 2014	23	(315)	(292)
Loss for the year	—	(1,625)	(1,625)
At 31 March 2015 and 1 April 2015	23	(1,940)	(1,917)
Loss for the year	—	(108)	(108)
At 31 March 2016	23	(2,048)	(2,025)

24. OPERATING LEASE COMMITMENTS

The Target Group as lessee

The Target Group leases office premises and plant and equipment under operating lease arrangement. The leases run for an initial period of one to ten years, with options to renew the lease terms at the expiry dates or at days as mutually agreed between the Target Group and the respective lessors. In addition, the Target Group paid additional rental expenses in respect of certain operating leases which are dependent on the level of revenue achieved by particular properties.

The lease payments recognised as an expenses are as follows:

	Year ended 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Minimum leases payments	29,932	29,002	28,212
Contingent rents	3,075	2,868	1,503
	33,007	31,870	29,715

The total future minimum lease payments under these leases are due as follows:

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Within one year	25,210	21,585	17,609
Later than one year and not later than five years	50,474	35,954	32,962
Later than five years	18,623	11,441	11,495
	94,307	68,980	62,066

25. INTERESTS IN SUBSIDIARIES

	2014	2015	2016
	US$'000	*US$'000*	*US$'000*
Unlisted investments, at carrying value	63,745	63,745	63,745

The amounts due are unsecured, interest-free and repayable on demand.

Name	Place of incorporation	Paid-up capital	Principal activities	Auditor
Crabtree & Evelyn Holdings Limited	The United Kingdom	GBP38,896,613	Investment holding	Menzies LLP Chartered Accountants
Premier Procurement Limited	The United Kingdom	GBP1	Investment holding	Menzies LLP Chartered Accountants
Crabtree & Evelyn Trading Limited	The United Kingdom	GBP200,001	Inactive	Menzies LLP Chartered Accountants
Crabtree & Evelyn (Macau) Limited	Macau	MOP25,000	Inactive	*(Note 2)*
Crabtree & Evelyn, Ltd.	United States of America	Ordinary share USD28,770,338 Redeemable preference share USD42,067,700	Manufacturing, retailing and distribution of toiletries	Alexander Aronson Finning CPAs
Quillspur Limited	The United Kingdom	GBP100	Inactive	Menzies LLP Chartered Accountants
Crabtree & Evelyn, Australia Pty Limited	Australia	AUD300,000	Retailing and distribution of toiletries	Jamison Alliott Chartered Accountants
C & E Canada Inc.	Canada	CAD434,485	Retailing and distribution of toiletries	Alexander Aronson Finning & Co., P.C.
Crabtree & Evelyn (Singapore) Pte. Ltd.	Singapore	SGD500,000	Retailing and distribution of toiletries	BSL Public Accounting Corporation
Crabtree & Evelyn (Malaysia) Sdn. Bhd.	Malaysia	Ordinary shares RM560,000 Preference shares RM50,000	Retailing of toiletries	KPMG

Name	Place of incorporation	Paid-up capital	Principal activities	Auditor
Crabtree & Evelyn (Overseas) Limited	The United Kingdom	GBP100,000 Ordinary share £100,000 Redeemable preference share £19,470,550	Retailing and distribution of toiletries	Menzies LLP Chartered Accountants
Crabtree & Evelyn London	France	EUR10,000	Inactive	*(Note 2)*
Crabtree & Evelyn Europe B.V.	Netherlands	EUR37,682	Investment holding	Borrie & Co Accountants B.V.
Crabtree & Evelyn Deutschland GmbH	Germany	DM50,000	Retailing and distribution of toiletries	Häckl Schmidt Lichtenstern GmbH
Crabtree & Evelyn France	France	EUR10,000	Retailing of toiletries	*(Note 2)*
Crabtree & Evelyn Austria GmbH	Austria	EUR36,336	Retailing of toiletries	Trust Treuhand- und Steuerberatung GmbH
Crabtree & Evelyn (Hong Kong) Limited	Hong Kong	HKD1,000,000	Retailing and distribution of toiletries	Alliott, Tsoi CPA Limited
Crabtree & Evelyn (Shanghai) Limited	People's republic of China, limited liability company	RMB1,000,000 *(Note 1)*	Retailing of toiletries	Shanghai WSP Certified Public Accountants

All the subsidiaries are wholly-owned by CE Holdings Limited during the Relevant Periods.

Note 1: The entity was established on 9 December 2011 with registered capital of RMB1,000,000. As at 31 March 2014 and 2015, the paid-up capital of the entity was RMB200,000. The remaining capital of RMB800,000 was fully paid-up during the year ended 31 March 2016.

Note 2: No audited financial statements have been prepared for the entity.

26. RELATED PARTY TRANSACTIONS

The Target Group entered into the following transactions with related party during the Relevant Periods:

Name and related party relationship	Type of transaction	Transaction amount Year ended 31 March 2014	2015	2016
		US$'000	*US$'000*	*US$'000*
C&E Capital Limited				
Holding company	Interest expenses paid	449	753	865

27. CONTINGENT LIABILITIES

During the Relevant Periods, lawsuits and claims arising from the normal course of business were lodged against the Target Group which remains outstanding as of the end of each of the Relevant Periods. In the opinion of the directors, sufficient insurance coverage is maintained to cover the losses, if any, arising from most of these lawsuits and claims. The ultimate liability under these lawsuits and claims would not have a material adverse impact on the financial position of the Target Group or no provision should be made.

28. CAPITAL COMMITMENTS

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Commitments for the acquisition of property, plant and equipment:			
— authorised but not contracted for	228	2,089	2,089
— contracted for but not provided	461	385	385
	689	2,474	2,474

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the each of the Relevant Periods are as follows:

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Financial assets			
Loans and receivables			
— Trade and other receivables	35,903	32,386	26,124
— Amounts due from holding company	12,439	14,166	39,980
— Amounts due from a related company	—	1,600	—
— Bank balances and cash	10,515	10,727	17,668
	58,857	58,879	83,772
Financial liabilities			
Financial liabilities measured at amortised cost			
— Trade and other payables	37,582	18,048	22,598
— Amount due to related companies	11,405	12,158	10,412
— Amount due to holding company	4,446	21,019	56,255
— Obligations under finance leases	255	148	70
— Other borrowing	—	—	38
	53,688	51,373	89,373

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments comprise balances with group companies, interest-bearing other borrowing, secured and bank balances and cash. The main purpose of these financial instruments is to provide finance for the Target Group's operations.

It is, and has been throughout the years under review, the Target Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Target Group's financial instruments are credit risk, interest rate risk, liquidity risk and currency risk. The management reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Target Group trades only with recognised and creditworthy third parties. It is the Target Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Target Group's exposure to bad debts is not significant.

The credit risk of the Target Group's other financial assets, which comprise cash and cash equivalents, amount due from the holding company, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Target Group does not obtain collateral from customers. There are no significant concentrations of credit risk with the Target Group as the customer bases of the Target Group's trade receivables are widely dispersed in different locations.

Further quantitative data in respect of the Target Group's exposure to credit risk arising from trade receivables are disclosed in note 14 to the Financial Information.

Interest rate risk

As the Target Group has no significant interest-bearing assets and liabilities, the Target Group's income and operating cash flows are substantially independent of changes in market interest rate.

Liquidity risk

The Target Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Target Group's objective is to maintain a balance between continuity of funding and flexibility through the continuous financial support from shareholders and also through other borrowing. The Target Group will consistently maintain a prudent financing policy and ensure that it maintains sufficient liquid funds to meet its liquidity requirements.

The maturity profile of the financial liabilities of the Target Group as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Carrying amount	Total contractual undiscounted cash flow	On demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
31 March 2014					
Trade and other payables	37,582	37,582	37,582	—	—
Amount due to related companies	11,405	11,405	11,405	—	—
Amount due to holding company	4,446	4,446	4,446	—	—
Obligations under finance leases	255	285	66	66	153
	53,688	53,718	53,499	66	153

	Carrying amount	Total contractual undiscounted cash flow	On demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
31 March 2015					
Trade and other payables	18,048	18,048	18,048	—	—
Amount due to related companies	12,158	12,158	12,158	—	—
Amount due to holding company	21,019	21,019	21,019	—	—
Obligations under finance leases	148	158	46	47	65
	51,373	51,383	51,271	47	65

	Carrying amount *US$'000*	Total contractual undiscounted cash flow *US$'000*	On demand or within 1 year *US$'000*	More than 1 year but less than 2 years *US$'000*	More than 2 years but less than 5 years *US$'000*
31 March 2016					
Trade and other payables	22,598	22,598	22,598	—	—
Amount due to related companies	10,412	10,412	10,412	—	—
Amount due to holding company	56,255	56,255	56,255	—	—
Obligations under finance leases	70	74	27	29	18
Other borrowing	38	38	38	—	—
	89,373	89,377	89,330	29	18

Currency risk

The Target Group mainly operated in the United States of America, the United Kingdom and Hong Kong with most of the transactions settled in US$, British Pound and Hong Kong Dollars, respectively and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt includes amount due to the holding company, obligations under finance leases and other borrowing, less bank balances and cash. Capital includes the equity attributable to owners of the Target Group.

	As at 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Amount due to related companies	11,405	12,158	10,412
Amount due to holding company	4,446	21,019	56,255
Obligations under finance leases	255	148	70
Other borrowing	—	—	38
Less: bank balances and cash	(10,515)	(10,727)	(17,668)
Net debt	5,591	22,598	49,107
Total equity	96,275	72,547	54,202
Total equity and net debt	101,866	95,145	103,309
Gearing ratio	5%	24%	48%

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 31 March 2016.

Yours faithfully,

BDO Limited
Certified Public Accountants

Chiu Wing Cheung Ringo
Practising Certificate number: P04434

Hong Kong, 25 August 2016

The following is the management discussion and analysis on the Target Group, which is based on the financial information of the Target Group as set out in Appendix II to this circular.

Financial and Business Performance

The Target Company was incorporated in the BVI on 26 August 1998. The Target Company is an investment holding company and together with its subsidiaries, are primarily involved in the manufacturing, retailing and distributing of botanic-based personal care and fragrance products, fine foods and luxury lifestyle home products. The Target Company also owns the brand name of Crabtree & Evelyn.

For the three financial years ended 31 March 2014, 2015 and 2016, the Target Company generated US$208.6 million, US$178.7 million and US$143.9 million in revenue respectively. During these financial years, the revenue fluctuations were primarily driven by the lessening of brand and product desirability, increase in seasonality and dependence of the Christmas period for peak sales, and the increasing use of promotion and discounting by each of the countries in an attempt to increase revenue.

For the three financial years ended 31 March 2014, 2015 and 2016, the Target Company generated US$140.9 million, US$114.6 million and US$91.6 million in gross profit respectively. During these financial years and the eight months period, the gross profit fluctuations were primarily driven by the consequence of steep falls in sales revenue and the increasing use of promotion and discounting to increase revenue.

For the three financial years ended 31 March 2014, 2015 and 2016, the Target Company recorded US$97.7 million, US$97.0 million and US$83.6 million in selling and distribution expenses. During these financial years, the fluctuations of selling and distribution expenses year on year were primarily driven by maintenance of retail store portfolio in the first two years to allow time to introduce increased in-store sales performance and productivity and to reduce the then loses attributable to the retail sales channel. However, insufficient improvement was achieved and closure of major loss-making stores was implemented in 2016.

For the three financial years ended 31 March 2014, 2015 and 2016, the Target Company recorded US$42.5 million, US$30.4 million and US$25.8 million in general and administrative expenses. During these financial years, the fluctuations of general and administrative expenses, year on year were primarily driven by gradual reduction in actual costs but not in line with the actual rate in fall of sales.

For the three financial years ended 31 March 2014, 2015 and 2016, the Target Company recorded a net profit of US$0.8 million, a net loss of US$23.1 million and a net loss of US$19.7 million. The declining net profit of the Target Company was mainly due to the reasons stated above.

Capital Structure, Liquidity and Financial Resources

The Target Group relies on the support of its related companies and holding company to obtain funding.

For the year ended 31 March 2016, the Target Group financed its operations primarily by unsecured loans provided by its holding company and related companies. As at 31 March 2016, the Target Group held bank and cash balances of US$17.7 million, and had US$26.7 million in net amount due to holding company and related companies.

As at 31 March 2016, the non-current assets of the Target Group comprised of property, plant and equipment, intangible assets and deferred tax assets of US$24.2 million. Current assets of the Target Group mainly comprised of inventories of US$35.5 million, trade and other receivables of US$26.1 million and cash and bank balances of US$17.7 million. Its current liabilities mainly consisted of trade and other payables of US$22.6 million and amount due to holding company of US$56.3 million. The Target Group recorded net current assets of US$30.2 million as at 31 March 2016.

Gearing Ratio

Consistent with others in the industry, the Target Group monitors capital on the basis of its gearing ratio. This ratio is calculated as net debt divided by total equity and net debt. Net debt is calculated as total debt less cash and bank balances and the total equity is the total equity as shown in the statement of financial position.

As at 31 March 2014, 31 March 2015 and 31 March 2016, the gearing ratio (debt is mainly comprised of the net amounts due to holding company and related companies) of the Target Group was 5%, 24% and 48% respectively. The fluctuation in gearing ratios were mainly attributable to the continuous capital supporting from its holding company and related companies.

Foreign Currency Risk

The Target Group undertakes transactions in the following currencies: (1) GBP, (2) HK$, and (3) US$. To manage foreign currency risk, the Target Group continually reviewed and monitored the fluctuation in exchange rate and may make appropriate foreign exchange hedging arrangements when necessary.

Fair Value Interest Rate Risk

As the Target Group has no significant interest-bearing assets and liabilities, the Target Group's income and operating cash flows are substantially independent of changes in market interest rate.

Credit Risk

Credit risk of the Target Group mainly arises from trade and other receivables.

The Target Group continuously monitors credit risk by regularly assessing the credit ratings of the counterparties, taking into account their financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts.

As at 31 March 2014, 31 March 2015 and 31 March 2016, there was no default on the trade and other receivable. To manage the credit risk associated with bank balances, bank balances are placed in banks with sound credit ratings.

The management of the Target Group does not expect any losses to arise from non-performance by these counterparties.

Liquidity Risk

The Target Group solely relies on available funding through the support of its related companies and holding company.

The financial liabilities of the Target Group include trade and other payables, amounts due to holding company and related companies, other borrowing and obligation under finance leases which are mainly due within one year to each of the end of the reporting period during the relevant periods.

Contingent Liabilities and Capital Commitment

As at 31 March 2014, 2015 and 2016, the Target Group had no material contingent liabilities. The capital commitments in respect of property, plant and equipment are as follows:

	Year ended 31 March		
	2014	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*
Commitments for the acquisition of property, plant and equipment:			
— authorised but not contracted for	228	2,089	2,089
— contracted for but not provided	461	385	385
	689	2,474	2,474

Charge of Assets

As at 31 March 2016, the Target Group did not have any charges on assets, except for the shares of the Target Company which were pledged as securities in relation to the term loan of the Vendor.

Material Investments, Acquisitions or Disposals

During the financial years ended 31 March 2014, 2015 and 2016, the Target Group did not make any significant investment or acquisition or dispose of any subsidiary or associated company.

Future Plans

The Target Group has no plans for material investments except for the further expansion of current business network for the twelve months ending 31 March 2017.

Employees and Remuneration Policies

As at 31 March 2016, the Target Group had a total of 1,352 employees. Remuneration packages (including base salaries, bonuses and benefits-in-kind) are structured by reference to market rates, terms, trends in human resources costs in various regions and employees' contributions based on performance appraisals. Subject to the profit for the Target Group and the performance of the employees, the Target Group may also provide discretionary bonuses to its employees as an incentive for their further contribution.

Litigation

As at 31 March 2016, the Target Group had no material pending litigation.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The following is an illustrative and unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2015 (the "Unaudited Pro Forma Financial Information") of Nan Hai Corporation Limited (the "Company") and its subsidiaries (together referred to as the "Group") and CE Holdings Limited (the "Target Company") and its subsidiaries (together referred to as the "Target Group"), which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the acquisition of the 70% equity interest of the Target Group (the "Acquisition") as if it had taken place on 31 December 2015.

The Unaudited Pro Forma Financial Information are prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2015 as set out in the Group's published annual report dated 30 March 2016, the audited statement of financial position of the Target Group as at 31 March 2016 as set out in the Accountant's Report on the Target Group set out in appendix II to this Circular, after giving effect to the unaudited pro forma adjustments as described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only and is based on a number of assumptions, estimates, uncertainties and currently available information. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained has the Acquisition been completed on 31 December 2015, nor purport to predict the Enlarged Group's future financial position of operations.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 December 2015, the Accountant's Report on the Target Group as set out in Appendix II to this Circular, and other financial information included elsewhere in the Circular.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group 31 December 2015	The Target Group 31 March 2016	Sub-total	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Proforma consolidated statement of assets and liabilities of the Enlarged Group after the Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*		*Note 3*	*Note 4(a)*	*Note 4(b)*	*Note 5*	*Note 6*	
Non-current assets									
Property, plant and equipment	3,165,728	167,395	3,333,123	—	59,845	—	—	—	3,392,968
Investment properties	179,372	—	179,372	—	—	—	—	—	179,372
Prepaid land lease payments under operating leases	25,521	—	25,521	—	—	—	—	—	25,521
Goodwill	112,220	7,527	119,747	—	398,868	44,501	—	—	563,116
Investment in subsidiaries	—	—	—	895,349	—	(44,501)	(850,848)	—	—
Interests in associates	534,299	—	534,299	—	—	—	—	—	534,299
Interest in a joint venture	2,160	—	2,160	—	—	—	—	—	2,160
Loan receivable from an associate	369,848	—	369,848	—	—	—	—	—	369,848
Amounts due from related parties	5,026	—	5,026	—	—	—	—	—	5,026
Available-for-sale financial assets	324	—	324	—	—	—	—	—	324
Held-to-maturity investment	155,205	—	155,205	—	—	—	—	—	155,205
Deposits, prepayments and other receivables	213,674	—	213,674	—	—	—	—	—	213,674
Intangible assets	111,597	9,233	120,830	—	435,729	—	—	—	556,559
Deferred tax assets	108,258	3,093	111,351	—	—	—	—	—	111,351
Pledged and restricted bank deposits	195,276	—	195,276	—	—	—	—	—	195,276
	5,178,508	187,248	5,365,756	895,349	894,442	—	(850,848)	—	6,304,699

	The Group 31 December 2015	The Target Group 31 March 2016	Sub-total	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Proforma consolidated statement of assets and liabilities of the Enlarged Group after the Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*		*Note 3*	*Note 4(a)*	*Note 4(b)*	*Note 5*	*Note 6*	
Current assets									
Inventories	7,188,276	275,318	7,463,594	—	—	—	—	—	7,463,594
Financial assets at fair value through profit or loss	1,433	—	1,433	—	—	—	—	—	1,433
Trade receivables	332,110	95,256	427,366	—	—	—	—	—	427,366
Deposits, prepayments and other receivables	2,208,451	107,256	2,315,707	—	—	—	—	—	2,315,707
Amount due from holding company	—	309,922	309,922	—	—	—	—	—	309,922
Amounts due from associates	530	—	530	—	—	—	—	—	530
Amounts due from related parties	30,707	—	30,707	—	—	—	—	—	30,707
Tax recoverable	—	2,667	2,667	—	—	—	—	—	2,667
Pledged and restricted bank deposits	1,725,537	—	1,725,537	—	—	—	—	—	1,725,537
Time deposits maturing over three months	12	—	12	—	—	—	—	—	12
Cash and cash equivalents	803,694	136,961	940,655	(895,349)	—	—	—	(7,699)	37,607
	12,290,750	927,380	13,218,130	(895,349)	—	—	—	(7,699)	12,315,082
Current liabilities									
Trade payables	570,538	100,465	671,003	—	—	—	—	—	671,003
Other payables and accruals	1,189,056	74,713	1,263,769	—	—	—	—	—	1,263,769
Receipt in advance and deferred revenue	496,089	—	496,089	—	—	—	—	—	496,089
Current tax liabilities	639,065	744	639,809	—	—	—	—	—	639,809
Amount due to related parties	103,988	80,713	184,701	—	—	—	—	—	184,701
Amount due to a director	14,273	—	14,273	—	—	—	—	—	14,273
Amount due to holding company	—	436,085	436,085	—	—	—	—	—	436,085
Amount due to a shareholder	1	—	1	—	—	—	—	—	1
Amounts due to associates	197,982	—	197,982	—	—	—	—	—	197,982
Bank and other borrowings	5,059,078	295	5,059,373	—	—	—	—	—	5,059,373
Finance lease liabilities	13,509	194	13,703	—	—	—	—	—	13,703
Finance liability at fair value through profit or loss	121,589	—	121,589	—	—	—	—	—	121,589
	8,405,168	693,209	9,098,377	—	—	—	—	—	9,098,377
Net current assets	3,885,582	234,171	4,119,753	(895,349)	—	—	—	(7,699)	3,216,705
Total assets less current liabilities	9,064,090	421,419	9,485,509	—	894,442	—	(850,848)	(7,699)	9,521,404

	The Group 31 December 2015	The Target Group 31 March 2016	Sub-total	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Proforma consolidated statement of assets and liabilities of the Enlarged Group after the Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*		*Note 3*	*Note 4(a)*	*Note 4(b)*	*Note 5*	*Note 6*	
Non-current liabilities									
Bank and other borrowings	4,968,005	—	4,968,005	—	—	—	—	—	4,968,005
Finance lease liabilities	29,593	349	29,942	—	—	—	—	—	29,942
Provision for warranty	5,401	—	5,401	—	—	—	—	—	5,401
Long term trade payables	68,087	—	68,087	—	—	—	—	—	68,087
Deferred tax liabilities	76,439	899	77,338	—	99,115	—	—	—	176,453
	5,147,525	1,248	5,148,773	—	99,115	—	—	—	5,247,888
Net assets	3,916,565	420,171	4,336,736	—	795,327	—	(850,848)	(7,699)	4,273,516
Equity									
Share capital	686,455	885,651	1,572,106	—	—	—	(885,651)	—	686,455
Reserves	2,555,847	(465,480)	2,090,367	—	795,327	—	(329,847)	(7,699)	2,548,148
Equity attributable to the Company's owners	3,242,302	420,171	3,662,473	—	795,327	—	(1,215,498)	(7,699)	3,234,603
Non-controlling interests	674,263	—	674,263	—	—	—	364,650	—	1,038,913
Total equity	3,916,565	420,171	4,336,736	—	795,327	—	(850,848)	(7,699)	4,273,516

Notes:

(1) The amounts are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2015 as set out in the Group's published annual report dated 30 March 2016.

(2) The amounts are extracted from the Accountant's Report on the Target Group as set out in Appendix II to this Circular, being translated to Hong Kong Dollars ("HK$") at the rate of HK$1 = US$0.129.

(3) The pro forma adjustment represents the aggregated cash consideration of US$115,500,000 (approximately HK$895,349,000) paid by the Group for the acquisition of the 70% equity interest in the Target Group.

(4) Upon completion of the Acquisition, the Group will own 70% equity interest in the Target Group. The identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair value under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combination".

(a) This adjustment represents the recognition of the excess of the fair value of identifiable assets acquired, and the liabilities assumed over the book value of the assets and the liabilities in Target Group. The fair value of identifiable assets acquired and liabilities assumed in Target Group is determined in accordance with HKFRS 3, "Business Combination". For the purpose of the Unaudited Pro Forma Financial Information and for illustrative purpose only, the directors have assessed the fair values of the identifiable assets and liabilities of the Target Group as at 31 March 2016 by taking reference of the valuation as at 31 March 2016 carried out by Avista Valuation Advisory Limited.

(b) The adjustment relating to goodwill arises from the acquisition of the Target Group. Pursuant to the Amended SPA, the consideration for acquisition of 70% equity interest in the Target Group amounted to US$115,500,000 (approximately HK$895,349,000). The fair value adjustment of the assets and liabilities of the Target Group as at 31 March 2016 was mainly contributed by property, plant and equipment, intangible assets and goodwill of approximately HK$59,845,000, HK$435,729,000 and HK$398,868,000 respectively, net of the deferred income tax liabilities recognised as a result of the fair value adjustment of approximately HK$99,115,000. Goodwill is determined as the excess of the consideration paid for the Acquisition as follow:

	HK$'000
Consideration	895,349
Fair value of net assets acquired	(850,848)
	44,501

Since the fair values of the consideration and the assets and liabilities of the Target Group at the actual completion date may substantially different from the fair values used in the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the final amounts of the identifiable net assets (including intangible assets) and goodwill to be recognised in connection with the Acquisition may be different from the amounts presented here and the differences may be significant. The Directors have assessed whether there is any indication of impairment in respect of property, plant and equipment, intangible assets and goodwill with reference to Hong Kong Accounting Standard 36 "Impairment of Assets". The directors are of the view that Target Group's business will be improved and there are no significant changes with an adverse effect on Target Group that will take place in the near future.

(5) The adjustments represent the elimination of share capital and pre-acquisition reserves of the Target Group, as if the Acquisition had been completed at the date reported on (i.e. 31 December 2015).

(6) The adjustment reflects the estimated cost of HK$7,699,000 directly attributable to the Acquisition, which mainly comprises professional fees payable to financial advisors, legal advisors, reporting accountants, printers and other professional parties. The expenses are charged to profit or loss directly.

(7) Apart from the above, no adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and the Target Group entered subsequent to 31 December 2015.

B. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The Board of Directors
Nan Hai Corporation Limited
12/F., The Octagon,
No. 6 Sha Tsui Road,
Tsuen Wan,
New Territories, Hong Kong

Dear Sirs

We have completed our assurance engagement to report on the compilation of pro forma financial information of Nan Hai Corporation Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 31 December 2015 and related notes as set out in the section headed "Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group" in Appendix IV of the circular issued by the Company dated 25 August 2016 (the "Circular"). The applicable criteria on the basis of which the directors have compiled the pro forma financial information are also described in section headed "Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group" in Appendix IV of the circular.

The pro forma financial information has been compiled by the directors to illustrate the impact of the proposed acquisition of the 70% shareholding in CE Holdings Limited (the "Target Company") and its subsidiaries (together the "Target Group") (the "Acquisition") on the Group's financial position as at 31 December 2015 as if the Acquisition had taken place at 31 December 2015. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's audited financial statements for the year ended 31 December 2015 on which an audit report has been published.

Directors' Responsibility for the Pro Forma Financial Information

The directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 31 December 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

— The related pro forma adjustments give appropriate effect to those criteria; and

— The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

BDO Limited
Certified Public Accountants
Hong Kong

25 August 2016

Norton Appraisals
Registered Professional Surveyors, Valuers & Property Advisers

Unit 2401-02, 24/F., Jubilee Centre
46 Gloucester Road
Wanchai, Hong Kong
Tel : (852) 2810 7337 Fax : (852) 2810 6337

25 August 2016

The Board of Directors
Nan Hai Corporation Limited
12/F, The Octagon
6 Sha Tsui Road
Tsuen Wan
New Territories

Our Ref: NAL/PW/OP/R16100

Dear Sirs/Madams,

Re: Valuation of 100% equity interest of CE Holdings Limited

In accordance with your instructions, we have carried out a valuation of the fair value of 100% equity interest in CE Holdings Limited (the "**Business Enterprise**") as at 31 March 2016 (the "**Date of Valuation**"). We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of value as at the Date of Valuation.

This report states the purpose and basis of valuation, scope of work, overview of the Business Enterprise, economic and industry, major assumptions, valuation methodology, limiting conditions, and presents our opinion of value.

PURPOSE OF VALUATION

This report is being prepared solely for the use of the directors and management of Nan Hai Corporation Limited (the "**Company**") for public document purpose. This report is not to be used for any purpose other than that mentioned above, including issue to third parties, without our prior approval of the use, form and context in which it is released.

Norton Appraisals Limited ("**Norton Appraisals**") assumes no responsibility whatsoever to any person other than the Company in respect of or arising out of the contents of this report. If others choose to rely in any way on the contents of this report, they do so entirely on their own risk.

SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and information provided by the Company. In preparing this report, we have had discussions with the Company in relation to the development and prospects of the industry where the Business Enterprise operates, operations and other relevant information of the Business Enterprise.

As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Business Enterprise provided to us by the Company and have considered such information and data as attainable and reasonable.

We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

THE BUSINESS ENTERPRISE

The Business Enterprise is a limited liability company incorporated under the laws of British Virgin Islands. As at the Date of Valuation, the Business Enterprise wholly and only owns "Crabtree & Evelyn" and "Crabtree & Evelyn London", an international manufacturer and retailer of beauty and personal care products.

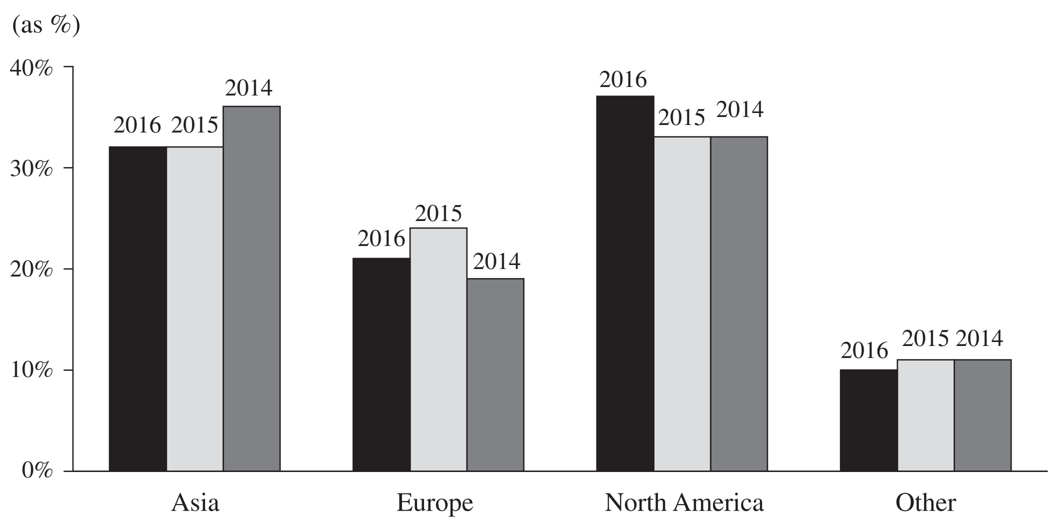
Crabtree & Evelyn was founded by Cyrus Harvey in 1972, originally serving as a fine soaps producer. Nowadays, Crabtree & Evelyn is renowned and respected for quality beauty care products and everyday luxury lifestyle. The variety of products covers a wide range of hand care, bath & body, skin care, fragrance, home care and foods.

Crabtree & Evelyn
LONDON

CRABTREE
& EVELYN

Through subsidiaries all over the world, it currently operates over 4,000 points of sales in over 40 countries, including more than 200 owned branded retail stores of which 30 stores are in Hong Kong. In 2016, Asia and North America respectively contributed over 30% of the group's revenues, followed by Europe where approximately 21% of total revenue came from. To be more specific, North America, Far East, Europe and Australia represent the four largest source of revenues.

Figure 1: Source of revenue by region



Source: The Company

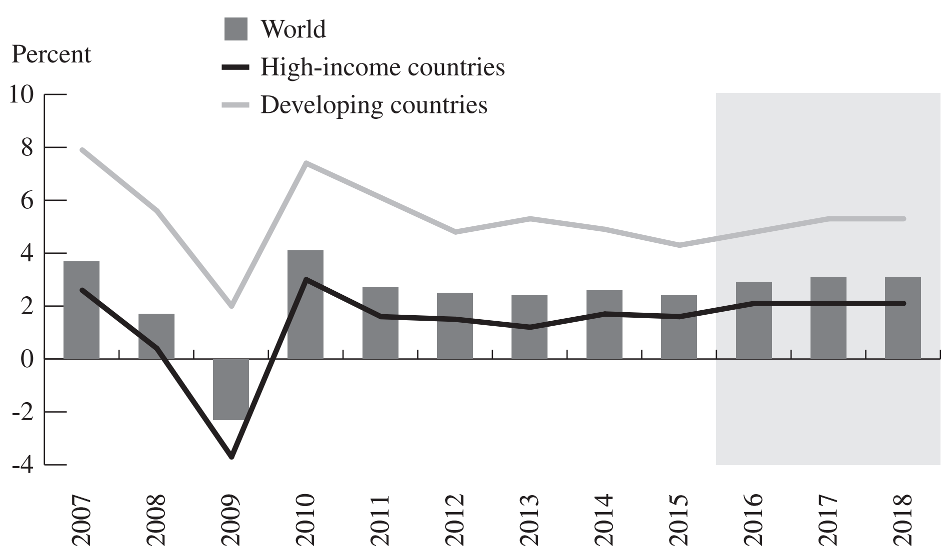
GLOBAL ECONOMIC OVERVIEW

Overview

Global growth again is estimated to miss forecasts in 2015, slowing to 2.4 percent from 2.6 percent in 2014. A continued deceleration of economic activity in emerging and developing economies amid weakening commodity prices, global trade, and capital flows were the main contributors to disappointed performance. Going forward, global growth is forecasted to recover at a slower pace. Weakening prospects are most visible among key commodity exporters, pointing to a significantly lower contribution to global growth than in the past. China's gradual slowdown and rebalancing continued. Low-income countries continued to show some resilience, but a rising share of the world's extreme poor live in countries with slowing growth.

Figure 2: GDP growth forecasts

(as %)



Source: World Bank

Major Economies

United States

Robust consumer spending and investment outside non-oil private sector supported above-trend growth in 2015, and is expected to be the main drivers of growth in 2016. The unemployment rate has dropped to a low level, but labor participation and growth in productivity have been declining, constraining potential output. A strengthening U.S. dollar and weakening external demand are weighing on exports and manufacturing activity.

Europe

Both strengthening domestic demand and exports are the main drivers of the recovery in Europe in 2015. Pickups in credit and intra-European trade growth point to a broadening recovery. Deflation concerns have receded, but core inflation and wage growth remain subdued among economies with high long-term unemployment rates.

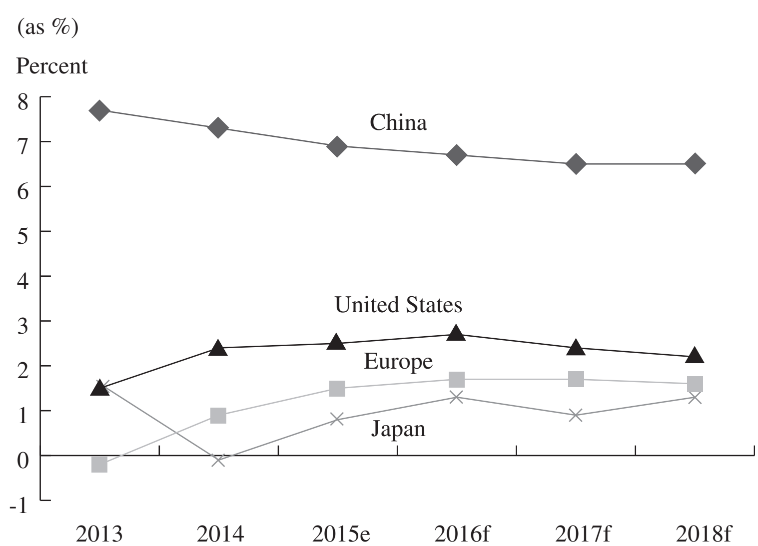
Japan

Growth in Japan remains fragile, with private consumption and investment failing to pick up in 2015. Growth is expected to recover moderately in 2016. Past offshore investments have helped raise sales and profit by overseas subsidiaries, but restrained exports. Skill shortages continued to increase, raising prospects of a gradual acceleration in wage growth.

China

The slowdown in China's economy has been most noticeable among enterprises operating in the manufacturing and real estate sectors. Growth forecasts have been revised down to 6.9 percent in 2015 and 6.7 percent in 2016. In evidence of the rebalancing of China's economy, the share of services employment has increased, supporting real incomes and contributing to robust private consumption. A drop in equity prices and a change in exchange rate policy led to market turbulence, but foreign reserves remain plentiful and the current account is in surplus, reducing risks associated with capital outflows.

Figure 3: GDP growth forecasts of major economies



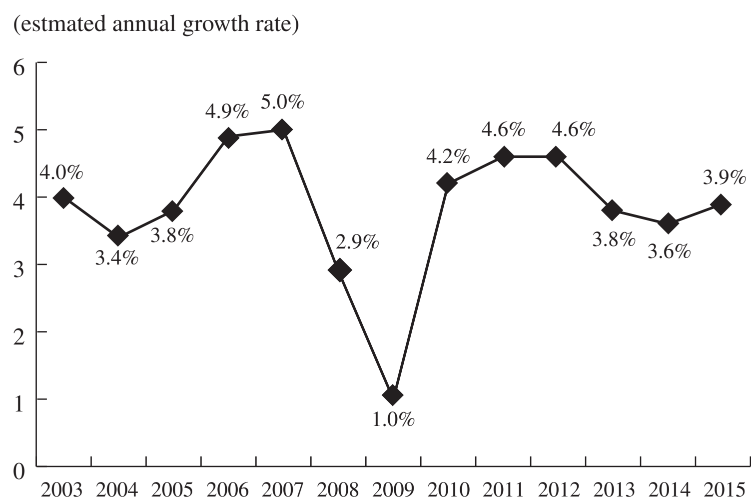
Source: World Bank

THE BEAUTY AND PERSONAL CARE MARKET

Overview

Recovered from consecutive decline in growth in the passing years, the global beauty care market is expected to grow at 3.9% in 2015, with an estimated total worth of US$230 billion in net manufacturer prices. In retail side, the retail sales of the industry is expected to reach over US$500 billion. Over the past decade, the market has grew solidly and steadily on average by around 4%.

Figure 4: Growth of the worldwide beauty market



Source: L'Oréal Group

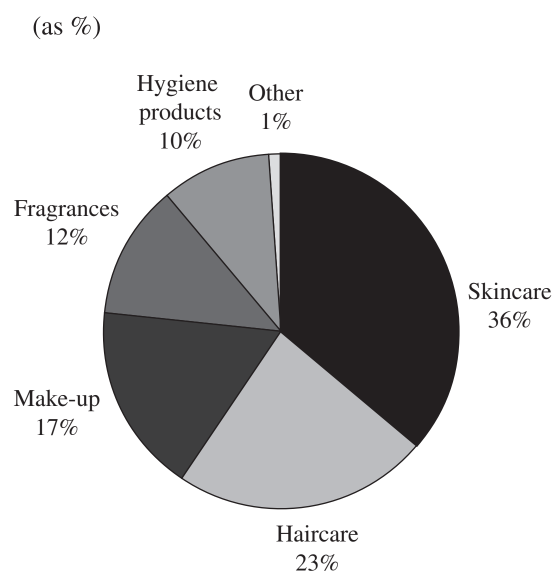
Breakdown of the Market

According to Euromonitor, the beauty and personal care market is generally classified to include the following product categories:

- skin care
- sun care
- hair care
- bath and shower
- men's grooming
- deodorants
- fragrances
- colour cosmetics
- baby care
- oral hygiene
- depilatories

Among the above, skincare and haircare products together account for over half of market volume in 2015, followed by make-up, fragrances and hygiene products.

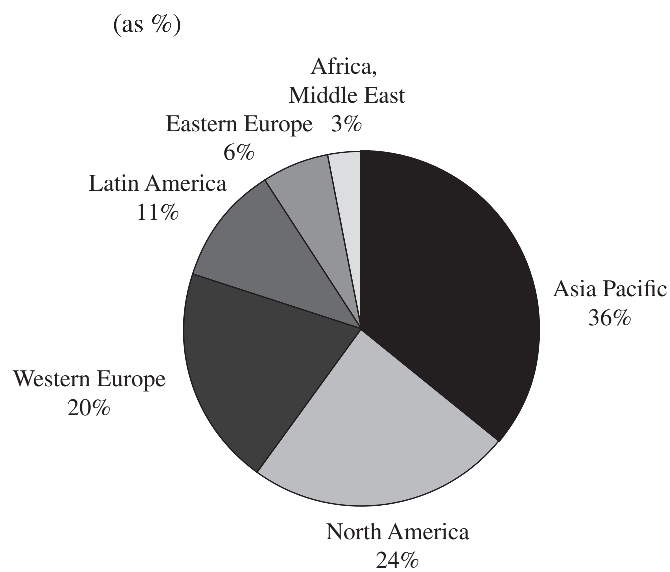
Figure 5: Breakdown of the market by product category



Source: L'Oréal Group

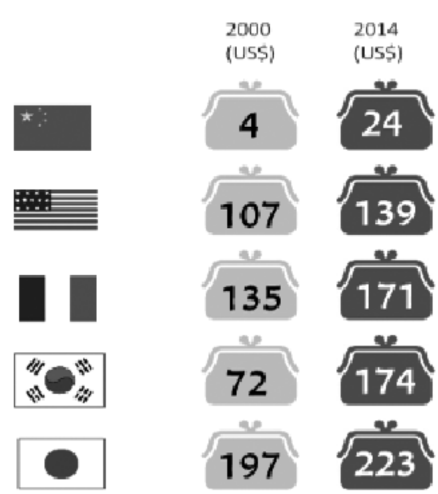
In terms of geography, Asia Pacific represents the single largest market, accounting for 36% of the market shares. North America is the second largest market with 24% market shares, followed by Europe, Latin America, Africa and Middle East. China, Brazil and United States are the major contributors for the growth of the market in the past several years. In 2015, United States and China are among the largest consumer markets.

Figure 6: Breakdown of the market by region



Source: L'Oréal Group

Figure 7: **Cosmetics consumption per capita**

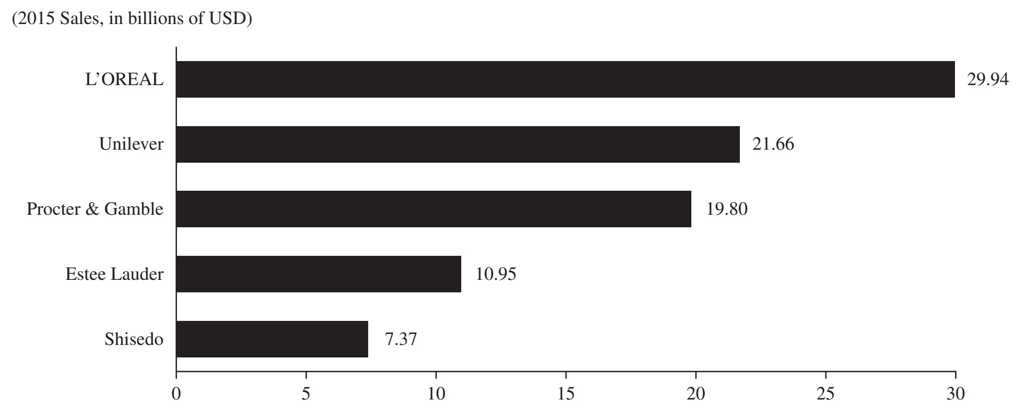


Source: Fung Business Intelligence Centre

Major Players

The global beauty and personal care market consists of several dominating companies. Some of them are L'Oréal Paris, Avon Products, Coty, Estee Lauder, Unilever PLC, Procter & Gamble, Shisedo. Over the past decade, market leaders have been seeking for growth in addition to like-for-like growth by acquiring smaller competitors.

Figure 8: Main worldwide players



Source: L'Oréal Group

Market Trends

- There is a growing perception among consumers, particularly in countries with emerging economies, that personal appearance is important to achieving social, professional and financial success. The growth continues to be driven by the emergence of the middle classes in the emerging markets, by consumers already devoted to sophisticated beauty routines and looking for increasing innovative products and by the growing diversity of beauty expectations and aspirations worldwide.

- There are greater demands for natural and organic products. Consumers are seeking healthier alternatives in order to live longer, healthier lives, including gentler, less-invasive cosmetics and personal care products. Safety concerns linked to the potential harmful effects of certain chemicals and preservatives used in cosmetics and personal care products are also reinforcing this trend.

- Hypermarkets, department stores and health and beauty retailers remained the three most popular sales channels for beauty and personal care products. It is noteworthy that the market share of grocery retailers and department store has been dwindling. By contrast, online retailing has been expanding rapidly, registering the fastest growth among all distribution channels over recent years.

- Demand for high-tech cosmetics. Consumers are increasingly demanding more visible results from their personal care regimes. As a result, an increasing number of cosmeceuticals, or products claiming to have pharmacological benefits and containing strong active, quasi-medical ingredients, have been introduced to the market in recent years. This trend is impacting the more results-driven sectors, such as facial care (e.g., anti-agers and skin whitening), body care (e.g., anti-cellulite), oral hygiene (e.g., tooth whitening) and hair care (e.g., hair loss treatment).

BASIS OF VALUATION

For the purpose of valuation, we have observed and followed *the HKIS Valuation Standard — 2012 edition* issued by the Hong Kong Institute of Surveyors and *the International Valuation Standards — 2013 edition* issued by International Valuation Standards Council.

Our valuation is based on going concern premise and conducted on a fair value basis. Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

GENERAL VALUATION APPROACHES

There are three generally accepted approaches to obtain the fair value of the Business Enterprise, namely, the Market-Based Approach, the Asset-Based Approach and the Income-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted in valuing business entities that is similar in nature.

Market-Based Approach

It values a business entity by comparison of the prices at which other similar business, companies or interests changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to pay for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication from the prices of other similar companies or equity interests in companies that were sold recently.

The right transactions employed in analyzing for indications of value need to be completed at an arm's length basis, assuming that buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

The derived multiples (most commonly used are: price to earnings, price to revenues and price to book multiple) based on analysis of those transactions are then to be applied to the fundamental financial variables of the subject business entity and to arrive at an indicated value of it.

Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital (equity and long term debt).

From a valuation perspective, the valuer will restate the values of all types of assets of a business entity from book value, i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, the valuer can identify the indicated value of the business entity, or, by applying the accounting principle "assets minus liabilities", arrive at the value of the equity interests of the business entity.

Income-Based Approach

The Income-Based Approach focuses on the economic benefits generated by the income producing capability of a business entity. The underlying theory of this approach is that the value of a business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

VALUATION FOR THE BUSINESS ENTERPRISE

Valuation Methodology

In the process of valuing a business subject, we have taken into consideration the business nature, specialty of its operation and the industry it is participating. We believed that the Market-Based Approach would be appropriate and reasonable in the valuation for the Business Enterprise.

In this valuation, the Income-Based Approach is not appropriate as financial forecasts involve a lot of uncertainties incurred by a combination of different assumptions. It is too difficult to compile reliable long-term forecasts for the Business Enterprise as the consumer market is changing at a fast pace. The Asset-Based Approach is not appropriate as the replacement costs of the assets ignore the future economic benefits of the business as a whole.

We have therefore relied on the Market-Based Approach in determining opinion of value. The Market-Based Approach is the most intuitive method and representative of the market valuation for comparable companies. The valuation shall have considered the economy, industry outlook, and the risk and reward of such business according to historical experience. Under the Market-Based Approach, we have adopted the Guideline Public Company Method.

The Guideline Public Company Method

Enterprise value ("**EV**") multiples, such as Enterprise Value-to-Earnings Before Interests, Taxes, Depreciation & Amortization ratio ("**EV/EBITDA**"), Enterprise Value-to-Earnings Before Interests & Taxes ratio ("**EV/EBIT**") and Enterprise Value-to-Sales ratio ("**EV/S**"), are commonly used to value companies in consumer industry. EV multiples give a fair idea as to how much it costs to buy a company's sales/EBIT/EBITDA. In addition, these multiple have merits that wipe out the effect of surplus cash, amortization of R & D and different financial leverage of comparable companies, in which case, they are able to deliver a fair valuation basis.

We have also considered other popular multiples such as Price-to-Book ratio ("**P/B**") and Price-to-Earnings ratio ("**P/E**"). The application of P/B is limited in this valuation as it does not consider intangible assets embedded in this sort of business such as brand names, trademarks and customer royalty.

P/E, EV/EBITDA and EV/EBIT are not applicable here because net loss, EBITDA loss and EBIT loss were recorded for the Business Enterprise in the year ended 31 March 2016, partially due to one-off expenses.

Dispersion, as measured by the Coefficient of Variation ("**CV**") in the next part, in Enterprise Value-to-Sales ("**EV/S**") is within a reasonable range, indicating that such application is robust. In the course of our analysis, we have also observed that Enterprise Value-to-Gross Profit ratio ("**EV/GP**") has a relatively low CV as well. We therefore adopted EV/GP as a second valuation multiple in addition to EV/S in this valuation.

Comparable Companies

We have identified a total of 13 guideline public companies for our valuation. All of them, as well as the Business Enterprise, operate in the beauty and personal care industry. Although we can see slight differences in their primary products when we go deeper, as far as we concern, they are influenced by same economic and industry factors, risks and rewards and therefore have comparable valuation method. Criteria of our identification are:

- Companies engage in manufacturing and distributing beauty and personal care products;
- Products have worldwide coverage; and
- At least 90% of revenues come from beauty and health care products in the latest financial year.

Table 1: List of comparable companies
(Trailing 12-month figures as at the Date of Valuation)

Company name	Ticker	EV/S	EV/GP
L'Oréal	OR FP	3.12	4.38
Beiersdorf	BEI GR	2.73	4.68
COTY	COTY US	2.96	4.87
ESTEE LAUDER	EL US	3.19	3.97
Shiseido	4911 JP	1.00	1.35
Revlon	REV US	1.79	2.75
Elizabeth Arden	RDEN US	0.66	1.78
AVON	AVP US	0.53	0.88
Kose	4922 JP	2.55	3.36
Amorepacific	090430 KS	4.58	6.07
Pola Orbis	4927 JP	2.21	2.74
Fancl	4921 JP	0.85	1.21
L'OCCITANE	973 HK	1.71	2.08
	Maximum	4.58	6.07
	Minimum	0.53	0.88
	Mean	2.14	3.09
	Standard deviation	1.20	1.62
	CV	0.56	0.53
	Excluding outliers*		
	Mean	2.36	3.35
	Standard deviation	0.74	0.95
	CV	0.31	0.28

Source: Bloomberg

* *figures locate outside 1 standard deviation from the mean are defined as outliers in this valuation.*

Before we apply the outcomes from Table 1, we need to further refine the comparable data for outliers. In this valuation, we adopted 1 standard deviation ("STD") as excluding rule as it is prevalently used in pointing out outliers. We have also examined the uses of certain different STD. But in our analysis, many comparable companies will be excluded if we adopt a smaller STD, which might impair the representativeness of comparable data. On the other hand, refinement will fail to take effect if a larger STD is adopted. We observed an uneven distribution of comparable multiples as few or no comparable data is excluded, which means results would be bias upward or downward. In light of above reasons, we believe 1 STD is the most appropriate range to be applied in this valuation. After the refinement, we have 9 out of 13 comparable figures left. In terms of sample size, we are able to conclude the refinement is robust.

Additionally, EV/S and EV/GP, on an adjust basis, show lower degrees of dispersion as illustrated above. Therefore, it is reasonable to conclude that these multiples are representative of market valuation for companies in the subject industry. From statistical aspects, we determine to adopt the normalized mean in our valuation as sample size is relatively small and we see there is not much deviation in these figures.

Lack of Marketability Discount ("LOMD")

A major difference between a closely-held private company's common shares and those of its publicly traded comparable companies is its lack of marketability — the capability and ease of transfer or salability of an asset, business, business interest, or security. It is not uncommon to see that when a private company's shareholder tries to liquidate his position, the cost and time consumed is relatively more significant than a public company's shareholder would have incurred, and as a result, it is intuitive that a share in a private company is usually worth less than an otherwise comparable share in a public company.

Following the reason just stated, a LOMD should be employed to reflect the Business Enterprise's lack of marketability, and in this valuation assignment, we have made reference to the 2015 FMV Restricted Stock Study (the "FMV Study"). The FMV Study adjusted the restricted stock discounts ("RSD") for publicly traded shares with multiplicative factors (actual discount for private companies/RSD) and then presented a distribution of discounts for private equity. Such distribution of discount indicates an average LOMD of 30% for private equity and we have adopted it in this valuation.

Valuation Result

The year ended 31st March 2016	*(US$'000)*
Revenue	143,895
Gross profit	91,564
Gross profit margin	64%

	EV/S	**EV/GP**
Valuation multiple	2.36	3.35
Enterprise value	339,966	307,089
Less: LOMD (30%)	(101,990)	(92,127)
Add: cash and equivalent *(figure as at 31 March 2016)*	17,668	17,668
Less: interest-bearing debt *(figure as at 31 March 2016)*	(56,363)	(55,363)
Add/(less): non-operating assets/(liabilities) *(figure as at 31 March 2016)*	0	0
Equity value	199,281	176,267
Weights#	50%	50%
Weighted equity value*	187,800	

Both of the adopted valuation multiples are considered to be important operating figures of the Business Enterprise and are equally crucial in determining the fair value of the Business Enterprise. Therefore, 50% weights have been assigned to each of them.

* *rounded to the nearest thousandth*

Comparable Transactions Analysis

We have carried out comparable transactions analysis to examine our valuation result. Criteria of the identification of comparable transaction are:

- Consideration and financial information of target companies are disclosed;
- Target companies own brands or trademark of beauty and personal care products;
- Production and Sales of Beauty and personal care products are the major source of revenues; and
- Transactions completed within the 30 months prior to the Date of Valuation.

Table 2: List of comparable transactions

Transaction date	Buyer	Target company, assets or assets holder	Consideration	EV	Revenue	EV/S	P/S
Nov 2015	COTY	Hypermarcas	US$1 bn	Undis.	US$254 mn	N/A	3.94
Aug 2015	Catterton	Steiner	US$925 mn	US$874 mn	US$863 mn	1.0	1.06
Jul 2015	Walgreens	Liz Earle	US$215 mn	Undis.	US$89 mn	N/A	2.42
Mar 2015	Interparfumss	Rochas	US$108 mn	Undis.	US$46 mn	N/A	2.35
Oct 2014	LG Household	CNP Cosmetics	KWR54.2 bn (for 86% stakes)	Undis.	KWR24 bn	N/A	2.63
Sep 2014	LBO Finance	Payot	EUR30–40 mn	Undis.	EUR25 mn	N/A	1.2–1.6
Jul 2014	Ardian	ADA Cosmetics	US$125 mn	Undis.	US$63 mn	N/A	2.00
Jul 2014	Henkel	TSG Consumer Partner	US$368 mn	Undis.	US$190 mn	N/A	1.94
Mar 2014	Kose	Tarte	US$135 mn (for 93.5% stakes)	Undis.	US$68 mn	N/A	2.12
Feb 2014	Nestle	Galderma	US$3.74 bn (for 50% stakes)	Undis.	US$2.27 bn	N/A	3.29
					Maximum	1.01	3.94
					Minimum	1.01	1.06
					Mean	1.01	2.31
					Standard deviation	0	0.84
					CV	0	0.36
					Excluding outliers*		
					Mean		2.12
					Standard deviation		0.40
					CV		0.19

Source: Bloomberg, Company announcements

* *figures locate outside 1 standard deviation from the mean are defined as outliers in this valuation.*

Due to business reasons, only revenues of target companies are disclosed in most of the selected comparable transactions. But these still give us useful indications about how market value the sales of cosmetics companies.

Same as above, ±1 standard deviation was used to exclude outliers. Therefore, acquisition made by COTY, Catterton and Nestle were not included in our adjusted analysis.

EV/S here is less indicative due to limited sample size. In terms of P/S, ten comparable transactions give an average figure of 2.31, ranging from 1.06 to 3.94. On an adjusted basis, average P/S stands at 2.12. Standard deviation and CV of the valuation metric are recorded as 0.40 and 0.19. Low deviations from the mean indicates that the use of P/S is comprehensive.

Our valuation result is located within comparable range, indicating a P/S of 1.98 before LOMD that is close to but slightly lower than the mean of comparable figures. On after-LOMD basis, our implied P/S stays close to the lower end at 1.31.

SOURCE OF INFORMATION

Our opinion requires consideration of relevant factors affecting the value of the Business Enterprise. The factors considered included, but were not limited to, the following:

- Audited accounts for the year ended 31 March 2013, 2014, 2015 and 2016;
- Historical information of the Business Enterprise;
- Regulation and rules of the beauty and personal care industry;
- Business plans for future expansion;
- Market trends of the industry and other related industries;
- General descriptions in relation to the Business Enterprise; and
- Global economic outlook.

In addition to our discussions with the management of the Business Enterprise, we have also conducted thorough research using various sources of information to verify the reasonableness and fairness of the information provided by the Company prior to believing such information as reasonable and reliable. We have assumed the accuracy of information provided and relied to a considerable extent on such information in arriving at our opinion.

MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in this valuation and the major ones are as follows:

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Business Enterprise operates or intends to operate would be officially obtained and renewable upon expiry.

- There will be sufficient supply of technical staff in the industry in which the Business Enterprise operates, and the Business Enterprise will retain competent management, key personnel and technical staff to support its ongoing operations and developments.

- There will be no major change in the current taxation laws in the localities in which the Business Enterprise operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with.

- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Business Enterprise operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Business Enterprise.

- Interest rates and exchange rates in the localities for the operation of the Business Enterprise will not differ materially from those presently prevailing.

RISK FACTORS

The following factors may affect the result of this valuation.

Stricter Regulation on Consumable Products

Tighter restrictions are imposed on chemicals used in consumable products. Besides, product testing on animals is more restrictive due to an increasing emphasis on animal rights. As a result, additional R & D costs and marketing costs might be incurred, thereby deteriorating the profitability of the Business Enterprise.

Changing Market Trends

The beauty and personal care industry is subject to rapid and unpredictable changes in consumer demand and market trends. For example, consumers in certain regions are turning to online shopping. A quick response such as establishment of e-platform is necessary. The Business Enterprise might fail to anticipate or respond some changes in timely manner.

Competitions

The global beauty and personal care industry is characterized by a number of multinational, dominating conglomerates such as L'Oréal, Estee Lauder, Shiseido. They are leading in the industry with superior brand name, geography coverage and improving their leadership by taking over smaller brands. Competition is expected to be intensified. Sales and profitability of the Business Enterprise may be adversely affected.

Fluctuations in Exchange Rates

Currencies are more fluctuated nowadays as governments are using intervening currency policy to stimulate the economies. The Business Enterprise prepares financial reports in United States Dollar while sells products all over the world. Fluctuations in the exchange rates between reporting currency and revenue might adversely affect operation results.

LIMITING CONDITIONS

Our conclusion of the fair value is derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. This valuation reflects facts and conditions existing at the date of valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates as identified or being furnished by others, which have been used in formulating this analysis, are gathered from reliable sources, however, no guarantee is made nor liability assumed for their accuracy.

We have relied to a considerable extent on information provided by the Company in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

The subject company is assumed to have those legal rights to the assets and be subject to those claims represented by the liabilities presented in its financial statements. No investigation was undertaken to confirm these legal rights or claims.

The subject company is assumed to have no contingent liabilities, unusual contractual obligations, or significant commitments other than those arising in the normal course of business, including any pending litigation, except as noted in the report.

Save as and except for the purpose stated above, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

In accordance with our standard practice, we must state that this report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated above. No responsibility is accepted to any third party for the whole or any parts of its contents.

Norton Appraisals does not purport to be a guarantor of value. Valuation of closely held companies is an imprecise science, with value being a question of fact, and reasonable people can differ in their estimates of value. Norton Appraisals, however, performed conceptually sound and commonly accepted methods and procedures of valuation in determining the estimate of value included in this report. Norton Appraisals is not liable for any use, reliance, financial applications, report distribution or other utilization of any kind, by any party not having written authorization from Norton Appraisals.

This valuation reflects facts and conditions existing at the date of this valuation. Subsequent events have not been considered, and Norton Appraisals has no obligation to update this report for such events and conditions.

The opinion(s) offered in this report do not constitute an offer to buy or sell the equity interest of the subject company.

The valuation analyst, by reason of performing this valuation and preparing this report, is not to be required to give expert testimony nor to be in attendance in court or at any government, professional or regulatory hearing, with reference to the matters contained herein, unless prior written arrangements have been made with Norton Appraisals regarding such additional engagement as to the timing, fee.

No opinion is intended to be expressed for matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers.

REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in United States Dollars (US$).

We hereby certify that we have neither present nor prospective interests in the Business Enterprise, the Company or value reported.

OPINION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed, we are of the opinion that the fair value of 100% equity interest in the Business Enterprise as at the Date of Valuation was in the sum of **US$187,800,000 (UNITED STATES DOLLARS ONE HUNDRED EIGHTY SEVEN MILLION AND EIGHT HUNDRED THOUSAND ONLY)**.

Yours faithfully,
For and on behalf of
Norton Appraisals Limited

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors and Chief Executive

As at the Latest Practicable Date, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors or chief executive of the Company were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers ("**Model Code**") contained in the Listing Rules were as follows:

The Company

Long position in Shares in issue

	Number of shares of HK$0.01 each				
Name of Directors	Personal interest	Corporate interest	Family interest	Total interest	Approximate percentage holding
Mr. Yu Pun Hoi ("Mr. Yu")	—	36,588,130,679 *(Note 1)*	—	36,588,130,679	53.30%
Chen Dan	32,000,000	—	—	32,000,000	0.05%

Note:

1. These 36,588,130,679 shares were collectively held by Rosewood Assets Ltd., Pippen Limited, Staverley Assets Limited and First Best Assets Limited, companies indirectly wholly owned by Mr. Yu through Dadi Holdings Limited, a company wholly owned by Mr. Yu.

Associated Corporations

As disclosed above, Mr. Yu are entitled to control the exercise of more than one-third of the voting power at general meetings of the Company. As such, Mr. Yu is taken to be interested in the shares that the Company or its controlled corporations hold in the associated corporations of the Company within the meaning of Part XV of the SFO, including interests held by the Company in the shares of Sino-i. Sino-i is a company the shares of which are listed on the Stock Exchange and is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at the Latest Practicable Date, the interests of the directors of the Company in shares and underlying shares of Sino-i were as follows:

Sino-i

Long position in shares in issue

	Number of shares				
Name of Director	Personal interest	Corporate interest	Family interest	Total interest	Approximate percentage holding
Mr. Yu	—	12,756,565,316 *(Note 1)*	—	12,756,565,316	64.06%

Note:

1. These 12,756,565,316 shares were collectively held by Goalrise Investments Limited, View Power Investments Limited and Wise Advance Investments Limited, all of which are wholly-owned subsidiaries of the Company. Mr. Yu was taken to be interested in these shares by virtue of his controlling interests in shares of the Company.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Company, none of the directors nor chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors and chief executive were taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

(b) Substantial Shareholders

As at the Latest Practicable Date, so far as was known to any director or chief executive of the Company, other than a director or chief executive of the Company, the following persons had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and

3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

The Company

Name of person holding an interest in Shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO	Nature of interest	Number of Shares in issue subject to long position	Approximate percentage of issued share capital of the Company	*Note*
Dadi Holdings Limited	Corporate interest	36,588,130,679	53.30%	1
Rosewood Assets Ltd.	Beneficial interest	7,668,000,210	11.17%	1
Pippen Limited	Beneficial interest	14,830,245,497	21.60%	1
Staverley Assets Limited	Beneficial interest	4,893,197,974	7.13%	1
First Best Assets Limited	Beneficial interest	9,196,686,998	13.40%	1
Kung Ai Ming	Corporate interest	3,811,819,898	5.55%	2
Yu Ben Hei	Corporate interest	3,742,493,498	5.45%	2
Macro Resources Ltd.	Beneficial interest	3,742,493,498	5.45%	2
Lim Siew Choon	Corporate interest	8,819,673,777	12.85%	3
Empire Gate Industrial Limited	Beneficial interest	5,514,986,997	8.03%	3
Lee Tat Man	Security interest	7,700,000,000	11.22%	
Lee Tat Man	Beneficial interest	28,200,000	0.04%	

Notes:

1. Rosewood Assets Ltd., Pippen Limited, Staverley Assets Limited and First Best Assets Limited are companies indirectly wholly owned by Mr. Yu through Dadi Holdings Limited, a company wholly owned by Mr. Yu. Their interests in shares are disclosed as the corporate interests of Mr. Yu above.

2. Macro Resources Ltd. is held as to 50% each by Ms. Kung Ai Ming and Mr. Yu Ben Hei, the son of Mr. Yu. Its interest in 3,742,493,498 shares was included as interest held by Ms. Kung Ai Ming. Ms. Kung Ai Ming owns interest of 69,326,400 shares through Redmap Resources Limited, her wholly-owned company.

3. Empire Gate Industrial Limited is wholly owned by Mr. Lim Siew Choon. Its interest in shares was included as interest held by Mr. Lim Siew Choon.

Subsidiaries

Name of shareholder (other than a member of the Group) who is interested in 10% or more of the subsidiary of the Company	Name of the company in which interests or short positions were held	Number of shares or extent of interest directly held in the subsidiary of the Company	Approximate percentage of issued registered share capital or registered capital of the subsidiary of the Company
西部電影集團有限公司 (Western Movie Group Co., Ltd.)*	陝西西影大地影院建設有限公司 (Shaanxi Xi Ying Dadi Cinema Construction Limited)*	RMB9,000,000	30%
內蒙古新華發行集團股份有限公司 (Inner Mongolia Xinhua Distribution Group Co., Ltd)*	內蒙古大地新華影院建設有限公司 (Inner Mongolia Dadi Cinema Construction Limited)*	RMB2,000,000	20%
李楓 (Li Feng)	深圳市翠篆科技綠化工程有限公司 (Shenzhen Cuilu Science & Technology Greening Engineering Co., Ltd.)*	RMB1,000,000	25%

* *English transliteration of the Chinese company's name*

3. SERVICE CONTRACT

None of the Directors had entered into any service and proposed service contracts with the Company or any other member of the Group or any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) as at the Latest Practicable Date.

4. COMPETING BUSINESS

To the best knowledge of the Directors, none of the Directors or their respective associates had any interests in any business which competed or might compete with the business of the Group as at the Latest Practicable Date.

5. DIRECTORS' INTEREST IN THE GROUP'S ASSETS

As at the Latest Practicable Date, none of the Directors had any interests, either directly or indirectly, in any assets which had been, since 31 December 2015 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

6. MATERIAL INTERESTS

On 1 January 2014, 數碼辰星科技發展(北京)有限公司 ("Oristar") and 廣東大地電影院線股份有限公司 (formerly known as "廣東大地電影院線有限公司") ("GD Cinema Circuit") entered into the Oristar Cooperation Agreement, pursuant to which Oristar shall use its reasonable endeavours to provide the projection equipment (a projection device and an SMS projection server system) (or any part of it) (including installation and training) to GD Cinema Circuit upon fulfillment of certain conditions for coping with its business development during a fixed term of six (6) years, from 1 January 2014 to 31 December 2019.

On 1 January 2015, 廣東大地影院建設有限公司 ("Dadi Cinema") and GD Cinema Circuit entered into the Dadi Cinema Cooperation Agreement, pursuant to which GD Cinema Circuit shall (1) supply various motion pictures and license to Dadi Cinema to project such motion pictures in its digital cinemas in the PRC; and (2) provide Dadi Cinema (i) advisory services in respect of interior design and operations of each of its digital cinemas and (ii) various analyses, for a fixed term of five (5) years, having a provision of automatic extension of one (1) year upon the end of the fixed term, i.e. a total period of six (6) years, from 1 January 2015 to 31 December 2020. Dadi Cinema shall give priority to GD Cinema Circuit in respect of publication of advertisements in the cinemas of Dadi Cinema (i.e. it will be an income for Dadi Cinema) on the condition that the terms and conditions offered by GD Cinema Circuit are at least the same as those offered by other clients of Dadi Cinema.

On 1 January 2015, 大地影院發展有限公司 ("Dadi Development") and GD Cinema Circuit entered into the Dadi Development Cooperation Agreement, pursuant to which GD Cinema Circuit shall (1) supply various motion pictures and license Dadi Development to project such motion pictures in its digital cinemas in the PRC; and (2) provide Dadi Development (i) advisory services in respect of interior design and operations of each of its digital cinemas and (ii) various analyses, for a fixed term of five (5) years, having a provision of automatic extension of one (1) year upon the end of the fixed term, i.e. a total period of six (6) years, from 1 January 2015 to 31 December 2020. Dadi Development shall give priority to GD Cinema Circuit in respect of publication of advertisements in the cinemas of Dadi Development (i.e. it will be an income for Dadi Development) on the condition that the terms and conditions offered by GD Cinema Circuit are at least the same as those offered by other clients of Dadi Development.

On 19 August 2015, Ms. Liu Rong, an executive Director, (1) acquired 80% of 大地時代文化傳播(北京)有限公司 ("Dadi Century Beijing") which directly owns 85% equity interest of GD Cinema Circuit; and (2) gained an effective control of 15% equity interest of GD Cinema Circuit through a partnership enterprise which is an associate of Ms. Liu Rong. Given the foregoing, Ms. Liu Rong has gained control in GD Cinema Circuit, and each of Dadi Century Beijing and GD Cinema Circuit has become an associate of Ms. Liu Rong pursuant to the Listing Rules. As such, Ms. Liu Rong has interest in the Dadi Cinema Cooperation Agreement, the Dadi Development Cooperation Agreement and Oristar Cooperation Agreement.

Please refer to the announcement of the Company dated 19 August 2015 and the section "Continuing Connected Transactions" in the Report of the Directors of the 2015 annual report of the Company for further details.

Save as disclosed above, as at the Latest Practicable Date, there was no contract or arrangement subsisting in which any of the Directors was materially interested and which was significant in relation to the business of the Enlarged Group.

7. LITIGATION

(a) In respect of the purported sale of 74,889,892 shares of Acesite (Philippines) Hotel Corporation Inc. ("Philippines Shares"), which were mortgaged by Acesite Limited ("Acesite"), by a Filipino bank namely Banco de Oro Unibank Inc. (formerly known as Equitable PCI Bank Inc.) ("Banco Unibank") to Waterfront Philippines Inc. ("Waterfront"), a Filipino company, in February 2003, Acesite, a former subsidiary of Sino-i Technology Limited ("Sino-i"), a listed subsidiary of the Company; Evallon Investment Limited, a wholly-owned subsidiary of Sino-i; Mr. Yu, the chairman and executive director of both the Company and Sino-i; and South Port Development Limited, a former wholly-owned subsidiary of Sino-i as first, second, third and fourth plaintiff respectively issued a claim against Banco Unibank and Waterfront, on the grounds that the purported sale of the Philippines Shares was unlawful as such sale was in breach of the terms of the mortgage; in breach of a compromise agreement reached in January 2003; and in other breaches, for damages; further or other relief; interest and costs and etc. in February 2006 under High Court Number of HCCL 5 of 2006 ("Case"). The Case is still in progress and no date has been fixed for trial.

(b) Dadi Media Limited ("Dadi Media"), a wholly-owned subsidiary of Sino-i, as plaintiff, issued a claim against two minority shareholders of 數碼慧谷置業管理股份有限公司 (formerly known as CE Dongli Technology Group Company Limited), a subsidiary of Sino-i, for the sum of HK$27,750,498 together with interest thereon and costs in May 2004 under High Court Number of HCA1130 of 2004. The two defendants filed a defence and counterclaim in June 2004 and then an amended defence and counterclaim in September 2004. The counterclaim was further amended and re-amended. In December 2004, the two defendants issued a claim against China Enterprise ASP Limited ("CE ASP"), a wholly-owned subsidiary of Dadi Media, under High Court Number HCA2892 of 2004, for (1) the sum of HK$806,250; (2) an award of compensation pursuant to section 32P of the Employment Ordinance; (3) the sum of HK$13,000; and (4) interest and costs. CE ASP filed a defence in March 2005. These two cases are still in progress and no trial date has been fixed.

The Group, after discussions with legal advisors, considered that the above litigations would not incur a material outflow of resources.

To the best of the Directors' knowledge, there are in total three pending lawsuits over US$20,000 for the Target Group as at the Latest Practicable Date. After discussions with legal advisors, the Directors are of the view that these pending lawsuits are immaterial and that sufficient insurance coverage is available to cover the potential loss incurred.

Save as disclosed above, neither the Group nor any other member of the Enlarged Group has engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group as at the Latest Practicable Date.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Enlarged Group within two years immediately preceding the Latest Practicable Date:

(a) the SPA;

(b) Supplemental Agreement;

(c) the Second Supplemental Agreement;

(d) the sale and purchase agreement dated 29 January 2015 entered into between 北京中企開源信息技術有限公司 (Beijing CE Open Source Software Co., Ltd.) ("CE Open") as vendor and 林芝縣中科百孚股權投資有限合夥企業 (Lin Zhi County Zhong Ke Bai Fu Equity Investment Limited Partnership) ("ZKBF") as purchaser, pursuant to which CE Open agreed to sell and ZKBF agreed to purchase 20% equity interest of 龍芯中科技術有限公司 (Loongson Technology Co., Ltd.) ("Loongson Interest") at a total consideration of RMB200,000,000. CE Open was a nominee of South Sea Investment Company Limited (a wholly-owned subsidiary of the Company) in respect of the Loongson Interest.

Please refer to the announcement of the Company dated 29 January 2015 for further details.

(e) the trust loan agreement dated 10 December 2015 entered into between Dadi Cinema and Dadi Development (collectively, the "Borrowers"); and Hwabao Trust Co., Ltd. (華寶信託有限責任公司) ("Hwabao Trust"), pursuant to which Hwabao Trust has agreed to make available to the Borrowers the trust loans in an aggregate principal amount of RMB1,130,000,000 (of which RMB268,000,000 and RMB862,000,000 were provided to Dadi Development and Dadi Cinema respectively) (the "Trust Loans") at an interest rate of 7% per annum. The Trust Loans are for a term of three years following the establishment of 平銀華泰大地影院信託受益權資產支持專項計劃 (Asset-Backed Proposal for the Beneficial Right of Pingyin Huatai Dadi Cinema Trust). The asset-backed securities in the principal amount of RMB1,130,000,000 was duly listed on the Shenzhen Stock Exchange on 1 February 2016.

Please refer to the announcement of the Company dated 1 February 2016 for further details.

(f) the subscription agreement dated 9 May 2016 entered into between Dadi Cinema (HK) Limited ("Dadi Cinema Hong Kong"), an indirect wholly-subsidiary of the Company and SAC Finance Company Limited ("SAC Finance"), pursuant to which Dadi Cinema Hong Kong conditionally agreed to issue and SAC Finance conditionally agreed to subscribe for the convertible and exchangeable bonds due 2018 with an aggregate principal amount of RMB1,000,000,000.

Please refer to the announcement of the Company dated 9 May 2016 for further details.

(g) the sale and purchase agreement dated 9 August 2016, entered into between and among Nai Hai Development Limited, CITIC Real Estate (Hong Kong) Development Limited, Listar Properties Limited and the Company, in relation to the acquisition of the 5,400,000 ordinary shares of US$1.00 each in the issued share capital of Listar Properties Limited and the total amount of shareholder's loan due and owing by Listar Properties Limited to CITIC Real Estate (Hong Kong) Development Limited immediately before completion of the transaction.

Please refer to the announcement of the Company dated 9 August 2016 for further details.

9. QUALIFICATIONS AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

Name	Qualification
Lego Corporate Finance Limited	a corporation licensed under the SFO to carry out type 6 (advising on corporate finance) regulated activity
BDO Limited ("BDO")	Certified Public Accountants
Norton Appraisals Limited	an independent professional valuer

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter or reports and the references to its name in the form and context in which they respectively appear.

None of the above experts had any interests in any Shares or shares in any member of the Group, or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, none of the above experts had any direct or indirect interests in any assets which have since 31 December 2015 (being the date to which the latest audited consolidated accounts of the Company have been made up) been acquired or disposed of by or leased to or by any member of the Group, or was proposed to be acquired or disposed of by or leased to or by any member of the Group.

10. MISCELLANEOUS

(a) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and the principal place of business in Hong Kong is at 12/F., The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong.

(b) The branch share registrar of the Company in Hong Kong is Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The company secretary of the Company is Mr. Chiu Ming King who is a fellow member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

(d) The English text of this circular and the accompanying form of proxy shall prevail over their Chinese text for the purpose of interpretation.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong, at 12/F., The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong, during normal business hours, from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(c) the SPA;

(d) the accountants' report of the Target Group from BDO as set out in Appendix II to this circular;

(e) the report on the unaudited pro forma financial information of the Enlarged Group from BDO as set out in Appendix IV to this circular;

(f) the letter from the Independent Board Committee as set out on pages 51 to 52 of this circular;

(g) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as set out on pages 53 to 70 of this circular;

(h) the written consents referred to in the paragraph headed "Qualifications and consent of experts" in this Appendix;

(i) the annual reports of the Company for the three years ended 31 December 2013, 2014 and 2015;

(j) this circular;

(k) the Supplemental Agreement;

(l) the Second Supplemental Agreement; and

(m) the valuation report on the Target Group prepared by Norton Appraisals Limited as set out in Appendix V of this circular.

南海控股有限公司*

NAN HAI CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 680)

NOTICE IS HEREBY GIVEN THAT a special general meeting (the "**SGM**") of Nan Hai Corporation Limited (the "**Company**") will be held at the Atrium, 39/F, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong on 13 September 2016 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**:

   (a) the SPA as amended by the Supplemental Agreement and the Second Supplemental Agreement (as defined in the circular of the Company dated 25 August 2016 of which this notice forms part, a copy each of the SPA, the Supplemental Agreement and the Second Supplemental Agreement has been produced to the meeting marked "A", "B" and "C" respectively and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereunder be and are hereby approved and confirmed; and

   (b) the directors of the Company be and are hereby authorized on behalf of the Company to do all such acts and things, sign, seal, execute, perfect and deliver all such documents as they may in their absolute discretion consider necessary, appropriate, desirable or expedient, for the purpose of or in connection with the implementation and/or giving effect to any matters relating to the SPA (as amended by the Supplemental Agreement and the Second Supplemental Agreement) and the transactions contemplated thereunder."

By order of the Board
Nan Hai Corporation Limited
Chen Dan
Director

Hong Kong, 25 August 2016

* *For identification purpose only*

Notes:

1. Any shareholder of the Company entitled to attend and vote at the SGM is entitled to appoint another person as his/her proxy to attend and vote on his/her behalf in accordance with the bye-laws of the Company. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.

2. In order to be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.

3. Where there are joint registered holders of any share(s), any one of such joint holders may attend and vote at the SGM, either in person or by proxy, in respect of such share(s) as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the SGM or any adjourned meeting thereof (as the case may be), the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

4. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the SGM or any adjournment thereof if he/she so desires. If a shareholder of the Company attends the SGM after having deposited the form of proxy, his/her form of proxy will be deemed to have been revoked.

5. Voting of the ordinary resolutions as set out in this notice will be by poll.

6. As at the date of this notice, the directors of the Company are:

Executive directors:	*Non-executive directors:*	*Independent non-executive directors:*
Mr. Yu Pun Hoi	Mr. Wang Gang	Prof. Jiang Ping
Ms. Chen Dan	Mr. Lam Bing Kwan	Mr. Lau Yip Leung
Ms. Liu Rong		Mr. Xiao Sui Ning