

27 January 2017

To the Independent Board Committee

Dear Sir/Madams,

**MANDATORY UNCONDITIONAL CASH OFFER
BY CCB INTERNATIONAL CAPITAL LIMITED
FOR AND ON BEHALF OF THE OFFEROR TO ACQUIRE
ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF
KTL INTERNATIONAL HOLDINGS GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY THE OFFEROR)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee in relation to the Offer, details of which are set out in the letter from CCBI and the letter from the Board contained in the Composite Offer Document dated 27 January 2017 jointly issued by the Offeror and the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Offer Document unless the context requires otherwise.

On 13 December 2016 (after trading hours), the Offeror, the Vendor and the Guarantors entered into the Sale and Purchase Agreement, pursuant to which the Offeror has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, a total of 98,304,016 Shares, representing approximately 61.44% of the entire issued share capital of the Company as at the Latest Practicable Date. The Completion took place on 29 December 2016 in accordance with the terms and provisions of the Sale and Purchase Agreement. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror).

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Ting Tit Cheung, Mr. Chan Chi Kuen and Mr. Lo Chun Pong, has been set up to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer.

We, Veda Capital Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee in this respect pursuant to Rule 2.1 of the Takeovers Code. The appointment of Veda Capital as the Independent Financial Adviser has been approved by the Independent Board Committee. Our role as the Independent Financial Adviser is to give our recommendation to the Independent Board Committee as to (i) whether the Offer is fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Offer should be accepted.

We are independent from and not connected with the Company, the Offeror, any of their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice on the Offer. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser to advise the Independent Board Committee, no arrangement exists whereby we shall receive any other fees or benefits from the Offeror and the Company or any of its substantial shareholders or any person acting, or deemed to be acting, in concert with any of them.

BASIS OF OUR ADVICE

In formulating our advice and recommendation to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained in or referred to the Composite Offer Document and the information and representations as provided to us by the directors of the Company (“**Directors**”) and the management of the Company. We have assumed that all information and representations that have been provided by the Directors and the management of the Company are true, complete and accurate in all material respects at the time when they were made and up to the date throughout the Offer Period and should there be any material changes thereto, Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Offeror in the Composite Offer Document were reasonably made after due enquiries and careful considerations.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Offer Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the management of the Company, which have been provided to us.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our recommendation. As stated in Appendix III to the Composite Offer Document, the Directors jointly and severally accept full responsibility for

the accuracy of the information contained in this Composite Offer Document (other than that relating to the Offeror, the directors of the Offeror, the proposed Directors nominated by the Offeror to the Board, their associates and parties acting in concert with any of them) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Offer Document (other than those expressed by the Offeror the directors of the Offeror, the proposed Directors nominated by the Offeror to the Board, their associates and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Offer Document, the omission of which would make any statements in this Composite Offer Document misleading.

As stated in Appendix IV to the Composite Offer Document, the directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Offer Document (other than the information relating to the Group, the Vendor and the Guarantor) and confirms, having made all reasonable enquiries, that to the best of her knowledge, opinions expressed in this Composite Offer Document (other than those expressed by the Group, the Vendor and the Guarantor) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Offer Document, the omission of which would make any statements in this Composite Offer Document misleading.

We have not considered the tax consequences on the Independent Shareholders in respect of their acceptance or non-acceptance of the Offer since they vary depending on respective individual circumstances. The Independent Shareholders who are overseas residents or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee in relation to the Offer, we have considered the principal factors and reasons as set out below:

1. Background of the Offer

The Offeror and the Company jointly announced on 21 December 2016 that on 13 December 2016, after trading hours, the Offeror (as purchaser), the Vendor (as vendor) and the Guarantors entered into the Sale and Purchase Agreement, pursuant to which the Offeror conditionally agreed to purchase and the Vendor conditionally agreed to sell a total of 98,304,016 Shares, representing approximately 61.44% of the total issued share capital of the Company as at the Latest Practicable Date, for a total consideration of HK\$594,739,297 (equivalent to approximately HK\$6.05 per Sale Share).

The Completion took place on 29 December 2016 in accordance with the terms and provisions of the Sale and Purchase Agreement.

Immediately following Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with them are interested in an aggregate of 98,304,016 Shares, representing approximately 61.44% of the total issued share capital of the Company. The

Offeror is therefore required under Rule 26.1 of the Takeovers Code to make a mandatory unconditional cash offer for all the issued Shares not already owned and/or agreed to be acquired by it and/or parties acting in concert with it.

2. Background information of the Group

(a) Principal business

The Company is a company incorporated in Cayman Islands with limited liability and its Shares are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the manufacture and sale of jewellery and related products.

(b) Historical financial information

Set out below is the financial information of the Group for (i) the six months ended 30 September 2016; (ii) the year ended 31 March 2016; and (iii) the year ended 31 March 2015.

(i) For the six months ended 30 September 2016

As set out in the interim report of the Company for the six months ended 30 September 2016 (the “**IR 2016**”), the Group’s revenue was approximately HK\$246.0 million for the six months ended 30 September 2016, representing a decrease of approximately 33.3% as compared with the same for the six months ended 30 September 2015. As noted in the IR 2016, the decrease in the Group’s revenue was primarily due to a decrease in sales in Russia of approximately HK\$80.1 million as a result of Russian customers being tuned into the Ruble (RUB)’s depreciation and deteriorated outlook.

The loss attributable to the owners of the Company for the six months ended 30 September 2016 amounted to approximately HK\$6.4 million, representing a decrease in loss of approximately 57.9% as compared to the loss attributable to the owners of the Company for the six months ended 30 September 2015 of approximately HK\$15.2 million. The loss was mainly attributable to a decline in the Group’s revenue and gross profit for the six months ended 30 September 2016. As noted from the IR 2016, the decrease in loss is mainly due to (i) the decrease in average borrowing balance during the six months period ended 30 September 2016 with a result of decrease in finance cost by approximately HK\$2.6 million; (ii) the one-off gain of approximately HK\$6.06 million from realisation of exchange fluctuation reserve upon deregistration of a subsidiary in the PRC; and (iii) the combined effects of the Group’s continuing implementation of rigorous cost control on one hand by further streamlining operations and rationalizing overheads, and on the other hand of, increase in expenditures on reward of expanding new customer base, exploring new markets and recruiting designers for creating new product collections.

The decline in revenue was primarily attributable to a significant slowdown of sales in Russian and American markets, the decrease of which were approximately HK\$80.1 million and approximately HK\$31.5 million, respectively, for the six

months ended 30 September 2016 as compared to the corresponding period in 2015, primarily attributable to global economic uncertainty and weaker-than-expected demand in Russian and American markets.

As at 30 September 2016, the Group's net current assets, total assets and equity attributable to the owners of the Company amounted to approximately HK\$129.0 million, approximately HK\$617.8 million and approximately HK\$331.7 million, respectively.

(ii) For the year ended 31 March 2016

As set out in the annual report of the Company for the year ended 31 March 2016 (the "**AR 2016**"), the Group's revenue was approximately HK\$683.7 million for the year ended 31 March 2016, representing a decrease of approximately 34.1% as compared with the same for the year ended 31 March 2015. As noted in the AR 2016, the decrease in the Group's revenue was primarily due to (i) a decrease in sales in Russia of approximately HK\$304.7 million as a result of the unfavourable economic environment in Russia and the decrease in average wholesale price as higher portion of products with simple design were sold to Russia; (ii) decrease in sales in Americas of approximately HK\$45.3 million mainly attributable to the decrease in sales orders from our major customers in the United States as a result of the weaker-than-expected demand; and (iii) a continuous decrease in sales of approximately HK\$6.0 million in the Middle East mainly because the Group's major customer in the region changed its business focus to streamline retail networks and reduced excess inventories from past years, which was partially offset by an increase in sales in the PRC of approximately HK\$14.8 million as a result of the Group's strategic cooperation and established closer business relationship with certain customers in the PRC.

The loss attributable to the owners of the Company for the year ended 31 March 2016 amounted to approximately HK\$13.5 million, as compared to the profit attributable to the owners of the Company for the year ended 31 March 2015 of approximately HK\$20.3 million. The change from profit to loss attributable to owners of the Company was mainly due to the overall decrease in sales of its products for the year ended 31 March 2016 by approximately HK\$353.1 million as a result of the unfavourable economic development in Russia and the weaker-than-expected demand of jewellery in the Americas, and an exchange loss of approximately HK\$4.8 million upon translation of the pledged Renminbi deposits held by the Group during the year.

(iii) For the year ended 31 March 2015

As set out in the annual report of the Company for the year ended 31 March 2015 (the "**AR 2015**"), the Group's revenue was approximately HK\$1,036.8 million for the year ended 31 March 2015, representing a decrease of approximately 23.0% as compared with the same for the year ended 31 March 2014. As noted in the AR 2015, the decrease in the Group's revenue was primarily due to (i) a decrease in sales in Russia of approximately HK\$374.7 million as a result of the unexpected

cancellation of certain sales orders previously placed by some of its Russian customers as a result of the unfavourable economic environment in Russia and the decrease in average wholesale price as higher portion of products with simple design were sold to Russia; and (ii) a continuous decrease in sales of approximately HK\$13.4 million in Middle East mainly because the Group's major customer in the region changed its business focus to streamline retail networks and reduce excess inventories since 2013, which was partially offset by (i) an increase in sales in Americas of approximately HK\$66.3 million mainly attributable to the increased sales orders from the Group's major customers in the United States as a result of our strategies to diversify the Group's markets to the United States; and (ii) an increase in sales in the PRC of approximately HK\$24.6 million as a result of the Group's strategic cooperation and established closer business relationship with certain customers in the PRC.

The profit attributable to the owners of the Company for the year ended 31 March 2015 amounted to approximately HK\$20.3 million, representing a decrease of approximately 46.0% as compared to the profit attributable to the owners of the Company for the year ended 31 March 2014 of approximately HK\$37.6 million. Such decrease was mainly attributable to the recognition of a one-off non-recurring listing expenses of approximately HK\$20.8 million and provision for trade receivables by approximately HK\$8.6 million after having considered the difficulties of a Russian customer in settling its outstanding trade receivables in full by March 2016. The decrease in profit attributable to owners of the parent was also due to the overall decrease in sales of its products for the year ended 31 March 2015 by approximately HK\$309.0 million due to the unexpected cancellation of certain sales orders previously placed by some of its Russian customers as a result of the unfavourable economic development in Russia.

3. Future prospects and outlook of the Group

The Group is principally engaged in the manufacture and sale of jewellery and related products.

Completion took place on 29 December 2016 and the Offer is an unconditional mandatory cash offer. We noted from the "Letter from CCBI" contained in the Composite Offer Document that the Offeror intends to continue the existing businesses of the Group following Completion. Following the close of Offer, the Offeror will also conduct a review on the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the results of the review, the Offeror may explore other business opportunities for the Company such as acquisitions or investments in assets and/or business divestment and fund raising, with a view to enhance its growth and future development.

As noted from the AR 2016 and IR 2016, the Company believes that the operating environment of the Group has been unfavourable and the Group is facing an unprecedented challenge. In 2016, uncertainty abounds for global economy, consumers are becoming more prudent with their finances, saving soberly and spending discreetly. Low consumer confidence has kept the fine jewellery industry under pressure.

As further noted from the AR 2016, according to the Group's revenue by geographical segment, Americas and Russia are two of the key markets of the Group, which accounted for an approximately 44.60% and 23.20% of the total revenue of the Group respectively for the year ended 31 March 2016. During the financial year of 2015/2016, the Group's revenue generated from the Americas and Russia decreased by 12.93% and 65.76% respectively.

Consumption habits among Americas have also been changing when it comes to luxury, with fine jewelleries losing their share of spending. In this connection, revenue arising from sales to the Americas market lowered to approximately HK\$134.6 million for the six months ended 30 September 2016, representing a drop of 19.0% as compared with the corresponding period in the previous year. The decrease in sales was mainly attributable to the decrease in sales orders from the Group's major customers in the US as a result of the weaker-than-expected market condition under a significant turnaround in consumer interest in fine jewellery.

The Group experienced a slightly slowdown in sales in the Russian market, due to its continuing unfavourable economic environment in Russia. The depreciation of RUB against the United States Dollars (USD) compared to decade low level reduced the price competitiveness of the Group's jewellery products to consumers in Russia. According to the data obtained from Bloomberg, the exchange rate of RUB against USD has depreciated from 33.20 RUB/USD on 3 January 2014 to 60.40 RUB/USD on 28 December 2016 which represents a depreciation of approximately 44.7%.

Coupled with the political events in relation to Ukraine and the continued impact of western sanctions, Russian households were far from optimistic towards the economic situation, favouring primarily major purchases and savings. This inevitably resulted in a chain reaction, where the demand for fine jewellery was significantly suppressed. The gross domestic products ("GDP") of Russia has dropped from USD 2.053 trillion in 2014 to USD 1.331 trillion in 2015, according to the data from the World Bank. Furthermore, according to "Gold Demand Trends — Full Year 2015" published by World Gold Council, the demand for jewellery in Russia has plummeted to its lowest level since 2008. The demand in the Russian jewellery market has collapsed since the middle of 2014, with six consecutive quarters of double-digit losses. The Russian jewellery market demand collapsed by 39% in 2015 and it was mainly due to the military intervention in Ukraine and the related international sanctions, the economic crisis in Russia, the currency depreciation and the falling of oil revenues. Revenue generated from sales to the Russian market fell by 80.5% to HK\$19.4 million for the six months ended 30 September 2016 as compared with the same period in 2015.

Furthermore, the Group has focused on penetrating further the mass to middle-mass segment of the fine jewellery market. Although the Mainland China market is currently the second largest consumer market after the United States, and the fastest growing major consumer market in the world, the sales in the Mainland China slightly dropped due to the declining demand in fine jewellery as anti-corruption drive in the nation continues and the tough macro-economic environment remains. According to the data obtained from the World Bank, there is a slightly downward trend on the annual growth rate of the GDP of China from 14.2% in 2007 to 6.9% in 2015. Revenue generated from the PRC market stood at approximately HK\$50.3 million for the six months ended 30 September 2016, down 13.8 % from the same prior year period.

Having considered the uncertainties associated with the financial performance and prospects of the Group as discussed above, including but not limited to (i) the depreciation of RUB against the USD and the unfavourable economic environment in Russia; (ii) the political events in relations to Ukraine and the continued impact of western sanctions; (iii) Russian households were far from optimistic towards the economic situation, favouring primarily major purchases and savings; (iv) the demand for fine jewellery was significantly suppressed in Russia; (v) the weaker-than-expected demand of jewellery in the Americas; (vi) the declining demand in fine jewellery as anti-corruption drive in Mainland China and slowing down of the economic growth in Mainland China; and (vii) the Group's deteriorating financial results and challenging business outlook, we agree that the Group will continue to operate in a challenging environment in coming years and we remain cautious about the outlook and prospects of the Group.

4. Principal terms of the Offer

CCBI will, on behalf of the Offeror and in compliance with the Takeovers Code, make a mandatory unconditional general cash offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror) on the following basis:

For each Offer Share HK\$6.05 in cash

The Offer Price of HK\$6.05 per Offer Share under the Offer is equal to the purchase price per Sale Share payable by the Offeror under the Sale and Purchase Agreement. The Offer Shares to be acquired under the Offer shall be fully paid and free from all Encumbrances and together with all rights attached thereto, including but not limited to the right to receive all dividends and distributions which may be paid, made or declared on or after the date on which the Offer is made, being the date of the posting of the Composite Offer Document.

4.1 The Offer Price

The Offer Price of HK\$6.05 per Offer Share represents:

- (i) a premium of approximately 0.17% to the closing price of HK\$6.040 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 27.1% to the closing price of HK\$4.760 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 38.3% to the average closing price of approximately HK\$4.374 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 42.0% to the average closing price of approximately HK\$4.261 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;

- (v) a premium of approximately 45.3% to the average closing price of approximately HK\$4.163 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;
- (vi) a premium of approximately 55.6% to the average closing price of approximately HK\$3.887 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Day;
- (vii) a premium of approximately 81.8% to the average closing price of approximately HK\$3.328 per Share as quoted on the Stock Exchange for the last 180 consecutive trading days up to and including the Last Trading Day;
- (viii) a premium of approximately 174.5% to the audited consolidated net asset value attributable to the Shareholders of approximately HK\$2.204 per Share as at 31 March 2016; and
- (ix) a premium of approximately 191.9% to the unaudited consolidated net asset value of the Company of approximately HK\$2.073 per Share as at 30 September 2016 as set out in the IR 2016.

4.2 Historical performance of the Shares

Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 14 December 2015, being the twelve-month period prior to the Last Trading Day, up to and including the Latest Practicable Date (the “**Review Period**”):

Chart 1: Share price performance during the Review Period



Source: The Stock Exchange

Note: Trading of the Shares was suspended on 14 December to 21 December 2016

We have reviewed the movements in the closing price of the Shares for the Review Period. We consider that the length of the Review Period to be reasonably long enough to illustrate the relationship between the historical trend of the closing price of the Shares and the Offer Price.

The lowest and highest closing price of the Shares during the Review Period were HK\$2.20 per Share recorded on 18 December 2015 and HK\$6.04 per Share recorded on 30 December 2016, 6 January 2017, 9 January 2017 and 24 January 2017 respectively, as quoted on the Stock Exchange. The average daily closing price of the Shares during the Review Period is HK\$3.35 per Share. The Offer Price of HK\$6.05 per Share represents (i) a premium of approximately 175.00% over the lowest closing price of HK\$2.20 per Share; (ii) a premium of approximately 0.17% over the highest closing price of HK\$6.04 per Share; and (iii) a premium of approximately 80.60% over the average daily closing price of HK\$3.35 per Share during the Review Period.

Pre-Announcement Period

During the period under review from 14 December 2015 to 13 December 2016 (the “**Pre-Announcement Period**”), the Share price demonstrated an upward trend. The lowest and highest closing price of the Shares during this period were HK\$2.20 per Share recorded on 18 December 2015 and HK\$4.76 per Share recorded on 13 December 2016 respectively, as quoted on the Stock Exchange.

On 27 October 2016, the Company has made a profit warning announcement that according to the preliminary assessment by the management of the Group of the unaudited consolidated management accounts of the Group for the five months ended 31 August 2016, the Company recorded a consolidated loss for the five months ended 31 August 2016. The loss was mainly attributable to a decline in the Group’s revenue by approximately 33.0% and gross profit by approximately 37.0% for the five months ended 31 August 2016 as compared to the corresponding period in 2015. Following the trading day after the said profit warning announcement, the Share price has no significant change.

On 18 November 2016, the Company has made an announcement regarding to the termination of negotiation in respect of a proposed acquisition with a potential offeror. Following the trading day after the said termination announcement, the Share price dropped from HK\$4.70 per Share on 18 November 2016 to HK\$3.99 per Share on 21 November 2016. We believe that the significant drop in the closing prices of the Shares immediately after the release of the said termination announcement was probably due to market reaction towards the termination of negotiation with the potential offeror.

The Group experienced three price surge periods which are the period from 12 August 2016 to 22 August 2016 (the “**Period 1**”), the period from 2 November 2016 to 17 November 2016 (the “**Period 2**”) and the period from 2 December 2016 to 13 December 2016 (the “**Period 3**”). Concerning the price surge of the Shares during the Period 1, we noted that the Company has made an announcement pursuant to Rule 3.7 of the Takeovers Code and Rule 13.09 of the Listing Rules and inside

information provisions under Part XIVA of the SFO on 19 August 2016 (the “**Possible Offer Announcement**”). We have enquired with the Directors regarding the possible reasons for the increase in the Share price during the Period 1 and were advised that save for the proposed acquisition and possible offer mentioned in the Possible Offer Announcement, they were not aware of any other matters which might have impact on the Share price. We believe that the surge in the closing prices of the Shares during the Period 1 was probably due to market reaction towards the proposed acquisition and possible offer mentioned in the Possible Offer Announcement. The Independent Shareholders should note that there is no guarantee that such price surge may occur during and/or after the Offer Period.

For the price surges during Period 2 and Period 3, we have reviewed the announcements published by the Company on the Stock Exchange. However, we are not aware of any public information relating to the Share price movement. We have also enquired with the management of the Company for the possible reasons for the price movement during the period and were advised that the Company was not aware of any other particular matters which might have impact on the Share price. We believe the price surges in the Period 2 and Period 3 were mainly due to the market speculation. The Independent Shareholders should note that there is no guarantee that such price surge may occur during and/or after the Offer Period.

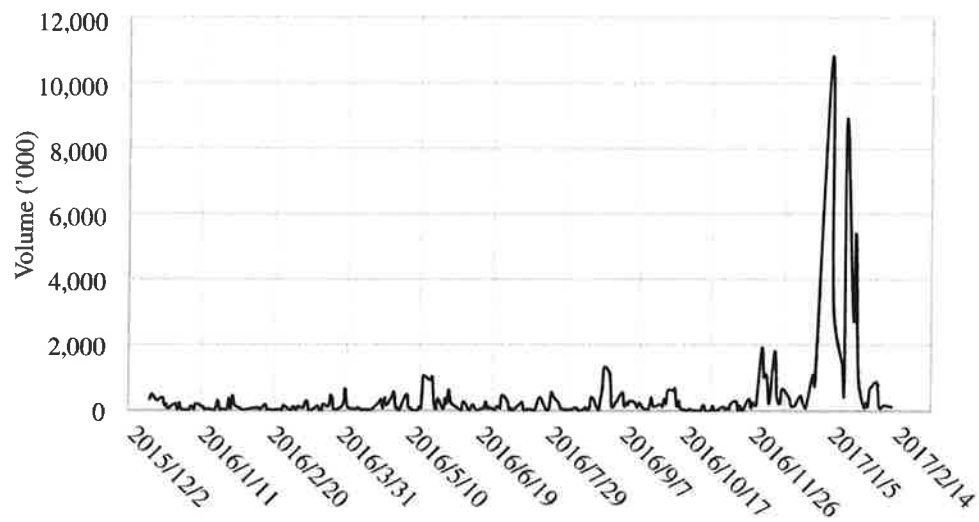
Post-Announcement Period

At the request of the Company, trading in the Shares was suspended from 14 December 2016 to 21 December 2016 (both days inclusive) pending the publication of the Joint Announcement. Following the resumption of trading of Shares on 22 December 2016 and subsequent to the issue of the Joint Announcement, the closing price of the Shares increased by approximately 23.11% from HK\$4.76 per Share on the Last Trading Day to HK\$5.86 per Share on 22 December 2016 (being the first trading day after the publication of the Joint Announcement). The share price recorded the lowest and highest closing price of the Shares as quoted on the Stock Exchange of HK\$5.79 per Share on 28 December 2016 and 29 December 2016 and HK\$6.04 per Share on 30 December 2016, 6 January 2017, 9 January 2017 and 24 January 2017, respectively, during the period from 22 December 2016 to the Latest Practicable Date (the “**Post-Announcement Period**”). We have enquired with the Directors regarding the possible reasons for the increase in the Share price after the publication of the Joint Announcement and were advised that save for the sale and purchase of the Sale Shares owned by the Vendor and the possibility of the Offer, they were not aware of any other matters which might have impact on the Share price. We believe that the surge in the closing prices of the Shares immediately after the release of the Joint Announcement was probably due to market reaction towards the sale and purchase of the Sale Shares owned by the Vendor and the Offer. The Independent Shareholders should note that there is no guarantee that such price surge may occur during and/or after the Offer Period.

Historical trading volume of the Shares

The following chart shows the daily trading volume of the Shares during the Review Period.

Chart 2: Daily trading volume of the Shares during the Review Period



Source: The Stock Exchange

Note: Trading of the Shares was suspended on 14 December to 21 December 2016

The following table sets out the historical monthly trading volume of the Shares and the percentage of the number of Shares traded compared to the total number of the Shares in issue during the Review Period.

	Total trading volume for the month/period (number of Shares)	Number of trading days during the month	Average daily trading volume for the month/period (Number of Shares)	Percentage of average daily trading volume to total number of the Shares in issue as at the Latest Practicable Date (%) (Note 3)	Percentage of average daily trading volume to total number of the Shares held by public Shareholders as at the Latest Practicable Date (%) (Note 4)
2015					
14–31 December (Note 1)	3,102,000	13	238,615	0.15	0.39
2016					
January	2,231,000	20	111,550	0.07	0.18
February	698,000	18	38,778	0.02	0.06
March	3,268,000	21	155,619	0.10	0.25
April	2,771,000	20	138,550	0.09	0.23
May	7,114,000	21	338,762	0.21	0.55
June	2,265,000	21	107,857	0.07	0.18
July	2,964,000	20	148,200	0.09	0.24
August	5,997,617	22	272,619	0.17	0.44
September	5,280,000	21	251,429	0.16	0.41
October	1,295,000	19	68,158	0.04	0.11
November	10,869,000	22	494,045	0.31	0.80
December	28,250,940	14	2,017,924	1.26	3.27
2017					
January (up to and including the Latest Practicable Date)	14,841,383	16	927,586	0.58	1.50

Source: The Stock Exchange

Notes:

1. the Review Period commenced on 14 December 2015.
2. The trading of the Shares on the Stock Exchange was suspended from 14 December 2016 to 21 December 2016 (both days inclusive) pending the release of the Joint Announcement. Trading of the Shares on the Stock Exchange was resumed on 22 December 2016.
3. Based on 160,000,000 Shares in issue as at the Latest Practicable Date.
4. Based on 61,695,984 Shares held by public Shareholders as at the Latest Practicable Date.

The average daily trading volume of the Shares per month during the Review Period was ranging from approximately 0.02% in February 2016 to approximately 1.26% in December 2016 of the total number of issued Shares as at the Latest Practicable Date. If only Shares held by public Shareholders, i.e. the free float, are considered in calculating the percentage of average daily trading volume of the Shares per month during the Review Period, the percentage was ranging from approximately 0.06% in February 2016 to approximately 3.27% in December 2016.

We noted that the average daily trading volume of the Shares during the period from in December 2016 as a percentage of the total number of the Shares in issue and as a percentage of the total number of the Shares held by public Shareholders increased significantly. We consider that such relatively high average daily trading volume of the Shares is most likely due to the market's reaction to the Offer and the publication of the Joint Announcement and it is uncertain whether such trading momentum could be sustained in the absence of the Offer in light that the average daily trading volume of the Shares was generally thin for most of the time during the Review Period, i.e. the average daily trading volume during the Review Period was approximately 339,354 Shares, representing approximately 0.21% of the total number of Shares in issue as at the Latest Practicable Date.

Accordingly, the Independent Shareholders may find it difficult to dispose of a large volume of Shares in the open market in a short period of time without exerting downward pressure on the price of the Shares. Therefore, the Offer provides a viable alternative exit for the Independent Shareholders, particularly for those who hold a large volume of Shares, to realise their investments in the Company.

Despite the recent price level of the Shares in the Review Period demonstrated an increasing trend; having considered (i) the price performance of the Shares during the Review Period; (ii) the Offer Price represents a premium over all of the closing prices of the Shares during the Review Period, and (iii) the uncertainty associated with the financial performance and prospects of the Group as discussed in the section headed "Future prospects and outlook of the Group" above; (iv) there is no guarantee that the price surge occurred during December 2016 may occur during and/or after the Offer Period; (v) the uncertainty of the sustainability of the Share price momentum during the Post-Announcement Period in the absence of the Offer; and (vi) the trading volume of the Shares fluctuated during the Post-Announcement Period and was generally thin during the Pre-Announcement Period and thus it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price in the future. Accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open market, we are of the view that the Offer represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of the Shares, to dispose of part or all of their Shares at the Offer Price if they so wish to.

The Independent Shareholders who wish to realize their investment in the Group are reminded that they should carefully and closely monitor the market price of the Shares during the Offer Period.

4.3 Comparable Analysis

In order to further assess the fairness and reasonableness of the Offer Price, we have considered the price-to-book ratio (the “**P/B Ratios**”), the price-to-earnings ratio (the “**P/E Ratios**”) and dividend yield, which are commonly adopted trading multiple analyses. However, the Group was loss-making for the year ended 31 March 2016 and no dividend were distributed for the years ended 31 March 2015 and 31 March 2016, thus making the P/E Ratios analysis and dividend yield analysis to value the Company are not applicable.

Based on the Offer Price of HK\$6.05 per Offer Share and the total number of issued Shares of 160,000,000 as at the Latest Practicable Date, the Company is valued at approximately HK\$968,000,000. The P/B Ratio of the Company implied by the Offer Price is approximately 2.92 times (the “**Implied P/B Ratio**”) based on the equity attributable to equity Shareholders of the Company of approximately HK\$331,671,000 as at 30 September 2016.

We have attempted to identify the comparable companies which are (i) listed on the Stock Exchange; (ii) principally engaged in same or similar majority business as the Group i.e. engaged in the manufacture and sale of jewellery and related products; and (iii) with comparable scale size of the Group (i.e. the net assets values of the comparable companies are less than 10 times of the Group’s net asset value). In this regard, 10 comparable companies (the “**Comparables**”) are identified (including 1 outlier), based on our research on the website of the Stock Exchange and Bloomberg in accordance with the above criteria which we consider to be exhaustive, fair and representable. Details of our analysis are listed below:

Company name and code	Company business	Market capitalisation (HK\$)	Net Assets Value (HK\$)	P/B Ratios (Note 1)
China Fortune Investments (Holding) Ltd. (8116)	Retail business of diamonds and gemstone and related jewellery in China, retail and trading business of wine, cigar and golf products in Hong Kong	485,780,325	213,889,000	2.27
Continental Holdings Ltd. (513)	Design, manufacturing, marketing and trading of fine jewellery and diamonds; property investment; mining operation; and investment	888,053,735	1,730,097,000	0.51

Company name and code	Company business	Market capitalisation (HK\$)	Net Assets Value (HK\$)	P/B Ratios (Note 1)
Hong Kong Resources Holdings Co. Ltd. (2882)	Retailing and franchising operations for selling gold and jewellery products in the PRC including Hong Kong and Macau under the trade name 3D-GOLD, La Milky Way and Tao Zhi Zun	313,493,154	313,048,000	1.00
King Fook Holdings Ltd. (280)	Gold ornament, jewellery, watch, fashion and gift retailing, bullion trading and diamond wholesaling	584,736,298	739,658,000	0.79
Larry Jewelry International Co. Ltd. (8351)	Designing, sale and retailing of fine jewelry products in Hong Kong & Singapore; sourcing, processing, re-packaging & retailing of Chinese pharmaceutical products, dry seafood, health products & foodstuff in Hong Kong, China & Macau	407,817,561	297,298,000	1.37
Man Sang Jewellery Holdings Ltd. (1466)	Purchasing, processing, designing, production and wholesale distribution of pearls and jewellery products	1,201,399,573	313,657,000	3.83
O Luxe Holdings Ltd. (860)	Exports and domestic trading, retail and wholesale of jewellery products, writing instruments and watches, mining, money lending and securities investments	2,010,452,306	1,490,847,000	1.35
Perfect Group International Holdings Ltd. (3326)	Designing, manufacturing and sales of high-end fine jewellery (primarily mounted with diamonds)	913,500,000	14,675,000	62.25 (Note 2)
Tse Sui Luen Jewellery (International) Ltd. (417)	Manufacture, sale and marketing of jewellery products and the provision of service	525,840,553	1,030,803,000	0.51

Company name and code	Company business	Market capitalisation (HK\$)	Net Assets Value (HK\$)	P/B Ratios (Note 1)
Zhong Fa Zhan Holdings Ltd. (475)	Design, manufacture and wholesale of fine jewelry products in the PRC	465,376,140	71,269,000	6.53
			Maximum	6.53
			Minimum	0.51
			Average	2.02
the Company (442)	Manufacture and sale of jewellery and related products	968,000,000	331,671,000	2.92

Source: The Stock Exchange

Notes:

1. The P/B Ratios of the Comparables are calculated based on the market capitalisation of the respective Comparables as at the Latest Practicable Date divided by the net assets value of the respective Comparables as extracted from their respective latest published annual or interim results.
2. Perfect Group International Holdings Ltd. (stock code: 3326) is considered as outlier due to its extraordinary outcome of P/B Ratios, thus it is excluded from the calculation.

As illustrated in the table above, the P/B Ratios of the Comparables ranged from approximately 0.51 times to approximately 6.53 times, with an average of approximately 2.02 times. The Implied P/B Ratio of approximately 2.92 times is significantly higher than the average of the P/B Ratios of the Comparables and within the P/B Ratios range of the Comparables.

Having considered that the Implied P/B Ratio is (i) higher than the average of the Comparables, being approximately 2.02 times; and (ii) lies within the range of the P/B Ratios of the Comparables, we are of the view that the Offer Price is fair and reasonable.

5. Background and intention of the Offeror

Background of the Offeror

As stated in the paragraph headed “Information of the Offeror” in the “Letter from CCBI” contained in the Composite Offer Document, the Offeror is a company with limited liability incorporated in the Cayman Islands on 30 August 2016 and is an investment holding company established for the purpose of holding the Sale Shares and any Shares acquired under the Offer. It is deemed to be held as to 86.54% by HNA Group Co., Ltd. (“**HNA Group**”). The remaining interest in HNA Aviation Investment is held as to 4.81% by Shanghai AJ Trust Co., Ltd.* (上海愛建信託有限責任公司) and as to 8.65% by Shanghai Yihang Enterprises Management Partnership Limited, L.P.* (上海熠航企業管理合夥企業(有限合夥)), both of which are third parties independent to HNA Aviation Investment, or any of its associates. HNA Group is held as to 70% by Hainan Traffic Administration Holding Co., Ltd.* (海南交管控股有限公司), which is in turn held as to

50% by Tang Dynasty Development (Yangpu) Company Limited* (盛唐發展(洋浦)有限公司). Tang Dynasty Development (Yangpu) Company Limited* (盛唐發展(洋浦)有限公司) is held as to 65% by Hainan Province Cihang Foundation* (海南省慈航公益基金會). HNA Group is a PRC conglomerate encompassing core divisions of tourism, holding, capital, logistics and EcoTech. According to the Fortune Global 500 ranking released by the U.S. "Fortune" magazine in 2015, HNA Group ranked No. 464 among all companies in the world, with an annual revenue of over US\$25.6 billion. In July 2016, HNA Group was listed among Fortune Global 500 once again, ranking No. 353 with annual revenue of approximately US\$29.56 billion. The ranking rose by 111 positions compared with last year. Immediately prior to the entering into of the Sale and Purchase Agreement, the Offeror and parties acting in concert with it did not hold any securities of the Company, and were therefore independent of the Company and its connected persons.

Intention of the Offeror

As stated in the paragraph headed "The Offeror's intentions in relation to the Group" in the "Letter from CCBI" contained in the Composite Offer Document, the Offeror will become the controlling shareholder of the Company and expected to be interested in approximately 61.44% of the total issued share capital of the Company. Following Completion, HNA Aviation Investment intends that the Group will continue with its existing businesses. Following the close of Offer, HNA Aviation Investment will also conduct a review on the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the results of the review, HNA Aviation Investment may explore other business opportunities for the Company such as acquisitions or investments in assets and/or business divestment and fund raising, with a view to enhance its growth and future development. Save for the proposed disposal of the Nansha Property to a third party independent of the Company as contemplated under the Sale and Purchase Agreement (such disposal is on a best effort basis as set out in the Joint Announcement and therefore may or may not proceed), as at the Latest Practicable Date, HNA Aviation Investment has no intention to redeploy the fixed assets of the Company other than those in the ordinary and usual course of business. Further details and status of the Nansha Property are contained in the letter from the Board contained in the Composite Offer Document.

Proposed Change of Board Composition

The Board is currently made up of six Directors, comprising three executive Directors, namely Mr. Kei York Pang Victor, Mr. Li Man Chun, and Mr. Kei Yeuk Lun Calan, and three independent non-executive Directors, namely Mr. Ting Tit Cheung, Mr. Chan Chi Kuen and Mr. Lo Chun Pong.

As stated in the paragraph headed "Proposed change of the Board composition" in the "Letter from CCBI" contained in the Composite Offer Document, it is currently expected that the Offeror will require all the executive Directors to resign from the Board, and the Offeror will nominate new Directors to be appointed to the Board at the earliest time as allowed under the Takeovers Code. Any such resignation and appointment will be made in compliance with the Takeovers Code and the Listing Rules. As at the Latest

Practicable Date, none of the new Directors holds any Shares. Further announcement(s) will be made by the Company in compliance with the requirements of the Listing Rules and the Takeovers Code as and when there are changes in the composition of the Board.

6. Public float and maintaining the listing status of the Company

The Offeror intends to maintain the listing of the Shares on the Stock Exchange upon completion of the Offer. In the event that the public float of the Company falls below 25% upon completion of the Offer, each of the Company and the Offeror will undertake to the Stock Exchange that they would take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible upon the completion of the Offer to ensure that sufficient public float exists for the Shares.

The Stock Exchange had stated that if, upon completion of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) that there are insufficient Shares in public hands to maintain an orderly market, it would consider exercising its discretion to suspend dealings in the Shares until the prescribed level of public float is restored.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons set out in this letter, in particular:

- (a) the uncertainties associated with the financial performance and prospects of the Group as discussed in the section headed “Future prospects and outlook of the Group” above, including but not limited to (i) the depreciation of RUB against the USD and the unfavourable economic environment in Russia; (ii) the political events in relations to Ukraine and the continued impact of western sanctions; (iii) Russian households were far from optimistic towards the economic situation, favouring primarily major purchases and savings; (iv) the demand for fine jewellery was significantly suppressed in Russia; (v) the weaker-than-expected demand of jewellery in the Americas; and (vi) the Group’s deteriorating financial results and challenging business outlook;
- (b) the Offer Price represents a premium to the trading price level of the Shares during the whole Review Period. For the price surge occurred during December 2016, there is no guarantee that such price surge may occur during and/or after the Offer Period. There is an uncertainty of the sustainability of the Share price momentum during the Post-Announcement Period in the absence of the Offer;
- (c) the trading volume of the Shares was generally thin during the Review Period and thus it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price. Accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open market;

- (d) the Implied P/B Ratio is within range and lies above the average of the Comparables;
and
- (e) the uncertainties associated with the future intention of the Offeror. As the parent company of the Offeror, the HNA Group, is a PRC conglomerate encompassing core divisions of tourism, holding, capital, logistics and EcoTec, there are uncertainties for Group to develop other types of business in the future.

we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

The Independent Shareholders who wish to realize their investment in the Group are reminded that they should carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Offer, if the net proceeds from the sales of such Shares in the open market would exceed the net amount receivable under the Offer. In any event, the Independent Shareholders should note that there is no certainty that the current trading volume and/or current trading price level of the Shares will be sustainable during or after the Offer Period.

Yours Faithfully,
For and on behalf of
Veda Capital Limited



Julisa Fong
Managing Director

Note: Ms. Julisa Fong is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has over 20 years of experience in investment banking and corporate finance.