



## SOMERLEY CAPITAL LIMITED

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5 June 2024

*To: The Independent Board Committee*

Dear Members,

### **CONNECTED TRANSACTION AND SPECIAL DEAL IN RESPECT OF DISPOSAL OF GROWN ALCHEMIST**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee in relation to the GA Disposal, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 5 June 2024 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 28 March 2024, the Company entered into (i) a share sale and purchase agreement with the Target, pursuant to which the Company agreed to transfer 35% equity interest (representing all direct interests held by it) in Grown Alchemist (the “**Intragroup Transfer**”) to the Target; and (ii) the GA Disposal Agreement with Lavender, a corporation wholly-owned by Mr. André Hoffmann, an executive Director and Shareholder of the Company, pursuant to which the Company agreed to dispose of its 53.40% equity interest and 82.62% voting interest in the Target to Lavender (the “**GA Disposal**”). Further details of the GA Disposal are set out in the letter from the Board in the Circular.

Lavender is an associate of Mr. André Hoffmann, an executive Director, and accordingly, the GA Disposal constitutes a connected transaction of the Company. The highest of the applicable size test ratios (calculated in accordance with Rule 14.07 of the Listing Rules) is between 0.1% and 5%, and accordingly, the GA Disposal constitutes a connected, but not a discloseable, transaction under the Listing Rules. Under the Listing Rules, the GA Disposal is subject to announcement (which was made on 2 April 2024), but is exempt from circular (including independent financial advice) and shareholder approval requirements. However, the GA Disposal is considered a “special deal” under Rule 25 of the Takeovers Code as it constitutes a disposal of the Group’s assets to a Shareholder (being Lavender) when the Offers were reasonably in contemplation. As such, completion of the GA Disposal is subject to consent from the Executive. Accordingly, application for consent in respect of the GA Disposal



has been submitted to the Executive, which is normally conditional upon: (i) the Independent Financial Adviser giving a public opinion that the terms of the GA Disposal are fair and reasonable; and (ii) Disinterested Shareholders approving, by ordinary resolution, the GA Disposal at the EGM of the Company.

Should any of the above conditions to obtaining the Executive's consent in respect of the GA Disposal not be fulfilled, Condition (f) to the Share Offer as set out in the Offers Announcement may be waived by the Offeror, following which the GA Disposal will be terminated.

## **INDEPENDENT BOARD COMMITTEE**

The GA Disposal was previously approved by the Board but, in the context of the Offers, should also be considered by an independent board committee as a special deal under the Takeovers Code.

In the case of a special deal, executive directors are not normally considered eligible to serve on the independent board committee. In this case, certain non-executive Directors are also considered ineligible, as follows:

- (i) Mr. Thomas Levilion (non-executive Director) was a former executive Director;
- (ii) Mr. Jackson Chik Sum Ng (independent non-executive Director) holds 30,000 Shares and 400 free shares of Offeror (vesting on 1 July 2024); and
- (iii) Mr. Charles Mark Broadley (independent non-executive Director) holds 400 free shares of Offeror (vesting on 1 July 2024).

Accordingly, the Independent Board Committee, comprising independent non-executive Directors, Mrs. Christèle Hiss Holliger and Ms. Betty Liu, who have no direct or indirect interest in the Offers and the GA Disposal as at the Latest Practicable Date, has been established for the purpose of making a recommendation to the Disinterested Shareholders as to whether the terms of the GA Disposal are fair and reasonable and as to voting at the EGM.

We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in relation to the GA Disposal. Our appointment has been approved by the Independent Board Committee.

## **BASIS OF OUR ADVICE**

We are not connected with the Company, Offeror, Lavender, Mr. André Hoffmann or any of their respective close associates, associates or core connected persons (as defined in the Listing Rules) or any party acting, or presumed to be acting, in concert with any of them and accordingly, are considered suitable to give independent advice on the GA Disposal. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Offeror, Lavender, Mr. André Hoffmann or any of their respective close associates, associates or core



connected persons or any party acting, or presumed to be acting, in concert with any of them. In addition, save for the current engagement, no other services were provided by Somerley to the Company during the past two years.

In formulating our opinion and recommendation, we have reviewed, amongst others, the Offers Announcement, the Company's press announcements of the acquisition of Grown Alchemist and of the GA Disposal, the information presented to the Board when it considered the GA Disposal and the minutes of that Board meeting, the GA Disposal Agreement, the annual report of the Company for the year ended 31 March 2023 (the "**FY2023 Annual Report**") and the interim report of the Company for the six months ended 30 September 2023 (the "**FY2024 Interim Report**"), certain financial information of Grown Alchemist and the information contained in the Circular. We have also discussed with and reviewed the information provided by the management of the Group (the "**Management**") regarding the business and outlook of the Group.

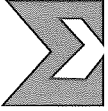
We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the Management, which we have assumed to be true, accurate, complete and not misleading in all material aspects as at the date of this letter and to remain so up to the date of the EGM. The Independent Board Committee and the Disinterested Shareholders will be informed as soon as possible if we become aware of any material change to such information or if there is any change to our opinion thereon up to the date of the EGM. We have sought and received confirmation from the Directors and the Management that no material facts have been omitted from the information supplied and the opinions expressed by them to us. We consider that the information which we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material information has been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group nor have we carried out any independent verification of the information supplied.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion, we have considered the following principal factors and reasons:

### **1. Background of the Group**

The Group is an international group which manufactures and retails beauty and well-being products rich in natural and organic ingredients. As a global leader in the premium beauty market, the Group has more than 3,000 retail outlets, including approximately 1,300 owned stores, and is present in 90 countries. Through its brands — L'OCCITANE en Provence, Melvita, Erborian, L'OCCITANE au Brésil, LimeLife by Alcone, ELEMIS, Sol de Janeiro, and Dr. Vranjes Firenze — the Group offers beauty experiences using high quality products that respect nature, the environment and the people who surround it. In FY2023, 67% of net sales have been made under the L'OCCITANE en Provence brand.



The Group's net sales recorded a 19.8% increase to €2.1 billion for the year ended 31 March 2023 ("FY2023") as compared to the same period in 2022. This was mainly due to strong positive growth of the Group's newer brands, ELEMIS and Sol de Janeiro, and the improvement in the core L'OCCITANE en Provence brand in the 4th quarter of FY2023 benefiting from the dynamic travel retail channel and the early positive signs in China after the lifting of COVID-19 restrictions. The Group's net sales for the six months ended 30 September 2023 ("1HFY2024") were €1.1 billion, representing a year-on-year increase of 19.0% as compared to the same period in 2022, mainly driven by the stellar performance of Sol de Janeiro and the steady growth of L'OCCITANE en Provence with the recovering trend in China.

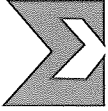
The Group's gross profit margin dropped from 80.5% in FY2023 to 78.3% in 1HFY2024. The decrease in profit margins was mainly due to the brand mix resulting in particular from the inclusion of Sol de Janeiro brand which has a higher wholesale mix, the increase in production costs, unfavourable channel mix and the increase in obsolescence costs.

Due to the decrease in the Group's operating profit as discussed above and the increase in finance cost mainly resulting from (i) the change in the fair value of the receivable from the sale of its Russian subsidiary; and (ii) high interest rate environment, the Group's profit attributable to the Shareholders dropped by 52.4% to €115.1 million for FY2023 and 45.0% to €34.0 million for 1HFY2024.

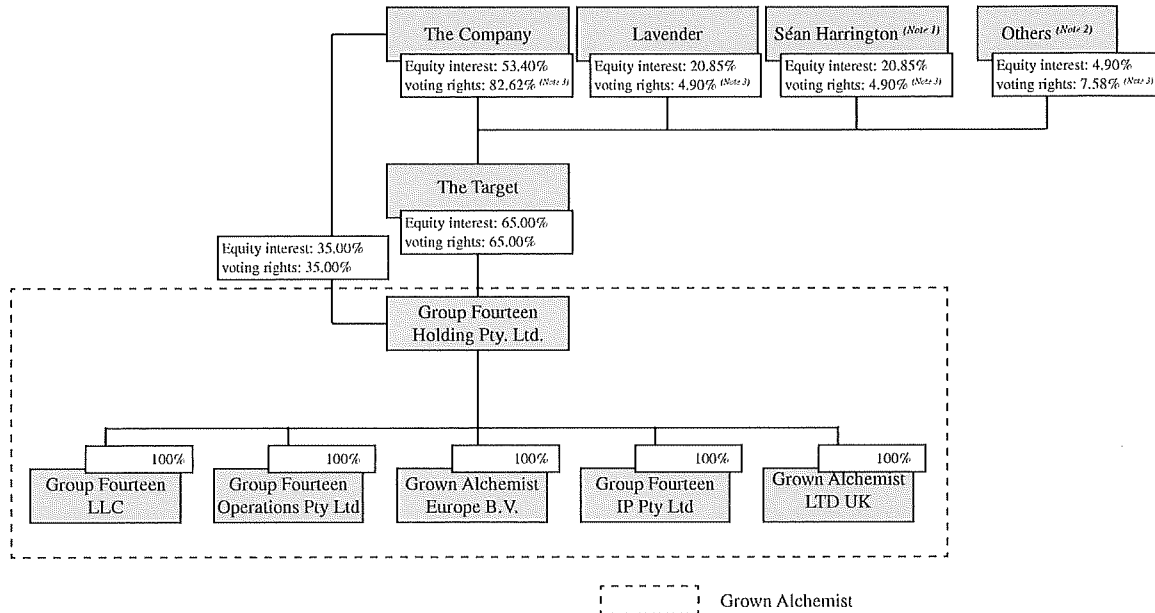
## **2. Business and financial information of Grown Alchemist**

### ***(a) Business of Grown Alchemist and background of acquisition of Grown Alchemist***

Grown Alchemist is an Australian-based skincare brand that creates a range of skincare and beauty products based on clean and scientifically innovative formulas. The Management took the view that Grown Alchemist was a successful premium beauty brand with various distribution channels whose philosophy and brand reputation were potentially in line with that of the Group and its brands. The Group invested in Grown Alchemist in stages on and after April 2022, details of which are set out in section 3(b) below. Set out in the chart below is the corporate structure of



Grown Alchemist after completion of the Group's acquisitions but prior to the Intragroup Transfer (as defined in section 3(a) below) and the GA Disposal:



	Effective equity interest in Grown Alchemist	Effective voting interest in Grown Alchemist
The Company	69.71%	88.70%
Lavender	13.55%	3.19%
Séan Harrington <i>(Note 1)</i>	13.55%	3.19%
Others	3.19%	4.92%
<b>Total <i>(Note 4)</i></b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>

*Notes:*

- (1) Séan Harrington is an executive Director of the Company but is not a shareholder of the Company.
- (2) "Others" refer to three other individual independent third parties who are not shareholders of the Company.
- (3) The Target has in issue 1,939,000 Class A shares (which carry voting interest) and 1,061,000 Class B shares (which carry no voting interest).
- (4) The GA Disposal Amount Receivable (as defined in section 3(a) below) is based on the Group's effective equity interest of 69.71% in Grown Alchemist.



Prior to completion of the Intragroup Transfer and the GA Disposal, through its 53.4% equity interest (representing 82.62% voting interest) in the Target and its direct 35.00% equity interest (representing 35.00% voting interest) in Group Fourteen Holdings Pty. Ltd., the Group effectively held a 69.71% equity interest (representing 88.70% voting interest) in Grown Alchemist. Given the Target is an investment holding company that does not have any operations other than holding interests in Grown Alchemist, the GA Disposal Amount Receivable has been compared to the disposal of the Group's effective equity interest of 69.71% in Grown Alchemist. Through its 20.85% equity interest (representing 4.90% voting interest) in the Target, Lavender effectively held a 13.55% equity interest (representing 3.19% voting interest) in Grown Alchemist.

**(b) Financial information of Grown Alchemist**

*(i) Financial performance*

The following table sets out the summarised unaudited consolidated income statements of Grown Alchemist for FY2023 and the year ended 31 March 2024 (“FY2024”) as extracted from the unaudited management accounts of Grown Alchemist provided by the Management.

€('000)	FY2024 (Unaudited)	FY2023 (Unaudited)
Net sales	20,653	15,038
Gross profit	9,555	8,678
% of net sales	46.3%	57.7%
(Net loss)	(6,631)	(4,344)

a. Net sales

Grown Alchemist recorded net sales of €15.0 million and €20.7 million for FY2023 and FY2024, representing a year-on-year increase of 37.3% in FY2024. As advised by the Management, the increase for FY2024 was due to continued growth in sales from the North American market and the brand's launch in the China market through a partnership with Sephora (a beauty retailer) since 2023.

b. Gross profit and net loss

Grown Alchemist's gross profit slightly increased from €8.7 million for FY2023 to €9.6 million for FY2024. Such increase was mainly due to the increase in net sales, which was partially offset by the product impairment loss of €2.1 million. The gross profit margin dropped by 11.4 points from 57.7% in FY2023 to 46.3% in FY2024.



Grown Alchemist has been loss-making from FY2023 to FY2024. Due to high distribution and marketing expenses which, in aggregate, were higher than the gross profit for each of FY2023–FY2024, Grown Alchemist’s net losses were €4.3 million and €6.6 million for FY2023 and FY2024, respectively. The expanded net losses in FY2023–FY2024 were mainly due to the fact that distribution and marketing expenses outgrew the gross profit.

*(ii) Financial position*

The following table sets out the summarised consolidated financial position of Grown Alchemist as at 31 March 2023 and 2024 as extracted from the unaudited management accounts of Grown Alchemist provided by the Management.

€('000)	As at 31 March	
	2024 (Unaudited)	2023 (Unaudited)
Total assets	23,780	16,845
Total liabilities	26,428	12,793
Equity	(2,648)	4,052

As at 31 March 2023 and 2024, Grown Alchemist’s total assets were €16.8 million and €23.8 million, representing an increase of 41.2%. The increase as at 31 March 2024 was primarily due to (i) the increase in inventories from €6.7 million as at 31 March 2023 to €11.2 million as at 31 March 2024 as a result of an increase in production of products; and (ii) the increase in trade receivables following the increase in sales in FY2024.

The total liabilities of Grown Alchemist increased from €12.8 million as at 31 March 2023 to €26.4 million as at 31 March 2024. The continued increase in total liabilities was largely attributable to the increase in short-term borrowings, in effect to fund operating losses.

Grown Alchemist suffered a net liability position as at 31 March 2024 of €2.6 million, a deterioration from the positive net assets as at 31 March 2023 of €4.1 million. The liability position as at 31 March 2024 was principally due to continued and widening net losses incurred during FY2024.

*(c) Prospects for Grown Alchemist’s business*

Grown Alchemist is an Australian-based skincare brand which provides a diverse range of skincare products.



According to “The State of Fashion — Beauty” jointly published by The Business of Fashion (a world recognised media company with a focus on the global fashion and beauty industry) and McKinsey & Company (an international management consulting firm) in May 2023 (the “**Beauty Report**”), the Australasian beauty industry, mainly comprised of Australia and New Zealand, recorded retail sales of US\$7 billion in 2022 and is estimated to reach US\$9 billion in 2027, representing a compound annual growth rate (“**CAGR**”) of 6%. Such estimated growth is slightly lower than that of Asia Pacific (excluding China) of 7% and China of 8% but equal to that of the United States for the same period. In addition, according to the Beauty Report, the retail sales in Australasia’s skincare market are expected to increase at a CAGR of 6% for 2022–2027, which is also slightly lower than the estimated growth rates of retail sales in both Asia Pacific (excluding China) and China of 7% but at the same pace as the United States’ skincare market.

Grown Alchemist has been able to exceed the growth momentum in the major skincare markets where it operates as discussed in section 2(b) above. However, it has been loss-making over the last two years mainly due to high distribution costs and marketing expenses, which exceeded its gross profits. Grown Alchemist’s gross profit margins during the period under review (46.3%–57.7% in FY2023–FY2024) were well below that of the Group’s (78.3%–80.5% in FY2023–1HFY2024) whereas distribution and marketing expenses were proportionately higher. As a result, a loss-making position existed over the last two years. The GA Disposal represents an opportunity for the Group to exit and streamline its operations, so as to enhance the operational efficiency of the assets of the Group.

### 3. The GA Disposal

#### *(a) Key terms of the Intragroup Transfer (as defined below) and the GA Disposal*

On 28 March 2024, the Company entered into a share sale and purchase agreement with the Target (which, at that time, was a subsidiary of the Company, held as to approximately 53.40% by the Company), pursuant to which the Company agreed to transfer 35% direct equity interest held by the Company in Grown Alchemist to the Target (the “**Intragroup Transfer**”). The key terms of the Intragroup Transfer are as follows:

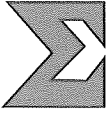
<b>Date</b>	:	28 March 2024
<b>Parties</b>	:	(i) The Company (ii) The Target
<b>Subject matter</b>	:	35% direct interest held by the Company in Grown Alchemist
<b>Consideration</b>	:	€3,443,757, payable in cash on or before 30 September 2024
<b>Completion</b>	:	28 March 2024





On 28 March 2024 (after trading hours), the Company entered into the GA Disposal Agreement with (among others) Lavender, a wholly-owned controlled corporation of Mr. André Hoffmann, pursuant to which the Company agreed to sell the Target Interest (being all the interests held by the Company in the Target) to Lavender for €5,528,881. The key terms and conditions of the GA Disposal Agreement are summarised as follows:

<b>Date</b>	:	28 March 2024
<b>Parties</b>	:	(i) The Company (ii) Lavender
<b>Subject matter</b>	:	The Target Interest of 1,602,000 Class A shares in the Target (being all of the interests held by the Company in the Target, representing approximately 53.40% and 82.62% of the equity and voting interest in the Target, respectively)
<b>Consideration</b>	:	€5,528,881 (being approximately €3.45 per share), payable in cash on or before 30 September 2024
<b>Shareholder Loan</b>	:	Lavender agreed to, on or before 30 September 2024, either (i) procure the Target and its affiliates to repay the Shareholder Loan to the Group, or (ii) acquire the rights and receivables of the Group under the Shareholder Loan for an aggregate consideration in an amount equal to the outstanding principal amount of and accrued interest under the Shareholder Loan, which amounted to €19,380,171.00 as at the date of the GA Announcement and as of the Latest Practicable Date
<b>Completion</b>	:	28 March 2024



Taking into account (a) the Intragroup Transfer by the Company of 35% of the equity interest in Grown Alchemist to the Target in the amount of €3,443,757; (b) the transfer by the Company of approximately 53.40% equity interest in the Target to Lavender in the amount of €5,528,881; and (c) the repayment or assignment of the Shareholder Loan in the amount of €19,380,171, the amount payable to the Group on or before 30 September 2024 amounts to EUR28,352,809 (the “**GA Disposal Amount Receivable**”).

Further details of the transaction background and the terms of the GA Disposal are contained in the letter from the Board in the Circular.

*(b) Assessment of the consideration*

Given (i) the agreements concerning the Intragroup Transfer and the GA Disposal were signed and completed on the same day; and (ii) the Company and its shareholders would concern the amounts that the Group could receive after disposal of Grown Alchemist and the Target, we are of the view that it is clear and logical to consider the GA Disposal Amount Receivable for the Group to retrieve its investments back after having held Grown Alchemist for some years rather than justifying respective consideration under the Intragroup Transfer and the GA Disposal.

*i. Compared with considerations payable by Lavender to shareholders of the Target (other than the Company)*

Alongside the GA Disposal, the other shareholders of the Target (other than the Company and Lavender), being (i) Mr. Séan Harrington (an executive Director who indirectly, through his wholly-owned corporation, held approximately 20.85% and 4.90% equity and voting interest, respectively in the Target) and (ii) three other individuals who are independent third parties (who together held approximately 4.90% and 7.58% of the equity and voting interest, respectively, in the Target) also disposed of all of their respective interests in the Target to Lavender on 28 March 2024 at approximately €3.40 per share (the “**Target Shareholders Disposal**”). Upon completion of the GA Disposal and the Target Shareholders Disposal, and as at the Latest Practicable Date, Lavender held 100% of the equity and voting interest in the Target, which in turn held 100% interest of Grown Alchemist.

Given Class A and Class B shares of the Target carry the same par value and economic rights (including distribution of profits and liquidation rights), it is reasonable to compare consideration per share under GA Disposal with those under Target Shareholders Disposal, irrespective whether they are Class A or Class B shares. The consideration per share payable by Lavender to the Group is slightly higher than those payable to other four shareholders of the Target.

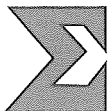


ii. *Compared with the Group's historical acquisition costs in Grown Alchemist*

According to the Company's announcement dated 2 April 2024, the basis of consideration of the GA Disposal includes, among other things, (i) the historical acquisition cost; and (ii) the business operations of Grown Alchemist. Grown Alchemist has become a member of the Group through a series of acquisitions, which can be summarised as follows:

**Table 1: The Group's acquisition costs in Grown Alchemist**

<b>Date of acquisition</b>	<b>Details of the acquisitions</b>	<b>Consideration (€)</b>
1 April 2022	Acquisition of 1,477,200 Class A shares (representing 49.24% equity interest and 76.18% voting interest) in the Target	5,032,820.4
11 May 2023	Acquisition of 35% equity interest in Grown Alchemist	10,061,000.0
31 May 2023	Acquisition of 62,400 Class A shares (representing 2.08% equity interest and 3.22% voting interest) in the Target	231,835.0
2 November 2023	Acquisition of 62,400 Class A shares (representing 2.08% equity interest and 3.22% voting interest) in the Target	234,500.0
	<b>Total acquisition cost of equity interests <sup>(1)</sup></b>	<b>15,560,155.4</b>



Set out below is a reconciliation of the book value of Grown Alchemist and the GA Disposal Amount Receivable:

**Table 2: Reconciliation of the book value of Grown Alchemist in the Group's accounts**

	(€)
The book value of Grown Alchemist in the Group's account <sup>(1)</sup>	15,590,138
The Group's share of accumulated loss of Grown Alchemist since 2022	<u>(6,617,500)</u>
Sub-total <sup>(2)</sup>	8,972,638
Amount due to the Group from Grown Alchemist as at 28 March 2024	<u>19,380,171</u>
<b>GA Disposal Amount Receivable</b>	<b><u><u>28,352,809</u></u></b>

*Notes:*

- (1) We have discussed with the Management the difference of approximately €30,000 between the total acquisition costs of equity interests of €15,560,155.4 and the book value of Grown Alchemist immediately after the acquisitions of €15,590,138.0. We are advised that it is due to foreign exchange differences in the books of the Group arising from some acquisitions settled in US\$ or AU\$.
- (2) Such amount is equivalent to the sum of the consideration under the Intragroup Transfer (being €3,443,757) and the consideration for the Target Interest (being €5,528,881) under the GA Disposal.

The GA Disposal Amount Receivable is equivalent to the sum of (i) the total acquisition costs of the Group in the Target and Grown Alchemist (after having adjusted for foreign exchange differences) of €15,590,138 less the Group's share of losses of Grown Alchemist since April 2022 of €6,617,500, amounting to €8,972,638 ("**Equity Consideration**"); plus (ii) the amount due to the Group from Grown Alchemist amounting to €19,380,171 as at the date of the GA Announcement. This is the main factor we have taken into account in assessing the fairness and reasonableness of the GA Disposal Amount Receivable.



#### 4. Comparable transactions

As set out in the section 2, Grown Alchemist is an Australian-based skincare brand that creates a range of skincare and beauty products based on clean and scientifically innovative formulas. As a cross-check to the Equity Consideration, we have considered the comparable transaction considered by the Board as disclosed in the GA Announcement and a comparable transaction identified by us. Given that Grown Alchemist is loss-making and in net liability position as at 31 March 2024, we performed our analysis based on the price-to-sales ratio (“PSR”) which is commonly adopted in performing similar analysis on pre-profit companies and calculated based on equity consideration divided by the target’s sales.

*(i) This Works Products Limited (“This Works”)*

As disclosed in the GA Announcement, the consideration of the GA Disposal factored in the acquisition and financial performance of a similar business, This Works, which is a pre-profit body/skincare brand based in the United Kingdom with a similar strategic business plan to Grown Alchemist.

We have reviewed the latest filing of This Works and noted that (i) in December 2023, a United Kingdom-based investment firm acquired This Works valued at up to GBP9.3 million; and (ii) it recorded a turnover of GBP15.6 million and a pre-tax loss of GBP3.7 million for the year ended 31 March 2023. On this basis, the PSR of This Works is 0.60 times.

*(ii) Beauty Apothecary Australia Pty Ltd (“Edible Beauty”)*

To extend this analysis, we have further researched comparable transactions with disclosed terms since the beginning of 2021 involving the sale and purchase of the controlling stake in private firms which were loss-making and engaged in (a) cosmetics, beauty supplies, and perfume stores or (b) skincare, fragrance, make-up and toiletries industry in Australia, as extracted from the website of Mergermarket (a M&A market intelligence service provider).

We have only been able to identify one comparable transaction, which is exhaustive based on the above selection criteria from Mergermarket. In August 2022, Live Verdure Ltd (stock code: LVI.ASX), an Australian-based manufacturer of hemp food and nutraceutical products, announced the acquisition of 100% equity interest in Edible Beauty, a supplier of beauty products. The PSR of Edible Beauty is 0.70 times (calculated based on 100% equity value of the Edible Beauty of AUD1.5 million and its sales revenue for the financial year ended 30 June 2022 of AUD2.2 million as referenced from the relevant annual report or published announcement).



The PSR implied by the Equity Consideration being 0.62 times (calculated based on the Equity Consideration of €9.0 million for the 69.71% effective equity interest in Grown Alchemist and the net sales of Grown Alchemist for the year ended 31 March 2024 of €20.7 million), falls within the fairly narrow range of the two comparable transactions. On this basis, the PSR of the GA Disposal is in our view acceptable.

## 5. Reasons for and benefits of GA Disposal

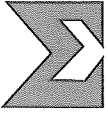
As set out in the letter from the Board in the Circular, the Company acquired Grown Alchemist because it considered it to be a potential strategic fit for the Group, envisioning the brand as complementing the Group's other brands in beauty, skincare, and wellness. Since its initial acquisition in 2022 and considering changing global economic and market conditions and the material growth of other brands within its portfolio, the Company is in the process of adjusting its strategy. As part of this strategy adjustment, the Company believes that the GA Disposal would help the Company focus its attention on its core brand L'OCCITANE en Provence, and accelerate the dynamic growth of its other brands, which would in turn help improve the Group's overall financial performance. Lavender was the sole purchaser for the Target Interest identified by the Board at the relevant time. Taking into account the Group's and Grown Alchemist's financial performance and financial position, Grown Alchemist's business prospects as discussed above and our assessment above on the terms of the GA Disposal Agreement, we concur with the Management that the GA Disposal is in line with the Company's overall brand strategy.

Lavender, the acquirer, is familiar with Grown Alchemist and considers the brand can gain more strategic flexibility and autonomy outside a listed group, particularly with regards to its unique partnership with lifestyle and music brands. On this basis, Lavender had keen interest in Grown Alchemist and proceeded immediately, the GA Disposal being completed on 28 March 2024.

## 6. Financial impact of the GA Disposal

As discussed in section 3(b), the GA Disposal Amount Receivable is equivalent to the sum of (i) the total acquisition costs of the Group in the Target and Grown Alchemist (after having adjusted for foreign exchange differences) of €15,590,138 **less** the Group's share of losses of Grown Alchemist since April 2022 of €6,617,500, amounting to €8,972,638; **plus** (ii) the amount due to the Group from Grown Alchemist, amounting to €19,380,171 as at the date of the GA Announcement. Therefore, in substance, it is expected that there will be no material gain/loss arising from the GA Disposal.

As a matter of technical accounting policy, the Company currently expects to record a gain on the GA Disposal of approximately €10.5 million for FY2024, corresponding to accounting effects over the Equity Consideration of €9.0 million **less** (i) the net assets of Grown Alchemist of €(2.6) million as at 31 March 2024; and (ii) currency translation differences of €0.1 million; and **plus** (i) the non-controlling interests of €(2.1) million; and (ii) net amount of the reversal of consolidation entries of €1.1 million. We have not given this technical gain any material weight in our analysis.



## DISCUSSION AND ANALYSIS

The Group, as a geographically-balanced multi-brand group, adjusts its strategy and revises its brand portfolio from time to time to remain competitive amid the changing economic and market conditions. Since April 2022, the Group has acquired equity interests in stages in Grown Alchemist, an Australian-based skincare business, which has become its non-wholly-owned subsidiary up to 28 March 2024. In revenue terms, Grown Alchemist is not material to the Group, accounting for less than 1% of its net sales for FY2023.

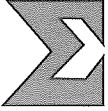
After having held interests in Grown Alchemist for two years, the Management has come to the conclusion that it has not proved as good a fit as expected with the Group's evolving strategy. It has also been loss-making. As a willing buyer was available and able to proceed immediately, the Group decided to take the opportunity to divest Grown Alchemist and focus attention on the development of the Group's core brands.

Grown Alchemist has exceeded the 6%–8% growth in beauty markets across different regions including Australia and New Zealand, China, Asia Pacific and the United States in 2022–2027 as estimated by the Beauty Report. However, it has been loss-making over the last two years mainly due to high distribution and marketing expenses and is in net liability position as at 31 March 2024. More effort and individual attention may be required before Grown Alchemist becomes profitable. In view of the Group's squeezed profit margins and decreasing profitability for FY2023 and 1HFY2024 as discussed in section 1 above, the GA Disposal enables the Group to exit and streamline its operations.

As explained in section 3(b) above, the consideration per share payable to the Group is higher than that payable to other four shareholders of the Target. In addition, the GA Disposal Amount Receivable is equivalent to the sum of (i) the total acquisition costs of the Group in the Target and Grown Alchemist (after having adjusted for foreign exchange differences) of €15,590,138 less the Group's share of losses of Grown Alchemist since April 2022 of €6,617,500, amounting to €8,972,638; plus (ii) the amount due to the Group from Grown Alchemist amounting to €19,380,171 as at the date of the GA Announcement. In substance, it is expected that there will be no material gain/loss arising from the GA Disposal. The GA Disposal Amount Receivable has been principally designed to recover the Group's costs of acquisition plus the Shareholder Loan less losses incurred. On the above basis, we consider the GA Disposal Amount Receivable is fair and reasonable, in particular, given the lack of profitability and the liability position of Grown Alchemist.

As a cross-check, we have reviewed two comparable transactions involving pre-profit skincare businesses on the basis of PSR. The PSR for the GA Disposal lies within the fairly narrow range of the two comparable transactions and we consider it acceptable.

The Offers are conditional on, among others, the Executive granting consent to the GA Disposal (i.e. Condition (f) to the Share Offer as set out in the Offers Announcement). Pursuant to the Takeovers Code, the Executive's consent will be subject to, amongst others, the Disinterested Shareholders having approved the GA Disposal at the EGM. If the Executive's consent is not granted (or any of the conditions to the Executive's consent are not fulfilled), and Offeror waives this condition, the GA Disposal will be terminated and the Offeror will proceed with the Offers.



## OPINION AND RECOMMENDATION

Based on the above principal factors and reasons, we consider the terms of the GA Disposal and the GA Disposal Agreement are fair and reasonable as far as the Company and the Disinterested Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Disinterested Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the GA Disposal.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**

**M.N. Sabine**  
Chairman

*Mr. M. N. Sabine is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over forty years of experience in the corporate finance industry.*