THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China-Hongkong Photo Products Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of China-Hongkong Photo Products Holdings Limited.

CHKP

CHINA-HONGKONG PHOTO PRODUCTS HOLDINGS LIMITED

中 港 照 相 器 材 集 團 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1123)

MAJOR TRANSACTION
IN RELATION TO
ACQUISITION OF CERTAIN ASSETS FROM
YCY HOLDINGS LIMITED AND ITS SUBSIDIARIES AND
GALERIEN UND PARTNERPLUS LIMITED

30 July 2013

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

"Acquisition Transaction"	the acquisition of the Business Assets under the Agreement
"Agreement"	the assets purchase agreement dated 24 May 2013 entered into between the Purchaser, the Vendors and the Guarantors in relation to the Acquisition Transaction
"Announcement"	the announcement of the Company published on 24 May 2013
"Board"	the board of Directors of the Company
"Business"	the business of the Vendors
"Business Assets"	the assets of the Vendors in relation to their Business to be acquired by the Purchaser
"Business Day"	a day on which banks are generally open for business in Hong Kong and which is not a Saturday, a Sunday, a public holiday or a day on which typhoon signal no. 8 or a "black" rainstorm warning is hoisted in Hong Kong
"Company"	China-Hongkong Photo Products Holdings Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisition Transaction
"Completion Date"	the date where Completion shall take place
"Computer Systems"	all computer hardware, Software, microprocessors and any other items that connect with any of them which in each case are owned or used by the Vendors in the Business (or any part of it)
"Consideration"	the aggregate consideration subject to adjustment payable to the Vendors by the Purchaser pursuant to the Agreement
"Consideration Shares"	21,489,972 new Shares of the Company to be allotted and issued by the Company to the Vendors
"Deposit"	the sum of HK$7,000,000 payable by the Purchaser to the Vendors and refundable in nature
"Director(s)"	the director(s) of the Company

"Employees"	the persons who are employed by the Vendors in the Business
"Enlarged Group"	the Group and the Business Assets
"GDP"	gross domestic product
"Group"	the Company and its subsidiaries
"Guarantors"	YAU Chuen-Yui Patrick, YU Man-Ching and CHOW Ho-Shu
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Last Trading Day"	24 May 2013, being the last trading date prior to the signing of the Agreement
"Latest Practicable Date"	26 July 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Leasehold Improvements"	the leasehold improvements retained in the Lease Property
"Lease Property"	the lease properties currently occupied by the Vendors in conducting the Business
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Long Stop Date"	1 August 2013 (or such later date as may be agreed in writing between the parties)
"Macao"	the Macao Special Administrative Region of the People's Public of China
"Mr Yu"	Mr YU Man-Ching, one of the shareholders of YCY Holdings Limited and one of the Guarantors
"Office Equipment"	the office equipment owned or used by the Vendors in the Business
"Property Charge"	a legal charge dated 24 May 2013 over the property situated at all the offices A, B, C and D on 28/F., Kings Tower, 111 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong given by YCY Holdings Limited in favour of the Purchaser

"Purchaser"	YCY International Limited (formerly known as Imaging and Information Products Trading Limited), is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
"Records"	all books and records (in whatever form stored) relating to the Business, the Business Assets and the Employees
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) with par value of HK$0.10 each in the share capital of the Company
"Shareholders"	holders of the issued Shares
"Software"	any form of computer program, including applications software and operating systems, whether in source or object code form
"Stock"	the stocks of the Business as at the Completion Date including goods purchased for resale, consumable stores, finished goods (and including items supplied by a supplier subject to reservation of title)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Stock Price"	the price to be paid for the Stock as agreed or determined by the Vendors and the Purchaser pursuant to the Agreement
"Trademarks"	the trade/brand names used by the Vendors in the Business namely, "AV Life Prestige & device", "Life Electric Quality & device" and "Life Digital Gadgets & device"
"Trademark Applications"	the application for registering the Trademarks under the classes of 9 and 35 with the Trade Marks Registry
"Trade Marks Registry"	the Trade Marks Registry in Hong Kong
"Transfer Notice"	transfer notice issued pursuant to Transfer of Businesses Ordinance
"Transfer of Businesses Ordinance"	the Transfer of Businesses (Protection of Creditors) Ordinance (Chapter 49 of the Laws of Hong Kong)
"Transferring Employees"	the Employees who have accepted the offers of employment by the Purchaser on Completion

"Vendors"	YCY Holdings Limited, AV Life Limited, Life Digital Limited, Life Electric Limited, E-Max Global Technology Limited, Pro Audio Limited, EMCS Limited, EMMY Technology Limited and Galerien und PartnerPlus Limited
"Vendors' Group"	any of the following from time to time: the Vendors, its subsidiary undertakings, any parent undertaking of the Vendors and all other subsidiary undertakings of any parent undertaking of the Vendors and "member of the Vendors' Group" shall be construed accordingly
"%"	per cent

CHINA-HONGKONG PHOTO PRODUCTS HOLDINGS LIMITED
中港照相器材集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 1123)

CHKP

Executive Directors:
Dr SUN Tai Lun, Dennis
Mr SUN Tao Hung, Stanley
Ms NG Yuk Wah, Eileen
Mr TANG Kwok Tong, Simon

Independent non-executive Directors:
Mr AU Man Chung, Malcolm
Mr LI Ka Fai, David
Mr LIU Hui,Allan
Dr WONG Chi Yun, Allan

Registered Office:
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22 Victoria Street
Hamilton HM12
Bermuda

Principal Office in Hong Kong:
8th Floor Tsuen Wan
Industrial Centre
220-248 Texaco Road
Tsuen Wan, Hong Kong

30 July 2013

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
IN RELATION TO
ACQUISITION OF CERTAIN ASSETS FROM
YCY HOLDINGS LIMITED AND ITS SUBSIDIARIES AND
GALERIEN UND PARTNERPLUS LIMITED

INTRODUCTION

Reference is made to the announcement of the Company dated 24 May 2013 announcing that on the same date, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendors and the Guarantors, pursuant to which the Purchaser has agreed to purchase, and the Vendors have agreed to sell the Business Assets at a Consideration of approximately HK$113,500,000 which is subject to adjustment. The Consideration will be satisfied by a combination of cash payment and issue of the Consideration Shares by the Company.

THE AGREEMENT

Date: 24 May 2013

Parties:

(i) the Purchaser;

(ii) the Vendors; and

(iii) the Guarantors.

The due performance of the Vendors under the Agreement is guaranteed by the Guarantors. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Vendors, Guarantors and their respective ultimate beneficial owners, is a third party independent of the Company and connected persons of the Company.

MAJOR TERMS OF THE AGREEMENT

Business Assets to be acquired

The Business Assets comprise the following assets:

(i) the Computer Systems;

(ii) the Office Equipment;

(iii) the Leasehold Improvements;

(iv) the Records;

(v) the Stock; and

(vi) the assignment of the Trademarks.

Consideration

The Consideration for the Acquisition Transaction is approximately HK$113,500,000 subject to the following major adjustments pursuant to the Agreement, whether by subtraction or addition, to reflect the change in the value of the Business Assets:

(i) any non-delivered Business Assets on the Completion Date;

(ii) any potential costs and expenses in relation to any legal proceedings instituted against the Vendors after the publication of the Transfer Notice;

(iii) the actual value of the Stock at Completion Date;

(iv) the return of part of the Stock Price if any Stock acquired at Completion remained unsold after the expiry of 12 months from the Completion Date;

(v) the return of the part of the Consideration in respect of any failure to assign the Trademarks after Completion; and

(vi) the compensation to be made by the Vendors to the Purchaser for any breach of the warranties by the Vendors under the Agreement.

The Consideration and the mechanism for its adjustment were arrived at after arm's length negotiations between the Purchaser and the Vendors and are on normal commercial terms, with reference to the Company's valuation of the Business Assets based on various factors including, but not limited to, the book and fair value of each of the Business Assets, and such other considerations as arising during the normal course of negotiations. In addition, the Company has also considered the future synergy, costs saving and potential business opportunities, so as to come up with the amount of Consideration as well as the Earn-out Payment (as defined below). The Consideration shall be paid by the Purchaser in the following manner:

(i) HK$7,000,000 being the Deposit shall be payable to the Vendors in cash at signing of the Agreement;

(ii) HK$31,000,000 shall be payable to the Vendors in cash at Completion;

(iii) HK$15,000,000 shall be satisfied by procuring the Company to allot and issue the Consideration Shares credited as fully paid at the issue price of HK$0.698 per Share to the Vendors within 20 Business Days after the Completion Date;

(iv) a sum equals to the actual Stock Price after the physical stock-take on the Completion Date being calculated, adjusted and payable to the Vendors and in any event shall not be more than HK$60,000,000; and

(v) HK$10,500,000 shall be payable to the Vendors in cash by three instalments in three years at HK$3,500,000 each subject to adjustment (the "Earn-out Payment") pursuant to the terms of the Agreement.

The final Consideration payable after adjustment will not be more than HK$123,500,000. The part of the Consideration payable in cash shall be financed by the Company's internal resources.

Consideration Shares

Issue of the Consideration Shares

The Consideration Shares will be allotted and issued under the general mandate granted to the Directors of the Company at the annual general meeting of the Company which was held on 10 August 2012. The Consideration Shares, when issued, will rank pari passu in all respects with the existing Shares then in issue.

The Consideration Shares (being approximately 13.22% of the total amount of Consideration subject to adjustment) represent (i) approximately 1.85% of the existing issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 1.81% of the existing issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. There is no change in control of the Company after the issuance of the Consideration Shares to the Vendors upon completion.

The issue price of HK$0.698 per Consideration Share was arrived at by the parties of the Agreement after arm's length negotiations taking into account, among other things, the average closing price of the Shares for the last five consecutive trading days before the date of the Agreement (being 24 May 2013).

The issue price of the Consideration Shares of HK$0.698 per Share represents:

(i) a premium of approximately 10.8% over the closing price of HK$0.630 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) neither a premium nor a discount of the average closing price of approximately HK$0.698 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and

(iii) neither a premium nor a discount of the average closing price of approximately HK$0.698 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares.

Lock-up period

The Vendors unconditionally and irrevocably undertake (except in accordance with the terms of the Agreement) not to, at any time in three year period commencing on the Completion Date, inter alia, sell, transfer or otherwise dispose of, mortgage, charge, pledge nor enter into any agreement to sell, transfer or dispose of, mortgage, charge, pledge or otherwise create any options, rights, interests or encumbrances in respect of, any of the Considerations Shares.

Employment of Mr Yu

One of the Guarantors, Mr Yu, has also entered into an employment agreement with the Purchaser on the date of the Announcement whereby he will, among other things, take up the position as a managing director of the Purchaser with effect from the Completion Date and subject to the terms contained therein.

Conditions Precedent to Completion

The Completion of the Acquisition Transaction is conditional upon the fulfilment of, among other things, the following conditions precedents (except being waived) on or before the Long Stop Date:

(i) the approval by way of an ordinary resolution having passed by the Shareholders at a meeting duly convened for such purpose and in accordance with the Listing Rules (if required under the Listing Rules), being obtained, for the entering into of the Agreement, the issue of the Consideration Shares and the transactions contemplated under the Agreement;

(ii) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Consideration Shares on the Main Board of the Stock Exchange;

(iii) all the Transferring Employees having accepted the offers of employment by and entered into employment contracts with the Purchaser;

(iv) the Vendors having applied for the Trademark Applications with the Trade Marks Registry and there are no circumstances which would prevent any such applications from proceeding to registration;

(v) the warranties given by the Vendors in the Agreement not being untrue or inaccurate or misleading at Completion;

(vi) the completion of a due diligence review of, including but not limited to, the books, records, financial condition and prospects, business, distribution rights, licences, physical assets and agreements in relation to the Business Assets;

(vii) all necessary approvals, consents, authorisations, filings, licences and permits which may be required by any member of the Vendors' Group and the Guarantors from any governmental or regulatory authorities for the consummation of the transactions contemplated under of the Agreement having been obtained; and

(viii) the Transfer Notice having been published in accordance with the Transfer of Businesses Ordinance and no claim was made within the statutory time limit set out in such ordinance.

If any of the above conditions has not been fulfilled (or waived by the Purchaser (except items (i) and (ii) which cannot be waived)) on or before the Long Stop Date (or such later date as may be agreed by the Purchaser and the Vendors in writing), the Agreement shall lapse whereupon, inter alia, (i) no party shall be obliged to proceed to Completion; (ii) the Deposit shall be refunded to the Purchaser together with accrued interest forthwith upon demand of the Purchaser; and (iii) no party shall have any claim against any of the other parties under the Agreement except claims arising out of any antecedent breach of any of the provisions in the Agreement. If the Vendors fail to return the Deposit or any part thereof pursuant to the Agreement, the Purchaser shall be entitled to enforce the Property Charge forthwith.

Completion

Completion shall take place on the fifth Business Day after the date on which the conditions precedents to the Agreement have all been fulfilled or waived (if applicable).

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming (i) no Shares will be issued and/or repurchased by the Company as at the Latest Practicable Date up to the date of issue of the Consideration Shares; and (ii) a total of 21,489,972 Consideration Shares will be issued, the shareholding structure of the Company as at the Latest Practicable Date and immediately after the allotment and issue of the Consideration Shares is as follows:

Shareholders	Issued share capital as at the Latest Practicable Date		Issued share capital immediately after allotment and issue of the Consideration Shares	
	No. of Shares	*Approximately %*	*No. of Shares*	*Approximately %*
Trident Trust Company (B.V.I.) Limited *(Note 1)*	711,276,214	61.12	711,276,214	60.01
HSBC Trustee (C.I.) Limited *(Note 2)*	70,000,000	6.01	70,000,000	5.91
The Vendors	–	–	21,489,972	1.81
Public Shareholders	382,552,163	32.87	382,552,163	32.27
Total	1,163,828,377	100	1,185,318,349	100

Notes:

1. Of 100,000,000 Shares representing 8.59% of the Shares in issue are directly owned by Fine Products Limited. Of 600,034,214 Shares representing 51.56% of the Shares in issue are owned by Searich Group Limited, a company incorporated in the British Virgin Islands, in which Fine Products Limited holds 75% of its issued share capital. Fine Products Limited is a company incorporated in the British Virgin Islands and is owned by Trident Trust Company (B.V.I.) Limited in its capacity as the trustee of The Sun Family Trust.

2. The interests of HSBC Trustee (C.I.) Limited are held via a chain of controlled corporations, namely Li & Fung (Retailing) Limited, Li & Fung (1937) Limited and King Lun Holdings Limited (which is 50% owned by HSBC Trustee (C.I.) Limited).

INFORMATION ON THE COMPANY AND THE VENDORS

Information of the Company

The Group is principally engaged in marketing and distribution of photographic developing, processing and printing products, the operations of retail photographic developing and processing shops, the operations of retail beauty products shops and the provision of technical services for photographic developing and processing products. As at the Latest Practicable Date, the Company has an authorised share capital of HK$200,000,000.

The Purchaser is a wholly-owned subsidiary of the Company and a dormant company.

Information of the Vendors

The Business of the Vendors includes selling consumer electronics products in retail shops in Hong Kong, providing installation and project design, and distributing high-end audio and video products under international brands. The Vendors are also a distributor of wholesaling large-sized television sets under international brands.

YCY Holdings Limited is the sole shareholder of each of AV Life Limited, Life Digital Limited, Life Electric Limited and E-Max Global Technology Limited, and it also holds 60% shareholding in Pro Audio Limited. E-Max Global Technology Limited holds the entire issued share capital of EMCS Limited. Pro Audio Limited holds the entire issued share capital of EMMY Technology Limited. YCY Holdings Limited is in turn held by the Guarantors in equal shares. Galerien und PartnerPlus Limited is held by the Guarantors as to 30% each while the remaining 10% by a third party. The Guarantors are also the directors of each of the Vendors and Galerien und PartnerPlus Limited.

YCY Holdings Limited is a company incorporated in Hong Kong with limited liability and an investment holding company.

AV Life Limited is a company incorporated in Hong Kong with limited liability and engages in operating shops under the trade name of “AV Life Prestige & device”.

Life Digital Limited is a company incorporated in Hong Kong with limited liability and engages in operating shops under the trade name of “Life Digital Gadgets & device”.

Life Electric Limited is a company incorporated in Hong Kong with limited liability and engages in operating shops under the trade name of “Life Electric Quality & device”.

E-Max Global Technology Limited is a company incorporated in Hong Kong with limited liability and engages in providing logistics, delivery and installation services.

Pro Audio Limited is a company incorporated in Hong Kong with limited liability and engages in distribution of projectors, screens, video conference and security machines.

EMCS Limited is a company incorporated in Hong Kong with limited liability and engages in providing customer services, repair and maintenance.

EMMY Technology Limited is a company incorporated in Hong Kong with limited liability and engages in conducting project business.

Galerien und PartnerPlus Limited is a company incorporated in Hong Kong with limited liability and engages in retailing of audio and video products.

FINANCIAL INFORMATION OF THE BUSINESS ASSETS

Set out below is the selected financial information attributable to the assets which are the subject of the Acquisition Transaction, based on the management information for the two years ended 31 March 2011 and 2012:

	(Unaudited) Year ended 31 March	
	2011	**2012**
	HK$'000	*HK$'000*
Profit before income tax expense	9,668	7,768
Value of the assets	N/A	71,187

Note: The Vendors do not provide standalone financial statements for the Business Assets, the above figures are based on management information provided by the Vendors and have not been audited. Profits after taxation and extraordinary items are not applicable in this case.

OVERVIEW OF THE NEW BUSINESS

Upon Completion, the Acquisition Transaction is expected to enable the Company to gain an immediate foothold in the strategic sector which the Board has decided to diversify into. Leveraging on the existing capabilities of the Company and the combination of the Company's and the Vendors' trade/brand names together in the marketplace, the Acquisition Transaction is expected to elevate the Company in the field of consumer electronic products (the "**New Business**").

Industry Overview

Hong Kong is very much a service-based economy, with retail industry accounting for a significant part of its GDP. And against the backdrop of the rise in consumer spending power in the Greater China region, the retail industry as a whole has experienced significant growth in the past decade. Amid difficult economic conditions in the near future, the general shift to consumer spending in supporting China's GDP growth will inevitably benefit the overall retail industry in Hong Kong. Company is of the view that demand growth will remain high given the rising income and improved consumer confidence.

There are lack of heavy regulatory barriers to enter into the consumer electronics products retail industry and associated custom installation industry in Hong Kong. However, given the high rental costs and the importance of achieving a critical mass in terms of sales outlets and inventory level to remain competitive in this cut-throat industry, the natural entry barriers are high in the retail sector, the Board therefore does not expect many new market participants in the near future.

Despite the slowdown in the macro economic environment, the Company remains confident in the enormous potential in consumer electronics retail market, and the professional audio and visual advisory/ custom installation services (the "**Customer Installation Services**") market.

Risk factors

The business, financial condition, results of operations of the Company may be materially and adversely affected by various risks and uncertainties pertaining to the New Business. The factors set out below are those that the Company believes are most relevant to the Company. The list are by no means exhaustive or comprehensive, and there may be other risks in addition to those set out below which are not known to the Company or may not be material now but turn out to be material in the future.

Slow-down in the housing-market in Hong Kong

Upon the Completion and the integration of the New Business, the Group will become a retailer selling large TV sets and associated electronics equipment in Hong Kong. With the implementation of various "cooling measures", e.g. special stamp duty and buyer stamp duty imposed by the Government of Hong Kong, the turnover of the domestic housing market has shrunk considerably in the past 6 to 12 months. This inevitably will have a negative impact on the outlook of the New Business as consumers' demand to purchase new TV sets are affected by the slow down in the second-hand housing market. We cannot assure you that the operating prospects of the New Business will not be impacted by the continuing slowdown in the domestic second-hand housing market and as a result materially and adversely affect the business, financial condition and results of operations of the Company.

Location of outlets and lease renewal

One of the key factors for the New Business to be successful is its ability to establish its retail outlets at strategic locations with high pedestrian traffic and easy access. Some of the current leases of the New Business are due to expire in the coming 12 to 24 months, and given the scarcity of prime retail premises and the ever-rising rental costs, there is no assurance that the Company will be able to find retail premises on commercially acceptable terms. Although the Company has an extensive retail network through its Fotomax chain, the business performance of the New Business may not be successful and as a result materially and adversely affect the business, financial condition and results of operations of the Company.

Competition with online retailers

While the Company has considerable comparative advantages in the retail segment, the competition of the retail industry in the Hong Kong domestic market is severe. In particular, we face the growing competition from online retailers, and such pressure may adversely affect the operations of the New Business. As consumers shopping habits shifts to online retailers, the New Business may need to further lower the retail prices in order to capture the market share and remain competitive. The adjustment of retail price may as a result materially and adversely affect the business, financial condition and results of operations of the Company.

Intellectual property rights

The Directors consider the Trademarks of the New Business to be a valuable asset. After Completion, all the retail outlets in relation to the New Business will be operated under the trade/brand names of "AV Life Prestige & device", "Life Electric Quality & device" and "Life Digital Gadgets & device". Pursuant to relevant laws of Hong Kong, a company is not permitted to use its competitor's company name in its business operation if such use of company name may mislead the customer to believe that the customers are buying products or services from its competitors. However, there is no assurance that third parties will not copy or otherwise unlawfully obtain and use our intellectual property rights, and hence, additional costs and management time may also be incurred which may have an adverse impact on the reputation of the New Business and our marketing plans, and as a result materially and adversely affect the business, financial condition and results of operations of the Company.

Operational model of the New Business

There are two segments in the New Business namely retail and the Custom Installation Services.

The retail segment mainly represents the retailing of consumer electronics products and household appliances through the 13 retail outlets operating under the trade/brand names "AV Life Prestige & device", "Life Electric Quality & device" and "Life Digital Gadgets & device". Consumer electronics products include television sets, Hi-fi equipment, digital cameras, projectors and other accessories. For household appliances, major product categories include air-conditioners, refrigerators, washing machines, etc. All the products carry well-known international brands including from Japan, Korea and the United States.

The Company expects to source the above products through their respective local authorised dealers and distributors, and in the mid to long term will seek to further strengthen the Company's distribution capabilities by acquiring additional distribution rights. The Company is currently the sole authorized distributor of FUJIFILM products in Hong Kong and Macao, the Board also expects the New Business to source such products directly from the Company.

In respect of the Custom Installation Services segment, it mainly provides professional audio-visual advisory and custom design and installation services, including the design of high-end audio-visual rooms for retail customers, custom design and installation of video-conferencing facilities for the commercial sector etc. Although it is still in a preliminary stage of development and has not got the sufficient scale to operate as a profitable stand-alone business, the Board is optimistic about the future growth potential of this niche market segment. Skilled labour is important in this segment and the Company will make appropriate investment to recruit competent labour available in the market to pursue this business. Although the Company does not have immediate investment plan, the Company will do so when opportunities arises in a financially prudent manner.

Generally, the operational model in the retail segment of the New Business is as follows:

- product supplier introduces new products to the purchasing department;
- the responsible officer of the purchasing department reports the matter to the managing director who will then discuss with the retail operational department with respect to the potential of the new products;
- if selling the new products can be sold at a profit with a reasonable margin, the managing director will instruct the purchasing department to place order with the product supplier; and
- new products will be delivered to the warehouse or retail outlets (as the case may be) for sale to the end-consumers.

The revenue to be generated from the New Business is from direct purchase from product suppliers and sell to end-consumers at a retail price which is being marked-up on the purchase price. Further, the assets structure of the New Business mainly comprise of Stock and Leasehold Improvements while the costs structure mainly comprise of rental cost, staff cost, cost of good sold, utilities, depreciation expenses and advertising expenses.

The 13 retail outlets currently operated by the Vendors are leased at commercial terms from the respective landlords, and cannot be transferred/sublet to the Company without the prior approval of the respective landlords. The Company is currently in negotiations with the respective landlords for entering into new lease agreements upon Completion, and based on their feedback, it is possible in maintaining a similar scale of retail operations under the respective locations upon Completion. The Vendors have invested significant amount of resources in upgrading the internal fitting and renovation of its existing retail outlets, and therefore the Business Assets to be acquired include the Leasehold Improvements. The Consideration will be adjusted to reflect the change in value on any non-delivered Business Assets on Completion Date in particular, any retail outlets which are not be rented by the Company.

Upon Completion, the New Business will be led by Mr Yu who will report directly to the Company's CEO. The Board will seamlessly integrate the Business Assets into the Company's existing facilities, including but not limited to a gradual integration of back-office IT systems, transferring of the Stock into the Company's own storage facilities and relocating the Transferring Employees to work at the Company's headquarter, to enhance internal communication amongst our staff.

Management Discussion and Analysis

The Board has dedicated a team of personnel responsible for the integration of the Business Assets into the Company and such integration will not be a significant drain on management resources which would otherwise be deployed for the development of its existing businesses. Upon successful Completion of the Acquisition Transaction, it is expected that over 95% of the Vendors' existing employee will be transferred to the Company. The Transferring Employees will be subject to the existing competitive remuneration policies of the Company.

The New Business will operate as a separate subsidiary within the Group under the management of the Group's chief executive officer.

Financial results

The unaudited profit and loss statements on the identifiable net income stream in relation to the Business Assets are disclosed in Appendix II to this circular.

Revenue over the three years ended 31 March 2013 (the "**Track Record Period**") increased from HK$397 million for year ended 31 March 2011 to HK$421 million for the year ended 31 March 2013, representing an annual growth rate of approximately 3%.

Gross profit margin has remained stable at approximately 20% throughout the Track Record Period, while the operating profit has decreased from HK$9.7 million to HK$3.7 million over the corresponding period. This is a direct result of the increasing operating costs that are not fully transferable to end-customers, in particular, the rental costs in prime retail locations has increased considerably during the Track Record Period. It is also the nature of the retail business that a significant amount of working capital has to be maintained to ensure healthy operation of the business, the Vendors lack the necessary resources and has to rely on external financing from banks and other financial institutions, with the interest rates slowly increasing during the Track Record Period, the corresponding finance costs incurred also increased disproportionately to the increase in turnover.

Upon Completion, the Company will deploy its internal resources and the New Business going forward do not envision any requirement for external borrowings. The Board will also conduct a strategic review on the existing retail outlets and identify any overlap with the Company's current Fotomax network, where cost-savings opportunities may arise by closing down outlets with unsatisfactory performances. The Board expects the profitability of the New Business will gradually improve in the future.

Liquidity and financial resources and gearing ratio

Notwithstanding part of the Acquisition Transaction will be funded by an issuance of the Consideration Shares while part in cash by the Company's internal resources, the Company will continue to adopt financially prudent strategies to maximise the investment return for the Company's internal resources.

The Board is confident that the New Business will generate operating profits and will be fully financed by a combination of the operating cashflow and the Company's internal resources and do not envision any requirement for external borrowings. The Company has no immediate plan for other financing activities for the operation and development of the New Business.

Exposure to foreign exchange fluctuations

The New Business will be subject to foreign currency fluctuations, in particular against the Japanese Yen and Korean Won. The Company will closely monitor the fluctuations in these currencies and will adopt necessary measures (including hedging instruments) to effectively manage the foreign currency risks.

Future developments

The Company regularly invests significant resources into marketing, with the aim of maintaining the brand that the Company has built over the years. The Board will revisit the marketing plan for the coming year, and make the necessary refinements in branding to raise consumer awareness. The Board has engaged public relations consultants to review the coming year's plan to reflect the above. There will be no change of the target customers of the New Business before or after it is being acquired by the Company since it is a retail business aiming at end-consumers.

The Company will also invest necessary resources into the Custom Installation Services segment, which is currently in a preliminary stage of development. The Company envisions there will be a potential in expanding its presence in this segment and market.

While the overall pricing strategy will be to remain competitive in the relevant marketplace, one of the main differentiators against our competition is that the New Business will have an in-house, dedicated, professional installation and delivery team that will enhance overall customer shopping experience, in addition to the in-house customer services department. As the products are generally homogenous, exceptional customer service will be paramount for us to stand out from the competition.

The Company will also invest in refurbishing the existing retail outlets where applicable, to align with the branding of the Company as well as enhancing customer shopping experience that will increase customer traffic and lead to more business opportunities.

Although there are no immediate plan for further material investment or capital asset in relation to the New Business, the Board will continue to look for growth opportunities in a financially prudent manner.

The Company is not aware of any applicable government policies, regulations and measures which are related to or applicable to the New Business and confirmed that all necessary licenses, approvals and permit, if any, that are material to the New Business have been obtained, all of which are valid and current, and that it has been in compliance in all material respects with the applicable laws and regulations in Hong Kong.

REASONS FOR AND BENEFITS OF THE ACQUISITION TRANSACTION

The Acquisition Transaction represents a new business strategy to diversify our principal business and expanding into the consumer retail industry as well as high-margin project business for commercial customers. The Board is of the view that in order for the Company to grow, the Company must diversify into new markets that are complementary to its existing business, and decided that it is in line with the overall business strategy of the Company by entering into the Acquisition Transaction. The Acquisition Transaction will further enhance the current product portfolio of the Company to include a wide range of consumer electronics products and household appliances that will further enhance customer service quality, cross selling opportunity and improved bargaining power with the suppliers.

The Board has considered the following principal reasons for entering into the Acquisition Transaction:

Market share

The Vendors have build a solid reputation in the consumer retail industry since its founding in the early 2000s, and has become a sizeable retailers in the TV retail segment in Hong Kong. Upon Completion, the Acquisition Transaction should immediately give the Company a sizeable foothold in the sector.

Management expertise

Mr Yu possesses extensive experience in the retail industry and together with his management team, the Company's existing management and operational expertise will be strengthened especially in the operation of the New Business. Upon Completion over 95% of the existing employees are expected to continue to work for the Enlarged Group. The Company does not have to incur significant economic resources in building a new comparable management team for the New Business.

Growth opportunity

The Board is of the view that the demand for high-end audio visual equipment and Custom Installation Services from local commercial sector is increasing, where consumers look for professional advice, technological support and high-level capabilities, and the market potential is therefore sizeable. By bringing in the relevant capabilities through the Acquisition Transaction, the Company will be equipped with the necessary know-how to expand into this fast growing, high value-added services for our customers, thus enhancing our overall service quality in the New Business.

Potential synergies through cost-savings

The Company sees an opportunity to merge the business opportunities of the New Business with the Company's where significant synergies can be realised through improving bargaining position with suppliers, enhancing our product portfolio to increase overall customer satisfaction and creating a tax-efficient corporate structure. By providing the necessary economic resources through efficient deployment of the Enlarged Group's internal resources, the New Business will have the necessary resources to grow further.

The Business Assets were valued by BMI Appraisals Limited, an independent professional valuer, at an aggregate value of approximately HK$77.7 million, details of which are set out in Appendix IV to this circular (the "Business Valuation"). The Consideration is determined by the Board after considering the factors set out above.

The Board confirms that the Business Valuation is not a forecast of profits or losses of the Company after Completion and hence has not included any statement which explicitly or implicitly quantifies the anticipated level of future profits or losses of the Company in this circular, either expressly or by reference to any previous profits or losses or any other benchmark or point of reference. Hence, Rule 14.61 of the Listing Rules is not applicable to the current Business Assets valuation of the Company.

The valuation of the Trademarks, in particular, as set out in Appendix IV to this circular, is being calculated by BMI with reference to the theoretical savings from the royalty payments that would otherwise been incurred should the Trademarks were licensed to a third party by the current owners (i.e. the Vendors) in a given period, rather than revenue and related profits that are expected to be generated in the future by the Company from using such revenue generating assets (i.e. the Trademarks). Hence the “Relief-from-royalty” method currently adopted by BMI in valuing the Trademarks is not a projection of profits, earnings or cash flows which is regarded as a profit forecast of the Company nor a representation of the Company’s future plan on any forecast on any profits or losses in the New Business.

In view of the foregoing, the Directors consider that the Consideration and the terms of the Agreement are fair and reasonable and the Acquisition Transaction is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition Transaction is/are greater than 25% while all such ratios are less than 100% for the purposes of Rule 14.07 of the Listing Rules, the Acquisition Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders’ approval requirements.

Under the Listing Rules, the Acquisition Transaction is also required to be subject to approval of the Shareholders. Under Rule 14.44 of the Listing Rules, Searich Group Limited, holding approximately 51.56% shareholding interest in the Company, has given its consent to entering into the Agreement and the Acquisition Transaction contemplated thereunder.

On the basis that (i) to the best of the Directors’ knowledge, information and belief having made reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for approval of the Acquisition Transaction; and (ii) the Company has obtained the written consent of Searich Group Limited for the Acquisition Transaction, the written approval from that Shareholders in lieu of holding a physical shareholders’ meeting is acceptable for approval of the Acquisition Transaction.

FINANCIAL IMPACT OF THE ACQUISITION TRANSACTION

Set out in Appendix III to this circular is the unaudited pro forma financial information of the Enlarged Group which illustrates the financial impact of the Acquisition Transaction on the Company.

ADDITIONAL MATTERS

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

Yours faithfully,
By Order of the Board of
Sun Tai Lun
Chairman

1. FINANCIAL SUMMARY

The financial information of the Group for each of the three years ended 31 March 2011, 2012 and 2013 is enclosed in the annual report of the Company.

(i) for the year ended 31 March 2011 is disclosed on pages 41 to 110 of the 2010/2011 annual report of the Company dated 22 June 2011;

(ii) for the year ended 31 March 2012 is disclosed on pages 42 to 110 of the 2011/2012 annual report of the Company dated 20 June 2012; and

(iii) for the year ended 31 March 2013 is disclosed on pages 42 to 109 of the 2012/2013 annual report of the Company dated 26 June 2013.

All these financial statements have been published on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at www.chinahkphoto.com.hk.

2. WORKING CAPITAL

Taking into account the expected completion of the Acquisition Transaction on the Completion Date and the internal resources available to the Enlarged Group, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

3. STATEMENT OF INDEBTEDNESS

At the close of business on 31 May 2013, being the most recent practicable date prior to the printing of this circular and for the purpose of this indebtedness statement, the Group had no outstanding bank borrowings.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not, at the close of business on 31 May 2013, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptances credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the Group's indebtedness position and contingent liabilities since the close of business on 31 May 2013.

4. FINANCIAL AND TRADING PROSPECTS

Through the Group's solid business partnerships with Fujifilm Japan, the Group is currently the sole authorised distributor of FUJIFILM products in Hong Kong and Macao, since 1968. The Acquisition Transaction will provide an opportunity for the Group to further expand its retail capabilities, as well as strategically diversify its operations into the high growth, high value-added professional audio and visual advisory/custom installation services for commercial/retail customers, overall enhancing the Group's retail service quality.

In view of the increasing demand for high-end audio and visual equipment, the Custom Installation Services, the market potential is sizeable. The Acquisition Transaction provides an excellent opportunity for the Group to invest in the necessary resources and expertise in capturing business opportunities this marketplace presents, as well as creating operational synergies with the Group's existing businesses. The Group will invest the necessary resources to integrate the Business Assets into the Group's operating platform, and to identify areas where values can be created. Although the acquisition related costs may decrease the profitability in the near term, Directors are optimistic about the future profitability of the Enlarged Group, and the financial and trading prospects will steadily improve in the future.

The Group will continue to consider other investment opportunities, but will only do so in a financially prudent manner.

5. EFFECT ON EARNINGS, ASSETS AND LIABILITIES OF THE COMPANY

Upon successful completion, the assets acquired will be consolidated with those of the Group, in accordance with HKFRS 3 "Business Combinations".

Set out in Appendix III to this circular is the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group which illustrates the financial effects of the Acquisition Transaction on the assets and liabilities of the Group, assuming Completion has taken place on 31 March 2013. Based on the unaudited pro forma financial information of the Enlarged Group, the total assets of the Group would increase by approximately HK$25,300,000.

According to the unaudited profit and loss statements on the identifiable net income stream in relation to the Business Assets, set out in Appendix II, the Business Asset's recorded a net income before tax of approximately HK$3,681,000 for the year ended 31 March 2013. The Directors are of the view that the Acquisition Transaction will lead to an increase on the Group's earnings, with the profitability continue to improve in future years as the Enlarged Group realise the benefits from the synergies created as well as improved operation efficiencies.

The following are the unaudited profit and loss statements on the identifiable net income stream ("Identifiable Net Income Stream") in relation to the major acquisition of the Business Assets for each of the years ended 31 March 2011, 2012 and 2013, which are compiled and derived from the underlying books and records of the Vendors, and are prepared using accounting policies materially consistent with those of the Group. The Identifiable Net Income Stream set out below has been prepared based on the books and records of the Vendors in relation to the Business Assets and taken into consideration of certain adjustments identified by the Vendors in order to reflect the business performance of the Business Assets. The adjustments (the "Adjustments") include (i) the elimination of intercompany transactions among the Vendors, (ii) the allocation of purchase rebates from YCY Holdings Limited and (iii) allocation of finance costs from YCY Holdings Limited. The Directors take the sole responsibility on the completeness, appropriateness and accuracy of these adjustments so as to reflect business performance of the Business Assets.

BUSINESS ASSETS

	Year ended 31 March 2011	**Year ended 31 March 2012**	**Year ended 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	397,272	421,529	420,587
Cost of sales	(319,925)	(340,049)	(342,842)
Other income	618	310	96
Rental expenses	(25,706)	(26,215)	(27,683)
Depreciation expenses	(4,649)	(3,810)	(3,408)
Staff costs	(24,160)	(27,401)	(25,620)
Finance costs	(6,192)	(6,808)	(7,257)
Other operating expenses	(7,590)	(9,788)	(10,192)
Profit before income tax expense	9,668	7,768	3,681

In accordance with paragraph 14.67(6)(b)(i) of the Rules Governing the Listing Rules, the Directors of the Company engaged PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the auditor of the Company to perform certain factual finding procedures on the compilation of the Identifiable Net Income Stream of the Business Assets in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has agreed the balances set out in the Identifiable Net Income Stream to the schedules prepared by management of the Company ("Schedules") and traced the unadjusted amounts in the Schedules to the corresponding amounts in the general ledgers of the Vendors, recalculated the Adjustments based on the corresponding amounts in the general ledgers of the Vendors and based on the formulas specified by the Company, which the auditor made no comment on the completeness, reasonableness or appropriateness of these formulae, and the respective adjustments arising from the result of these formulae, and reported their factual findings based on the agreed-upon-procedures to the Directors of the Company. Since the agreed-upon-procedures were agreed by the Directors and the auditor of the Company, they should not be used or relied upon by any other parties for any purposes. In the opinion of the Directors, the Identifiable Net Income Stream has been properly compiled and derived from the underlying books and records of the Vendors and prepared in accordance with the accounting policies materially consistent with the Group.

Set out below is the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the"Unaudited Pro Forma Financial Information") which has been prepared based on the audited consolidated statement of financial position of the Group as set out in the published annual report for the year ended 31 March 2013 after making pro forma adjustments.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and is based on a number of assumptions, estimates and uncertainties. Accordingly, because of its nature, it does not purport to describe the net assets position of the Enlarged Group that would have been attained had the Acquisitions Transaction been completed at the date stated, nor does it purport to predict the financial position of the Enlarged Group at 31 March 2013 or at any future dates.

I. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES

		Pro forma adjustments			
	Consolidated assets and liabilities of the Company as at 31 March 2013	**Business Assets as at 31 March 2013**	**Pro forma adjustments**		**Unaudited pro forma statement of assets and liabilities of the Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
	Note 1	*Note 2*		*Notes*	
ASSETS					
Non-current assets					
Property, plant and equipment	28,961	2,955	–	*5*	31,916
Investment properties	197,945	–	–		197,945
Trademarks	–	–	16,500	*5, 7*	16,500
Goodwill	35,878	–	43,845	*6, 7*	79,723
Interest in an associate	600	–	–		600
Rental deposits	5,690	–	–		5,690
Deferred tax assets	33	–	–		33
Total non-current assets	269,107				332,407
Current assets					
Inventories	103,889	58,249	–	*5*	162,138
Trade and bills receivables	22,856	–	–		22,856
Prepayments, deposits and other receivables	11,342	–	–		11,342
Tax recoverable	13	–	–		13
Held-to-maturity investment	6,019	–	–		6,019
Cash and bank balances	542,147	–	(96,249)	*4*	445,898
Total current assets	686,266				648,266

	Consolidated assets and liabilities of the Company as at 31 March 2013	Business assets as at 31 March 2013	Pro forma adjustments		Unaudited pro forma statement of assets and liabilities of the Enlarged Group
		Pro forma adjustments			
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
	Note 1	*Note 2*		*Notes*	
LIABILITIES					
Current liabilities					
Trade and bills payables	28,237	–	–		28,237
Accrued liabilities and other payables	40,067	–	10,000	*3, 4*	50,067
Tax payable	11,180	–	–		11,180
Total current liabilities	79,484				89,484
Net current assets	606,782				558,782
Total assets less current liabilities	875,889				891,189
Non-current liabilities					
Accrued liabilities	7,624	–	7,000	*4, 8*	14,624
Deferred tax liabilities	23,493	–	–		23,493
Total non-current liabilities	31,117				38,117
Net assets	844,772				853,072

Notes to the unaudited pro forma statement of assets and liabilities:

1. The balances are extracted from the consolidated statement of financial position of the Group as at 31 March 2013 as set out in the published annual report for the year ended 31 March 2013.

2. The balances represent the fair value as at 31 March 2013 of the Business Assets.

   Since the fair value of the property, plant and equipment and the inventories at the Completion Date may be substantially different from their fair values used in the unaudited pro forma statement of assets and liabilities of Enlarged Group, the respective values of the acquired property, plant and equipment and inventories to be recorded in the financial statement of the Group at the Completion Date may be different from the amounts shown in this appendix.

3. The adjustment reflects the Earn-out Payment of HK$3,500,000 on the 1st anniversary of the Completion Date, and the estimated directly attributable transaction cost of approximately HK$6,500,000.

4. In accordance with the Agreement, the consideration for the Acquisition Transaction will be satisfied by a combination of

(i) cash payment of HK$38,000,000;

(ii) 21,489,972 new Consideration Shares will be issued upon the Purchaser being satisfied (at its sole discretion) with the performance of the Business Assets being integrated to the Purchaser during the period immediately before each of the three dates ("Anniversary Date") set out below:

Payment Date	**Number of Lock-up Shares to be released and returned**	**Balance of the Lock-up Shares**
On the 1st anniversary of the Completion Date	7,163,324 shares	14,326,648 shares
On the 2nd anniversary of the Completion Date	7,163,324 shares	7,163,324 shares
On the 3rd anniversary of the Completion Date	7,163,324 shares	Nil

For the purpose of the Pro Forma Financial Information, the fair value of the Consideration Shares is approximately HK$14,800,000 based on 21,489,972 new Consideration Shares in issue at the market price of HK$0.69 per Share which represents the closing price of the Company's share on 31 March 2013.

(iii) a sum agreed to the actual Stock Price after the physical stock-take on the Completion Date being calculated, adjusted and payable to the Vendors and in any event shall not be more than HK$60,000,000; and

(iv) cash payment of HK$10,500,000 by three installments in three years at HK$3,500,000 upon the Purchaser being satisfied (at its sole discretion) with the performance of the Business Assets being integrated to the business of the Purchaser during the period immediately before each of the three dates ("Anniversary Date") set out below:

Payment Date	**Earn-out Payment**
On the 1st anniversary of the Completion Date	HK$3,500,000
On the 2nd anniversary of the Completion Date	HK$3,500,000
On the 3rd anniversary of the Completion Date	HK$3,500,000

5. Upon Completion, the identifiable assets and liabilities of the Business Assets will be accounted for in the unaudited pro forma statement of assets and liabilities of Enlarged Group at fair value under the acquisition method of accounting in accordance with HKFRS 3.

The identifiable assets and liabilities of the Business Assets are recorded in the unaudited pro forma statement of assets and liabilities of Enlarged Group at their fair values estimated by the directors of the Company with reference to the valuation performed by BMI, an independent professional qualified valuer, as at 31 March 2013 for the purpose of purchase price allocation.

The fair value adjustment includes the recognition of the Trademarks of approximately HK$16,500,000. As at 31 March 2013, the Group is still applying for the legal title of the Trademarks. Management assumes that the legal title will be obtained at the Completion Date.

No deferred tax liabilities were recognised as the Trademarks are deductible for tax under Section 16EA of the Inland Revenue Ordinance.

6. The adjustment reflects the recognition of the goodwill of approximately HK$43,845,000 which represents the excess of the consideration for the Acquisitions Transaction as set out in note 4 above over the fair value of the identifiable assets and liabilities of Business Assets as set out in note 5 above.

   Since the fair value of the Consideration Shares at Completion Date and the fair values of the identifiable assets and liabilities of Business Assets at Completion Date may be substantially different from their fair values used in the unaudited pro forma statement of assets and liabilities of Enlarged Group, the final amount of goodwill may be different from amounts presented above.

7. For the purpose of this Unaudited Pro Forma Financial Information of the Enlarged Group, the directors consider that no impairment in the value of trademarks and goodwill is necessary according to Hong Kong Accounting Standard 36 “Impairment of Assets” and the reporting accountant has performed its procedures on the Unaudited Pro Forma Financial Information in accordance with Hong Kong Standard on Assurance Engagement 3420 “Assurance Engagement to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” and drawn its conclusion in the report as shown in section II below.

8. Long service payment which entitled for the employees in relation to the Business Assets is not considered in the unaudited pro forma statement of assets and liabilities of Enlarged Group as based on management assessment, the amount of long service payment will not be significant.

9. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2013.

II. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP INCLUDED IN A CIRCULAR

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A CIRCULAR

TO THE DIRECTORS OF CHINA-HONGKONG PHOTO PRODUCTS HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China-Hongkong Photo Products Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), and certain assets (the "Business Assets") held by YCY Holdings Limited (the "Target Company") and its subsidiaries and Galerien und PartnerPlus Limited (the "Target Companies") to be acquired by the Company (collectively referred to as the "Enlarged Group") prepared by the Directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 March 2013 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-4 of the Company's circular dated 30 July 2013, in connection with the proposed acquisition of the Business Assets (the "Transaction") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Section I set out on page III-1 to III-4 of the Company's circular dated 30 July 2013.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction on the Group's financial position as at 31 March 2013 as if the Transaction had taken place at 31 March 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 March 2013, on which an annual report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited 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 Unaudited 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 Unaudited 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 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 complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited 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 Unaudited 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 Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a 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 Transaction at 31 March 2013 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited 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 unaudited 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 unaudited 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 Company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited 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 Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 July 2013

The following is the text of a report prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 31 March 2013 of certain assets of YCY Holdings Limited.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

33rd Floor, Shui On Centre, Nos. 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心33樓
Tel 電話 : (852) 2802 2191 Fax 傳真 : (852) 2802 0863
Email 電郵 : info@bmintelligence.com Website 網址 : www.bmi-appraisals.com

30 July 2013

The Directors
China-Hongkong Photo Products Holdings Limited
8th Floor, Tsuen Wan Industrial Centre
Nos. 220-248 Texaco Road
Tsuen Wan, New Territories
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from China-Hongkong Photo Products Holdings Limited (referred to as the "Company") for us to provide our opinion on the fair values of certain assets (referred to as the "Assets") of YCY Holdings Limited (referred to as "YCY") as at 31 March 2013.

This report presents the basis of valuation, the background of YCY and the Assets, an industry overview, the source of information, the scope of work and the valuation assumptions. It also explains the valuation methodology utilized and presents our conclusion of values.

BASIS OF VALUATION

Our valuations have been carried out on the basis of fair value. Fair value is defined as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction".

BACKGROUND OF YCY

YCY engages in selling consumer electronics products in retail shops in Hong Kong, providing installation and project design, and distributing high-end audio and video products under international brands. YCY is also a distributor of wholesaling large-sized television sets under international brands.

YCY is the sole shareholder of each of AV Life Limited, Life Digital Limited, Life Electric Limited and E-Max Global Technology Limited, and it also holds 60% shareholding in Pro Audio Limited. E-Max Global Technology Limited holds the entire issued share capital of EMCS Limited. Pro Audio Limited holds the entire issued share capital of EMMY Technology Limited.

BACKGROUND OF THE ASSETS

The Trademarks

The trademarks are "AV Life Prestige & device" (「生活影音及設備」), "Life Digital Gadgets & device" (「生活數碼及設備」) and "Life Electric Quality & device" (「生活電器及設備」) transferred from AV Life Limited, Life Digital Limited and Life Electric Limited to the Company (referred to as the "Trademarks").

AV Life Limited operates an audio-video product retail chain in Hong Kong. The first shop was opened in 2002. It sells a comprehensive range of audio-video products including liquid crystal display (LCD) and plasma televisions, high fidelities (Hi-Fi), digital video disc (DVD) players and recorders, as well as other supplemental products including projectors and receivers.

Life Digital Limited operates a retail shop in Hong Kong that sells digital products. The store is located at IFC Mall in Central, Hong Kong.

Life Electric Limited operates a household electrical appliance retail chain in Hong Kong. The first shop was opened in 2006. It sells a comprehensive range of products from large electrical appliances such as refrigerators and air-conditioners to small household electrical appliances such as electric irons and hair dryers. In contrast to other traditional household electrical appliance shops, the interior design of Life electric is modern and fashionable, which allows customers to shop in a relaxed and comfortable environment.

The Fixed Assets

The fixed assets comprise computers, furniture, office equipment and leasehold improvements transferred from YCY, AV Life Limited, Life Digital Limited, Life Electric Limited, Pro Audio Limited and EMCS Limited (collectively referred to as the "YCY Group") to the Company (referred to as the "Fixed Assets").

The Inventories

The inventories comprise audio-visual equipment, electronic appliances transferred from YCY to the Company (referred to as the "Inventories").

INDUSTRY OVERVIEW

According to Economist Intelligence Unit, demand for household audio and video equipment in Asia was expected to grow through 2015, led by the People's Republic of China (referred to as the "PRC") and India. In Hong Kong, economic recovery increased the demand for household audio and video equipment. It is expected that demand for household audio and video equipment in Hong Kong will increase at a rate of 5.9%, 5.8% and 5.3% in 2013, 2014 and 2015 respectively.

As a result of the PRC and Hong Kong Closer Economic Partnership Arrangement (CEPA), more products from the PRC have been introduced into Hong Kong. Although many Chinese brands are still struggling to improve product quality, it is expected that Chinese manufacturers are targeting the low-end market in the short-run but eventually will enter the high-end market through product innovation in the long-run.

According to GfK Retail and Technology, for an aggregate of nine markets in Asia including Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam, sales amount of household appliances had a year-on-year growth of 23%, while sales volume had a year-on-year growth of 19%. For certain specific markets, the growth rate was even over 50%.

Among the nine markets in Asia, air-conditioner was the major driver of industry growth. Sales amount of air-conditioner increased 24% year-on-year, while sales volume increased 25% year-on-year. Out of the total spending on household appliances, Taiwan, Hong Kong, and Singapore households spent the most on air-conditioners, with a ratios of 51.3%, 44.6% and 42.8% respectively.

SOURCE OF INFORMATION

We have been furnished with information provided by the senior management of the Company. The valuations required the consideration of pertinent factors, including, but not limited to, the following:

- The nature of YCY including the industry sector and geographical location;
- The information provided by the senior management of the Company; and
- Other factors that will materially affect the operation of YCY.

SCOPE OF WORK

The following processes have been conducted by us in the course of our valuations:

- Conducted on-site sample inspections/investigations of the Fixed Assets and the Inventories;
- Interviewed with the senior management of the Company and obtained information in respect of YCY;
- Examined the information provided by the senior management of the Company;

- Prepared the valuations based on accepted valuation procedures and practices; and
- Presented the basis of valuation, the background of YCY and the Assets, an industry overview, the source of information, the scope of work, the valuation assumptions, the valuation methodology and our conclusion of values in this report.

VALUATION ASSUMPTIONS

The following assumptions have been adopted in the valuations:

- All licenses issued by any authorized entity that will materially affect the operation of YCY have been obtained or can be obtained upon request;
- There will be no material change in the political, legal, fiscal, technological, market and economic conditions in the jurisdiction where YCY operates;
- The market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;
- The core operation of YCY will not differ materially from those of present or expected;
- The information in respect of YCY have been prepared after due and careful consideration by the senior management of the Company; and
- There will be no human disruptions or natural disasters that will materially affect the operation of YCY.

VALUATION METHODOLOGY

The Valuation Approaches

The following valuation approaches have been considered in the valuations:

1. The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset;
2. The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the assets; and
3. The cost approach provides an indication of value based on the principle that an informed buyer would pay no more than the cost of producing a substitute asset with equal utility as the subject asset.

The Trademarks

After discussion with the senior management of the Company and the Company's auditor, the only identifiable intangible assets of YCY are the Trademarks.

The income approach was considered to be the most appropriate valuation approach.

Under the income approach, the Relief-from-royalty Method was adopted in the valuation. In applying the Relief-from-royalty Method, an asset is valued based on the forecasted revenue accruing to the owner by virtue of the fact that the owner does not have to pay a fair royalty to a third party for the use of the asset.

In the valuation, a royalty rate of 0.69% was adopted.

The fair value of the Trademarks was determined with reference to publicly listed companies that are considered to be comparable to YCY (referred to as the "Comparable Companies"). Details of the Comparable Companies are as follows:

	List of the Comparable Companies	**Bloomberg Ticker**
1.	Suning Appliance Co., Ltd.	002024 CH
2.	GOME Electrical Appliances Holding Ltd.	493 HK
3.	E-LIFE MALL corporation, Ltd.	6281 TT

The Weighted Average Cost of Capital (WACC) was adopted as the discount rate. The WACC of YCY was calculated as 12.22%.

Intangible assets are generally perceived to have greater risk than tangible assets and companies would expect to earn a higher rate of return on intangible assets than on tangible assets. In the valuation, a risk premium of 3.00% was adopted. As a result, the discount rate of the Trademarks was 15.22%.

The Fixed Assets

We have conducted sample inspections of the Fixed Assets and we have been advised by the Company that all Fixed Assets are in existing use and in good operating condition. Our assessment is based on the premise that the Fixed Assets are in a condition commensurate with their respective age and usage.

We have applied two generally accepted approaches to ascertain the values of the Fixed Assets, namely:

The market approach considers selling prices for similar assets, with adjustments made to the indicated market prices to reflect the conditions and utilities of the appraised assets relative to their market comparables. The values of assets for which there are established secondhand market comparables may be appraised by this approach.

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowances for accrued depreciation arising from condition, utility, age, wear and tear, and/or obsolescence present (physical, functional and/or economic), taking into consideration the past and present maintenance policy and rebuilding history. This approach generally furnishes the most reliable indication of the values of assets in the absence of a known market based on comparable sales.

The Inventories

We have relied on the information provided by the Company that the Inventories existed as at the date of valuation. In addition, our valuation has been prepared based upon the assumption of the Inventories were freely transferable in the market and there exists no obsolete items in the Inventories.

The cost approach was considered to be the most appropriate valuation approach.

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowances for relevant obsolescence if appropriate.

REMARKS

For the purpose of our valuations, we have been furnished with information provided by the senior management of the Company. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. Our valuation does not explicitly or implicitly quantify the anticipated level of future profits or losses of the Company. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made or liability assumed for the accuracy of any data, opinions or estimates identified as being furnished by others, which have been used in formulating our analysis.

Unless otherwise stated, all money amounts stated herein are in Hong Kong Dollars (HK$).

CONCLUSION OF VALUES

Our conclusion of values is based on accepted valuation procedures and practices that rely on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to uncertainties and contingencies that are beyond the control of the Company, YCY or us.

Based on our investigation and analysis outlined in this report, it is our opinion that the fair values of the Assets of YCY as at 31 March 2013 were as follows:

YCY	**Fair Value**
	(HK$)
Trademarks	16,500,000
Fixed Assets	2,955,300
Inventories	58,249,000

We hereby certify that we have neither present nor prospective interest in the Company, YCY or the results reported.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Marco T. C. Sze
B.Eng(Hon), PGD(Eng), MBA(Acct),
CFA, AICPA/ABV, RBV, CIM
Director

Dr Tony C. H. Cheng
BSc., MUD, MBA(Finance), MSc.(Eng), PhD(Econ),
FSOE, FIPlantE, CEnv, SIFM, FCIM, CPA UK, MCIArb
MASCE, MIET, MIEEE, MASME, MIIE
Managing Director

Notes:

1. Mr Marco T. C. Sze is a Chartered Financial Analyst, a member of the American Institute of Certified Public Accountants (AICPA) and is accredited in Business Valuation by the AICPA. In addition, he is a Registered Business Valuer under the Hong Kong Business Valuation Forum and a member of the Canadian Institute of Mining, Metallurgy and Petroleum (CIM). He has extensive experience in valuing similar assets as that of YCY worldwide.

2. Dr Tony C. H. Cheng has various engineering qualifications. He is currently the Chairman of Institute of Mechanical Engineers, a Fellow member of The Society of Operations Engineers (SOE), Institution of Plant Engineers (IPlantE) and a member of The Institute of Industrial Engineers (IIE) and the American Society of Mechanical Engineers (ASME). He has extensive experience in valuing similar assets in different industries in Hong Kong and the PRC.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors of the Company 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 Company. 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 DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Director or 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) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules adopted by the Company ("Model Code") to be notified to the Company and the Stock Exchange, were as follows:

Number of shares held, capacity and nature of interest:

Name of director	*Notes*	Directly beneficially owned	Founder of a trust	Beneficiary of a trust	Total	Percentage of the Company's issued share capital
Dr Sun Tai Lun Dennis 孫大倫博士	*(i) & (ii)*	1,000,000	700,034,214	11,242,000	712,276,214	61.20
Mr Sun Tao Hung Stanley 孫道弘先生	*(iii) & (iv)*	–	–	711,276,214	711,276,214	61.12
Ms Ng Yuk Wah Eileen 吳玉華女士		250,000	–	–	250,000	0.02
Mr Tang Kwok Tong Simon 鄧國棠先生		1,142,000	–	–	1,142,000	0.10

Long positions in shares and underlying shares of associated corporations:

Name of director	Name of associated corporation	Relationship with the Company	Shares	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Dr Sun Tai Lun Dennis 孫大倫博士	Searich Group Limited	Company's immediate holding company	Ordinary shares *(note (i))*	25	Beneficiary of a trust	25
	-ditto-	-ditto-	Ordinary shares *(note (ii))*	75	Founder of a trust	75
				100		100
Dr Sun Tai Lun Dennis 孫大倫博士	Fine Products Limited	Company's ultimate holding company	Ordinary shares *(note (ii))*	103,000,000	Founder of a trust	100

Notes:

(i) Dr Sun Tai Lun Dennis is deemed to be interested in a total of 11,242,000 shares in the Company directly held by Dago Corporation, which is a company incorporated in the British Virgin Islands and is owned by Trident Trust Company (B.V.I.) Limited in its capacity as the trustee of The Dennis Family Trust, a discretionary trust established for the benefit of Dr Sun Tai Lun Dennis and his family members. Dago Corporation also holds 25% of the issued share capital of Searich Group Limited.

(ii) Dr Sun Tai Lun Dennis is deemed to be interested in 700,034,214 shares in the Company held by Fine Products Limited by virtue of him being the founder of The Sun Family Trust which holds the entire issued share capital of Fine Products Limited. 75% of the issued share capital of Searich Group Limited is held by Fine Products Limited. Details of the interest of Fine Products Limited and Searich Group Limited in the Company can be found in the section "Substantial shareholders' and other persons' interests and short positions in shares and underlying shares" below.

(iii) Mr Sun Tao Hung Stanley is deemed to be interested in a total of 11,242,000 shares in the Company directly held by Dago Corporation, which is a company incorporated in the British Virgin Islands and is owned by Trident Trust Company (B.V.I.) Limited in its capacity as the trustee of The Dennis Family Trust, a discretionary trust established for the benefit of Dr Sun Tai Lun Dennis and his family members including Mr Sun Tao Hung Stanley. Dago Corporation also holds 25% of the issued share capital of Searich Group Limited.

(iv) Mr Sun Tao Hung Stanley is deemed to be interested in 700,034,214 shares in the Company held by Fine Products Limited by virtue of him being the beneficiary of The Sun Family Trust which holds the entire issued share capital of Fine Products Limited. 75% of the issued share capital of Searich Group Limited is held by Fine Products Limited. Details of the interest of Fine Products Limited and Searich Group Limited in the Company can be found in the section "Substantial shareholders' and other persons' interests and short positions in shares and underlying shares" below.

Save as disclosed above, as at the Latest Practicable Date, none of the directors of the Company and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of part XV of SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, none of the Directors had any material direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 March 2013, being the date to which the latest published audited financial statements of the Company were made up.

None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at the Latest Practicable Date, the following interests and short positions in the shares and the underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Long positions of substantial shareholders who were entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the Company:

Name of shareholder	Capacity and nature of interest	Number of ordinary shares held	*Notes*	Percentage of the Company's issued share capital
Dr Sun Tai Lun Dennis 孫大倫博士	Beneficial owner	1,000,000		
	Beneficiary of a trust	11,242,000		
	Founder of a trust	700,034,214		
		712,276,214		**61.20**
Fine Products Limited	Beneficial owner & interest of a controlled corporation	700,034,214	*(i) & (ii)*	60.15
Searich Group Limited	Beneficial owner	600,034,214	*(i) & (ii)*	51.56
Trident Trust Company (B.V.I.) Limited	Trustee	711,276,214	*(i) & (ii)*	61.12
Ms Tang Sau Ying Betty 鄧秀英女士	Interest of spouse	712,276,214	*(ii) & (iii)*	61.20
Mr Sun Tao Hung Stanley 孫道弘先生	Beneficiary of a trust	711,276,214	*(iv)*	61.12

Long positions of other substantial shareholders:

Name of shareholder	Capacity and nature of interest	Number of ordinary shares held	*Notes*	Percentage of the Company's issued share capital
Mr Fung Kwok Lun William 馮國綸先生	Interest of a controlled corporation	70,000,000	*(v) & (vii)*	6.01
Li & Fung (Retailing) Limited 利豐(零售)有限公司	Beneficial owner	70,000,000		6.01
Li & Fung (1937) Limited 利豐(1937)有限公司	Interest of a controlled corporation	70,000,000		6.01
King Lun Holdings Limited	Interest of a controlled corporation	70,000,000		6.01
HSBC Trustee (C.I.) Limited	Trustee	70,000,000	*(vi) & (vii)*	6.01

Notes:

(i) 100,000,000 shares representing 8.59% of the Company's shares in issue are directly owned by Fine Products Limited. The remaining 600,034,214 shares are owned by Searich Group Limited, in which Fine Products Limited holds 75% of its issued share capital. Fine Products Limited is a company incorporated in the British Virgin Islands and is owned by Trident Trust Company (B.V.I.) Limited in its capacity as the trustee of The Sun Family Trust.

(ii) Such interests have been included as the interests of Dr Sun Tai Lun Dennis.

(iii) Ms Tang Sau Ying Betty is deemed to be interested in 712,276,214 shares of the Company through the interests of her spouse, Dr Sun Tai Lun Dennis.

(iv) Mr Sun Tao Hung Stanley is deemed to be interested in a total of 711,276,214 shares of the Company by virtue of him being a beneficiary of The Sun Family Trust and The Dennis Family Trust.

(v) The interests of Mr Fung Kwok Lun William are held via a chain of controlled corporations, namely Li & Fung (Retailing) Limited, Li & Fung (1937) Limited and King Lun Holdings Limited (which is 50% owned by Mr Fung Kwok Lun William).

(vi) The interests of HSBC Trustee (C.I.) Limited are held via a chain of controlled corporations, namely Li & Fung (Retailing) Limited, Li & Fung (1937) Limited and King Lun Holdings Limited (which is 50% owned by HSBC Trustee (C.I.) Limited).

(vii) The interests of Mr Fung Kwok Lun William and HSBC Trustee (C.I.) Limited as mentioned in the above notes (v) and (vi) refer to the same block of shares in the Company.

Save as disclosed above, as at Latest Practicable Date, no person, other than the directors of the Company, whose interests are set out in the section "Disclosure of Directors' Interests" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

As at the Latest Practicable Date, none of the Directors or proposed Director was a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors, had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

5. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors of the Group and their respective associates has interests in the businesses which competes or was likely to compete, whether directly or indirectly, with the business of the Group.

6. DIRECTORS' AND EXPERT'S INTEREST IN ASSETS AND/OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors and experts had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any members of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2013, being the date to which the latest published audited consolidated financial statements of the Company were made up.

As at the Latest Practicable Date, there is no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group as a whole.

7. MATERIAL CONTRACT

The Agreement, not being contract in the ordinary course of business, is entered into by the members of the Group within two years preceding the Latest Practicable Date and is or may be material.

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinions or advice which are contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
BMI Appraisals Limited	Valuer

Each of PricewaterhouseCoopers and BMI Appraisals Limited has confirmed that as at the Latest Practicable Date, it did not have any beneficial shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any direct or indirect interests in any assets which have since 31 March 2013 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been or proposed to be acquired or disposed of by or leased to any member of the Group.

Each of PricewaterhouseCoopers and BMI Appraisals Limited has given and has not withdrawn, as at the Latest Practicable Date, its written consent to the issue of this circular with the inclusion herein of its opinion prepared for the purpose of incorporation in this circular, and the references to its name and opinion in the form and context in which they respectively appear.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 March 2013, being the date to which the latest published audited consolidated accounts of the Group have been made up.

10. LITIGATION

As of the Latest Practicable Date, no member of the Group is at present engaged in any litigation or arbitration of material importance to the Group and no litigation or claim of material importance to the Group is known to the Directors or the Company to be pending or threatened by or against any member of the Group.

11. MISCELLANEOUS

(i) The registered office of the Company is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and principal office in Hong Kong is 8th Floor Tsuen Wan Industrial Centre, 220-248 Texaco Road, Tsuen Wan, Hong Kong.

(ii) The company secretary of the Company is Chan Wai Kwan Rita, graduated from The Chinese University of Hong Kong and is Member of the Hong Kong Institute of Certified Public Accountants.

(iii) The share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(iv) In the event of inconsistency, the English text shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal office of the Company at 8th Floor Tsuen Wan Industrial Centre, 220-248 Texaco Road, Tsuen Wan, Hong Kong for a period within 14 days from the date of this circular:

(i) this circular;

(ii) the memorandum of association and Bye-Laws of the Company;

(iii) the annual reports of the Company for the three years ended 31 March 2011, 31 March 2012 and 31 March 2013;

(iv) the letter from PricewaterhouseCoopers in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(v) the letter from BMI Appraisals Limited in respect of the valuation on the Business Assets, the text of which is set out in Appendix IV to this circular;

(vi) the letters of consents referred to under the section headed "8. Experts and Consents" in this appendix;

(vii) the material contract referred to under the section headed "7. Material Contract" in this appendix; and

(viii) service contracts of the Directors.