TRILOGY INTERNATIONAL LIMITED

INDEPENDENT REPORT IN RELATION TO THE PROPOSED SCHEME OF ARRANGEMENT WITH CITIC CAPITAL

Grant Samuel confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and
- has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Grant Samuel has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

GRANT SAMUEL & ASSOCIATES LIMITED

FEBRUARY 2018

TABLE OF CONTENTS

GLOSSARY

TERM	DEFINITION
CBEC	Cross Border Ecommerce Distribution Platform
CIDSUR	Compania De Inversiones Y Desarrollo Sur Limitada
CITIC Capital	CITIC Capital China Partners III. LP. Where the context requires, CITIC Capital includes its wholly-owned subsidiary, TIL NZ Rose Investment Limited
Code	The Takeovers Code
Companies Act	Companies Act 1993
DCF	Discounted Cash Flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Ecoya	Ecoya Limited
Forestal Casino	Sociedad Agricola y Forestal Casino SpA
FY14	Financial year ended 31 March 2014
FY15	Financial year ended 31 March 2015
FY16	Financial year ended 31 March 2016
FY17	Financial year ended 31 March 2017
FY18F	Forecast for the financial year ending 31 March 2018
Grant Samuel	Grant Samuel and Associates Limited
Lanocorp	Lanocorp New Zealand Limited, Lanocorp Pacific Limited, LTM Holdings Limited, Canterbury Cosmetics Limited, Lanocorp Pacific Pty Limited and Lanocorp Australia Pty Limited
OIO	Overseas Investment Office
Proposed Scheme	The Proposed Scheme of Arrangement between TIL, TIL NZ Rose Investment Limited, CITIC Capital and TIL's shareholders
Rosehip Oil Agreement	Agreement for the supply of rosehip oil between Forestal Casino and Trilogy Natural Products Limited
SIA	Scheme Implementation Agreement
Trilogy or TIL	Trilogy International Limited
Trilogy®	The Trilogy brand

1 Executive Summary

On 15 December 2017 Trilogy International Limited (**Trilogy**) announced that it had entered into a Scheme Implementation Agreement (**SIA**) with CITIC Capital China Partners III. LP (**CITIC Capital**) to acquire 100% of the issued capital of Trilogy for a cash consideration of $2.90 cash per share (the **Proposed Scheme**). TIL NZ Rose Investment Limited, a wholly-owned subsidiary of CITIC Capital, is the acquirer under the Proposed Scheme. The Proposed Scheme is to be implemented through a scheme of arrangement under the Companies Act 1993 (**Companies Act**) between TIL, TIL NZ Rose Investment Limited, CITIC Capital and TIL's shareholders.

The Proposed Scheme is subject to several key conditions that are set out in the Scheme Booklet, including the approval of Trilogy shareholders.

Trilogy shareholders are being asked to vote to approve or reject the implementation of the Proposed Scheme. For the Proposed Scheme to be approved, more than 50% of the total number of voting securities in Trilogy must be voted in favour of the Scheme and a majority of at least 75% of the total votes cast in each interest class must be in favour of the resolution.

If the two tests are satisfied and the High Court approves the Scheme and the other conditions (including obtaining regulatory approvals) are satisfied, the Proposed Scheme will proceed and all the shares in Trilogy will be acquired.

The possible outcomes of the Proposed Scheme are:

- **The voting thresholds to approve the Proposed Scheme are not achieved.**

  If either of the voting thresholds to approve the Proposed Scheme are not achieved, the Proposed Scheme will not proceed and no shares will be acquired by CITIC Capital. Trilogy will remain a listed company and will have no further obligation to CITIC Capital. No break fees will be payable by either CITIC Capital or Trilogy unless the terms of the SIA have been breached;

- **The voting thresholds to approve the Proposed Scheme are achieved.**

  If the voting thresholds to approve the Proposed Scheme are achieved and all other conditions are satisfied, the Proposed Scheme will be implemented. In that circumstance all shareholders in Trilogy will have their shares acquired at $2.90 per share and Trilogy will be delisted.; and

- **The voting thresholds to approve the Proposed Scheme are achieved but another condition is not satisfied**

  If the voting thresholds to approve the Proposed Scheme are achieved but one of the conditions are not achieved, the Proposed Scheme will not proceed and no shares will be acquired by CITIC Capital. Trilogy will remain a listed company and will have no further obligation to CITIC Capital. No break fees will be payable by either CITIC Capital or Trilogy unless the terms of the SIA have been breached.

The outcome of the shareholder vote on the Proposed Scheme is binary – either the voting thresholds are achieved in which case the Proposed Scheme will be effected in its entirety (provided all other conditions are satisfied), or the voting thresholds are not achieved in which case the Proposed Scheme will not be implemented.

When considering the options outlined above, Trilogy shareholders should also consider the following:

- the Proposed Scheme price of $2.90 per share is within Grant Samuel's assessed value range for Trilogy shares. In Grant Samuel's opinion the full underlying value of Trilogy shares is in the range of $2.59 to $2.94 per share. This value represents the value of 100% of the equity in Trilogy and therefore includes a premium for control;

- the Proposed Scheme price of $2.90 per share implies a premium of 28% relative to the closing price of $2.26 per share on 14 December 2017 - being the last trading day prior to the announcement of the Proposed Scheme, and a premium of 21% over the volume weighted average share price (**VWAP**) over the 30 trading days prior to the announcement. The premium for control is similar to the average premium for control generally observed in successful takeovers of other listed companies;
- the Proposed Scheme is being effected by a Scheme of Arrangement rather than a takeover, and Trilogy will continue as a listed entity until the Proposed Scheme is put to shareholders, with no trading restrictions on any of its shares. In the context of the Proposed Scheme there are no restrictions or deterrents to prevent a competing acquirer from making an alternative takeover or scheme of arrangement proposal to acquire Trilogy. At the date of this report no other offer or proposal to acquire Trilogy had been made. If Trilogy terminated the SIA with CITIC Capital due to a new bid it would be required to pay CITIC a break fee of $2 million;
- if the voting thresholds are not achieved, theoretically CITIC Capital could elect to increase the price it is prepared to pay for Trilogy. Any price increase would require a revised scheme of arrangement proposal. However, there is no certainty that a revised proposal would be tabled. Unless a revised proposal from CITIC Capital or a competing takeover offer from another party is made, in the short-term Trilogy's shares are likely to trade at levels below the Proposed Scheme price of $2.90 per share; and
- voting for or against the Proposed Scheme is a matter for individual shareholders based on their own view as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser(s).

A detailed assessment of the merits of the Proposed Scheme is outlined in section 6 of this report. Grant Samuel's opinion is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

The report does not contain the following Appendices, however they are available online from Trilogy (http://investors.tilbrands.com/investor-centre/?page=scheme):

- Appendix B – Recent Transaction Evidence;
- Appendix C – Comparable Listed Companies;
- Appendix D – Valuation Methodology Descriptions; and
- Appendix E – Interpretation of Multiples.

A full copy of this report is available on request from Trilogy at Level 6, Chelsea House, 85 Fort Street, Auckland Central 1010, New Zealand.

2 Terms of the Proposed Scheme

2.1 Background

On 15 December 2017 Trilogy announced that it had entered into a SIA with CITIC Capital to acquire 100% of the issued capital of Trilogy for a cash consideration of $2.90 cash per share. The Proposed Scheme is to be implemented through a scheme of arrangement under the Companies Act between Trilogy, TIL NZ Rose Investment Limited, CITIC Capital and TIL's shareholders.

The Proposed Scheme is subject to several key conditions that are set out in the Scheme Booklet, including:

- approval from the New Zealand Overseas Investment Office (**OIO**);
- Trilogy shareholder approval;
- approval of the Proposed Scheme by the New Zealand High Court; and
- the approval of the Australian Foreign Investment Review Board has been received.

The full list of conditions to the Proposed Scheme are set out in the Scheme Booklet.

2.2 Profile of CITIC Capital

CITIC Capital is a leading global alternative asset manager with approximately US$22 billion of assets under management. The firm was founded in 2002 and has been one of the pioneers in cross-border investments. CITIC Capital manages investments through its multiple asset class platform covering private equity, real estate, structured investment and finance, and asset management. The firm has over 130 portfolio companies that span 11 sectors and employ over 820,000 people around the world. CITIC Capital employs approximately 280 staff and is headquartered in Hong Kong, with offices in Shanghai, Beijing, Shenzhen, Tokyo and New York.

CITIC Capital's private equity arm, CITIC Capital Partners, is focused on control buyout opportunities globally, and has completed over 50 investments in the past years in China, Japan, United States and Europe. The private equity arm currently manages US$4.7 billion of committed capital.

CITIC Capital has investigated the potential acquisition of a number of other businesses in New Zealand and Australia. To date its only transaction in the region has been the purchase of the Sexual Wellness business unit of Ansell Limited, announced in May 2017.

TIL NZ Rose Investment Limited is a wholly-owned subsidiary of CITIC Capital, and is the acquirer under the Proposed Scheme.

3 Scope of the Report

3.1 Purpose of the Report

The Independent Directors of Trilogy have engaged Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an Independent Report to assess the Proposed Scheme. Grant Samuel is independent of Trilogy and CITIC Capital and has no involvement with, or interest in, the outcome of the Proposed Scheme. The Proposed Scheme is governed by the Companies Act and is required to be approved by the High Court of New Zealand in order to proceed. The High Court will not approve a scheme that affects the voting rights of a company unless:

- it is satisfied that the shareholders of the company will not be adversely affected by the use of a scheme rather than the Takeovers Code (**Code**) to achieve the desired outcome; or
- it is presented with a no-objection statement from the Takeovers Panel.

Trilogy is a defined as a Code company under the Code. Although the provisions of the Code do not apply to schemes of arrangement, the practice of the Takeovers Panel (which is responsible for administering and enforcing the Code) is to conduct a review to establish whether it considers appropriate information is placed before a Code company's shareholders when they are being asked to consider a proposed scheme of arrangement. Although there is no legal requirement under the Companies Act or the Code for an Independent Adviser's Report as a result of the Proposed Scheme, the practice of the Takeovers Panel (except in very limited circumstances) is to require the preparation of an Independent Adviser's Report similar to a Code Rule 21 report before it will consider issuing a final no-objection statement. Trilogy has requested that the Takeovers Panel issue a no-objection statement in relation to the Proposed Scheme to present to the High Court to assist with its deliberations.

Rule 21 of the Takeovers Code requires the Independent Adviser to report on ***the merits of an offer***. The term "merits" has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term "merit", the Panel has interpreted the word "merits" include both positives and negatives in respect of a transaction.

A copy of this report will accompany the Scheme Booklet to be sent to all Trilogy shareholders. This report is for the benefit of the shareholders of Trilogy. The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Proposed Scheme. This report should be read in conjunction with the Qualifications, Declarations and Consents outlined at Appendix E.

This report has been prepared without taking into account the objectives, financial situation or needs of individual Trilogy shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Trilogy in relation to the Proposed Scheme.

Voting for or against the Proposed Scheme is a matter for individual shareholders based on their views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Scheme should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Trilogy. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Proposed Scheme. Shareholders should consult their own professional adviser in this regard.

3.2 Basis of Evaluation

Grant Samuel has evaluated the Proposed Scheme by reviewing the following factors:

- the terms of the Proposed Scheme;
- the potential impact of the Proposed Scheme on the ownership and control of Trilogy;
- the estimated value range of Trilogy and the price of the Proposed Scheme when compared to that estimated value range;
- the likelihood of an alternative offer and alternative transactions that could realise fair value for Trilogy shareholders;
- the likely market price and liquidity of Trilogy shares in the absence of the Proposed Scheme;
- any advantages or disadvantages for Trilogy shareholders of accepting or rejecting the Proposed Scheme;
- the current trading conditions for Trilogy;
- the timing and circumstances surrounding the Proposed Scheme; and
- the attractions and risks of Trilogy's business.

Grant Samuel's opinion is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

3.3 Approach to Valuation

Grant Samuel has estimated the value range of Trilogy with reference to its full underlying value. In Grant Samuel's opinion the price to be paid in the context of a full takeover or a scheme of arrangement that may result in a change of control should reflect the full underlying value of the company. In the context of takeover offers (to which the Proposed Scheme is akin), the support for this opinion is twofold:

- the Code's compulsory acquisition provisions apply when a single shareholder or group of associated shareholders acquires 90% or more of the voting rights in a Code company.
- Where rule 57 of the Code requires the price payable on compulsory acquisition to be determined, the Code seeks to avoid issues of premiums or discounts for minority holdings by providing that a class of shares is to be valued as a whole with each share then being valued on a pro rata basis. In other words, a minority shareholder is allocated its share of the full underlying value. Grant Samuel believes that the appropriate test for fairness under a full or partial takeover offer where the offeror will gain control is the full underlying value, prorated across all shares. The rationale for this opinion is that it would be inconsistent for one group of minority shareholders, those selling under compulsory acquisition, to receive a different price under the same offer from those who accepted the offer earlier; and
- under the Code a single shareholder, or group of associated shareholders, can only acquire 20% or more of the voting rights in a Code company if an offer to acquire shares is made to all shareholders of the company or if non-associated shareholders give their approval to the acquisition by an ordinary resolution. As a result, a controlling shareholding (generally accepted to be no less than 40% of the voting rights) cannot be transferred to another owner without the acquirer making an offer on the same terms and conditions to all shareholders (unless non-associated shareholders pass on ordinary resolution approving the transfer). One of the core foundations of the Code is that all shareholders be treated equally. Any control premium that is implied by an offer is now available to all shareholders

under a takeover offer (in a scenario where an offeror will gain control), regardless of the size of their shareholding or the size of the offeror's shareholding at the time the offer is made.

Accordingly, Grant Samuel is of the opinion that not only because shares acquired under a compulsory acquisition scenario are required to be valued at a price equivalent to full underlying value, but because the control premium (if any) is available to all shareholders, the share price under either a full or partial takeover offer where the offeror will gain control should be within or exceed the prorated full underlying valuation range of the company.

In the context of the Proposed Scheme only two outcomes are possible:

- the Proposed Scheme is approved by Trilogy's shareholders and, if all other conditions are satisfied, the Proposed Scheme is then implemented and 100% of the shares in Trilogy would be acquired by CITIC Capital. Trilogy would be delisted in that circumstance; or
- the Proposed Scheme is rejected by Trilogy shareholders and the Proposed Scheme then collapses and CITIC Capital buys no shares in Trilogy. Trilogy will remain a listed company in that circumstance.

The Proposed Scheme therefore is similar to a full takeover in that it represents a potential change of control event. Consistent with the valuation principles applied to the assessment of a full takeover offer, any value assessment should be of the full underlying value of the company, assuming 100% of the company was available to be acquired and therefore includes a premium for control.

4 Overview of the natural skincare industry

4.1 Overview

The skincare market is the largest category in the global cosmetics industry. Over the past few years there has been a shift towards natural beauty products in preference to traditional skincare products that contain synthetic compounds including sulphates, parabens, phthalates, fragrances, preservatives and other artificial ingredients. The natural skincare movement is part of an increase in consumer awareness around health and wellness and environmental impacts, and a growing body of research linking certain chemical ingredients in skincare products with a range of health issues including reproductive problems, birth defects and cancer. Another key factor in the rising demand for natural skincare products is the increase in consumers' disposable income.

The wider skincare industry is undergoing a period of transition away from low-cost, traditionally formulated products towards niche and premium segments. This trend is expected to result in the continued growth in the use of organic and natural ingredients as consumers are prepared to pay a premium for products that have social and environmental benefits. IBISWorld notes:

"Natural products are continuing to move into mass-market channels to form a second mainstream market, rather than being sold only in niche markets... In the short-to-medium term, trends favouring organic, local, eco-friendly and fair-trade products, all with more sustainable packaging, are expected to gather momentum." [1]

In keeping with this trend, large traditional cosmetics companies have developed or acquired natural skincare lines featuring organic and eco-friendly products and begun replacing potentially harmful ingredients in their existing products with natural ones.

The global organic personal care market is growing at a faster rate than the overall personal care industry and is expected to reach nearly US$25 billion[2] by 2025. Large retailers including Sephora, Nordstrom and Mecca offer dedicated natural beauty sections.

Many consumers have begun shopping online for their skincare needs and social media is becoming an increasing influence on consumer trends. Manufacturers are increasingly selling products online direct to consumers, bypassing traditional retailers.

The industry is dynamic with new product development an ongoing feature. The introduction of probiotics and superfood ingredients (such as kale) are some of the innovations that have recently been adopted. Other trends include the use of more sustainable packaging to minimise the environmental impact of the product, and a trend towards multifunctional products that have both cosmetic and pharmaceutical application such as moisturising, tinting, SPF protection and acne or anti-aging treatments.

4.2 Competition

The natural skincare market is highly competitive and exhibits high levels of international trade. In Australia and New Zealand the import market is dominated by mass-market and premium brands produced by companies such as L'Oreal, Unilever, Beiersdorf and Procter & Gamble[3]. These companies account for more than half of industry revenue. Many Australian and New Zealand skincare manufacturers have developed niche premium products that have achieved some international market penetration as consumers increasingly demand high-quality eco-friendly products. Asian markets have provided a particularly strong export destination as affluent Asian consumers demand New Zealand and Australian eco-friendly products. Exports from Australia now account for more than half of industry revenue.

---

[1] IBISWorld "*All dolled up: Australia's positive green image overseas is set to continue boosting exports*", November 2015

[2] Grandview Research, November 2016

[3] IBISWorld "*Basking in the sun: Industry players have capitalised on demand for organic products*", August 2017

The natural skincare manufacturing segment is highly fragmented with a large number of established brands worldwide. New Zealand and Australia have several worldwide recognised natural skincare brands including *Trilogy®, Kora*, *Kosmea*, *Jurlique*, *Essano* and *Sukin*.

4.3 Distribution

Skincare products are distributed through a wide range of channels with convenience being a significant factor in consumer decision making. Natural skincare products are typically distributed through the following six channels:

- *Wholesalers*: provide a channel to various retail providers and typically represent multiple brands. CS&Co, which is owned by Trilogy, is New Zealand's leading multi-brand beauty distributor;
- *Supermarkets and Grocery Stores:* typically stock more mass-market and budget skincare products with only limited affordable luxury and natural skincare options available;
- *Department Stores:* such as Farmers and David Jones stock a wide range of products including premium and luxury skincare;
- *Pharmacies:* Pharmacies often retail a wide range of cosmetic and skincare products;
- *Specialist cosmetic retailers*: Such as Mecca and Sephora which frequently have dedicated natural skincare sections; and
- *Online:* either direct to consumer or via an online platform such as Strawberry.net. This is an increasingly critical channel due to the increase in online marketing of skincare products via social media (Facebook, Instagram, Snapchat and YouTube).

Many manufacturers opt for a multi-channel distribution model where products are sold through pharmacies, department stores and online.

4.4 The Cosmetics Sector

The growing presence of international cosmetic retailers and the rise of social media marketing of cosmetic products is driving continued growth in the sector in New Zealand. Imports represent more than 90% of all cosmetic products sold in New Zealand. The majority of cosmetic imports originate in Australia, with China, the US, France and Thailand also contributing significant volumes. Continued growth is anticipated as New Zealand's population ages, driving growth in anti-aging products (43% of New Zealand's population is expected to be aged 50 years or more by 2025), disposable income increases and changing demographics drive the stocking of new lines in retail stores that have typically been purchased online from overseas suppliers.

4.5 Regulation

The overall cosmetics industry is subject to a significant level of regulation including compliance with various product standards. Any products containing therapeutic ingredients or making therapeutic claims (such as anti-bacterial and acne treatment products) are also subject to the Medicines Act 1981 (in New Zealand) and regulated by Therapeutic Goods Administration in Australia. The most significant areas of regulation are the use of chemical ingredients and regulations governing cosmetics and skincare products containing an SPF factor.

4.6 Outlook

The outlook for the natural skincare industry is considered positive with revenue growth expected to outstrip growth in the overall skincare industry. In order to maintain market share and meet regulatory requirements however, additional costs are likely to be incurred by natural skincare manufacturers. To keep pace with industry trends significant research and development expenditure is required. In addition, changes in regulation can be costly as governments review the use of certain chemicals as ingredients in skincare and environmental compliance costs increase. Consumers and organic skincare manufacturers are increasingly calling for standards to ensure that products making 'organic' and 'natural' claims meet minimum requirements. The cost of complying with any new standards governing the natural skincare market could be meaningful. Sourcing fresh botanical ingredients is challenging and costly. Organic farms tend to produce smaller harvests as they are unable to use chemical additives to enhance their yield. Consumers are seeking ingredients that can be harvested in a sustainable manner and traced throughout the supply chain back to source. In addition, there is a growing emphasis on sustainable packaging which can be more costly than traditional packaging.

5 Profile of Trilogy International

5.1 Overview

Trilogy has positioned itself as a cultivator of a portfolio of essential natural products and home fragrance brands: *Trilogy Natural Products, Ecoya*, *Goodness Natural Beauty Lab*, and *Lanocorp*. These brands are marketed and sold in New Zealand, Australia and international markets. Its subsidiary CS&Co distributes international cosmetics, fragrances, skincare and haircare brands in New Zealand, including the *Trilogy®* and *Goodness* product ranges.

5.2 Background and History

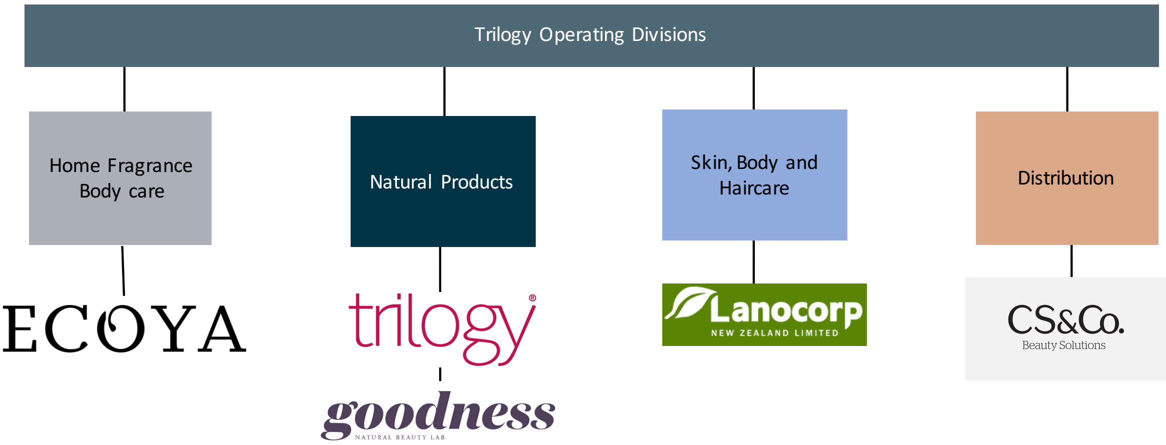
Trilogy was originally established in 2002 as a natural skincare company. The business was acquired by listed entity Ecoya Limited (**Ecoya**) in 2010 and subsequently changed its name to Trilogy International in 2013 to better reflect the business focus. At the time of the acquisition, Ecoya was a relatively small, publicly listed business involved in the manufacture and sale of scented candles. A summary of the evolution of Trilogy since 2004 is set out below:

TIMELINE OF KEY COMPANY EVENTS SINCE 2004

2004	- Ecoya founded
2008	- The Business Bakery Purchase an 83% stake in Ecoya
2010	- Ecoya lists on the NZ stock exchange - Ecoya acquires 100% of Trilogy
2013	- Ecoya renamed Trilogy International Limited
2015	- Trilogy launches *Goodness* skincare range - Trilogy acquires 100% of CS&Co
2016	- Trilogy acquires 25% of Forestal Casino, a rosehip tea manufacturer (and source of rosehip oil) in Chile - Trilogy dual lists on ASX as a Foreign Exempt Listing - Trilogy and the Business Bakery complete a $50 million capital raising comprising a $20 million placement and a $30 million sell down by the Business Bakery at $3.70 per share - Trilogy raises $5 million via a share purchase plan
2017	- Trilogy acquires 80% of Lanocorp
2018	- Unwind of cross shareholding between Forestal Casino and Trilogy

5.3 Operating Divisions

Today, Trilogy has four operating divisions and a joint venture with Forestal Casino, its primary supplier of rosehip oil – the key ingredient in its *Trilogy®* natural products range. [4]



5.3.1 Home Fragrance and Bodycare

Trilogy's Home Fragrance and Bodycare division is primarily built around the *Ecoya* brand. Ecoya was established in 2004 as a specialist candle business, using 100% natural soy wax to seek to maximise burning time (as compared with paraffin, a bi-product of the petroleum industry). An Ecoya bodycare range was also developed to complement the candle product range. Today, Ecoya products are sold in more than 1,800 department, independent gift and homeware stores globally. Ecoya leads the New Zealand homecare fragrance market with an estimated 19% share, while capturing an estimated 6% share of the Australian market.

In 2017, Trilogy undertook an overhaul of the Ecoya product range which resulted in a reduction in the number of products. The repositioning of the product range has been done in conjunction with a brand refreshment programme and marketing initiative.

5.3.2 Natural Products

Trilogy's Natural Products division comprises:

- ***Trilogy®*** which was founded in 2002 to capitalise on the use of rosehip oil as a beneficial skin treatment. Rosehip oil is a bi-product from rosehip tea manufacturing and is obtained by cold pressing the rosehip seeds which are discarded when making tea. Trilogy produces a natural and organic skincare range with the core active ingredient being rosehip oil. The quality and profile of Trilogy's rosehip oil has enhanced the brand as a pioneer in the natural beauty oil category. Today, the *Trilogy®* range consists of over 40 skincare, haircare and bodycare products and is estimated to have a market share of approximately 28% in New Zealand and approximately 12% in Australia. The *Trilogy®* range is sold worldwide in more than 6,500 department, pharmacy and health stores, and online from specialist beauty websites and Trilogy's own websites. The *Trilogy®* range is produced by a third-party manufacturer based in Auckland. Distribution in New Zealand is undertaken through wholly owned CS&Co and in Australia through McPhersons. In the UK the *Trilogy®* range is distributed through Glorious Brands. In the US, Trilogy has an agreement with Whole Foods Markets and has appointed a master broker to service a number of other large retail chains. Trilogy has appointed Australian based QBID as its cross-border e-commerce (**CBEC**) distributor in China. Historically, Trilogy sold *Trilogy®* in China substantially through the "Daigou"

[4] Excludes Lanocorp which was acquired in July 2017

market. Daigou is mandarin for 'buy on behalf of' trade where the product is purchased from retailers in New Zealand and Australia and supplied to China or taken in suitcases by visitors. The Daigou market was instrumental in establishing the *Trilogy®* brand in China. The distribution platform with QBID has been effective, with Trilogy's natural products now successfully sold through several ecommerce channels in Asia (e.g. Tmall, VIP, Kaola). This direct access into the China and Asian market is considered by Trilogy management to represent a significant opportunity. The potential change in regulatory policies associated with cross border sales in China makes the size and timing of this opportunity difficult to quantify; and

- ***Goodness*** which was launched in April 2015. The *Goodness* range is developed from Chia seeds which is a recognised superfood and source of Omega 3. The *Goodness* Natural skincare range targets the younger grocery consumer. Today, *Goodness* remains a relatively small product in the Trilogy stable of brands and is estimated to have a market share over 5% in New Zealand and 1% in Australia. The *Goodness* range is doing well in the grocery sector in New Zealand and is seeking to build critical mass in Australia.

5.3.3 Lanocorp

In July 2017 Trilogy acquired 80% of Lanocorp New Zealand Limited and the business and assets of Lanocorp Australia Pty Limited (collectively **Lanocorp**). Lanocorp was established 25 years ago as a specialist manufacturer and distributor of nature based themes of high quality skincare, bodycare and haircare brands which now include *Lanocreme, By Nature, Rata&Co* and *Tiaki*. Lanocorp manufactures its own products and has recently moved into a purpose-built facility in Christchurch. The remaining 20% of Lanocorp is owned by the original vendors Timothy McIver and Noel Walton. The agreement includes a call option for Trilogy to acquire the remaining 20% of the Lanocorp business based on a predetermined calculation at either the third, fourth or fifth anniversary of the acquisition date.

While the *Trilogy®* range is primarily based on rosehip oil, the Lanocorp brand represents a more conventional skincare and bodycare range utilising unique New Zealand natural ingredients.

5.3.4 CS&Co

Trilogy acquired cosmetics importer and distributor CS&Co in August 2015 for $37 million plus earnout payments. CS&Co is New Zealand's largest independent importer and distributor of fragrances, cosmetics and toiletries. The business currently represents more than 18 suppliers representing brands including *Marc Jacobs, Calvin Klein*, and *Gucci* together with cosmetics/beauty brands *Max Factor*, *Natio* and *OPI*. Major suppliers include global industry leaders such as Coty and LMVH. The channels to market include pharmacies, department stores, health and variety, spas, salons and grocery. CS&Co commenced distributing *Trilogy®* and *Goodness* products in July 2016 in New Zealand.

5.3.5 Forestal Casino

In June 2017, Trilogy acquired 25% of Forestal Casino, a Chilean based rosehip producer. Forestal Casino is one of the largest premium rosehip oil tea manufacturers in South America. The remaining 75% of Forestal Casino is owned by Compania De Inversiones Y Desarrollo Sur Limitada (**CIDSUR**), a Chilean company. As part of the acquisition, CIDSUR was issued with 2,615,181 shares in Trilogy and Forestal Casino granted Trilogy a long-term supply agreement for its rosehip oil, which is a core ingredient in a number of skincare products produced by Trilogy. The supply arrangement is set out in a formal Rosehip Oil Supply Agreement.

It has subsequently been agreed that CIDSUR will buy back the 25% shareholding in Forestal Casino held by Trilogy. The consideration for this 25% will be the return and cancellation of the 2,615,181 shares that Forestal Casino holds in Trilogy. These arrangements have been agreed to between Trilogy and CIDSUR. The Rosehip Oil Supply Agreement will remain in place whether the Proposed Scheme is implemented or not.

5.4 Trilogy Financial Performance

The historical financial performance of Trilogy for the years ended 31 March 2014 to 2017 (**FY14** to **FY17**) and the forecast period to March 2018 (**FY18F**)is summarised below:

TRILOGY FINANCIAL PERFORMANCE (NZ$ MILLIONS)

YEAR END 31 MARCH	FY14A	FY15A	FY16A	FY17A	FY18F
Revenue	29.8	36.6	83.1	103.7	117.9
Total revenue growth %		*23%*	*127%*	*25%*	*14%*
Cost of sales	(11.4)	(13.8)	(38.4)	(50.6)	(58.2)
Gross profit	**18.4**	**22.8**	**44.7**	**53.1**	**59.7**
Gross margin %	*62%*	*62%*	*54%*	*51%*	*51%*
Sales & marketing expenses	(10.4)	(10.7)	(17.9)	(20.8)	(23.8)
Administration expenses	(4.2)	(5.3)	(8.6)	(9.5)	(11.3)
Distibution expenses	(1.4)	(1.8)	(2.4)	(2.7)	(3.8)
Other income/(expenses)	(0.1)	0.2	0.4	(0.9)	(1.0)
Total expenses	**(16.1)**	**(17.6)**	**(28.5)**	**(33.9)**	**(39.9)**
Share of associate profit	-	-	-	0.2	0.2
EBITDA[5]	**2.3**	**5.2**	**16.2**	**19.4**	**20.0**
EBITDA margin %	*7.2%*	*14.5%*	*19.7%*	*18.8%*	*17.0%*
Depreciation and other amortisation	(0.6)	(0.4)	(0.4)	(0.8)	(1.5)
EBIT[6]	**1.7**	**4.8**	**15.8**	**18.6**	**18.5**
Net interest expense	(0.5)	(0.4)	(1.8)	(1.5)	(1.8)
Gains/(losses) on derivatives	0.2	-	(0.6)	0.1	-
Contingent consideration adjustments	-	-	(0.4)	0.6	0.5
Taxation expense	(0.2)	(0.1)	(3.7)	(5.2)	(4.9)
NPAT	**1.4**	**4.3**	**9.3**	**12.5**	12.3

Source: Trilogy and Grant Samuel analysis

Commentary in relation to historical financial information.

The following points are relevant when reviewing the table above:

- in FY16 Trilogy's EBITDA grew $11.0 million, a threefold increase on the prior period. This increase is largely a consequence of the acquisition of CS&Co, supplemented by strong organic growth in Natural Products division – particularly the *Trilogy®* brand. The FY16 results included seven and a half months of trading contribution from CS&Co;
- total expenses also increased in FY16 and FY17 substantially as a consequence of the acquisition of CS&Co, as well as the continued investment in sales and marketing, brand development and administrative functions to support the actual and projected growth of the company;
- Trilogy takes out forward cover in respect of purchases of foreign currency supplier inputs, and forward cover to protect revenues received. These contracts have been recorded by Trilogy on a mark to market basis and changes in value reported below the EBIT line;

5 Earnings Before Interest, Tax, Depreciation and Amortisation

6 Earnings Before Interest and Tax

- the decline in gross margin from FY15 and FY16 also reflects, in part, the lower gross margin generated in CS&Co when compared with the gross margins enjoyed by the Natural Products and Home Fragrance and Bodycare divisions;
- the share of associate profit in FY17 relates to Trilogy's 25% shareholding in Forestal Casino; and
- the contingent consideration adjustment relates to the earn out payment mechanism associated with the acquisition of CS&Co.

Principal assumptions in relation to FY18F.

The forecasts for FY2018 are based on actual results to 31 December 2017 plus expected revenue, margin and costs for the remaining quarter of the year (**Q4**):

- Trilogy expects sales of $12.7 million in Q4 with margins being maintained. Sales in New Zealand to the Daigou trade are forecast to decline but are offset by higher than expected sales in the US and China;
- Ecoya continues to trade below FY17 due largely to a temporary shortage in the supply of soy wax during the current financial year. Revenue is forecast to exceed $5 million in Q4 but with improved margins as the supply of raw material normalises;
- CS&Co expects a stable performance in Q4 supported by performance of the core business and new agencies. The prestige fragrance brands are continuing to experience some margin pressure from parallel imports;
- Lanocorp is forecasting revenue of $5.7 million in Q4 on increasing sales in the US from the ongoing partnership with Wal-Mart; and
- the forecasts exclude costs associated with implementing the Proposed Scheme with CITIC Capital and any non-cash impact of the winding up of the cross shareholding with Forestal Casino.

5.5 Operating Division Financial Performance

The historical financial performance for each division is summarised below:

5.5.1 Natural Products

The financial performance of the Natural Products division from FY14 to FY17 is summarised below:

NATURAL PRODUCTS DIVISION PERFORMANCE (NZ$ MILLIONS)

YEAR END 31 MARCH	FY14A	FY15A	FY16A	FY17A
Australia	4.6	7.2	10.5	15.2
New Zealand	5.9	6.5	13.3	12.6
UK & Ireland	2.2	2.2	3.1	3.1
United States	0.3	0.7	2.5	2.0
ROW & Other	3.2	3.7	5.0	6.0
Total revenue	**16.3**	**20.3**	**34.4**	**38.8**
Total revenue growth %		*25%*	*69%*	*13%*
Total expenses	(12.7)	(15.0)	(22.9)	(27.0)
EBITDA	**3.6**	**5.3**	**11.5**	**11.8**
EBITDA margin %	*22.0%*	*26.3%*	*33.5%*	*30.4%*
Depreciation and other amortisation	(0.2)	(0.2)	(0.1)	(0.3)
EBIT	**3.4**	**5.1**	**11.4**	**11.5**
Capex	0.1	0.2	0.6	1.3

- in FY16 Natural Products revenue increased by $14.1 million. This revenue growth was largely due to:

- the *Goodness* brand, which was launched in FY15. *Goodness* initially exceeded forecast distribution targets in New Zealand and Australia;
- a focus on increased distribution in Australasia and organic growth through key accounts; and
- increased international distribution and growth in existing stores through range expansion. The growth in the United States revenue reflected the first year *Trilogy* had a nationwide presence through its distribution arrangement with Whole Foods Market;

▪ in FY17 Natural Products revenue increased by $4.4 million. This revenue growth was largely due to:

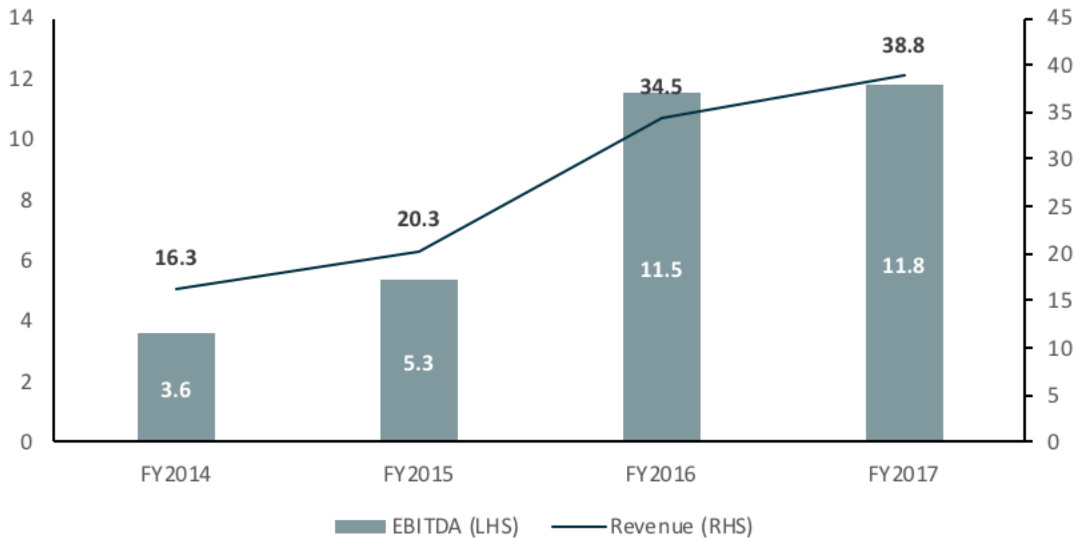
- growth in Australia due to the roll out of more products in that market and the full year benefit of previously launched products;
- the launch of new *Trilogy®* and *Goodness* products, which led to organic growth through existing accounts; and
- increased distribution with the addition of approximately 2,500 more stores globally and the establishment of new distribution partnerships in the UK and Korea;

▪ New Zealand revenue declined in FY17 reflecting what management considers to be a softer, more competitive market and reduced demand from the Daigou markets; and

▪ operating expenses increased in FY16 due to investment in sales and marketing, the relocation of head office and international expansion.

The following graph shows the trend in revenue and EBITDA for the Natural Products division:

NATURAL PRODUCT TREND IN REVENUE AND EBITDA (NZ$ MILLIONS)



5.5.2 Home Fragrance and Bodycare

The financial performance of the Home Fragrance & Bodycare division from FY14 to FY17 is summarised below:

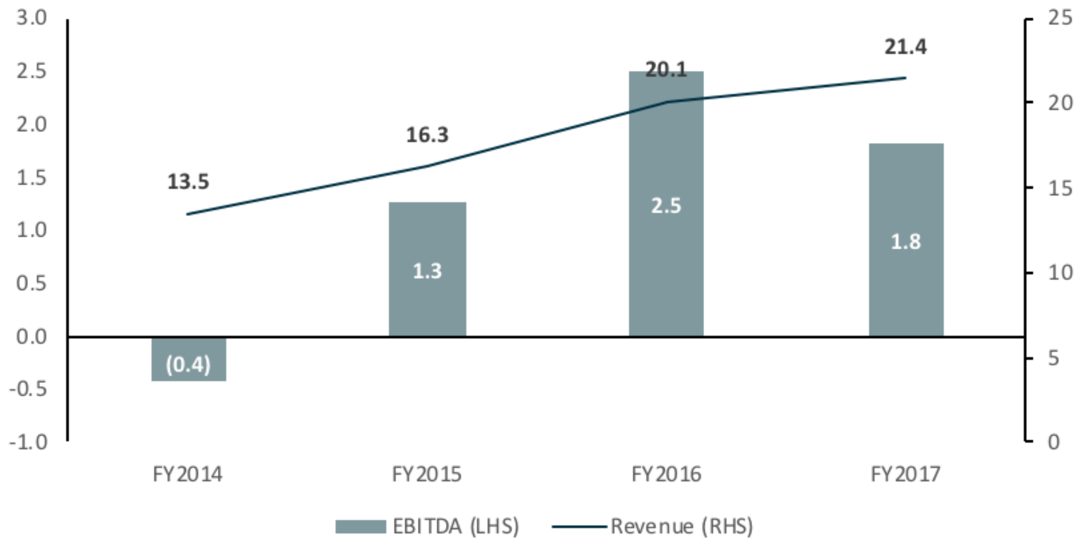
HOME FRAGRANCE & BODYCARE DIVISION PERFORMANCE (NZ$ MILLIONS)

YEAR END 31 MARCH	FY14A	FY15A	FY16A	FY17A
Australia	8.4	10.8	12.7	14.0
New Zealand	3.0	3.8	5.0	5.8
Other markets	2.1	1.7	2.4	1.6
Total revenue	**13.5**	**16.3**	**20.1**	**21.4**
Total revenue growth %		*20%*	*24%*	*7%*
Total expenses	(13.9)	(15.0)	(17.6)	(19.6)
EBITDA	**(0.4)**	**1.3**	**2.5**	**1.8**
EBITDA margin %	*(3.1%)*	*7.7%*	*12.5%*	*8.4%*
Depreciation and other amortisation	(0.3)	(0.2)	(0.2)	(0.3)
EBIT	**(0.8)**	**1.0**	**2.3**	**1.6**
Capex	0.2	0.2	0.3	0.9

- in FY16 Home Fragrance and Bodycare revenue grew by $3.8 million largely due to:
  - new product development which led to numerous new products coming to the market;
  - continued success from the launch of limited edition scents for Christmas; and
  - an increase in department store sales in Australia (up 42%), Farmers in New Zealand and John Lewis in the UK;
- in FY17 the Home Fragrance and Bodycare division achieved modest revenue growth in Australia and New Zealand markets, the majority of which was offset by a decline in international markets; and
- EBITDA declined in FY17 due to gross margin percentage declining reflecting temporarily higher raw material purchasing costs and increased expenses largely related to investment in the *Ecoya* brand and corporate cost allocation.

The following graph shows the trend in revenue and EBITDA for the Home Fragrance & Bodycare division:

HOME FRAGRANCE AND BODYCARE TREND IN REVENUE AND EBITDA (NZ$ MILLIONS)



5.5.3 Distribution

The financial performance of the Distribution division from FY16 and FY17 is summarised below:

DISTRIBUTION DIVISION PERFORMANCE (NZ$ MILLIONS)

YEAR END 31 MARCH	FY16A	FY17A
Revenue	28.6	53.4
Total expenses	(23.8)	(44.9)
EBITDA	**4.8**	**8.5**
EBITDA margin %	16.7%	15.9%
Depreciation and other amortisation	(0.2)	(0.3)
EBIT	**4.6**	**8.2**
Capex	0.4	0.3

- in FY17 CS&Co maintained its number one beauty distribution position in New Zealand; and
- the increase in revenue and earnings in FY17 reflects the first full financial year of ownership of CS&Co. Revenue also increased in FY17 due to CS&Co becoming the distributor of Trilogy's products in mid 2016.

5.6 Financial Position

The financial position of Trilogy as at 31 March 2017 and 31 December 2017 is summarised below:

TRILOGY - FINANCIAL POSITION (NZ$ MILLIONS)

	31 MARCH 2017	31 DECEMBER 2017
Trade and other receivables	18.0	21.6
Inventories	20.3	26.4
Trade and other payables	(11.9)	(8.1)
Taxation asset/(liabilty)	(2.1)	(1.9)
Net working capital	**24.3**	**38.0**
Plant & equipment	3.8	6.2
Intangible assets	51.7	69.9
Investment in associate	14.0	9.4
Net operating assets	**93.8**	**123.5**
Borrowings (net of cash)	(5.8)	(32.9)
Deferred contingent consideration	(7.5)	(8.3)
Other items	0.1	1.3
Net assets	**80.6**	**83.6**
STATISTICS		
Shares on issue at period end (million)	72.4	72.8
Net assets per share	$ 1.11	$1.15
NTA[7] per share	$0.40	$0.19
Gearing[8]	*7%*	*28%*

Source: Trilogy and Grant Samuel analysis

The following points are relevant when reviewing the table above:

- Trilogy's working capital is seasonal in nature with receivables and inventories building during the months prior to the Christmas trading period;
- plant & equipment principally consists of furniture, office equipment and display equipment;
- the intangible asset balance as at 31 December 2017 of $69.9 million consists of goodwill relating to acquisitions, the value attributed to the Rosehip Oil Supply Agreement with Forestal Casino, software development costs and brand, trademarks and other intangible assets;
- the investment in associate relates to the 25% shareholding in Forestal Casino. There is no expectation for a dividend to be received in relation to that investment in the short term, as all surplus cash will be utilised to invest in growth;
- net borrowings increased by approximately $27 million between 31 March 2017 and 30 November 2017. Approximately $15 million of this increase was from drawings used to fund the acquisition of Lanocorp ($13.6 million) and a deferred settlement payment for CS&Co ($1.5 million). The remainder of the increase is largely attributable to an increase in working capital in the lead up to Christmas 2017;
- $5.3 million of the deferred contingent consideration balance relates to CS&Co and $2.9 million relates to the acquisition of Lanocorp; and
- other items include a deferred tax liability and derivative financial instruments.

7 NTA is net tangible assets, which is calculated as net assets less intangible assets.

8 Gearing is net borrowings divided by net assets plus net borrowings.

5.7 Cash Flow

Trilogy's cash flow from FY14 to FY17 is summarised below:

TRILOGY CASH FLOW (NZ$ MILLIONS)

YEAR END 31 MARCH	2014A	2015A	2016A	2017A
EBITDA	**2.1**	**5.3**	**16.3**	**19.4**
Movement in working capital (exc tax)	(0.5)	0.1	(6.6)	(3.2)
Tax	(0.0)	(0.5)	(2.9)	(4.7)
Interest	(0.5)	(0.4)	(1.8)	(1.4)
Other	0.4	0.1	0.6	0.3
Net operating cash flow	**1.5**	**4.7**	**5.7**	**10.4**
Net purchase of fixed & intangible assets	(0.3)	(0.3)	(1.5)	(2.5)
Investment in associate	-	-	-	(2.8)
Acquisition of subsidiary	-	-	(33.9)	(1.5)
Net investing cash flow	**(0.3)**	**(0.3)**	**(35.5)**	**(6.8)**
Net drawdown/(repayment) of borrowings	(2.0)	(2.9)	32.8	(26.8)
Net proceeds from share issue	0.8	-	0.1	24.8
Dividends paid	-	-	(2.3)	(3.4)
Net financing cash flow	**(1.2)**	**(2.9)**	**30.5**	**(5.3)**
Net cash flow	**-**	**1.5**	**0.7**	**(1.7)**
Opening cash	1.1	1.2	2.7	3.5
FX gains/(losses)	0.1	-	0.2	(0.1)
Closing cash	**1.2**	**2.7**	**3.5**	**1.7**

Source: Trilogy Financial Statements

The following comments are relevant when considering the table above:

- the $33.9 million acquisition of subsidiary in FY16 relates to CS&Co during the period. The acquisition was initially funded from borrowings, later refinanced through a capital raise in June 2016 under which Trilogy raised $25 million of new equity. This involved a $20 million placement at $3.70 per share and a $5 million share purchase plan at the same price per share which was fully subscribed. The proceeds from the capital raise were substantially used to repay borrowings;
- Trilogy's historic dividend policy has been to pay between 45% and 55% of business earnings excluding the earnings of CS&Co; and
- the investment in associates relates to the acquisition of the 25% shareholding in Forestal Casino.

5.8 Capital Structure and Ownership

Trilogy has the following securities on issue:

- 72,766,907 ordinary shares; and
- 720,000 options over unissued ordinary shares.

As at 31 December 2017 Trilogy had approximately 1,880 registered shareholders. The top 10 shareholders own approximately 77% of the ordinary shares on issue:

TRILOGY - MAJOR SHAREHOLDERS AS AT 26 JANUARY 2018

	NUMBER OF SHARES (000S)	PERCENTAGE
The Business Bakery LP	22,701	31.2%
National Nominees Ltd – Auckland branch	9,327	12.8%
JP Morgan Chase Bank	6,725	9.2%
HSBC Nominees (New Zealand) Ltd	6,382	8.8%
Compania De Inversiones Y Desarrollo Sur Limitada	2,615	3.6%
Accident Compensation Corporation	2,433	3.3%
Citibank Nominees (New Zealand) Limited	1,750	2.4%
Sarah Jane Gibbs & Independent Trust Company	1,666	2.3%
CS Fourth Nominees Pty Ltd	1,345	1.9%
Justin & Dorota Bade & RCA Trustees	1,000	1.4%
Subtotal - Top 10 shareholders	**55,944**	**76.9%**
Other shareholders	16,823	23.1%
Total	**72,767**	**100.0%**

Source: NZX Research

5.9 Share Price Performance

5.9.1 Liquidity

The following table shows the volume of Trilogy shares traded in the 12 months prior to the announcement of entry into the SIA on 15 December 2017:

TRILOGY - SHARE PRICE HISTORY

TIME PERIOD	LOW	HIGH	VWAP	VOLUME (000S)
1 month	$2.23	$2.63	$2.39	959
3 months	$2.05	$2.63	$2.26	6,728
6 months	$2.04	$2.86	$2.37	12,168
12 months	$2.04	$3.21	$2.41	27,699

Source: NZX Company Research

5.9.2 Share Price Performance

The share price and trading volume history of Trilogy shares is depicted graphically below:

TRILOGY SHARE PRICE PERFORMANCE SINCE THE BEGINNING OF 2015

Trilogy's share price against the NZX50 Capital Index is shown in the graph below:

TRILOGY SHARE PRICE PERFORMANCE VERSUS NZX50 CAPITAL INDEX

Trilogy has performed strongly versus the NZX50 Capital Index since the beginning of 2015.

The share price decline from August 2016 was a function of two institutional shareholders reducing their shareholdings significantly and a series of negative earnings outlooks and results from Trilogy in September and November in both 2016 and 2017 which together accounted for a $1.41 share price decline over the days of those announcements.

6 Valuation of Trilogy

6.1 Summary

Grant Samuel has valued Trilogy in the range of $183.2 - $208.2 million, which corresponds to a value of $2.59 to $2.94 per share. The valuation is summarised below:

TRILOGY - VALUATION SUMMARY ($ MILLIONS)

	REPORT SECTION REFERENCE	VALUE RANGE	
		LOW	HIGH
Enterprise value – Trilogy		164.5	176.3
Enterprise value – Goodness		1.3	1.5
Enterprise value – CS&Co		38.5	45.5
Enterprise value – Lanocorp (80%)		23.0	26.2
Enterprise value – Ecoya		5.0	6.0
Less: Head office costs (excluding costs of being listed)		(18.4)	(16.8)
Combined Enterprise value		**213.8**	**238.7**
Net debt for valuation prurposes	**5.1.2**	(30.5)	(30.5)
Equity value		**183.2**	**208.2**
Fully diluted shares on issue (millions)	**5.1.3**	70.9	70.9
Value per share		**$2.59**	**$2.94**

The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Trilogy shares to trade on the NZX in the absence of a takeover offer or proposal similar to the Proposed Scheme with CITIC Capital. The valuation reflects the strengths and weaknesses of Trilogy and takes into account the following factors:

- Trilogy is the business unit with the greatest potential. It is however highly dependent on its rosehip based products which have been successfully established in the international natural/organic skin care market. The dependence within the business unit on what is effectively a single product *Trilogy®* rosehip oil range is both a strength and a weakness. Obtaining a consistent supply of quality rosehip oil has been an historic point of weakness that was only addressed with the signing of a new supply agreement with Forestal Casino in Chile. Alternative volume supplies are considered somewhat limited. Trilogy also sources rosehip oil from Lesotho and parts of Europe, but in lesser volumes than from Chile. On the positive side the success of the *Trilogy®* rosehip oil face products has provided Trilogy with a truly international brand;

- sales growth of the *Trilogy®* product range in New Zealand and Australia had been strong until the current financial year. A move by the company to supply *Trilogy®* products directly into China has seen a commensurate decline in the Chinese Daigou trade which itself was coming under pressure from increased regulation in China. Trilogy is making the transition to direct supply in China using QBID, a cross border e-commerce platform and TMall, a business to consumer (B2C) platform established by Alibaba. It appears that the loss in volume in New Zealand and Australia from the decline in Daigou trade is yet to be offset by rising volumes in China. Over time, management expect the Chinese market to grow strongly as it is the world's largest skincare market. Management expect the Daigou market will continue to sell *Trilogy®* products but at a lower rate than historically. The Daigou market is substantial but continually subject to change in regulations in China;

- the *Goodness* range is only a few years old and is forecast to reach breakeven in the current financial year. The *Goodness* range has been successfully established in New Zealand through The Warehouse and the grocery sector through Foodstuffs and Countdown. In Australia, *Goodness* has had a tougher battle, going in and out of Coles and Woolworths, but gaining some market share in the Pharmacy sector. Currently the *Goodness* range accounts for just over 2% of total group skin care sales (comprising the *Trilogy®, Lanocorp* and *Goodness* ranges). *Goodness* is priced below *Trilogy®* branded products but above Lanocorp's *By Nature* range.

- CS&Co is the largest cosmetics distributor in New Zealand and from mid 2017 now distributes all *Trilogy®* and *Goodness* products in New Zealand. CS&Co's largest supplier is US based Coty/P&G Speciality Beauty Business which was a result of the acquisition by Coty of P&G's portfolio of speciality beauty brands. Coty/P&G is a very large business and would have a significant negative impact on CS&Co if it was ever withdrawn. CS&Co is forecasting only modest growth but has been a consistent performer delivering good cash flows and earnings. In the future CS&Co is likely to place greater emphasis on acquiring new agency lines to take advantage of its existing selling and distribution infrastructure.
- Lanocorp currently operates as a standalone business and is unique within Trilogy in that it undertakes both its own manufacturing and distribution. The Lanocorp range is predominantly sold to foreign tourists through souvenir outlets in New Zealand and Australia. The *By Nature* brand is sold through TJ Max, Marshalls and most recently Walmart in the US and Countdown and The Warehouse in New Zealand. Access to the new range of natural skin care products with established distribution in the US provides a number of benefits to Trilogy, initially in expanding sales of the *Goodness* brand; and
- Ecoya is an established player in a competitive market. Its sales are heavily skewed to Christmas. It is profitable but with only limited growth opportunities. In New Zealand it is the dominant brand.

6.1.1 Net debt for valuation purposes

Grant Samuel has adopted net debt for valuation purposes of $30.5 million at 31 December 2017 as summarised below:

TRILOGY – NET DEBT AS AT 31 DECEMBER 2017

	NZ$ MILLION
Net debt as at 31 December 2017	(32.9)
Present value of payment due to CS&Co and Lanocorp former shareholders	(8.2)
Normalisation of working capital	10.0
Cash from early exercise of options	(0.6)
Net debt for valuation purposes	**(30.5)**

The following comments are relevant to the calculation of net debt for valuation purposes:

- the contingent consideration payments to the former CS&Co shareholders has been agreed and will be paid in August 2018. Interest is accruing on the amount outstanding. For the purpose of the valuation the present value of the future payment of $5.5 million has been added to net debt. For Lanocorp, Trilogy management have estimated the present value of the likely contingent payment to be $2.7 million;
- working capital peaks in the last quarter of the calendar year. As at 31 December 2017 working capital was unusually high due to several debtors payments not being received until the New Year. The $10 million adjustment to net debt is to normalise the seasonal peak down to the average level of working capital over a 12-month period; and
- if the Proposed Scheme is implemented, the outstanding options can be exercised. It is assumed that all the outstanding 720,000 options will be exercised. The adjustment reflects the cash that will be received by Trilogy from the option holders.

6.1.2 Fully diluted shares on issue

The fully diluted shares on issue has been calculated as follows:

TRILOGY – FULLY DILUTED SHARES ON ISSUE AS AT 31 DECEMBER 2017

	NZ$ MILLION
Shares on issue	72,766,907
Shares issued on exercise of options	720,000
Shares held by Forestal Casino to be cancelled	(2,615,181)
Fully diluted shares on issue	**70,871,726**

The following comments are relevant to the calculation of fully diluted shares on issue for valuation purposes:

- if the Proposed Scheme is successful the outstanding options will all become capable of being converted into ordinary shares at the exercise price. The cash that will arise from the exercise of the options has been included in the net debt for valuation purposes. We have assumed that all 720,000 outstanding options are exercised; and
- the shares held by Trilogy in Forestal Casino and the shares held by CIDSUR in Trilogy will be exchanged and after the exchange neither party will have investment in the other party. The 2,615,181 Trilogy shares being returned to Trilogy will be cancelled by 30 March 2018, which may be before or after the shareholders meeting to approve the Proposed Scheme. At the date of this report the cancellation is scheduled to occur after the date of the shareholders meeting, but in any event the shares will be cancelled prior to payment of the consideration by CITIC Capital (if the Proposed Scheme is successful).

6.1.3 Other valuation assumptions

Head office costs have been adjusted to exclude the costs of being listed of $750,000 on the basis that any buyer of 100% of Trilogy would not incur these costs as the company would be delisted.

6.2 Earnings Multiple Analysis

6.2.1 Implied multiples

Grant Samuel's valuation of Trilogy implies the following multiples:

TRILOGY – IMPLIED VALUATION MULTIPLES

DATE	VARIABLE ($ MILLION)	RANGE OF MULTIPLES	
		LOW	HIGH
Value range ($million)		213.8	238.7
Multiple of EBITDA (times)			
Year ended 31 March 2017	19.4	11.0	12.3
Adjusted forecast for year ending 31 March 2018[9]	20.0	10.7	11.9
Multiple of EBIT (times)			
Year ended 31 March 2017	18.6	11.5	12.8
Adjusted forecast for year ending 31 March 2018	18.5	11.6	12.9

While Trilogy has made guidance statements about profit before tax for the year ending 31 March 2018, the Directors of Trilogy have decided not to include the detailed 2018 forecasts in the Scheme Booklet. The

[9] Adjusted forecast EBITDA and EBIT exclude listing costs of approximately $750,000.

forecasts included in section 4.6 are the summarised earnings projections for Trilogy as prepared by the company. The implied earnings multiples are based on those projections.

Grant Samuel has reviewed the multiples having regard to the implied multiples for comparable listed companies and transactions involving comparable companies or businesses in skincare and cosmetics sector.

An explanation regarding interpreting the above multiples is included in Appendix E which can be viewed at http://investors.tilbrands.com/investor-centre/?page=scheme. The valuation implies historic FY17 EBITDA multiples between 11.0x and 12.3x and forecast FY18 EBITDA multiples in the 10.7x and 11.9x. These implied multiples can be referenced to the implied multiples of the prices of comparable transactions and the multiples implied by the share prices of comparable companies. In preparing the valuation, multiples of 14.0x and 15.0x forecast EBITDA have been applied to the earnings of the *Trilogy®* brand. The other divisions have been valued at multiples of approximately 6x and 7x forecast EBITDA.

6.2.2 Transaction Evidence

The valuation of Trilogy has been considered having regard to the earnings multiples implied by the price at which broadly comparable companies and businesses have changed hands. A selection of relevant transactions involving cosmetic companies is set out below:

COSMETICS INDUSTRY – RECENT TRANSACTION EVIDENCE

DATE	TARGET	ACQUIRER	IMPLIED ENTERPRISE VALUE (MILLIONS)	EBITDA MULTIPLE (TIMES)		EBIT MULTIPLE (TIMES)	
				HISTORIC	FORECAST	HISTORIC	FORECAST
Oct 2017	Andalou Naturals	BWX Limited	US$80	n.a.	9.4	n.a.	n.a.
Jul 2017	Mineral Fusion	BWX Limited	A$38	n.a.	9.6 - 12.8	n.a.	n.a.
Jun 2017	Lanocorp NZ	Trilogy	NZ$16	6.5	n.a.	n.a.	n.a.
Jun 2017	The Body Shop	Natura Cometicos	US$1,000	10.5	n.a.	18.2	n.a.
Jan 2017	CeraVe, AcneFree & Ambl brands	L'Oréal	US$1,300	26.5	n.a.	n.a.	n.a.
Nov 2016	Two Faced Cosmetics	The Estee Lauder Companies Inc.	US$1,450	n.a.	21.0	n.a.	n.a.
Jun 2016	Elizabeth Arden	Revlon	US$876	34.8	n.a.	n.a.	n.a.
Nov 2015	BWX Limited	Initial public offering	A$141	9.5	8.1	9.9	8.5
Jul 2015	43 Proctor & Gamble brands	Coty Inc.	US$12,500	13.2	n.a.	n.a.	n.a.
Mar 2014	Tarte Inc.	KOSE Corporation	US$144	n.a.	n.a.	14.8	n.a.
Aug 2013	Magic Holdings	L'Oréal	HK$5,577	21.2	14.2	21.9	15.7
Nov 2011	Jurlique International	POLA ORBIS Holdings	A$278	n.a.	n.a.	n.m.	15.4
Jan 2010	Bare Escentuals	Shiseido Company	US$1,741	9.8	9.9	10.9	11.2
Average				**16.5**	**12.5**	**15.1**	**12.7**
Median				**11.9**	**9.9**	**14.8**	**13.3**

Source: Grant Samuel analysis[10] (see Appendix A)

Further details on these transactions are set out in Appendix B which can be viewed at http://investors.tilbrands.com/investor-centre/?page=scheme. The multiples implied by the prices of

[10] Grant Samuel analysis based on company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

transactions are consistent with Grant Samuel's valuation of Trilogy. When observing the table above the following points should be noted:

- each transaction has its own unique set of circumstances. As such it is often very difficult to identify trends or draw any meaningful conclusions;
- the size of the transactions in the table above is varied, ranging from small bolt-on acquisitions (e.g. Trilogy's acquisition of Lanocorp NZ) to large merger transactions (the merger of Coty Inc. with Proctor & Gamble's speciality beauty business). The growth profiles of the target companies also vary substantially ranging from mature companies to companies with high growth brands; and
- BWX Limited (**BWX**) is arguably the closest comparable company to Trilogy. Based in Australia, BWX owns the *Sukin* brand of natural skincare products as well as a range of other brands. BWX listed on the ASX in November 2015 at a share price of A$1.50 per share. BWX has performed strongly since listing with the share price currently at A$7.05 per share (as at 14 November 2017). The strong share price performance has been driven by the success of the *Sukin* brand which has achieved high growth in revenue and profit contribution to BWX. The company's trading multiple has increased from 8.1 times forecast EBITDA at listing to 13.4 times forecast EBITDA for the year ending 30 June 2019, reflecting expectations for continued strong growth in earnings for the company. During 2017, BWX has acquired two natural cosmetic product companies in the United States, Andalou Naturals and Mineral Fusion, and an online retail business in Australia called Nourished Life. These acquisitions have expanded BWX's distribution channels and product offering in the US and Australian markets.

The valuation of CS&Co has been considered having regard to the earnings multiples implied by the price at which broadly comparable distribution companies and businesses have changed hands. A selection of relevant transactions involving cosmetics companies is set out below:

COSMETICS DISTRIBUTION INDUSTRY – RECENT TRANSACTION EVIDENCE

DATE	TARGET	ACQUIRER	IMPLIED ENTERPRISE VALUE (MILLIONS)	EBITDA MULTIPLE (TIMES)		EBIT MULTIPLE (TIMES)	
				HISTORIC	FORECAST	HISTORIC	FORECAST
Jul 2017	Nourished Life	BWX Limited	A$20	n.a.	5.0	n.a.	n.a.
Feb 2016	Lightning Brokers	BWX Limited	A$11	n.a.	3.7	n.a.	n.a.
Aug 2015	CS Company Ltd	Trilogy	NZ$34	5.3	n.a.	n.a.	n.a.

Source: Grant Samuel analysis[11] (see Appendix A)

[11] Grant Samuel analysis based on company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

6.2.3 Sharemarket Evidence

The valuation of Trilogy has been considered in the context of the multiples implied by the share market prices of listed Australasian and international companies with operations in the cosmetics and skincare industries. While these companies are significantly larger than Trilogy, the share market data provides some framework within which to assess the valuation of Trilogy.

SHAREMARKET RATINGS OF SELECTED LISTED COSMETICS COMPANIES[12]

ENTITY	MARKET CAP. (US$ MILLIONS)	EBITDA MULTIPLE (TIMES)[13]			EBIT MULTIPLE (TIMES)[14]		
		HISTORIC	FORECAST YEAR 1	FORECAST YEAR 2	HISTORIC	FORECAST YEAR 1	FORECAST YEAR 2
Trilogy (pre-offer price)	120	10.2	9.9	n.a	10.5	10.6	n.a
Trilogy (CITIC Capital Capital scheme price]	154	12.5	12.1	n.a	13.0	13.1	n.a
AUSTRALIA							
BWX Limited	734	n.m.	20.7	15.4	n.m.	21.4	15.9
NORTH AMERICA							
Coty Inc.	14,765	21.1	16.2	13.7	28.7	21.8	17.4
e.l.f. Beauty Inc.	938	20.5	17.7	15.2	27.1	22.8	20.3
Natura Cosmeticos S.A.	4,931	15.9	14.5	12.3	20.7	17.5	15.5
Revlon Inc.	1,158	13.7	n.a.	n.a.	14.3	n.a.	n.a.
The Estee Lauder Companies	50,302	22.4	19.3	17.6	27.9	23.8	21.4
North America Average		**18.7**	**16.9**	**14.7**	**23.7**	**21.5**	**18.7**
EUROPE AND UK							
Beiersdorf Aktiengesellschaft	26,821	17.0	15.9	15.0	19.5	18.1	17.1
L'Oreal S.A.	126,602	17.4	17.7	17.1	22.8	22.0	21.2
Oriflame Holding AG	2,305	13.1	10.9	9.7	16.3	12.8	11.1
Europe and UK Average		**15.8**	**14.8**	**13.9**	**19.5**	**17.6**	**16.5**
ASIA							
Amorepacific Corporation	18,714	18.7	24.1	18.4	22.7	31.9	23.7
Ci:z Holdings Co., Ltd	2,595	29.0	22.3	21.9	30.6	24.1	22.7
Cosmax, Inc.	1,237	24.3	n.m.	18.3	30.1	n.m.	23.6
Kolmar Korea Co., Ltd.	1,771	23.5	21.1	17.6	27.3	27.2	21.2
KOSÉ Corporation	9,982	22.4	18.4	16.3	26.2	21.4	18.8
Mandom Corporation	1,630	13.8	12.2	11.9	19.5	17.7	16.3
Milbon Co.,Ltd.	1,133	19.0	16.7	16.1	23.0	21.0	20.2
Noevir Holdings Co., Ltd.	2,854	22.9	20.3	19.2	27.2	24.0	22.3
POLA Orbis Holdings Inc.	9,086	26.6	19.2	18.3	33.3	22.8	21.6
Shiseido Company, Limited	21,001	32.2	20.1	17.6	n.m.	33.4	26.7
Asia Average (ex. Outliers)		**22.2**	**19.4**	**17.6**	**26.6**	**24.8**	**21.7**
Average – All companies		**21.0**	**18.1**	**16.2**	**25.3**	**22.6**	**19.8**

Source: Grant Samuel analysis. n.m. means not meaningful

---

12 The companies selected have a variety of year ends. The financial information presented in the Historic column corresponds to the most recent actual annual result. The forecast column corresponds to the forecast for the subsequent year.

13 Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA.

14 Represents gross capitalisation divided by EBIT.

A description of each of the companies above is set out in Appendix C which can be viewed at http://investors.tilbrands.com/investor-centre/?page=scheme. When observing the table above the following points should be noted:

- the multiples are based on closing share prices as at 29 January 2018. The share prices and therefore the multiples do not include a premium for control. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole;
- the companies selected have varying financial year ends. The data presented above is the most recent annual historical result plus the subsequent forecast year; and
- there are considerable differences between the operations and scale of the comparable companies when compared with Trilogy. In addition, care needs to be exercised when comparing multiples of New Zealand companies with internationally listed companies. Differences in regulatory environments, share market and broader economic conditions, taxation systems and accounting standards hinder comparisons.

SHAREMARKET RATINGS OF SELECTED LISTED COSMETICS DISTRIBUTION COMPANIES

ENTITY	MARKET CAP. (US$ MILLIONS)	EBITDA MULTIPLE (TIMES)			EBIT MULTIPLE (TIMES)		
		HISTORIC	FORECAST YEAR 1	FORECAST YEAR 2	HISTORIC	FORECAST YEAR 1	FORECAST YEAR 2
EBOS Group Ltd	2,027	14.1	12.3	11.6	15.8	13.9	13.1
McPherson's Ltd	96	6.0	n.a.	n.a.	6.9	n.a.	n.a.
Sally Beauty Holdings Inc.	2,170	6.5	6.6	6.7	7.9	8.3	8.4

Source: Grant Samuel analysis (see Appendix B)

6.3 Methodology

6.3.1 Overview

Grant Samuel's valuation of Trilogy has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. The valuation of Trilogy is appropriate for the acquisition of the company as a whole and accordingly incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Trilogy could be expected to trade on the share market. Shares in a listed company normally trade at a discount of 15% - 25% to the underlying value of the company as a whole, but the extent of the discount (if any) depends on the specific circumstances of each company.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows (**DCF**);
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved. A detailed description of each of these methodologies is outlined at Appendix D which can be viewed at http://investors.tilbrands.com/investor-centre/?page=scheme.

6.3.2 Preferred approach

Grant Samuel has placed primary reliance on the capitalisation of earnings methodology in determining a value range for Trilogy. This is primarily due to the availability of quality information that can be analysed to determine an applicable multiple range. This information includes the earnings multiples implied from the prices of comparable transactions, IPO's and the sharemarket ratings of listed cosmetics and skincare companies.

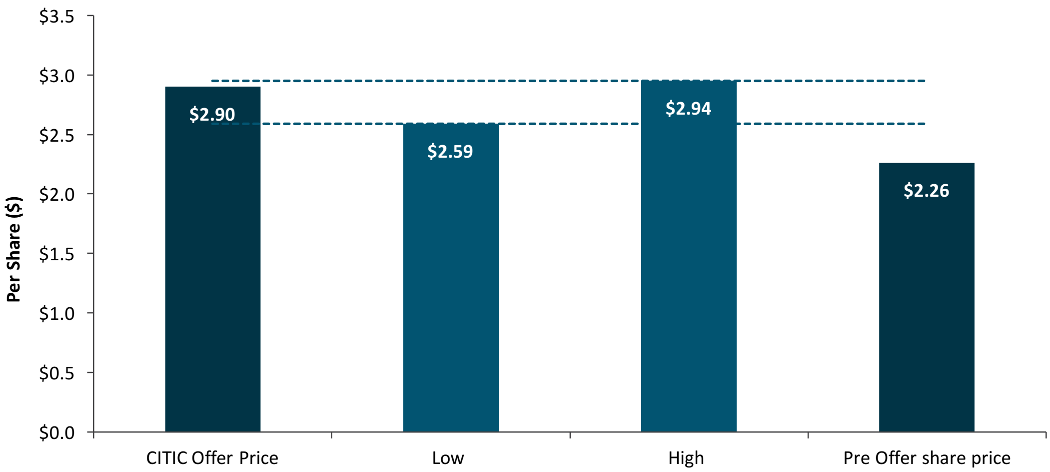
7 Merits of the Proposed Scheme

7.1 The value of the Proposed Scheme

The value of the Proposed Scheme can be assessed with reference to a number of factors:

- ***Grant Samuel's assessment of the value of Trilogy***. In Grant Samuel's opinion the full underlying value of Trilogy shares is in the range of $2.59 to $2.94 per share as set out in Section 5. This value represents the value of acquiring 100% of the equity in Trilogy and therefore includes a premium for control. In Grant Samuel's opinion the offer price under a takeover offer or scheme of arrangement where the offeror will gain control should be within, or exceed, the pro-rated full underlying valuation range of the company. **The Proposed Scheme price of $2.90 per share is within Grant Samuel's assessed value range for Trilogy shares.** The diagram below compares the Proposed Scheme price with Grant Samuel's assessed value range for Trilogy shares and the Trilogy share price immediately prior to the announcement of the Proposed Scheme;

CITIC PROPOSED SCHEME VERSUS GRANT SAMUEL VALUATION RANGE AND PRE OFFER SHARE PRICE (NZ$ PER SHARE)



- ***the premium implied by the Proposed Scheme***. The Proposed Scheme represents a premium of 28% relative to the closing price of $2.26 per share on 14 December 2017 being the last trading day prior to the announcement of the Proposed Scheme and a premium of 21% over the volume weighted average share price (**VWAP**) over the 30 trading days prior to the announcement of $2.39 per share. Over the longer term the Proposed Scheme represents a 22% premium to the 6-month VWAP. The premium for control is close to the average premium of control generally observed in successful takeovers of other listed companies. Since the announcement of the Proposed Scheme at a price of $2.90 per share, Trilogy shares have traded in the range of $2.75 to $2.83 per share; and

- ***comparable company and comparable transaction data***. The Proposed Scheme implies multiples of 11.0x - 12.3x historical EBITDA and 10.7x - 11.9x forecast EBITDA for FY18. Grant Samuel's analysis suggests the historical EBITDA multiple implied by the Proposed Scheme when viewed as a separate business which attract different multiples is broadly in line with multiples paid for controlling shareholdings in comparable companies.

7.2 The timing and circumstances surrounding the Proposed Scheme

The Proposed Scheme follows an approach from CITIC Capital. Following the initial approach, Trilogy entered into a sale process with CITIC Capital and other potential purchasers, culminating in the announced form of the Proposed Scheme.

Trilogy, despite having revenue of more than $100 million, is small in the context of the global skincare industry. The Proposed Scheme with CITIC Capital may afford Trilogy a greater access into the key Chinese market, and potentially other Asian and International markets.

7.3 Possible outcomes of the Proposed Scheme

CITIC Capital, as with most acquirers of listed companies is likely to prefer the acquisition of 100% of the potential target. The transaction contemplated by Trilogy and CITIC Capital is constructed as a scheme of arrangement. For all intents and purposes the Proposed Scheme has the same economic effect as a full takeover of Trilogy by CITIC Capital. The use of the scheme of arrangement provisions of the Companies Act in this context has attracted some market and media comment that the provisions allow for a takeover to be effected outside the ambit of the Takeovers Code and can be achieved at a lower level of shareholder acceptance. Full takeover offers require acceptances which result in the acquirer holding or controlling 90% of the voting securities in a company to effect compulsory acquisition of remaining shares. That is, shareholders holding at least 90% of the shares have to accept such an offer. In contrast, a scheme of arrangement needs the support of 75% of the shares voted by interest class on the special resolution and more than 50% of the total number of voting securities in the company to be voted in favour of the Proposed Scheme for it to proceed.

Trilogy only has one class of shares, all of which are fully paid up ordinary shares, with identical voting rights. However, CIDSUR is required to vote in a separate interest class because the legal effect of the Scheme for CIDSUR is different to all other Shareholders. CIDSUR currently holds 3.59% in TIL, and those shares will not be sold under the Scheme but will be transferred to TIL and cancelled by 30 March 2018 (whereas all other Shareholders will be paid the Scheme Consideration for their Shares). Under a support agreement dated 24 January 2018, CIDSUR has appointed TIL as its attorney and directs it to vote the TIL Shares in favour of the Scheme. See Section 5.3.5 for further detail. For this reason, TIL will vote CIDSUR's TIL Shares as a separate interest class for the purpose of the 75% majority vote. TIL is still entitled to vote CIDSUR's TIL Shares (and have its vote counted) in the simple majority vote because there is no division of interest classes required under the Companies Act in respect of that vote.

The threshold for approving the Proposed Scheme is based on 75% of the number of votes actually cast. Realistically, some shareholders may not decide to cast their votes at a meeting or by proxy. Therefore, the threshold is likely to be less than 75% of all votes. For example, if 80% of votes are cast, the threshold will be 75% of the 80% of votes cast (i.e. 60% of the total votes). The probability of a 100% acquisition being successfully completed under a scheme structure is therefore materially increased provided the threshold of more than 50% of the total number of voting securities being voted in favour can be achieved.

Trilogy shareholders will vote to approve or reject the implementation of the scheme. To be passed, more than 50% of the total number of voting securities in Trilogy must be voted and a majority of at least 75% of the votes of each interest class must be in favour of the resolution. If the two tests are satisfied and the High Court approves the Scheme and the other conditions (including obtaining regulatory approvals) are satisfied, the Proposed Scheme will proceed and all the shares in Trilogy will be acquired by CITIC Capital.

The possible outcomes of the Proposed Scheme are a function of Trilogy shareholders' endorsement (or not) of the scheme construct are summarised below:

- **The voting thresholds to approve the Proposed Scheme are not achieved.**

If either of the voting thresholds to approve the Proposed Scheme are not achieved, the Proposed Scheme will not proceed and no shares will be acquired by CITIC Capital. Trilogy will remain a listed company and will have no further obligation to CITIC Capital. No break fees will be payable by either CITIC Capital or Trilogy unless the terms of the scheme implementation arrangement have been breached.

- **The voting thresholds to approve the Proposed Scheme are achieved.**

  If the voting thresholds to approve the Proposed Scheme are achieved and all other conditions are satisfied, the Proposed Scheme will be implemented. In that circumstance all shareholders in Trilogy will have their shares acquired at $2.90 per share. The compulsory acquisition provisions of the Takeovers Code do not apply in the context of the Proposed Scheme. Voting in favour of the Proposed Scheme will only realise cash for Trilogy shareholders if the voting thresholds are achieved, the other conditions are satisfied and the transaction is therefore implemented. If the transaction is implemented Trilogy will be delisted. For those shareholders wishing to retain an equity investment in the personal care sector there are currently no other listed personal care companies listed on the NZX, although there are other personal care companies listed on international stock exchanges.

The outcome of the shareholder vote on the Proposed Scheme is binary – either the voting thresholds are achieved in which case the Proposed Scheme will be effected in its entirety (provided all other conditions are satisfied), or the voting thresholds are not achieved in which case the Proposed Scheme will not be implemented. It is important that shareholders exercise their right to vote for or against the Proposed Scheme.

7.4 Factors affecting the outcome of the Proposed Scheme

- approximately 76.6% of the issued shares in Trilogy are held by the top ten registered shareholders, although many of these are nominee or holding companies. The support or otherwise of the larger shareholders in relation to the Proposed Scheme is likely to be material in determining whether or not Trilogy achieves the voting thresholds. The Business Bakery is the largest shareholder in Trilogy with a 31.2% holding and has stated that it intends to vote its entire shareholding in support of the Proposed Scheme if the Trilogy board recommends approval of the Proposed Scheme and no superior proposal is received. The support of the Business Bakery and CIDSUR (in respect of its 3.59%) provides a significant head start to meeting the voting thresholds required for the Proposed Scheme to be implemented. Depending on the number of shares voted on the Proposed Scheme it may not require much additional shareholder support for the Proposed Scheme to be approved;

- since the announcement of the Proposed Scheme, 15.7 million shares in Trilogy have traded, representing 18% of the total shares on issue. The entry of new substantial shareholders onto the Trilogy register as a result of this significant level of trading may be influential in determining the success or otherwise of the Proposed Scheme;

- the Trilogy share price has traded below the Proposed Scheme price since the Proposed Scheme was announced. From 15 December 2017 to 12 February 2018 Trilogy has traded in the range of $2.75 to $2.83 per share, or approximately 2.4% to 5.2% below the $2.90 Proposed Scheme price. The increase in price close to just below the price of the Proposed Scheme suggests the market believes the Proposed Scheme will be successfully implemented. However, the market may also in part be reacting to a better understanding of Trilogy's future prospects as a consequence of the CITIC Capital approach, which itself may contribute to a subsequent re-rating of the company; and

- the Proposed Scheme is conditional on CITIC Capital receiving relevant regulatory consents for the acquisition. When and if all consents will be given is uncertain. The drop dead date for the consents to be received is 31 May 2018, unless otherwise agreed by Trilogy and CITIC Capital. If all the necessary regulatory consents are not obtained, the Proposed Scheme will lapse and CITIC Capital will not acquire any shares in Trilogy. The scheme of arrangement process being pursued by CITIC Capital will result in it acquiring either no shares or 100% of the shares in Trilogy.

7.5 Other merits of the Proposed Scheme

- it is usual for transactions to be negotiated and the price set with settlement sometime later. In the case of the Proposed Scheme the settlement date is uncertain due to the timing of obtaining regulatory approvals. The sharemarket generally and the multiples implied by the share prices of comparable listed companies may change marginally between now and the settlement date of the Proposed Scheme (if it is approved);
- in some takeovers and share transactions there are factors that suggest that even if the price of a proposed takeover or scheme transaction is below the assessed value range shareholders should consider accepting the offer or voting in favour of the offer or scheme. In this instance there does not appear to be any compelling reason for shareholders to support any proposal that is below full underlying value;
- the break fee structure agreed between CITIC Capital and Trilogy provides for Trilogy to pay a fee of $2 million if (amongst other things) a Director of Trilogy does not recommend the Proposed Scheme or if a competing transaction is announced and completed. The existence of the break fee structure has implications. First, it provides Trilogy with a monetary incentive to promote the Proposed Scheme. Secondly, it implies that the Independent Directors have formed the view that the Proposed Scheme is priced fairly. The break fee would make it marginally more expensive for another bidder to make a successful equivalently priced offer;
- the break fee structure also provides for CITIC Capital to pay Trilogy a reverse break fee of $1 million if the condition requiring regulatory approvals is not satisfied (subject to limited exceptions);
- if the voting thresholds are not achieved, theoretically CITIC Capital could elect to increase the price it is prepared to pay for Trilogy. Any price increase would require a revised scheme of arrangement proposal. However, there is no certainty that a revised proposal would be tabled. Unless a revised proposal from CITIC Capital or a competing takeover offer from another party is anticipated by the market, Trilogy's shares are likely to trade at levels below the Proposed Scheme price of $2.90 per share if the Proposed Scheme does not achieve the necessary vote thresholds and does not proceed;
- the use of a scheme of arrangement mechanism provides the acquirer with the absolute certainty that if the resolutions are passed it will secure 100% of the shares on issue (subject to satisfaction of the other conditions). CITIC Capital has demonstrated a desire to own 100% of Trilogy. While the scheme of arrangement structure is likely to be preferred by CITIC Capital by virtue of the lower acceptance levels to be successful, it may elect to launch a conventional takeover offer if the Proposed Scheme does not proceed;
- it is not uncommon for takeover transactions to include a sharing of the "synergy" benefits from an acquisition between the buyer and the seller. As CITIC Capital is a financial buyer there are no obvious operating synergies that should eventuate if the Proposed Scheme is implemented. CITIC Capital may be able to assist Trilogy in its Asian distribution objectives and Trilogy has stated that CITIC Capital has "*strong relationships in the Asian and US markets [that] provide an opportunity to unlock the potential of [the Trilogy] brands, and achieve faster growth globally"*, but this is difficult to clarify or quantify. The extent of the sharing varies from transaction to transaction and is usually a function of the competition for the asset or the business in question. Grant Samuel understand there were competing bids for some or all of the Trilogy business from trade parties. Potential synergies with those trade parties was presumably factored into the pricing of the competing trade offers. Notwithstanding that, the CITIC Capital proposal was selected by the Trilogy board as superior; and

- Trilogy shareholders who choose not to vote in favour the Proposed Scheme have either decided they want to retain their investment in Trilogy for the longer term, or may be expecting that CITIC Capital or another bidder may make another offer at a higher price. There is no certainty regarding the ongoing performance of Trilogy or that a subsequent offer or scheme proposal from CITIC Capital will be forthcoming if the Proposed Scheme is rejected by Trilogy shareholders. The risks and benefits associated with an investment in Trilogy are outlined at Section 7.6 below.

7.6 Consequences if the Proposed Scheme is rejected

If the Proposed Scheme is rejected by Trilogy shareholders Trilogy will remain as a listed company with no shares acquired by CITIC Capital as a consequence of the Proposed Scheme. The status quo scenario is therefore very relevant to Trilogy shareholders in deciding whether to support or reject the Proposed Scheme. Grant Samuel makes the following observations in respect of the status quo scenario:

- Trilogy's major product range operates in a highly competitive market, competing with much larger companies with substantial financial resources. To date, Trilogy has been very successful in the Australasian market, but less so in the UK and other more distant markets. Sales into China have until recently come from the Daigou trade with the product being purchased in Australia and New Zealand and then distributed in China by the purchaser directly or online. It is too early to tell whether the change in distribution in China will be effective or not. It needs to be successful for Trilogy to be able to grow in this key market;
- Trilogy's earnings growth has flattened, reflecting what management believe to be a softer and more competitive market. Trilogy is a relatively small company and brand competing on an international stage. It only has limited financial resources it can deploy to market and enhance its brand profiles. Future growth in earnings will be a function of a combination of factors including Trilogy being able to successfully expand its product range, gain market share outside Australia and New Zealand, take advantage of acquisitions as these present themselves, and ultimately become a business with greater critical mass and more operational efficiencies;
- Trilogy has recently secured access to significant volumes of rosehip oil. Rosehip oil has been one of Trilogy's key points of differentiation. Contracted access to rosehip oil will ensure that Trilogy is able to grow sales without the risk of product supply being curtailed by a shortage of a key ingredient. Grant Samuel notes that the Rosehip Oil Supply Agreement will remain in place if the Proposed Scheme is effected;
- Lanocorp is performing very well, particularly in the United States. However it is small in the context of the Trilogy brand portfolio;
- *Ecoya* is competing in a market with relatively limited barriers to entry, is struggling to generate significant growth in revenues and has experienced a loss in revenue due to raw material supply issues which have been overcome;
- The *Goodness* brand is yet to reach critical mass particularly in Australia, but has made progress in the Pharmacy market; and
- CS&Co is a consistent performer which is highly dependent on the sales through pharmacies. A weakening in the pharmacy market has impacted CS&Co in this financial year but has been offset by new agency lines.

A consideration for Trilogy shareholders is whether, in time, an investment in Trilogy will yield a higher value outcome than the Proposed Scheme. The *Trilogy®* range is currently performing slightly below expectation, and Ecoya, CS&Co and Lanocorp are currently performing at or above expectation. If Trilogy can deliver on its initiatives and return to the earnings growth it experienced in 2016, then higher value outcomes may eventuate.

As with any equity investment there are risks associated with the market in which the company operates. The risks associated with an investment in Trilogy include:

- *Foreign Currency*. Trilogy operates in a number of countries and as a consequence is exposed to movements in the value of the New Zealand dollar as more than 47% of turnover is conducted outside of New Zealand and some raw materials are purchased in foreign currencies. Rosehip oil is bought in US dollars;
- *Liquidity in Trilogy Shares*. CITIC Capital does not control Trilogy and will not do so if the Proposed Scheme fails to achieve the necessary shareholders' vote as it will not acquire any shares in Trilogy. Therefore the liquidity of Trilogy shares will not be affected if the Proposed Scheme does not proceed;
- *Competition.* strong competition in the natural skincare category as outlined above**;**
- *China*. The transition from Daigou to online direct is underway but the outcome of that transition is unclear**.**
- *Loss of key agency relationships*. CS&Co is reliant on a small number of large agency relationships which, could have a significant impact on the Trilogy business if lost;
- *Changes in consumer preferences and skincare trends*. Trilogy is benefiting from the current trend towards natural skincare products. In time, changing trends may result other products overtaking Trilogy's product offering in consumer preference. This could result in lost sales if Trilogy is unable to adapt and innovate to meet changing consumer demands;
- *Introduction of new regulation*. There is a risk that new regulations are introduced which impacts on Trilogy's profitability. Likely areas of regulatory focus include product testing, product labelling, product claims and ingredient sourcing/authenticity; and
- *Sourcing sufficient volumes of natural ingredients*. Natural ingredients, particularly organics, are difficult to procure in large volumes due to the complexity and intensity of farming the ingredients. Trilogy has sought to mitigate that risk by entering into the Rosehip Oil Agreement. In the event sales volumes continue to increase, Trilogy may have to source product ingredients from a greater number of sources than it already does.

7.7 Likelihood of alternative offers

The prospect of an acquisition by CITIC Capital in the form of a Proposed Scheme was announced on 15 December 2017. Since that time, the Proposed Scheme and its prospects of success have received some press analysis and commentary. However, to date, no alternative takeover offers or proposals have been forthcoming.

As the Proposed Scheme is being effected by a scheme of arrangement rather than a takeover, Trilogy remains as a listed entity prior to the proposal being put to shareholders with no trading restrictions on any of its shares. No "lock up" agreements have been put in place in connection with the Proposed Scheme. "Lock-up" agreements are relatively commonplace in conventional takeovers where key shareholders agree in advance to sell their shares into a forthcoming takeover offer when it is made. In the context of the Proposed Scheme there are therefore no restrictions or deterrents to prevent a competing acquirer from making an alternative takeover or scheme of arrangement proposal to acquire Trilogy. By most measures the Trilogy shareholder base is reasonably "open". The advisors to Trilogy confirmed that there was other trade interest in a part of the Trilogy business at the same time as the CITIC Capital proposal was being negotiated.

In the event a superior offer is received and Trilogy terminates the Scheme Implementation Agreement, Trilogy will pay a break fee to CITIC of $2 million. Similarly, if CITIC's application to the OIO is declined it will pay Trilogy a reverse break fee of $1 million.

7.8 Voting for or against the Proposed Scheme

Voting for or against the Proposed Scheme is a matter for individual shareholders based on their own view as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser(s).

GRANT SAMUEL & ASSOCIATES LIMITED

FEBRUARY 2018

APPENDIX A - QUALIFICATIONS, DECLARATIONS AND CONSENTS

1. Qualifications

The Grant Samuel group of companies provides corporate advisory services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, Simon Cotter, BCom, MAppFin, F Fin, Alexa Preston, BBus, CA, and Jake Sheehan, BCom (Hons). Each has a significant number of years of experience in relevant corporate advisory matters.

2. Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by the directors, management and advisers of Trilogy. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Trilogy. However in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose.

The time constraints imposed by the Proposed Scheme are tight. This timeframe restricts the ability to undertake a detailed investigation of Trilogy. In any event, an analysis of the merits of the Proposed Scheme is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of Trilogy. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Trilogy. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cash flows of Trilogy prepared by the management of Trilogy. Grant Samuel has used these projections for the purpose of its analysis. Grant Samuel has assumed that these projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cash flows for Trilogy. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by Trilogy is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Trilogy, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of Trilogy, other than as publicly disclosed.

3. Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Proposed Scheme. Grant Samuel expressly disclaims any liability to any Trilogy security holder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees to the extent allowed by law for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Scheme Booklet issued by Trilogy and has not verified or approved any of the contents of the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Scheme Booklet (except for this report).

4. Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with Trilogy or CITIC Capital that could affect its ability to provide an unbiased opinion in relation to the Proposed Scheme. Grant Samuel had no part in the formulation of the Proposed Scheme. Its only role has been the preparation of this report. Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the Proposed Scheme. Grant Samuel will receive no other benefit for the preparation of this report. Grant Samuel considers itself to be independent for the purposes of the Takeovers Code.

5. Information

Grant Samuel has obtained all the information that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Trilogy and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by Trilogy and contained within this report is sufficient to enable Trilogy security holders to understand all relevant factors and make an informed decision in respect of the Proposed Scheme. The following information was used and relied upon in preparing this report:

5.1 Publicly Available Information

- Scheme Implementation Agreement between CITIC Capital and Trilogy (see http://investors.tilbrands.com/investor-centre/?page=scheme)
- Trilogy's Annual Reports for the financial years ended 31 March 2015-2017;
- Trilogy's Full Year result presentation for the year to 31 March 2017;
- Trilogy's AGM presentation, September 2017;
- Trilogy 1H18 Guidance announcement dated 28 September 2017;
- Trilogy Investor day presentation March 2017; and
- Broker research and press articles.

5.2 Non Public Information

- Trilogy's monthly management accounts for the eight months to 30 November 2017;
- Trilogy's Board Papers for the 12 months to December 2017;
- Scheme Implementation Agreement between CITIC Capital and Trilogy;
- Lanocorp Sale and Purchase Agreement; and
- Trilogy unaudited financial statements for the six months to 30 September 2017.

6. Declarations

Trilogy has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Trilogy has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Trilogy are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the directors and executive management of Trilogy. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7. Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to security holders of Trilogy. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

Corporate Directory

Registered Office and Address for Service

Level 6, Chelsea House

85 Fort Street, Auckland Central 1010

Telephone	Facsimile	Website
(64) 9 367 9486	(64) 9 367 9473	investors.tilbrands.com /investor-centre

Directors

Grant Baker, Chairman

Jack Matthews (Independent Director)

Geoff Ross

Mandy Sigaloff (Independent Director), and

Stephen Sinclair

Company Secretary *(acting)*

Stephen Sinclair

Lawyers

Chapman Tripp

Financial Adviser

UBS

Share Registrar

NEW ZEALAND

Computershare Investor Services Limited
Private Bag 92 119, Auckland 1142
Level 2, 159 Hurstmere Road
Takapuna, North Shore City 0622
Auckland New Zealand

T: +64 9 488 8777
F: +64 9 488 8787
E: enquiry@computershare.co.nz

AUSTRALIA

Computershare Investor Services Pty Limited
GPO Box 3229, Melbourne, VIC 3001
Yarra Falls
452 Johnston Street
Abbotsford, VIC 3067
Melbourne

T: 1800 501 366 *(within Australia)*
T: +61 3 9415 4083 *(outside Australia)*
F: +61 3 9473 2500

TRILOGY
INTERNATIONAL
LIMITED