



5 October 2018

*To the Independent Board Committee of
Ernest Borel Holdings Limited*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFERS BY
CCB INTERNATIONAL CAPITAL LIMITED
FOR AND ON BEHALF OF VGB LIMITED
TO ACQUIRE ALL OF THE ISSUED SHARES IN
ERNEST BOREL HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED AND/OR
AGREED TO BE ACQUIRED BY
VGB LIMITED AND/OR PARTIES ACTING IN CONCERT WITH IT)
AND TO ACQUIRE ALL THE OUTSTANDING CONVERTIBLE BONDS OF
ERNEST BOREL HOLDINGS LIMITED**

INTRODUCTION

We refer to our engagement as the independent financial adviser to make recommendations to the independent board committee (the “**Independent Board Committee**”) of Ernest Borel Holdings Limited (the “**Company**”) in relation to the unconditional mandatory cash offers (the “**Offers**”) for all the issued shares of the Company (other than those shares already owned by and/or agreed to be acquired by VGB Limited (the “**Offeror**”) and/or parties acting in concert with it) and all the outstanding convertible bonds of the Company being made by CCB International Capital Limited (“**CCBI**”) for and on behalf of the Offeror. Details of the Offers are disclosed in the composite offer and response document in respect of the Offers jointly issued by the Offeror and the Company dated 5 October 2018 (the “**Composite Document**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

On 12 September 2018 (after trading hours), the Offeror (as purchaser), Top One Global (as vendor) and Mr. Sit (as vendor guarantor) entered into the Top One Global Agreement pursuant to which Top One Global conditionally agreed to sell and the Offeror conditionally agreed to purchase 102,520,000 Shares, representing approximately 29.51% of the issued share capital of the Company immediately prior to Top One Global Completion, at a price of HK\$1.85 per Share. Top One Global Completion took place on 18 September 2018.

On 12 September 2018 (after trading hours), the Offeror (as purchaser) and Sino Wisdom (as vendor) entered into the Sino Wisdom Agreement pursuant to which Sino Wisdom conditionally agreed to sell and the Offeror conditionally agreed to purchase 99,755,000 Shares, representing approximately 28.71% of the issued share capital of the Company immediately prior to Sino Wisdom Completion, at a price of HK\$1.85 per Share. Sino Wisdom Completion took place on 18 September 2018.

Prior to Top One Global Completion and Sino Wisdom Completion, the Offeror and parties acting in concert with it did not hold any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, other than the interest in the Sale Shares under the Agreements. Immediately following Top One Global Completion and Sino Wisdom Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it owned in aggregate 202,275,000 Shares, representing approximately 58.22% of the issued share capital of the Company. The Company has become a direct non-wholly owned subsidiary of the Offeror and an indirect non-wholly owned subsidiary of Citychamp.

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

As at the Latest Practicable Date, the Company had outstanding Convertible Bonds with an aggregate principal amount of HK\$100,000,000 convertible into 50,000,000 new Shares at the initial conversion price of HK\$2.00 per Share (subject to adjustment). The CB Holder holds the Convertible Bonds in the principal amount of HK\$100,000,000. Immediately following Top One Global Completion and Sino Wisdom Completion, the Offeror is also required to make an unconditional mandatory cash offer for all the outstanding Convertible Bonds pursuant to Rule 13.1 of the Takeovers Code.

THE INDEPENDENT BOARD COMMITTEE

Pursuant to Rule 2.1 and Rule 2.8 of the Takeovers Code, the Independent Board Committee, comprising all the non-executive Directors, namely Ms. Lou Liuqing, Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa, has been established to advise the Independent Shareholders and the CB Holder as to whether the terms of the Offers are fair and reasonable and as to acceptance of the Offers. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee in this regard. Our appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not connected with the Company, Citychamp, the Offeror, Top One Global or Sino Wisdom, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them and accordingly, are considered suitable to give independent advice to the Independent Board Committee in respect of the Offers. Apart from the normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Citychamp, the Offeror, Top One Global or

Sino Wisdom, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, amongst others, the Joint Announcement, the annual reports of the Company for the years ended 31 December 2016 and 31 December 2017 (the “**2016 Annual Report**” and “**2017 Annual Report**”, respectively), the interim report of the Company for the six months ended 30 June 2018 (the “**2018 Interim Report**”), and the information contained in the Composite Document. We have also discussed with and reviewed the information provided by the management of the Group (the “**Management**”) regarding the business and outlook of the Group.

We have relied on the information and facts provided, and the opinions expressed, by the Directors and the Management, which we have assumed to be true, accurate, complete and not misleading in all material aspects as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have sought and received confirmation from the Directors and the Management that no material facts have been omitted from the information provided and opinions expressed by them to us. We consider that the information which we have received is sufficient for us to reach our opinion and recommendations as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material information has been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group nor have we carried out any independent verification of the information provided.

We have not considered the tax and regulatory implications on the Independent Shareholders and the CB Holder of their acceptances or non-acceptances of the Offers since these are particular to their own individual circumstances. In particular, the Independent Shareholders and the CB Holder who are residents outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Offers and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE OFFERS

CCBI is, on behalf of the Offeror, making the Offers on terms set out in the Composite Document in compliance with the Takeovers Code on the following basis:

The Share Offer

For each Offer Share..... HK\$1.85 in cash

The Share Offer Price of HK\$1.85 for each Share under the Share Offer is equal to the price for each of the Sale Shares acquired by the Offeror pursuant to the Agreements.

As at the Latest Practicable Date, there were 347,437,000 Shares in issue. Other than the Convertible Bonds, as at the Latest Practicable Date, the Company did not have, and had not entered into any agreement to issue any securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares.

Based on the Share Offer Price of HK\$1.85 per Offer Share, the entire issued share capital of the Company is valued at approximately HK\$642,758,450. Assuming none of the outstanding Convertible Bonds are converted into new Shares, based on 145,162,000 Shares (representing the Shares not already owned and/or agreed to be acquired by the Offeror and/or parties acting in concert with it) and the Share Offer Price of HK\$1.85 per Offer Share, the Share Offer is valued at HK\$268,549,700.

The CB Offer

For each outstanding HK\$1 of face value of
the Convertible Bonds HK\$0.925 in cash

Based on the Share Offer Price of HK\$1.85 per Share divided by the initial conversion price of the Convertible Bonds of HK\$2.00 per Share (subject to adjustment), the offer price under the CB Offer is HK\$0.925 for each outstanding HK\$1.00 of face value of the Convertible Bonds.

The Convertible Bonds will be acquired fully paid and free from all liens, charges, options, equities, encumbrances or other third party rights of any nature and together with all rights now or hereafter attaching or accruing to them on or after the date on which the CB Offer is made, that is, the date of the posting of the Composite Document.

The CB Offer will not apply to any Convertible Bonds which are or have been converted into Shares prior to the date on which the Offers close.

As at the Latest Practicable Date, the CB Holder held the Convertible Bonds in the principal amount of HK\$100,000,000. Based on the outstanding Convertible Bonds in the principal amount of HK\$100,000,000, the CB Offer is valued at HK\$92,500,000.

For further details of the Offers, including the terms and procedures for acceptance of the Offers, please refer to the "Letter from CCBI" as set out on pages 6 to 17 of the Composite Document, Appendix I to the Composite Document and the accompanying Forms of Acceptance.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of the Offers, we have considered the following principal factors and reasons:

1. Business, financial performance and prospects of the Group

A. Business of the Group

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The Group is principally engaged in the design, production, marketing and sale of mechanical and quartz premium watches.

B. Financial information of the Group

Set forth below are (i) the audited consolidated financial information of the Group for the three years ended 31 December 2015, 31 December 2016 and 31 December 2017 (“FY2015”, “FY2016” and “FY2017”, respectively) as extracted from the 2016 Annual Report and the 2017 Annual Report, respectively; and (ii) the unaudited consolidated financial information of the Group for the six months ended 30 June 2017 and 30 June 2018 (“PE2017” and “PE2018”, respectively) as extracted from the 2018 Interim Report:

Table 1: Financial information of the Group

	FY2015 HK\$'000 (audited)	FY2016 HK\$'000 (audited)	FY2017 HK\$'000 (audited)	PE2017 HK\$'000 (unaudited)	PE2018 HK\$'000 (unaudited)
Revenue	414,315	248,883	227,205	98,018	84,276
Gross profit	238,194	96,786	48,106	40,106	39,535
(Loss) before tax	(6,753)	(142,585)	(183,184)	(80,228)	(41,332)
(Loss) attributable to owners of the Company for the year/period	(11,916)	(145,011)	(197,283)	(81,588)	(43,121)
	As at 31 December 2015 HK\$'000 (audited)	As at 31 December 2016 HK\$'000 (audited)	As at 31 December 2017 HK\$'000 (audited)	As at 30 June 2018 HK\$'000 (unaudited)	
Non-current assets	101,698	96,992	86,621	56,946	
Current assets	759,757	598,187	540,996	488,189	
Current (liabilities)	(202,439)	(105,263)	(193,165)	(245,056)	
Net current assets	557,318	492,924	347,831	243,133	
Non-current (liabilities)	(17,612)	(96,846)	(116,866)	(26,185)	
Equity attributable to owners of the Company	641,404	493,070	317,586	273,894	

Source: the 2016 Annual Report, the 2017 Annual Report and the 2018 Interim Report

(i) For the year ended 31 December 2016 (i.e. FY2016)

In FY2016, the Group recorded total revenue of approximately HK\$248.9 million, representing a significant decrease of approximately 39.9% as compared to approximately HK\$414.3 million in FY2015. Such decrease was mainly attributable to further deterioration of the premium watches retail market in the PRC and Hong Kong. The Group's gross profit also decreased by approximately 59.4% from approximately HK\$238.2 million in FY2015 to approximately HK\$96.8 million in FY2016, and the gross profit margin decreased by approximately 18.6 percentage points from approximately 57.5% in FY2015 to approximately 38.9% in FY2016. As advised by the management that the decrease in gross profit margin was mainly attributable to (i) the increase in the proportion of sales of watches with lower gross profit margin under the weakened consumer sentiment; and (ii) the increase in the inventory provision from approximately HK\$11.8 million in FY2015 to approximately HK\$19.6 million in FY2016.

In FY2016, the Group recorded loss attributable to owners of the Company of approximately HK\$145.0 million, representing approximately 12.2 times of loss of approximately HK\$11.9 million in FY2015. Such deterioration was mainly due to the decrease in revenue and gross profit margin as mentioned above.

The total assets of the Group decreased by approximately HK\$166.3 million from approximately HK\$861.5 million as at 31 December 2015 to approximately HK\$695.2 million as at 31 December 2016. The total assets of the Group as at 31 December 2016 mainly comprised (i) property, plant and equipment of approximately HK\$71.0 million (31 December 2015: approximately HK\$76.4 million); (ii) inventories of approximately HK\$500.6 million (31 December 2015: approximately HK\$556.2 million); (iii) trade and other receivables of approximately HK\$71.1 million (31 December 2015: approximately HK\$127.9 million); and (iv) pledged bank deposits, bank balances and cash of approximately HK\$19.3 million (31 December 2015: approximately HK\$66.2 million).

The total liabilities of the Group decreased by approximately HK\$17.9 million from approximately HK\$220.1 million as at 31 December 2015 to approximately HK\$202.1 million as at 31 December 2016. The total liabilities of the Group as at 31 December 2016 mainly comprised (i) trade and other payables of approximately HK\$46.8 million (31 December 2015: approximately HK\$38.3 million); (ii) notes payable of approximately HK\$80 million (31 December 2015: nil); and (iii) bank and other borrowings of approximately HK\$57.2 million (31 December 2015: approximately HK\$164.1 million).

The equity attributable to owners of the Company decreased from approximately HK\$641.4 million as at 31 December 2015 to approximately HK\$493.1 million as at 31 December 2016, representing a decrease of approximately 23.1%.

(ii) For the year ended 31 December 2017 (i.e. FY2017)

In FY2017, the Group recorded total revenue of approximately HK\$227.2 million, representing a decrease of approximately 8.7% as compared to approximately HK\$248.9 million in FY2016. Such decrease was mainly attributable to the deterioration of the premium watches retail market in Hong Kong, Macau and Southeast Asia as compared to FY2016 leading to a decrease in orders placed by watch retailers. The Group's gross profit also decreased significantly by approximately 50.3% from approximately HK\$96.8 million in FY2016 to approximately HK\$48.1 million in FY2017, and the gross profit margin decreased by approximately 17.7 percentage points from approximately 38.9% in FY2016 to approximately 21.2% in FY2017. We noted from the 2017 Annual Report that the decrease in gross profit margin was mainly attributable to the increase in allowance for inventories from approximately HK\$7.8 million in FY2016 to approximately HK\$49.8 million in FY2017.

In FY2017, the Group recorded loss attributable to owners of the Company of approximately HK\$197.3 million, representing an increase of approximately 36.0% as compared to approximately HK\$145.0 million in FY2016. We noted from the 2017 Annual Report that such deterioration was mainly due to (i) the increase in allowance for doubtful debts amounting to HK\$18.8 million; (ii) the occurrence of loss of inventory amounted to approximately HK\$18.8 million; (iii) the increase in allowance for inventories from approximately HK\$7.8 million in FY2016 to approximately HK\$49.8 million in FY2017; (iv) the increase in finance cost from approximately HK\$7.7 million in FY2016 to approximately HK\$27.7 million in FY2017; (v) the decrease in revenue of approximately 8.7% from approximately HK\$248.9 million in FY2016 to approximately HK\$227.2 million in FY2017; and (vi) the increase in income tax expense from approximately HK\$2.4 million in FY2016 to approximately HK\$14.1 million in FY2017.

The total assets of the Group decreased by approximately HK\$67.6 million from approximately HK\$695.2 million as at 31 December 2016 to approximately HK\$627.6 million as at 31 December 2017. The total assets of the Group as at 31 December 2017 mainly comprised (i) property, plant and equipment of approximately HK\$44.2 million (31 December 2016: approximately HK\$71.0 million); (ii) inventories of approximately HK\$402.2 million (31 December 2016: approximately HK\$500.6 million); (iii) trade and other receivables of approximately HK\$81.6 million (31 December 2016: approximately HK\$71.1 million); and (iv) pledged bank deposits, bank balances and cash of approximately HK\$57.2 million (31 December 2016: approximately HK\$19.3 million).

The total liabilities of the Group increased by approximately HK\$107.9 million from approximately HK\$202.1 million as at 31 December 2016 to approximately HK\$310.0 million as at 31 December 2017. The total liabilities of the Group as at 31 December 2017 mainly comprised (i) trade and other payables of approximately HK\$39.2 million (31 December 2016: approximately HK\$46.8 million); (ii) notes payable of approximately HK\$140 million (31 December 2016: approximately HK\$80.0 million); (iii) liability component of convertible bond of approximately HK\$90.0 million (31 December 2016: Nil); and (iv) bank and other borrowings of approximately HK\$11.6 million (31 December 2016: approximately HK\$57.2 million).

The equity attributable to owners of the Company decreased from approximately HK\$493.1 million as at 31 December 2016 to approximately HK\$317.6 million as at 31 December 2017, representing a decrease of approximately 35.6%.

(iii) For the six months ended 30 June 2018 (i.e. PE2018)

In PE2018, the Group recorded total revenue of approximately HK\$84.3 million, representing a decrease of approximately 14.0% as compared to approximately HK\$98.0 million in PE2017. The Group's gross profit also decreased by approximately 1.4% from approximately HK\$40.1 million in PE2017 to approximately HK\$39.5 million in PE2018, and the gross profit margin increased by approximately 6.0 percentage points from approximately 40.9% in PE2017 to approximately 46.9% in PE2018. We noted from the 2018 Interim Report that the increase in gross profit margin was mainly attributable to the decrease in provision of inventory of approximately HK\$5.9 million.

In PE2018, the Group recorded loss attributable to owners of the Company of approximately HK\$43.1 million, representing a decrease of approximately 47.1% as compared to approximately HK\$81.6 million in PE2017. We noted from the 2018 Interim Report that such improvement was mainly due to (i) the decrease in the provision of inventory and bad debts; and (ii) the decrease in operational expenses by the implementation of effective cost control measures by the Group.

The total assets of the Group decreased by approximately HK\$82.5 million from approximately HK\$627.6 million as at 31 December 2017 to approximately HK\$545.1 million as at 30 June 2018. The total assets of the Group as at 30 June 2018 mainly comprised (i) property, plant and equipment of approximately HK\$39.2 million (31 December 2017: approximately HK\$44.2 million); (ii) inventories of approximately HK\$392.4 million (31 December 2017: approximately HK\$402.2 million); (iii) trade and other receivables of approximately HK\$58.7 million (31 December 2017: approximately HK\$81.6 million); and (iv) pledged bank deposits, bank balances and cash of approximately HK\$37.2 million (31 December 2017: approximately HK\$57.2 million).

The total liabilities of the Group decreased by approximately HK\$38.8 million from approximately HK\$310.0 million as at 31 December 2017 to approximately HK\$271.2 million as at 30 June 2018. The total liabilities of the Group as at 30 June 2018 mainly comprised (i) trade and other payables of approximately HK\$38.1 million (31 December 2017: approximately HK\$39.2 million); (ii) notes payable of approximately HK\$100.0 million (31 December 2017: approximately HK\$140.0 million); (iii) liability component of convertible bond of approximately HK\$94.6 million (31 December 2017: Nil); and (iv) bank and other borrowings of approximately HK\$9.4 million (31 December 2017: approximately HK\$11.6 million).

The equity attributable to owners of the Company decreased from approximately HK\$317.6 million as at 31 December 2017 to approximately HK\$273.9 million as at 30 June 2018, representing a decrease of approximately 13.8%.

(iv) Analysis

Having considered that the Group's revenue dropped continuously from FY2015 to FY2017 and further dropped in PE2018 as a result of the deterioration of the premium watch retail market, we consider that the Group's business remains uncertain. Those Independent Shareholders who wish to retain some or all of the Shares should consider the past financial performance of the Group and the business prospects of the Group as detailed in the section headed "C. Business prospects of the Group" below, or otherwise are reminded to closely monitor the development of the Group and the publications of the Company (including the Composite Document) in this regard.

C. Business prospects of the Group

As mentioned in the 2017 Annual Report and the 2018 Interim Report, the business environment remains challenging for the overall retail market and the watch market segment. The Company experienced a fall in revenue of approximately 8.7% from HK\$248.9 million in FY2016 to HK\$227.2 million in FY2017. In view of the deteriorating performance, the Company actively implemented various cost control strategies and resource utilisation plan in the area of distribution and administrative expenses, which successfully drove down the overall operating costs and expenses of the Group in PE2018. The Group's distribution expenses decreased from HK\$60.3 million in PE2017 to HK\$36.3 million in PE2018, representing a decrease of approximately 40%. Apart from the cost control strategies and the utilisation plan, the Company also organized a wide variety of marketing campaigns including the launch events of new collections of watches and road shows with an aim to enhance the brand image and consolidate the customer relationships.

The Group also intends to develop new point of sales (“POS”) in the PRC, Europe and Asia. The PRC market continues to be the major market of the Company and contributed approximately 85.1% of the Group’s total revenue in FY2017. According to the latest data published by the National Bureau of Statistics, the GDP of the PRC recorded an increase of approximately 6.8% in the first half of 2018 as compared to the corresponding period of 2017 and the disposable income of residents in the PRC recorded an increase of approximately 6.6% in real terms in the first half of 2018. Furthermore, the amount of the total retail sales of consumer goods in the category of commodity retail sales amounted to approximately RMB18.8 trillion during the first 7 months in 2018, representing an increase of approximately 9.2% as compared with the same period in 2017. According to the latest data published by the Federation of the Swiss Watch Industry (a leading association in Swiss representing around 500 members, or more than 90% of Swiss firms which are active in the production and sale of watches, clocks and components), there is a drastic increase of approximately 18.8% in the value of Swiss watch exports to the PRC. It is expected that the positive outlook of the watch industry in the PRC will be favourable to the Group’s business development in the future.

Despite the prudently optimistic prospect of the Company, the intensifying trade war between the PRC and the United States adds another layer of uncertainty to the economy and the retail industry. According to the report “How bad could it get? Counting the cost of a global trade war” published by Bloomberg L.P., the GDP of the PRC may drop approximately 0.7% by 2020 due to the trade war. Moreover, according to the report “Trade war: From rhetoric to reality?” published by DBS Bank, the trade war may lead to a 15–20% decline in equities based on the history of past trade wars. The depressing economy may reduce consumers’ consumption confidence and sentiment which subsequently hampers the growth of the watch retail market.

With the advancement of technology, the state-of-the-art smart watches pose a significant threat on the conventional mechanical and quartz watches in the watch industry, which are the two major products of the Company. The unique features of smart watches such as fitness tracking and navigation aids override the traditional mechanical and quartz watches. According to the report “Deloitte Swiss Watch Industry Study 2017” published by Deloitte Touche Tohmatsu Limited, the number of shipments of smartwatches and Swiss wristwatches were 6.2 million and 5.8 million, respectively, in the first quarter of 2017. The shipments of smartwatches already suppressed that of the Swiss wristwatches and the introduction of smartwatches leads to a keen competition in the industry which may in turn adversely affect the financial performance of the Group in the future.

Taking into consideration the factors as mentioned above, we are of the opinion that there remains uncertainty in the future performance of the Group.

2. Principal terms of the Offers

The Share Offer

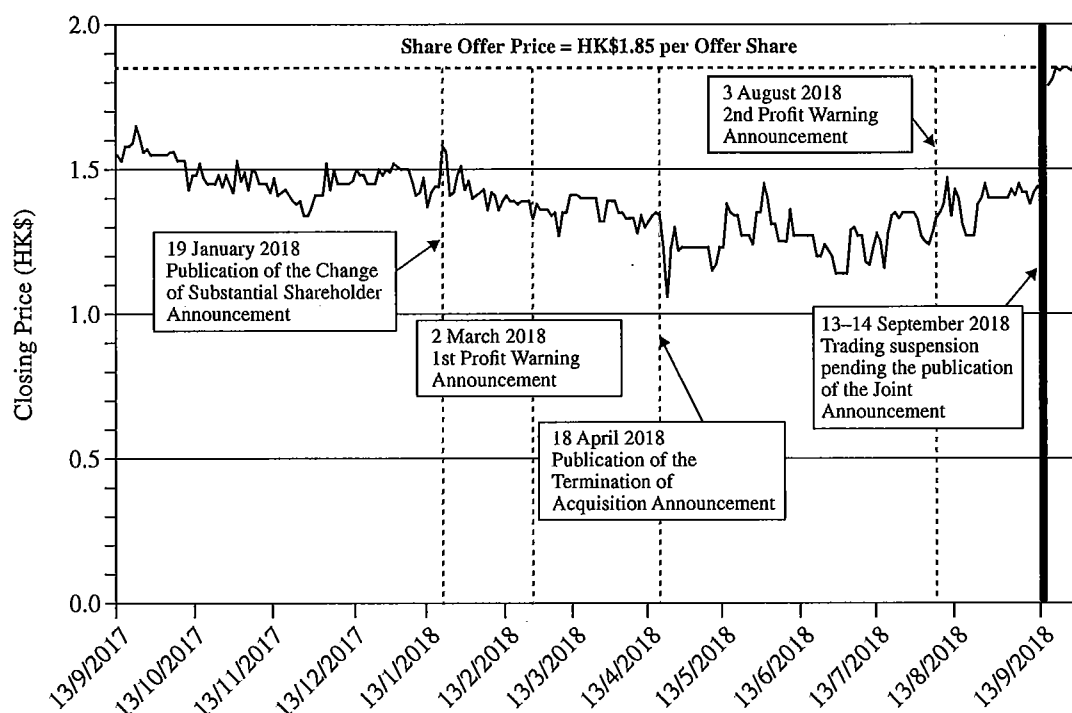
The Share Offer Price of HK\$1.85 per Offer Share represents:

- (i) a premium of approximately 0.54% over the closing price of HK\$1.84 per Share as quoted on the Stock Exchange on 2 October 2018, being the Latest Practicable Date;
- (ii) a premium of approximately 28.47% over the closing price of HK\$1.440 per Share as quoted on the Stock Exchange on 12 September 2018, being the Last Trading Day;
- (iii) a premium of approximately 30.65% over the average closing price of HK\$1.416 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 30.56% over the average closing price of HK\$1.417 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 34.25% over the average closing price of HK\$1.378 per Share as quoted on the Stock Exchange for the thirty consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a premium of approximately 102.41% over the audited consolidated net asset value per Share of approximately HK\$0.914 as at 31 December 2017; and
- (vii) a premium of approximately 134.77% over the unaudited consolidated net asset value per Share of approximately HK\$0.788 as at 30 June 2018.

A. *Historical price performance of the Shares*

Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 13 September 2017, being the twelve-month period prior to the Last Trading Day, up to and including the Latest Practicable Date (the “**Review Period**”):

Chart 1: Share price performance during the Review Period



Source: the website of the Stock Exchange (www.hkex.com.hk)

Note: Trading in the Shares was suspended from 13 September 2018 to 14 September 2018 (both days inclusive) pending the publication of the Joint Announcement.

As illustrated in the chart above, during the Review Period, the closing price of the Shares ranged from the lowest closing price of HK\$1.06 per Share as recorded on 20 April 2018 to the highest closing price of HK\$1.85 per Share as recorded on 19 September 2018, 21 September 2018 and 24 September 2018 respectively, with an average price of approximately HK\$1.40 per Share. The Share Offer Price is equal to the highest closing price of the Shares, and represents a premium of approximately 32.3% and 74.5% over the average closing price and the lowest closing price of the Shares during the Review Period, respectively.

During the period commencing from 13 September 2017 to 20 April 2018, the closing price of the Shares exhibited a downward trend and hit the lowest point of HK\$1.06 per Share on 20 April 2018. We discussed with the Management regarding the downward trend and were advised that, save for (i) the interim results announcement for the six months ended 30 June 2017; (ii) the announcement regarding the change of substantial shareholder dated 19 January 2018; and (iii) the profit warning announcement dated 2 March 2018; (iv) the annual results announcement for the year ended 31 December 2017; and (v) the announcement regarding the termination of acquisition of the entire issued share capital of Top Win International Trading Limited dated 18 April 2018, they are not aware of other particular reason that led to the decreasing trend of the price of the Shares. After reaching the lowest point, the closing price of the Shares then demonstrated a general upward trend and gradually reached a relatively high level of HK\$1.44 per Share on the Last Trading Day. We enquired with the Management and were advised that, during the period commencing from 13 September 2017 to the Last Trading Day prior to the Joint Announcement (the “**Pre-announcement Period**”), save for (i) the profit warning announcement dated 3 August 2018; and (ii) the interim results announcement for the six months ended 30 June 2018, the Company did not issue any other announcement which is of price-sensitive nature during the Pre-announcement Period and the Management is not aware of any particular reason for the price movement.

At the request of the Company, trading in the Shares was suspended from 13 September 2018 to 14 September 2018 (both days inclusive) pending the publication of the Joint Announcement. Following the resumption of trading, the closing price of the Shares surged by approximately 24.31% to HK\$1.79 per Share on 17 September 2018 (being the first trading day after the publication of the Joint Announcement) as compared to that of HK\$1.44 per Share on the Last Trading Day and the closing price of the Shares, in general, fluctuated within a narrow range during the period commencing from 17 September 2018 to the Latest Practicable Date (the “**Post-announcement Period**”). We consider that such rise in the closing price of the Shares may be associated with the Offers as the Share Offer Price represents a premium over the closing price of the Shares throughout the Pre-announcement Period. As at the Latest Practicable Date, the closing price of the Shares was HK\$1.84.

Independent Shareholders should note that the information set out above is not an indicator of the future performance of the Shares and that the price of the Shares may increase or decrease from its closing price after the Latest Practicable Date.

B. Historical trading volume of the Shares

The following table sets out the trading volume of the Shares during the Review Period:

Table 2: Trading volume of the Shares during the Review Period

Month/period	Total trading volume (No. of Shares)	No. of trading days	Average daily trading volume (No. of Shares)	Percentage of the average daily trading volume to the total number of Shares in issue (Note 2)	Percentage of the average daily trading volume to the number of Shares held by public Shareholders (Note 3)
September 2017 (From 13 September)	2,688,000	13	206,769	0.060%	0.193%
October 2017	2,844,000	20	142,200	0.041%	0.133%
November 2017	3,035,000	22	137,955	0.040%	0.129%
December 2017	2,262,000	19	119,053	0.034%	0.111%
January 2018	102,334,000	22	4,651,545	1.339%	4.338%
February 2018	1,129,000	18	62,722	0.018%	0.058%
March 2018	1,107,000	21	52,714	0.015%	0.049%
April 2018	4,598,000	19	242,000	0.070%	0.226%
May 2018	2,379,000	21	113,286	0.033%	0.106%
June 2018	1,528,000	20	76,400	0.022%	0.071%
July 2018	5,265,000	21	250,714	0.072%	0.234%
August 2018	6,385,000	23	277,609	0.080%	0.259%
September 2018 (Note 1)	170,073,000	17	10,004,294	2.879%	9.330%
October 2018 (up to the Latest Practicable Date)	362,000	1	362,000	0.104%	0.338%

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

- Trading in the Shares was suspended from 13 September 2018 to 14 September 2018 (both days inclusive) pending the publication of the Joint Announcement.
- The calculation is based on the average daily trading volume of the Shares divided by the total issued share capital of the Company as at the Latest Practicable Date (i.e. 347,437,000 Shares).

3. The calculation is based on the average daily trading volume of the Shares divided by the number of Shares held by public Shareholders as at the Latest Practicable Date (i.e. 107,227,000 Shares).

As illustrated in the Table 2 above, the average daily trading volume for the respective month/period during the Review Period ranged from approximately 52,714 Shares to approximately 10,004,294 Shares, representing approximately 0.015% to approximately 2.879% of the total number of the Shares in issue as at the Latest Practicable Date, or approximately 0.049% to approximately 9.330% of the total number of Shares held by public Shareholders as at the Latest Practicable Date.

Save for the particularly high daily trading volume of the Shares in January 2018 due to the disposal of 99,755,000 Shares (equivalent to approximately 28.71% of the issued share capital of the Company) by a substantial shareholder of the Company and its subsequent cessation of being a substantial shareholder, the average daily trading volume of the Shares was relatively thin during the Review Period until the publication of the Joint Announcement. On 17 September 2018 (being the first trading day after the publication of the Joint Announcement), the trading volume of the Shares increased to approximately 13.3 million and the average daily trading volumes increased from approximately 559,777 Shares during the Pre-announcement Period to approximately 16,772,400 Shares during the Post-announcement Period. We believe that the increase in trading volume of the Shares during the Post-announcement Period was likely to be due to the market reaction to the announcement of the Offers. Although the trading volume of the Shares tended to be active during the Offer Period, the sustainability of the recent growth of the trading volume of the Shares after the Offer Period is uncertain.

The trading volume of the Shares has been active since 17 September 2018 (being the first trading day after the publication of the Joint Announcement), however, it is still uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price. Therefore, we are of the view that the Share Offer represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of the Shares, to dispose of part or all of their Shares at the Share Offer Price if they so wish to.

C. Comparison with other comparable companies

In assessing the fairness and reasonableness of the Share Offer Price, we attempted to compare the Share Offer Price against the market valuation of other comparable companies using the price-to-earnings ratio (“**PE ratio**”) and the price-to-book ratio (“**PB ratio**”), which are commonly used valuation multiples. However, since the Company recorded a loss attributable to the owners of the Company in FY2017 and therefore, the comparison of the PE ratio is not applicable. Given that all the revenue of the Group was derived from the design, production, marketing and sale of watches (the “**Relevant Business**”), we identified companies listed on the

Stock Exchange based on the criteria that over 80% of the revenue are generated from the Relevant Business. We have identified an exhaustive list of 10 companies (the “Comparable Companies”) which met our above-mentioned selection criteria.

As each of the Comparable Companies has its own unique nature and characteristic in terms of, *inter alia*, business operation and environment, size, profitability and financial position, the comparison of the PB ratio between the Comparable Companies and the Group may not represent an identical comparison. The Independent Shareholders should also note that the business operation and environment, size, profitability and financial position of the Comparable Companies are not equivalent to the Company and we have not conducted any in-depth investigation into the abovementioned business and affairs of the Comparable Companies. Nevertheless, we consider such comparison could be treated as an indication as to the reasonableness and fairness of the Share Offer Price, details of which are set out in the table below:

Table 3: Details of the Comparable Companies

Company name (Stock code)	Principal activities	Market capitalization as at the Latest Practicable Date (HK\$'000)	Net assets attributable to equity holders based on the latest published financial statements prior to the Latest Practicable Date (HK\$'000) (Note 1)	PB ratio (times)
STELUX Holdings International Limited (84)	Engaged in watch retailing, wholesale, trading of watches, watch supply chain management and manufacture of watch movements	298,245	1,020,590	0.29
Asia Commercial Holdings Limited (104)	Engaged in trading of watches (retail and wholesale) and property leasing	356,462	502,773	0.71
Citychamp Watch & Jewellery Group Limited (256)	Engaged in the watches and timepieces, property investments, and banking and financial businesses	7,354,691	4,763,408	1.54
Oriental Watch Holdings Limited (398)	Engaged in watch trading	1,049,923	2,315,977	0.45

Company name (Stock code)	Principal activities	Market capitalization as at the Latest Practicable Date (HK\$'000)	Net assets attributable to equity holders based on the latest published financial statements prior to the Latest Practicable Date (HK\$'000) (Note 1)	PB ratio (times)
Sincere Watch (Hong Kong) Limited (444)	Engaged in the distribution of branded luxury watches, timepieces and accessories in Hong Kong, Macau, Taiwan, Korea and the PRC	580,219	1,068,513	0.54
Time2U International Holding Limited (1327)	Engaged in the manufacture and sales of own-branded watches, OEM watches and third-party watches	107,136	614,611 (Note 2)	0.17
Prosper One International Holdings Company Limited (1470)	Engaged in the retail and wholesale of watches in Hong Kong, and sales and trading of fertilizers raw materials, fertilizers products and public consumption products	352,000	110,647	3.18
Time Watch Investments Limited (2033)	Engaged in the manufacturing, retail sales and e-commerce business of its two proprietary brands watches, retail sales of other brands of watches in the PRC, global distribution of other brands of watches and its ancillary watch movements trading business	2,350,339	1,989,457	1.18
Hengdeli Holdings Limited (3389)	Engaged in the distribution of over 50 international brands from the above four major brand suppliers and other independent watchmakers	1,585,307	4,945,144 (Note 2)	0.32

Company name (Stock code)	Principal activities	Market capitalization as at the Latest Practicable Date (HK\$'000)	Net assets attributable to equity holders based on the latest published financial statements prior to the Latest Practicable Date (HK\$'000) (Note 1)		PB ratio (times)
Hanvey Group Holdings Limited (8219)	Engaged in the design and development, manufacturing and distribution of watch products on original design manufacturing basis for watch manufacturers, brand owners and watch importers across the globe	280,000	29,051		9.64 (Note 3)
			Maximum:	3.18 (Note 3)	
			Minimum:	0.17 (Note 3)	
			Average:	0.93 (Note 3)	
			Median:	0.54 (Note 3)	
The Company		642,758 (Note 4)	273,894		2.35

Sources: the website of the Stock Exchange (www.hkex.com.hk) and the financial reports of the respective Comparable Companies

Notes:

1. Based on the figures of the respective Comparable Companies as published in the latest published annual/interim reports or annual/interim results announcements.
2. These amounts were stated in RMB and were converted to HKD using the exchange rate of RMB1.00 = HK\$1.14 as at the Latest Practicable Date.
3. As the PB ratio of Hanvey Group Holdings Limited (stock code: 8219) is exceptionally high as compared with those of other Comparable Companies, we consider that the PB ratio of Hanvey Group Holdings Limited is an outlier and has been excluded in our analysis.

4. The market capitalization of the Company is calculated based on the Share Offer Price and the number of the issued Shares (i.e. 347,437,000 Shares) as at the Latest Practicable Date.

Among the Comparable Companies, we noted that the PB ratio of Hanvey Group Holdings Limited (stock code: 8219) is exceptionally high as compared with those of other Comparable Companies. Therefore, we consider that the PB ratio of Hanvey Group Holdings Limited is an outlier. To avoid distortion to the overall comparable analysis due to the abnormality of such single result, the PB ratio of Hanvey Group Holdings Limited has been excluded in our analysis.

As set out in the Table 3 above and after excluding Hanvey Group Holdings Limited, the PB ratios of the Comparable Companies ranged from approximately 0.17 times to approximately 3.18 times with an average of approximately 0.93 times and a median of approximately 0.54 times. The PB ratio implied by the Share Offer Price of approximately 2.35 times is within the range and higher than the average of all PB ratio of the Comparable Companies.

D. Conclusion

Having considered the abovementioned factors set out in the above paragraphs that:

- (i) the Shares were traded below the Share Offer Price throughout the Pre-announcement Period;
- (ii) the Share Offer Price represents a premium of approximately 134.77% over the unaudited consolidated net asset value per Share of approximately HK\$0.788 as at 30 June 2018;
- (iii) save for the relatively high average daily trading volume of the Shares in January 2018 and during the Post-announcement Period, the trading volume of Shares was low during the Review Period, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price; and
- (iv) there are likely uncertainties in the future performance of the Group as discussed in the paragraph headed “C. Business prospects of the Group” under the section headed “1. Business, financial performance and prospects of the Group” above,

we are of the view that the Share Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

3. Information on the Offeror and the intention of the Offeror in relation to the Group

A. Information on the Offeror

As stated in the "Letter from CCBI" contained in the Composite Document, the Offeror was incorporated in Hong Kong with limited liability. The Offeror is an investment holding company. As at the Latest Practicable Date, save for the interests in the Sale Shares, the Offeror did not hold any other investment.

The Offeror is a wholly-owned subsidiary of Citychamp. Citychamp is a company incorporated in the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange with stock code 256. Citychamp's principal activity is investment holding and its subsidiaries are engaged in watches and timepieces, banking and financial and property investments businesses. The ultimate controlling shareholder of Citychamp is Mr. Hon Kwok Lung, who is interested in approximately 69.45% of the issued shares of Citychamp as at the Latest Practicable Date.

B. Intention of the Offeror Regarding the Group

As stated in the paragraph headed "Intention of the Offeror Regarding the Group" in the "Letter from CCBI" contained in the Composite Document, as at the Latest Practicable Date, the Offeror intended to continue the existing principal businesses of the Group and had no intention to discontinue the employment of the employees (save for changes in the composition of the board of directors of the Company) or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

The Offeror will, following the close of the Offers, conduct a review on the business activities/operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the results of the review and should suitable investment or business opportunities arise, the Offeror may explore other business opportunities for the Company which may involve acquisitions or investments in assets and/or businesses or cooperation with business partners of the Offeror with a view to enhancing the Group's business growth and asset base as well as broadening its income stream. As at the Latest Practicable Date, the Offeror had no plan, and had not engaged in any discussion or negotiation, on any injection of any assets or businesses into the Group.

C. Proposed change to the Board composition of the Company

The Board is currently made up of six directors, comprising two executive Directors, namely Mr. Sit and Mr. Xiong Wei, one non-executive Director, namely Ms. Lou Liuqing and three independent non-executive Directors, namely Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa. Pursuant to the terms of the Top One Global Agreement, upon Top One Global Completion, Mr. Sit shall tender his

written resignation as director of each of the Company and the other members of the Group which will take effect from such time as the Offeror deems appropriate, subject to the requirement under the Takeovers Code, the Listing Rules and applicable laws.

The Offeror intends to nominate new Directors to the Board for appointment with effect from a date which is no earlier than such date as permitted under Rule 26.4 of the Takeovers Code.

D. Maintaining the listing status of the Company

As mentioned in the "Letter from CCBI" contained in the Composite Document, it is the intention of the Offeror to maintain the listing of the Shares on the Stock Exchange after the close of the Offers. The Offeror and the Company will undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offers to ensure that not less than 25% of the Shares will be held by the public.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) that there are insufficient Shares in public hands to maintain an orderly market,

the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The directors of the Offeror and the new directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

The CB Offer

Pursuant to Rule 13 of the Takeover Code, the Offeror is also required to make the CB Offer.

As at the Latest Practicable Date, the outstanding Convertible Bonds comprise the 10% coupon rate unsecured convertible bonds issued by the Company on 11 January 2017 which are due on 10 January 2019 in the aggregate principal amount of HK\$100,000,000 and could be convertible into 50,000,000 new Shares at the initial conversion price of HK\$2.00 per conversion Share.

The offer price under the CB Offer is HK\$0.925 for every HK\$1 face value of the Convertible Bonds, determined in accordance with Rule 13 and Practice Note 6 to the Takeover Code as the “see-through” consideration for the Convertible Bonds, being the number of new Shares into which the Convertible Bonds is convertible (being 50,000,000 new Shares) multiplied by the Share Offer Price of HK\$1.85 per Offer Share, valuing the total CB Offer at HK\$92,500,000. In the event that the CB Holder has not exercised the conversion rights before its maturity date on 10 January 2019, the CB Holder should be entitled to receive 100% principal of the unexercised Convertible Bonds of HK\$100,000,000 together with any unpaid interest thereon on 10 January 2019 which significantly exceeds the amount to be received of HK\$92,500,000 upon the acceptance of the CB Offer.

OPINION AND RECOMMENDATION

The Share Offer

Taking into consideration the above-mentioned principal factors and reasons, in particular the following:

- (i) the Shares were traded below the Share Offer Price throughout the Pre-announcement Period;
- (ii) the Group’s financial performance remains uncertain as discussed in the paragraph headed “B. Financial Information of the Group” under the section headed “1. Business, financial performance and prospects of the Group” above;
- (iii) save for the relatively high average daily trading volume of the Shares in January 2018 and during the Post-announcement Period, the trading volume of Shares was low during the Review Period. It is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price; and
- (iv) there are likely uncertainties in the future performance of the Group as discussed in the paragraph headed “C. Business prospects of the Group” under the section headed “1. Business, financial performance and prospects of the Group” above,

we consider that the terms of the Share Offer is fair and reasonable so far as the Independent Shareholders are concerned. On such basis, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Share Offer. In view of the volatility of market conditions, those Independent Shareholders who intend to accept the Share Offer are strongly reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period and should consider selling their Shares in the open market, instead of accepting the Share Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net proceeds receivable under the Share Offer after having regard to the market price and the liquidity of the Shares.

For those Independent Shareholders who are attracted by and confident in the future prospects of the Group, given the background and future intention of the Offeror as detailed in the "Letter from CCBI" contained in the Composite Document and notwithstanding that no detailed business plan has been laid down by the Offeror, they may consider to retain their Shares in full or in part. We would like to remind the Independent Shareholders that if they consider retaining their Shares or tendering less than all their Shares under the Share Offer, they should carefully consider the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Share Offer in view of the historical low liquidity of the Shares and there is no guarantee that the prevailing level of the share price will sustain during and after the Offer Period. The Independent Shareholders are strongly advised that the decision to realise or to continue to hold their investments in the Shares is subject to individual circumstances and investment objectives.

The CB Offer

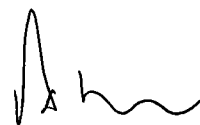
Based on the above principal factors and reasons, in particular the fact that in the event that the CB Holder have not exercised the conversion rights before its maturity date on 10 January 2019, the CB Holder should be entitled to receive 100% principal of the unexercised Convertible Bonds of HK\$100,000,000 together with any unpaid interest thereon on 10 January 2019 which exceeds the amount to be received of HK\$92,500,000 upon the acceptance of the CB Offer, we are of the opinion that the offer price under the CB Offer is not fair and reasonable to the CB Holder. Accordingly, we recommend the Independent Board Committee to advise the CB Holder not to accept the CB Offer.

The Independent Shareholders and the CB Holder are also reminded to read carefully the procedures for accepting the Offers, details of which are set out in Appendix I to the Composite Document and the accompanying Form of Acceptance, if they wish to accept the Offers.

Yours faithfully,
For and on behalf of
Astrum Capital Management Limited



Hidulf Kwan
Managing Director



Alfred Wong
Director

Note: Mr. Hidulf Kwan has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and has participated in and completed various independent financial advisory transactions.

Mr. Alfred Wong is a licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has approximately 19 years of experience in the corporate finance industry.