THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your Shares, you should at once hand this circular to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

ERNEST BOREL 1856

ERNEST BOREL HOLDINGS LIMITED
依波路控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF TOP WIN INTERNATIONAL TRADING LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company

脈搏 Pulsar 資本 Capital

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

ASTRUM

A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 13 to 14 of this circular. A letter from Astrum Capital Management Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 15 to 40 of this circular.

A notice convening the EGM of the Company to be held at Room A2, 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong on Tuesday, 17 April 2018 at 3:00 p.m. is set out on pages 131 to 132 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the forthcoming EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish and in such event, the form of proxy shall be deemed to be revoked.

26 March 2018

CONTENTS

In this circular, the following terms and expressions shall have the following respective meanings unless the context otherwise requires:

"2017 Accounts"	in relation to the Target Company, the audited balance sheet of the Target Company as of 31 December 2017; and the audited statements of income, owner's equity and cash flows of the Target Company for the year ended 31 December 2017, together with any notes, reports or statements included in or annexed to them
"2017 Net Profit"	the audited net profit after tax of the Target Company for the financial year ended 31 December 2017
"Acquisition"	the acquisition of the Sale Shares in the Target Company by the Purchaser from the Vendor pursuant to the terms and conditions of the Sale and Purchase Agreement
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday, Sunday and Public Holiday) on which licensed banks are open for business in Hong Kong
"Company"	Ernest Borel Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed and traded on the main board of the Stock Exchange (Stock code: 1856)
"Completion"	the completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
"connected person(s)"	has the meaning ascribed to it in the Listing Rules
"Deposit"	the refundable deposit paid by the Company to the Vendor on 12 May 2017 pursuant to the MOU in the amount of HK$25,000,000
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened for the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition
"Group"	the Company and its subsidiaries

"Guaranteed Profit"	HK$5,000,000, pursuant to the Profit Guarantee
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board comprising all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder
"Independent Financial Adviser" or "Astrum Capital"	Astrum Capital Management Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder
"Independent Shareholder(s)"	Shareholder(s) who are not required to abstain from voting at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder
"Independent Valuer" or "Greater China Appraisal"	Greater China Appraisal Limited, a qualified independent third party valuer in Hong Kong
"Initial Sale and Purchase Agreement"	the sale and purchase agreement dated 30 November 2017 entered into between the Purchaser and the Vendor in respect of the acquisition of the Sale Shares
"Latest Practicable Date"	22 March 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"MOU"	the non-legally binding memorandum of understanding dated 10 May 2017 entered into between the Company and the Vendor in relation to the acquisition of the Sale Shares
"PRC"	the People's Republic of China (excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region and Taiwan)

"Profit Guarantee"	the irrevocable guarantee provided by the Vendor to the Purchaser that the 2017 Net Profit shall not be less than HK$5,000,000
"Purchaser"	Swissmount Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is a direct wholly-owned subsidiary of the Company as at the date of this circular
"Sale and Purchase Agreement"	the Initial Sale and Purchase Agreement as supplemented by the Supplemental Sale and Purchase Agreement dated 22 March 2018
"Sale Shares"	100% of the total issued share capital of the Target Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) with nominal value of HK$0.1 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder"	has the meaning ascribed to it in the Listing Rules
"Supplemental Sale and Purchase Agreement"	the supplemental sale and purchase agreement entered into between the Purchaser and the Vendor on 22 March 2018
"Target Company"	Top Win International Trading Limited (恒榮國際貿易有限公司), a company incorporated in Hong Kong with limited liability, which is wholly-owned by the Vendor as at the date of this circular
"Vendor" or "Mr. Sit"	Mr. Sit Yau Chiu (薛由釗), an individual who holds the entire issued share capital of the Target Company and is a director and a Substantial Shareholder of the Company as at the date of this circular
"%"	Per cent

In this circular, the terms "associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "Substantial Shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

ERNEST BOREL HOLDINGS LIMITED
依波路控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

Executive Directors:
Mr. Sit Yau Chiu *(Chairman and Chief Executive Officer)*
Mr. Xiong Wei

Non-executive Directors:
Mr. Chan Kwan Pak Gilbert
Ms. Lou Liuqing

Independent Non-executive Directors:
Mr. Lui Wai Ming
Mr. To Chun Kei
Ms. Chan Lai Wa

Registered office:
P.O. Box 10008, Willow House
Cricket Square
Grand Cayman
KY1-1001
Cayman Islands

Head Office in Switzerland:
8, rue des Perrières
2340 Le Noirmont
Switzerland

Office in the PRC:
Suite 701, Taikoo Hui Tower 1
385 Tianhe Road, Guangzhou 510620
PRC

Principal place of business in Hong Kong:
Unit 1612-18, Level 16
Tower 1, Grand Century Place
193 Prince Edward Road West
Mongkok, Kowloon
Hong Kong

26 March 2018

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF TOP WIN INTERNATIONAL TRADING LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Reference is made to the announcements of the Company dated 11 May 2017, 9 August 2017, 9 November 2017, 30 November 2017, 29 December 2017, 1 February 2018 and 22 March 2018 in relation to the Acquisition. The Acquisition constitutes a major and connected transaction of the Company under the Listing Rules.

On 30 November 2017, the Purchaser, a wholly-owned subsidiary of the Company entered into the Initial Sale and Purchase Agreement with the Vendor, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Shares, representing 100% of the issued share capital of the Target Company for a consideration of HK$50,000,000.

On 22 March 2018, the Purchaser entered into the Supplemental Sale and Purchase Agreement with the Vendor to amend certain terms in the Initial Sale and Purchase Agreement.

The purpose of this circular is to provide you with, among other things, (i) further information on the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the recommendations from the Independent Board Committee on the Sale and Purchase Agreement and the transactions contemplated thereunder; (iii) the advice from the Independent Financial Adviser on the Sale and Purchase Agreement and the transactions contemplated thereunder; (iv) the financial information of the Group; (v) the accountants' report of the Target Company; (vi) the pro forma financial information of the Enlarged Group; (vii) the valuation report on the Target Company prepared by the Independent Valuer and (viii) a notice for convening the EGM (to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder).

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are set out below:

Date

30 November 2017 (as supplemented by the Supplemental Sale and Purchase Agreement dated 22 March 2018)

Parties

(i) the Purchaser, Swissmount Holdings Limited, a direct wholly-owned subsidiary of the Company

(ii) the Vendor, Mr. Sit Yau Chiu, a director and a Substantial Shareholder of the Company

(iii) the Target Company, Top Win International Trading Limited, which is wholly-owned by the Vendor

Subject Matter

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares, representing 100% of the total issued share capital of the Target Company as of the date of this circular.

As at the date of this circular, the entire issued share capital of the Target Company is directly held by the Vendor. Immediately upon Completion, the total issued share capital of the Target Company will be wholly-owned by the Purchaser. Therefore, the financial results of the Target Company will be consolidated into the financial statements of the Group.

Consideration

Subject to the adjustment pursuant to the Profit Guarantee, the consideration shall be HK$50,000,000, of which HK$25,000,000 has been settled by way of payment of the Deposit by the Company and HK$25,000,000 shall be payable by the Purchaser upon Completion. The consideration was determined on the basis of normal commercial terms and after arm's length negotiations between the Vendor and the Purchaser after taking into account, among others, (i) the valuation of the Target Company at HK$61,545,000 as at 31 October 2017 as prepared by the Independent Valuer, adopting the market approach less a discount based on arm's length negotiation; and (ii) the Profit Guarantee given by the Vendor. Further details of the valuation on the Target Company are set out in Appendix IV to this circular.

Conditions Precedent

Completion of the Acquisition is conditional upon the satisfaction (or waiver, if applicable) of the following conditions precedent:

(a) the Purchaser having completed and being satisfied with the outcome of its due diligence review on the Target Company;

(b) the Purchaser having obtained all necessary consents and approvals (if required) in accordance with the applicable laws and regulations (including the Listing Rules) in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder;

(c) the approval having been obtained from the Independent Shareholders at the EGM for the Sale and Purchase Agreement and the transactions contemplated thereunder;

(d) all licences, permissions, authorisations, regulatory approvals and consents in relation to the Acquisition under any applicable laws having been obtained (if any);

(e) the Target Company having been operated in the normal course of its business during the period between the date of the Sale and Purchase Agreement and the Completion; and

(f) no material adverse change in the business, operations, assets, liabilities, condition (whether financial, trading or otherwise), prospects or operating results of the Target Company having or reasonably being expected to have occurred excluding the following if the following have a materially disproportionate effect on the Target Company compared to other companies in the industries in which the Target Company operates:

    (i) changes in stock markets, interest rates, exchange rates, commodity prices or other general economic conditions;

(ii) changes in conditions generally affecting the industries in which the Target Company operates;

(iii) changes in applicable laws, regulations or accounting standards or practices; or

(iv) the announcement of the Acquisition or the change in control of the Target Company resulting from this Acquisition.

Save and except conditions precedent set out in (a), (e) and (f) which can be waived by the Purchaser by notice in writing, no other conditions precedent can be waived.

If any of the aforesaid conditions precedent has not been fulfilled (or waived, as the case may be) on or before 30 April 2018 or such other date as the Vendor and the Purchaser may agree in writing, the Vendor shall forthwith return the Deposit to the Company within five (5) Business Days without interest and the Sale and Purchase Agreement shall cease to be of any effect except those in relation to notices, costs and expenses and governing law, etc. which shall remain in full force and effect and save in respect of any claims arising out of any antecedent breach of the Sale and Purchase Agreement.

As at the Latest Practicable Date, save and except the approval from the Independent Shareholders at the EGM, there are no licences, permissions, authorisations, regulatory approvals and consents required for the Acquisition.

Completion

Completion shall take place on five (5) Business Days after the satisfaction (or waiver, if applicable) of the last condition precedent as set out hereinabove or such other dates the Purchaser and the Vendor may agree in writing in accordance with the terms in the Sale and Purchase Agreement.

Profit Guarantee

Pursuant to the Sale and Purchase Agreement, the Vendor irrevocably warrants and guarantees to the Purchaser that the 2017 Net Profit shall not be less than HK$5,000,000.

In the event that the 2017 Net Profit falls below HK$5,000,000, the consideration shall be adjusted downward based on the formula set out below:

A = (HK$5,000,000 – B) x C

where

A = shortfall

B = 2017 Net Profit

C = 10

The Vendor shall repay the shortfall calculated based on the formula hereinabove in cash within fourteen (14) Business Days upon the delivery of the 2017 Accounts by the Vendor to the Purchaser or on such other dates as the Vendor and the Purchaser may from time to time mutually agree in writing. The Company shall comply with the disclosure requirements in Rule 14A.63 of the Listing Rules. The 2017 Accounts is expected to be available in mid-April 2018.

The multiple 10 represents the price-to-earnings ratio derived by reference to the consideration over the Guaranteed Profit.

Non-competition Undertaking

The Vendor irrevocably and unconditionally undertakes to the Purchaser that after the Completion, so far he remains a Substantial Shareholder of the Company, he would not, and would procure that his associates (except any members of the Group) would not directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee, or otherwise, and whether for profit, reward or otherwise) in any company or business which is or may be in competition, directly or indirectly, with the watch trading and watch manufacturing and distribution business carried on or contemplated to be carried on by the Group from time to time.

Additional Undertaking by the Vendor

The Vendor covenants to the Purchaser, amongst others, that the net asset value of the Target Company according to the 2017 Accounts, shall not be less than HK$7,000,000 after distribution of dividend. Prior to the Completion, if any of the Vendor's warranties is found to be untrue, inaccurate or misleading or has not been fully carried out in any respect save and except for such matters disclosed, the Purchaser may by notice in writing rescind the Sale and Purchase Agreement and the Vendor shall return the Deposit in full to the Company without interest within five (5) Business Days.

INFORMATION ON PARTIES

The Purchaser

The Group is principally engaged in the design, manufacture, marketing and sale of Swiss-made mechanical and quartz premium watches for men and women. The Purchaser is a company established in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company and is engaged in investment holding.

The Vendor

The Vendor is an individual and, as at the date of this circular, beneficially holds the entire issued share capital of the Target Company and is a director and a Substantial Shareholder of the Company and hence a connected person of the Company under Chapter 14A of the Listing Rules.

The Target Company

The Target Company is a company incorporated in Hong Kong with limited liability, which is wholly-owned by the Vendor. It is principally engaged in the business of the trading of luxury brand watches including but not limited to Bvlgari, Chopard, Hermes, IWC, Longines, Rolex, Omega and Swarovski since 2001.

The table below sets forth a summary of certain audited financial information of the Target Company for the two years ended 31 December 2016.

	For the year ended 31 December 2015	**For the year ended 31 December 2016**
	HK$	*HK$*
Profit before taxation	1,634,757	2,614,706
Profit attributable to the shareholders of the Target Company	1,492,567	2,147,953

The audited net asset value of the Target Company as at 31 December 2016 was HK$8,304,488.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the design, manufacture, marketing and sale of Swiss-made mechanical and quartz premium watches for men and women. The Target Company is a limited company principally engaged in the business of the trading of luxury brand watches. By leveraging the well-established and solid trading network and the existing customer base of the Target Company, the Directors believe the Acquisition is expected to enable the Group to improve profitability through enhancing the product mix by offering various choices of premium watches with other well-known brands, especially Swiss brands and its self-branded watches, to existing customers and achieve synergies from the integration of trading networks, expertise and experience in the watches industry to enhance the competitiveness of the Group.

The Directors (including all the independent non-executive Directors of the Company, whose opinion is based on the recommendations from the Independent Financial Adviser) are of the view that the terms of the Acquisition, which have been agreed after arm's length negotiations, are on normal commercial terms and such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors do not anticipate the Acquisition will bring any disadvantages to the Company.

As at the Latest Practicable Date, the Company has no plan, intention, negotiation or preliminary understanding to acquire any new businesses, or dispose or downsize any of its existing businesses.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial statements of the Group. The unaudited pro forma financial information of the Enlarged Group which illustrates the financial impact of the Acquisition on the assets and liabilities of the Group has been set out in Appendix III to this circular.

Assets and liabilities

Based on the unaudited pro forma financial information set out in Appendix III to this circular, assuming Completion had taken place in 30 June 2017, the total assets of the Enlarged Group as at 30 June 2017 would have increased from approximately HK$674.3 million to approximately HK$743.9 million; and its total liabilities as at 30 June 2017 would have increased from approximately HK$237.7 million to approximately HK$308.6 million. Accordingly, the unaudited pro forma net assets of the Enlarged Group would be slightly decreased to approximately HK$435.3 million. Such decrease would be mainly due to the cost of HK$1.3 million incurred from the Acquisition.

Earnings

Based on the audited financial information of the Target Company as set out in Appendix II to this circular, the Target Company recorded profit after tax of approximately HK$ 2.15 million and approximately HK$ 3.46 million for the year ended 31 December 2016 and the nine months ended 30 September 2017 respectively. The Directors believe that the Acquisition would enhance the Group's income stream and profit based upon the completion of the Acquisition as the Target Company will become a wholly-owned subsidiary of the Company and its financial results, assets and liabilities will be consolidated into the financial statements of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated by reference to Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% but are less than 100%, the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder constitute a major transaction of the Company and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this circular, the Target Company is a company wholly-owned by the Vendor, who is a director and a Substantial Shareholder of the Company. Accordingly, the Vendor is a connected person of the Company and the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa, all being independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder.

Astrum Capital Management Limited has also been appointed as the Independent Financial Adviser to provide advice and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder.

EGM

The EGM will be held by the Company at Room A2, 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong on Tuesday, 17 April 2018 at 3:00 p.m. to consider and, if thought fit, approve the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder. A notice convening the EGM is set out on pages 131 to 132 of this circular.

As at the date of this circular, the Vendor and his associates are interested in 102,520,000 Shares, representing approximately 29.51% of the total issued share capital of the Company, and is required to abstain from voting on the relevant resolution approving the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM. Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has any material interest in the Sale and Purchase Agreement and therefore no other Shareholder is required to abstain from voting on the relevant resolution approving the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it/he has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its/his Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to be present at the EGM, you are advised to read the notice and to complete the form of proxy and return it to the branch share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the EGM. The completion of a form of proxy will not preclude you from attending and voting at the EGM in person and any adjourned meeting thereof should you so wish, and in such event, the form of proxy shall be deemed to be revoked.

RECOMMENDATION

The Board (including the independent non-executive Directors whose views have been set out in this circular after taking into consideration the advice of the Independent Financial Adviser) considers that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and the Acquisition is on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the resolution for approving the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder to be proposed at the EGM. Mr. Sit has material interests in the Sale and Purchase Agreement and the transactions contemplated thereunder, and has abstained from voting on the Board resolutions approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the additional information as set out in the appendices to this circular.

Yours faithfully,
By order of the Board of
Ernest Borel Holdings Limited
Sit Yau Chiu
Chairman

ERNEST BOREL HOLDINGS LIMITED
依波路控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

26 March 2018

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION: ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF TOP WIN INTERNATIONAL TRADING LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular dated 26 March 2018 (the "**Circular**") issued by Ernest Borel Holdings Limited (the "**Company**") to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider and to advise the Independent Shareholders on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder as set out in the Circular as to the fairness and reasonableness and to recommend whether or not the Independent Shareholders should approve the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder as set out in the Circular. Astrum Capital Management Limited has been appointed as the Independent Financial Adviser to provide advice and recommendation to the Independent Board Committee and the Independent Shareholders in this regard. Details of the independent advice of the Independent Financial Adviser, together with the principal factors and reasons the Independent Financial Adviser has taken into consideration, are set out on pages 15 to 40 of the Circular.

We wish to draw your attention to the Letter from the Board and the Letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder. Your attention is also drawn to the additional information set out in the appendices to the Circular.

Having considered the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, the advice of the Independent Financial Adviser and the relevant information contained in the Letter from the Board, we consider that (i) the Acquisition is on normal commercial terms and in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Sale and Purchase Agreement are also fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution for approving the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,
The Independent Board Committee of
Ernest Borel Holdings Limited

Mr. Lui Wai Ming *Independent non-executive Director*	**Mr. To Chun Kei** *Independent non-executive Director*	**Ms. Chan Lai Wa** *Independent non-executive Director*

The following is the text of a letter of advice from Astrum Capital to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of incorporation in this circular.

ASTRUM

Room 2704, 27/F, Tower 1, Admiralty Centre,
18 Harcourt Road, Admiralty, Hong Kong

26 March 2018

To the Independent Board Committee and
the Independent Shareholders of
Ernest Borel Holdings Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF TOP WIN INTERNATIONAL TRADING LIMITED

INTRODUCTION

We refer to our engagement as the independent financial adviser to make recommendations to the independent board committee (the "**Independent Board Committee**") and the independent shareholders (the "**Independent Shareholders**") of Ernest Borel Holdings Limited (the "**Company**") in relation to the acquisition (the "**Acquisition**") of the entire issued share capital of Top Win International Trading Limited (the "**Target Company**"). Details of the Acquisition are disclosed in the announcements of the Company dated 30 November 2017 and 22 March 2018 (the "**Announcements**") and in the letter from the board (the "**Letter from the Board**") set out on pages 4 to 12 of the circular of the Company dated 26 March 2018 (the "**Circular**") to its shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 30 November 2017, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Initial Sale and Purchase Agreement with the Vendor, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Shares, representing the entire issued share capital of the Target Company for a consideration of HK$50 million (the "**Consideration**").

On 22 March 2018, the Purchaser entered into the Supplemental Sale and Purchase Agreement with the Vendor to amend certain terms in the Initial Sale and Purchase Agreement.

As one or more of the applicable percentage ratios calculated by reference to Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% but are less than 100%, the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder constitute a major transaction of the Company and are therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Target Company is a company wholly owned by the Vendor, who is an executive Director and a substantial Shareholder. Accordingly, the Vendor is a connected person of the Company and the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the notification, announcement and independent shareholders' approval requirements under the Listing Rules.

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, pass the ordinary resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder by poll. As at the Latest Practicable Date, the Vendor and his associates, who are interested in 102,520,000 Shares, representing approximately 29.51% of the total issued share capital of the Company, are required to abstain from voting on the relevant resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

An Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa, has been established to advise the Independent Shareholders as to whether (i) the terms of the Sale and Purchase Agreement are on normal commercial terms, and fair and reasonable as far as the Independent Shareholders are concerned; and (ii) the Acquisition is in the interests of the Company and the Shareholders as a whole, and to make recommendations to the Independent Shareholders as to voting in respect thereof. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE DECLARATION

As at the Latest Practicable Date, we were not aware of any relationships or interests between Astrum Capital Management Limited, the Company, the Vendor, the Target Company and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. In the last two years, there was no other engagement between the Group and Astrum Capital Management Limited. Apart from normal professional fees paid or payable to us for the relevant engagement in connection with the Acquisition, no other arrangement exists whereby we will receive any fees or benefits from the Group. Accordingly, Astrum Capital Management Limited is independent as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, *inter alia*, the Announcements, the Circular, the Initial Sale and Purchase Agreement and the Supplemental Sale and Purchase Agreement (collectively, the "**Sale and Purchase Agreement**"), the annual report of the Company for the year ended

31 December 2016 (the "**2016 Annual Report**"), the interim report of the Company for the six months ended 30 June 2017 (the "**2017 Interim Report**") and the profit warning announcement dated 2 March 2018 (the "**Profit Warning Announcement**"). We have also reviewed certain information provided by the management of the Company (the "**Management**") relating to the operations, financial conditions and prospects of the Group and the Target Company. In addition, we have reviewed the valuation report (the "**Valuation Report**") prepared by Greater China Appraisal in respect of the equitable value of the entire issued share capital of the Target Company as at 31 October 2017 (the "**Valuation**"), including the methodology of, and the bases and assumptions adopted for, the Valuation. Based on the foregoing steps, we consider that we have taken all the reasonable endeavors, which are applicable to the Acquisition, as referred to and required under Rule 13.80(2)(b) of the Listing Rules (including its annex notes) in forming our opinion. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the Management regarding the Acquisition, the businesses, financial position and future outlook of the Group and the Target Company. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Announcements and the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Announcements and the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters not contained in the Announcements and the Circular, the omission of which would make any statement herein or in the Announcements and the Circular misleading. We consider that we have performed all necessary steps to enable us to reach an informed view regarding the Acquisition and to justify our reliance on the information provided so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or the Management, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group and the Target Company. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date. This letter is issued to provide the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition. Except for the inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

*For illustration purposes, conversion of Renminbi ("**RMB**"), the lawful currency of the PRC, into HK$ as stated in this letter was based on an approximate exchange rate of RMB1.000 to HK$1.1816.*

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinions and recommendations to the Independent Board Committee and the Independent Shareholders with regard to the Acquisition, we have taken into account the following principal factors and reasons:

1. Information of the Group

According to the Letter from the Board, the Group is principally engaged in the design, manufacture, marketing and sale of Swiss-made mechanical and quartz premium watches for men and women under its own brand "Ernest Borel". The Group possesses an extensive distribution network covering the PRC, Hong Kong, Macau and Asia. As at 30 June 2017, the Group had a total of 887 points of sale ("**POS**") distributed as follows:

	Number of POS as at 30 June 2017
The PRC	722
Hong Kong, Macau and Southeast Asia	141
Others	24

The PRC is regarded as the core market of the Group, contributing over 75% of the Group's total revenue. As at 30 June 2017, the Group had 722 POSs in the PRC. However, due to the deterioration of the premium watches retail market, the Group's revenue generated from the PRC dropped substantially by approximately 38.1% from approximately HK$312.0 million for the year ended 31 December 2015 ("**FY2015**") to approximately HK$193.1 million for the year ended 31 December 2016 ("**FY2016**"), and further from approximately HK$100.4 million for the six months ended 30 June 2016 ("**PE2016**") to approximately HK$81.2 million for the six months ended 30 June 2017 ("**PE2017**").

As mentioned in the 2017 Interim Report, the Group expected that operation in the overall retail market and the premium watch market segment remain challenging in the second half of 2017. Notwithstanding that, the Group is still prudently optimistic and will continue to focus on the PRC market and actively leverage brand positioning and effective marketing strategy to develop new POS in the third-to-fourth-tier cities in the PRC, Europe and Asia. Besides, the Group will increase design capabilities in medium-high end watches and carefully devise pricing strategies by taking into account prevailing market price of watches of competitors as well as the overall economy in the PRC, and sales performance of different collections of watches.

The following table summarizes (i) the audited consolidated financial results of the Group for FY2015 and FY2016 as extracted from the 2016 Annual Report; and (ii) the unaudited consolidated financial results of the Group for PE2016 and PE2017 as extracted from the 2017 Interim Report:

Table 1: Financial information of the Group

	FY2015	**FY2016**	**PE2016**	**PE2017**
	(audited)	(audited)	(unaudited)	(unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	414,315	248,883	130,322	98,018
Gross profit	238,194	96,786	52,844	40,106
(Loss) before tax	(6,753)	(142,585)	(62,459)	(80,228)
(Loss) for the year/period attributable to owners of the Company	(11,916)	(145,011)	(64,619)	(81,588)

	As at 31 December 2015 (audited) *HK$'000*	As at 31 December 2016 (audited) *HK$'000*	As at 30 June 2017 (unaudited) *HK$'000*
Total assets	861,455	695,179	674,306
Total (liabilities)	(220,051)	(202,109)	(237,742)
Net assets	641,404	493,070	436,564

Sources: the 2016 Annual Report and the 2017 Interim Report

(a) 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 the 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. We noted from the 2016 Annual Report 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.

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 (i) the decrease in revenue and gross profit margin as mentioned above; and (ii) the recognition of foreign exchange loss of approximately HK$10.1 million as a result of the depreciation in RMB in FY2016.

As at 31 December 2016, the Group's total assets, total liabilities and equity attributable to owners of the Company amounted to approximately HK$695.2 million, approximately HK$202.1 million and approximately HK$493.1 million, respectively.

(b) For the six months ended 30 June 2017 (i.e. PE2017)

Despite the stable retail growth and strong demand on luxury branded watches in the PRC, the premium watches market remained weak in PE2017. Revenue of the Group reduced by approximately 24.8% from approximately HK$130.3 million in PE2016 to approximately HK$98.0 million in PE2017 and the gross profit decreased from approximately HK$52.8 million in PE2016 to approximately HK$40.1 million in PE2017. As a result of the decrease in revenue and gross profit, coupled with (i) an inventory loss of approximately HK$18.8 million in PE2017; (ii) an increase in allowance for doubtful debt of approximately HK$10.3 million; and (iii) an increase in finance cost from approximately HK$2.7 million in PE2016 to approximately HK$13.9 million in PE2017, the Group's loss for the period increased from approximately HK$64.6 million in PE2016 to approximately HK$81.6 million in PE2017.

As at 30 June 2017, the Group's total assets, total liabilities and equity attributable to owners of the Company amounted to approximately HK$674.3 million, approximately HK$237.7 million and approximately HK$436.6 million, respectively.

On 2 March 2018, the Company released the Profit Warning Announcement regarding the annual results for the year ended 31 December 2017 (the "**FY2017**"). Based on the Board's preliminary review of the unaudited consolidated management accounts of the Group for FY2017, it is expected that the Group will record a net loss for FY2017 which is primarily attributable to (i) the increase in the provisions of trade receivables; (ii) the provisions made to the loss of inventories; (iii) the increase in finance costs; and (iv) the decrease in gross profit and margin due to a decrease in revenue of approximately 9% as compared to that in FY2016 resulting from a decrease in orders placed by watch retailers and authorized distributors.

2. Information on the Target Company

According to the Letter from the Board, the Target Company is a company incorporated in Hong Kong with limited liability and is wholly owned by the Vendor. It is principally engaged in the business of the trading of luxury branded watches.

Based on information provided by the Management, the Target Company possesses well-established and solid trading network with (i) the manufacturers and distributors of various kinds of luxury branded watches in Switzerland, France, Hong Kong and Singapore; and (ii) wholesalers and ultimate customers of luxury branded watches in the PRC, Hong Kong and Japan. In each transaction, the Target Company acts as an intermediary between suppliers and customers of luxury branded watches. Income generated by the Target Company is primarily the price difference between the purchase amount paid to suppliers and the sale amount received from the customers. Upon our further enquiry with the Management, most of the suppliers have long history of steady and stable supply of luxury branded watches originated from Switzerland, France and Italy (including but not limited to Bvlgari, Chopard, Hermès, IWC, Longines, Rolex, Omega and Swarovski) to the Target Company since 2001.

A summary of the financial information of the Target Company for the year ended 31 December 2014 ("**FY2014**"), FY2015, FY2016 and the nine months ended 30 September 2016 and 30 September 2017 ("**9M2016**" and "**9M2017**", respectively) as extracted from Appendix II to the Circular is set out below:

Table 2: Financial information of the Target Company

	FY2014	**FY2015**	**FY2016**	**9M2016**	**9M2017**
	(audited)	(audited)	(audited)	(unaudited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	108,854	90,124	113,041	80,952	111,259
Profit before taxation	1,780	1,634	2,615	2,339	4,127
Profit attributable to the owners of the Target Company	1,435	1,492	2,148	1,920	3,464

	As at 31 December			**As at 30 September**
	2014	**2015**	**2016**	**2017**
	(audited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	120,272	90,659	67,725	57,959
Total (liabilities)	(95,608)	(84,503)	(59,421)	(46,191)
Net assets attributable to owners of the Target Company	24,664	6,156	8,304	11,768

As set out in the Table 2 above, revenue of the Target Company, which was mainly derived from trading of luxury branded watches, decreased by approximately 17.2% from approximately HK$108.9 million in FY2014 to approximately HK$90.1 million in FY2015. As advised by the Management, such decrease in the revenue was primarily attributable to (i) weakening demand for luxury branded watches started in September 2014 and continued in 2015; and (ii) the negative impact caused by the Umbrella Revolution and decrease in the numbers of tourists in Hong Kong, which serves as one of the core distributing markets of the Target Company. In 2016, the atmosphere of the luxury watches retail market started to recover, the revenue of the Target Company has gradually restored to normal level in FY2016 and amounted to approximately HK$113.0 million, representing an increase of approximately 25.4% as compared to approximately HK$90.1 million in FY2015.

As advised by the Management, in 2017, the political and economic environment in the PRC and Hong Kong has been improved and there was a strong demand on luxury branded watches in the PRC and Hong Kong. The revenue of the Target Company in 9M2017, which was mainly derived from trading of luxury branded watches, recorded a significant growth of approximately 37.4% to approximately HK$111.3 million as compared to the corresponding period in 2016. The profit for the year increased from approximately HK$1.5 million in FY2015 to approximately HK$2.1 million in FY2016 and the profit for 9M2017 further increased to approximately HK$3.5 million. We noted that the revenue of the Group recorded a significant decrease in PE2017 while the Target Company recorded a significant increase in revenue in 9M2017, and have enquired with the Management in this regard. As advised by the Management, notwithstanding the fact that both the Group and the Target Company are principally engaged in trading of watches, trading products of the Group and the Target Company are substantially different in terms of branding and retail price. The Group only focuses on trading of its own branded watches "Ernest Borel" with the retail price mostly ranging from HK$3,800 to HK$25,000 and basically, "Ernest Borel" is regarded as premium watch brand rather than luxury watch brand. On the contrary, the Target Company is engaged in trading of a variety of luxury branded watches (e.g. Bvlgari, Longines, Rolex and Omega) with the retail price mostly ranging from HK$8,000 to HK$3,000,000. More importantly, the atmosphere of the luxury watches retail market started to recover in 2016 and remained strong in 2017, nevertheless the premium watches market was weak in 2017. As a result of the foregoing, there was a substantial difference in the financial performance between the Company and the Target Company.

Besides, we noted that the net assets of the Target Company increased from approximately HK$6.2 million as at 31 December 2015 to approximately HK$11.8 million as at 30 September 2017.

3. Background of, reasons for and benefits of the Acquisition

The Group is a Swiss premium watch maker established since 1856 in Switzerland. The Group is principally engaged in the design, manufacture, marketing and sale of Swiss-made mechanical and quartz premium watches for men and women under its own brand "Ernest Borel". Leveraging the long history and reputation for Swiss-made premium watches, the Group has become one of the best-selling brands of Swiss-made premium watches in the premium watch market in the PRC, Hong Kong, Macau and Asia.

According to the 2017 Interim Report, the Group expected that operation in the overall retail market and the premium watch market remains challenging in the second half of 2017. Notwithstanding that, the Group is still prudently optimistic and will continue to focus on the PRC market and actively leverage brand positioning and effective marketing strategy to develop new POS in Europe and Asia. The Group is planning to develop new POS in the third-to-fourth-tier cities in the PRC, Europe and Asia.

As advised by the Management, leveraging the well-established and solid trading network and the existing customer base of the Target Company, the Acquisition is expected to enable the Group to (i) improve profitability through enhancing the product mix by offering various choices of luxury watches with other well-known brands, especially Swiss brands, and its self-branded watches to existing customers of the Group and the Target Company; and (ii) achieve synergies from the integration of trading networks, expertise and experience in the watch industry (including but not limited to (a) cross-selling of luxury and premium watches offered by the Group and the Target Company to the combined customer bases and trading networks; (b) enhancing the bargaining power of the Enlarged Group and enjoying bulk purchase discounts when dealing with suppliers attributable to the enlarged customer bases and economies of scale led by the Acquisition; (c) sharing the expertise and experience in the watch industry; and (d) saving in staff cost by combining workforce of the Target Company and the Group) to enhance the competitiveness of the Group. In this regard, we have discussed with the Management regarding the business operation of the Target Company and were given to understand that the Target Company has been well-established in trading industry of luxury watches for over 16 years by the Vendor, who has over 32 years of investment and business development experience in different industries such as trading and sale of internationally renowned branded watches.

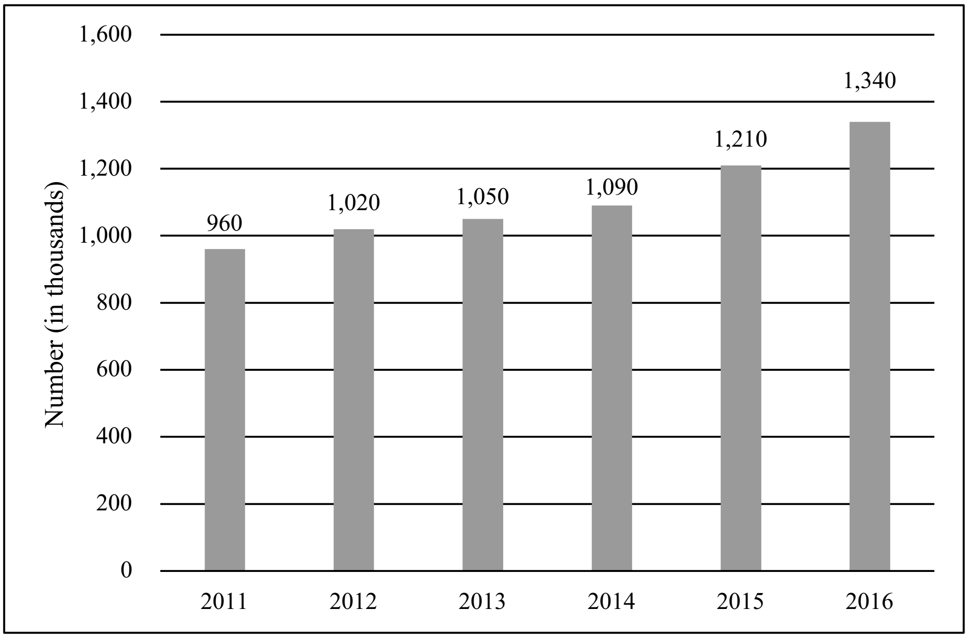
In addition, as stated in the paragraph headed "*1. Information of the Group*", the revenue of the Group decreased significantly in FY2016 and PE2017 as compared to that in FY2015 and PE2016, respectively. As mentioned in the Profit Warning Announcement, it is expected that the Group will record a net loss for FY2017, which is primarily attributable to (i) the increase in the provisions of trade receivables; (ii) the provisions made to the loss of inventories; (iii) the increase in finance costs; and (iv) the decrease in gross profit and margin due to a decrease in revenue of approximately 9% as compared to that in FY2016 resulting from a decrease in orders placed by watch retailers and authorized distributors. On the contrary, as stated in the section headed "*2. Information on the Target Company*" above, we noted that the revenue of the Target Company increased significantly from approximately HK$81.0 million in 9M2016 to approximately HK$111.3 million in 9M2017 while profit attributable to the shareholders of the Target Company has been maintaining a steady growth in the recent years. The Management considered that the recent strong demand on luxury branded watches in the PRC and Hong Kong shows promising sign of market recovery which would have positive effects to the Target Company's business operation in the coming years.

Having considered (i) the single business segment and product nature of the Group (i.e. manufacturing and sales of premium watches under its own brand "Ernest Borel"; (ii) the unsatisfactory financial performance of the Group in the recent years; and (iii) the expected synergy effect to be brought by the Acquisition as mentioned above, coupled with the keen competition environment in the watch industry, we concur with the Management that the Acquisition represents a good opportunity for the Group to (i) broaden its product mix from single branded watches to a diversified mix of renowned branded watches from (including but not limited to Bvlgari, Chopard, Hermès, IWC, Longines, Rolex and Omega) to enhance the Group's competitiveness and mitigate the risks from single branded products; (ii) enlarge the Group's customer base; and (iii) share the expertise and experience in the watch industry, so as to strengthen the profitability of the Group, and in turn improve the Group's overall financial performance.

In order to assess the prospect of the watch industry, we have conducted a research on the watch industry through public domain. Based on the latest data released by the Federation of the Swiss Watch Industry FH, the total exports of the Swiss watches amounted to approximately CHF19.9 billion in 2017, representing an increase of approximately 2.7% as compared with that in 2016. In particular, the Swiss watches exporting to the PRC recorded a substantial growth of approximately 18.8% in 2017 as compared with that in 2016. The recent exports figures, to a certain extent, exhibited a recovery sign of the watch industry, in particular, the watch market in the PRC.

Given that the majority of revenue of the Group and the Target Company are generated in the PRC, we have further conducted research on the PRC's watch industry. The PRC experienced a rapid economic growth in the recent years. According to the latest data published by the National Bureau of Statistics of China, the PRC's gross domestic product escalated from approximately RMB54,036.7 billion in 2012 to approximately RMB82,712.2 billion in 2017, representing a compound annual growth rate of approximately 8.9%. Along with the economic growth, the PRC government promulgated a series of policies so as to accelerate urbanization in the PRC. Throughout the same period of time, the total urban population in the PRC increased by approximately 101.7 million to approximately 813.5 million, representing approximately 58.5% of the total population in the PRC as at 31 December 2017.

Chart 1: Number of high-net-worth individuals in the PRC



Source: the China HNWI Gifting White Paper (2017中國高淨值人群情誼往來白皮書)

As a result of rapid economic growth and urbanization in the PRC, the number of high-net-worth individuals (the "**HNWIs**"), whose assets are more than RMB10 million, increased steadily in the recent years. According to the China HNWI Gifting White Paper (2017中國高淨值人群情誼往來白皮書) published by MEC (a professional advertising media planning agency) and Hurun Report Inc. (a luxury publishing and research house), the number of HNWIs increased from approximately 0.96 million in 2011 to approximately 1.34 million in 2016, representing a compound annual growth rate of approximately 6.9%. Among which, 39% of them have chosen luxury branded watches as one of the gifting options in 2016. Besides, according to the Deloitte Swiss Watch Industry Study 2017 published in September 2017 by Deloitte AG, there are approximately 71% of Swiss watch executives who are expecting the demand for Swiss watches to grow in the PRC, as compared to only approximately 34% of them in 2016. Along with the increase in the number of HNWIs, it is expected that the consumption of the luxury branded watches in the PRC will increase.

According to the market research report published on the official website of the Hong Kong Trade Development Council, the market for luxury branded watches in the PRC is dominated by Swiss watches. However, spending on watches in the PRC has been dampened by political factors over recent years and the market was basically in a state of digesting inventory, which were mainly attributable to (i) some consumers of luxury branded watches making their purchases abroad caused by the price difference for imported luxury branded watches between the PRC and overseas markets (including Hong Kong); and (ii) the expansion of sales of luxury branded watches purchased as gifts curbed by the implementation of institutional reforms in 2012. Nevertheless, the atmosphere of the luxury watches retail market started to recover in 2016 and according to Euromonitor International (an independent market research and consulting company), overall sales of watches in the PRC rose by 2.1% to approximately RMB65.8 billion in 2016 and is expected to reach RMB79.4 billion by 2020. Besides, according to the statistics published on the official website of

China Horologe Association (中國鐘錶協會) on 22 December 2016, the consumption of watches in the PRC was approximately 69 units per 1,000 people per year, representing a significant low consumption level of watches as compared to approximately 235 units per 1,000 people per year for developed markets such as the United States and Europe. This indicates significant potential for continued growth of watch market in the PRC.

Based on the above, it is believed that the luxury watch market, especially that in the PRC, is recovering and will continue its growth in the coming future, and that the prospect of the luxury watch market in the PRC is optimistic.

We noted that the Group's revenue demonstrated a decreasing trend since 2013, which is not in line with our findings regarding the luxury branded watch industry above. We have enquired with the Management in this regard, and were given to understand that the Group only focuses on trading of its own branded watches "Ernest Borel" with the retail price mostly ranging from HK$3,800 to HK$25,000 and basically, "Ernest Borel" is regarded as premium watch brand rather than luxury watch brand. Accordingly, the Group's financial performance which was represented solely by a single brand "Ernest Borel" was not in line with the trend of the whole luxury watch industry which comprised of different renowned luxury brands.

Having considered the above, in particular the facts that (i) the Acquisition provides an attractive opportunity for the Company to enhance its future development to participate in the sales of watches other than its self-branded watches and improves profitability of the Group through enhancing the product mix of watches; (ii) the expected synergy effect to be brought by the Acquisition as mentioned above; (iii) there is prospect in the luxury watch market in the PRC which is the core market of the Target Company; and (iv) the terms of the Sale and Purchase Agreement, including the Consideration, are fair and reasonable and on normal commercial terms (please refer to our analysis as stated in the section headed "*4. Principal terms of the Sale and Purchase Agreement*" below), we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Sale and Purchase Agreement

The principal terms of the Sale and Purchase Agreement are set out as follows:

Date: Initial Sale and Purchase Agreement: 30 November 2017
Supplemental Sale and Purchase Agreement: 22 March 2018

Parties:

(1) Swissmount Holdings Limited, a direct wholly-owned subsidiary of the Company (as purchaser)

(2) Mr. Sit Yau Chiu, an executive Director and a substantial Shareholder (as vendor)

Subject matter: The Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares, representing 100% of the total issued share capital of the Target Company

A. Consideration

As set out in the Letter from the Board, subject to the adjustment pursuant to the Profit Guarantee, the Consideration shall be HK$50 million, which was determined on the basis of normal commercial terms and after arm's length negotiations between the Vendor and the Purchaser after taking into account, among others, (i) the Valuation of the Target Company at HK$61,545,000 as at 31 October 2017 conducted by Greater China Appraisal, adopting the market approach less a discount based on arm's length negotiation; and (ii) the Profit Guarantee given by the Vendor.

The Company has paid the Deposit in the amount of HK$25 million to the Vendor pursuant to the MOU and the remaining Consideration of HK$25 million shall be payable by the Purchaser upon Completion. As agreed by the Company and the Vendor, in the event that not all the conditions precedent as stated in the Sale and Purchase Agreement have been fulfilled (or waived, as the case may be) on or before 30 April 2018 (or such other date as the Vendor and the Purchaser may agree in writing), or if the Purchaser may by notice in writing rescind the Sale and Purchase Agreement, the Vendor shall return the Deposit to the Company without interest within 5 Business Days from the date of the rescission (the "**Refund Arrangement**").

Based on the above, we noted that (i) the Deposit was paid by the Company to the Vendor on 12 May 2017 pursuant to the MOU; and (ii) in the event of termination of the Sale and Purchase Agreement, the Vendor will return the Deposit to the Company without interest within 5 Business Days from the date of the rescission. Therefore, we have identified all acquisitions involving payment of deposit pursuant to memorandum of understandings (the "**Comparable MOUs**") entered into by the companies listed on the Stock Exchange (the "**MOU Comparable Companies**") during the three-month period immediately prior to the date of the Sale and Purchase Agreement (i.e. 30 November 2017). To the best of our knowledge and as far as we are aware of, we have identified 5 acquisitions (the "**MOU Acquisitions**") which met the said criteria. We noted that pursuant to the Comparable MOUs, in the event that the formal agreements for the respective MOU Acquisitions are not entered into prior to the expiry of the exclusivity period, all the deposit paid shall be refunded to the MOU Comparable Companies without interest within 3 to 30 days from the date of the rescission (save for one MOU Comparable Company, which would charge interest of 8% per annum over the deposit paid). As at the Latest Practicable Date, three out of five MOU Comparable Companies entered into the formal agreements in relation to the MOU Acquisitions and all the deposits paid by the respective MOU Comparable Companies were applied as partial payment of the considerations for the MOU Acquisitions under the respective formal agreements.

In order to further assess the fairness and reasonableness of the Refund Arrangement, we have attempted to estimate the amount of interest (the "**Estimated Interest**") to be incurred from the Deposit during the period commencing from the payment date of the Deposit (i.e. 12 May 2017) and up to the long stop date of the Sale and Purchase Agreement (i.e. 30 April 2018), assuming that the Company would charge the Vendor interest over the Deposit at the prime rate for Hong Kong dollars per annum as quoted by the Hongkong and Shanghai Banking Corporation Limited (the "**Prime Rate**"). Based on the Prime Rate of 5% as at Latest Practicable Date, the Estimated Interest will be approximately HK$1,212,000 (HK$25,000,000 × 5% × 354 days/365 days). Having considered that the Consideration of HK$50,000,000 represents a discount (the "**Consideration Discount**") of approximately HK$11,545,000 to the equitable value of the Target Company of HK$61,545,000 as at

31 October 2017 as appraised by the Greater China Appraisal, the Estimated Interest surrendered by the Company represents only approximately 10% of the Consideration Discount given by the Vendor to the Company.

Taking into account the facts that (i) the Refund Arrangement offers protection to the Group and safeguards the Group's interest in the Acquisition; (ii) the Refund Arrangement forms part and parcel of the terms of the Sale and Purchase Agreement which should not be considered on a standalone basis; (iii) it is a common business practice for purchasers to pay certain amount of consideration to vendor as deposit to secure the acquisition opportunity; (iv) only one out of five MOU Comparable Companies would charge interest over the deposit paid under the respective Comparable MOUs; and (v) the Estimated Interest surrendered by the Company represents only approximately 10% of the Consideration Discount given by the Vendor to the Company, we consider the Refund Arrangement is fair and reasonable so far as the Independent Shareholders are concerned.

In order to assess the fairness and reasonableness of the Consideration, we have obtained and enquired with Greater China Appraisal (i) the terms of engagement letter between the Company and Greater China Appraisal in respect of the Valuation; (ii) the relevant qualification and experience of Greater China Appraisal; and (iii) the steps and due diligence measures taken by Greater China Appraisal for preparing the Valuation Report. We have reviewed the engagement letter between the Company and Greater China Appraisal in respect of the Valuation, and are satisfied that the terms of the engagement letter between the Company and Greater China Appraisal are appropriate to the opinion that Greater China Appraisal is required to provide. We have conducted desk research on Greater China Appraisal as to its qualifications and expertise in relation to the performance of the Valuation. Based on our research conducted in public domains, Greater China Appraisal is a leading provider in business and asset valuation established in 1997. It is a corporate member of the International Valuation Standards Council, a regulated firm under The Royal Institution of Chartered Surveyors and a Valuation Institutes for Engagement by State-owned Enterprises under State-Owned Assets Supervision and Administration Commission of the State Council. We were further advised that the person-in-charge of the Valuation has over 6 years' experience in business valuation for private and listed companies for the purposes of financial reporting, initial public offerings, mergers and acquisitions, financing, tax and litigation support. Greater China Appraisal has also confirmed to us that it is independent to the Company, the Target Company, and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. We are of the view that Greater China Appraisal possesses sufficient professional qualifications and independence required to perform the Valuation.

Valuation methodology

We have discussed with Greater China Appraisal regarding the methodology of the Valuation. We understand from Greater China Appraisal that they have considered three different generally accepted approaches, namely, asset approach, income approach and market approach in arriving at the equitable value of the Sale Shares (being the entire issued share capital of the Target Company) as at 31 October 2017. Greater China Appraisal considers that the asset approach is not applicable given that the asset approach merely reflects the replacement cost or reproduction cost of the Target Company and does not take into account the future economic benefits to be generated from the Target Company which has been operated for certain years with established business, and therefore could not reliably reflect the value of the Target Company. Greater China Appraisal also rejected to adopt the income approach since under the income approach, a reliable and justifiable financial estimation (such as projected revenue, operating costs and risk-adjusted discount rate) and cash flow forecast are required. Considering the nature of the Target Company's trading business across countries and regions and the demand for luxury jewellery and watches in the PRC which may be affected by Chinese government's policy and economic conditions, it is difficult to substantiate the validity of the financial projection based on the track record of the Target Company. Contrary to the above two approaches, Greater China Appraisal advised us that the market approach makes direct reference to the recent trading multiples or publicly announced transaction multiples of comparable companies (either listed or private companies), which could reflect the comparable companies' business fundamentals, growth potential and risk expectation of the watch business. In view of the above, we agree with Greater China Appraisal that market approach is the most appropriate and applicable valuation approach under the circumstances.

Under market approach, there are three principal methods, namely, direct market reference method, guideline publicly traded company method (the "**Guideline Public Company Method**"), and guideline merger and acquisition method. We have discussed with Greater China Appraisal regarding the reason of selecting Guideline Public Company Method as the valuation method, Greater China Appraisal advised us that (i) the direct market reference method requires the latest information of market activities and trading/transaction prices of the exactly same subject under valuation; and (ii) under the guideline merger and acquisition method, the fair value of the subject is based on the comparable transaction prices at which assets/businesses similar to that of the subject company are being acquired. In view of the facts that the Target Company is a private company and the information and transaction records of private companies were usually not publicly disclosed, Greater China Appraisal did not adopt the direct market reference method and the guideline merger and acquisition method. Greater China Appraisal further advised us that prices of publicly traded companies in the same or similar industry provide objective evidence as to values at which investors are willing to buy and sell interest of companies in that industry and there were sufficient numbers of comparable public companies available in markets which facilitate a meaningful comparison and provide inputs for determining the valuation multiple, thus, they adopted the Guideline Public Company Method as the valuation method in determining the equitable value of the Target Company.

Control premium and discount for lack of marketability

Since the Acquisition involves acquiring the controlling stake of the Target Company, Greater China Appraisal has applied a control premium of 5% (the "**Control Premium**") in arriving at the equitable value of entire equity interest of the Target Company. It is the view that control premium is generally regarded as the amount in excess of the current traded market price that a buyer is willing to pay to acquire the control of a publicly traded company. We made reference to the "FactSet Mergerstat Review 2017" published by FactSet Research System Inc. (a worldwide analytical and data driven solution provider which is dual listed on the New York Stock Exchange and the NASDAQ Stock Market under the symbol "FDS") and conducted research on the website of the Stock Exchange. We noted that the data presented in the FactSet Mergerstat Review was commonly used by various professional valuers in Hong Kong in determining control premium and/or minority discount for valuation of different transactions. We noted therefrom that average control premium for acquisition of a controlling equity interest of a company to that for acquisition of a minority equity interest of a company during the period from 2011 to 2016 is approximately 5.7%. We consider that the adoption of the Control Premium of 5% in the Valuation to be reasonable.

In addition, as the Target Company is a privately held company while the Valuation Comparables are publicly held companies, Greater China Appraisal has applied a discount for lack of marketability of 30% (the "**DLOM**") to reflect the downward adjustment to the equitable value of entire equity interest of the Target Company due to the reduced level of marketability of the Target Company. In determining the DLOM, Greater China Appraisal has made reference to the median price-to-earnings offered for public companies to that for private companies during 2011 to 2016 as stated in "FactSet Mergerstat Review 2017". The median of the implied discount of private company is approximately 27.5%. We consider that the adoption of the DLOM of 30% in the Valuation to be reasonable.

Given that (i) there is no widely used empirical study conducted on control premium and lack of marketability discount for private companies in Hong Kong; (ii) FactSet Research System Inc., the publisher of the "FactSet Mergerstat Review 2017", is a worldwide analytical and data driven solution provider; and (iii) based on our research conducted in the website of the Stock Exchange, the data presented in the FactSet Mergerstat Review was commonly used by various professional valuers in Hong Kong for valuation of different transactions, we consider that the Control Premium of 5% and the DLOM of 30% applied by Greater China Appraisal in the Valuation is in line with market practice and is fair and reasonable.

Assumptions

According to the Valuation Report, Greater China Appraisal has adopted the following assumptions in the Valuation:

1. the Valuation Comparables share sufficient similarities to the underlying business of the Target Company so as to provide a meaningful comparison;

2. the median multiple assumed to reflect a fair and objective market expectation on the industry;

3. performance of the Target Company is expected not significantly deviate from the performance of its industry peers;

4. there would be no material changes in the existing political, legal, fiscal, foreign trade and economic conditions in countries where the Target Company is operated;

5. there would be no significant deviation in the industry trends and market conditions from the current market expectation;

6. there would be no major change in the current taxation law in Hong Kong and countries of origin of our comparable companies;

7. there would be no material changes in interest rates or foreign currency exchange rates from those currently prevailing;

8. all relevant legal approvals, business certificates or licenses for the normal course of operation have been formally obtained, in good standing and that no additional costs or fees are needed to procure such during the application; and

9. the Target Company would retain competent management, key personnel, and technical staff to support the ongoing operation of its business.

Based on our discussions with Greater China Appraisal, we understand that such assumptions are generally adopted by professional valuer in valuation of equity interest of private companies and are necessary for Greater China Appraisal to arrive at a reasonable estimated equitable value of the Sale Shares. We also conducted research on the website of the Stock Exchange and noted that the assumptions were generally adopted by various professional valuers in Hong Kong for valuation of private companies and we did not identify any major factors which caused us to doubt the fairness and reasonableness of the assumptions adopted for the Valuation Report. Accordingly, we consider that the adoption of the assumptions as mentioned above is fair and reasonable.

Having considered the above, and based on our discussion with Greater China Appraisal, we are of the view that the methodology, bases and assumptions adopted in establishing the Valuation is in line with market practice, and is fair and reasonable.

Sample selection

According to the Valuation Report, Greater China Appraisal identified all companies which (i) are listed in the PRC or the Stock Exchange; (ii) over 50% of revenue in the latest financial year are generated from wholesales or trading of luxury or branded watches; and (iii) the brands of watches being traded are either upper or middle class, which is comparable to the brands traded by the Target Company (the "**Selection Criteria**"). Greater China Appraisal subsequently identified an exhaustive list of 12 comparable companies which met the Selection Criteria. Given that the multiple of EV/EBITDA (as defined below) of the comparable companies would be used in the Valuation (please refer to the sub-paragraph headed "*Valuation multiples*" below for further details), Greater China Appraisal further screened out those companies with either negative EV or negative EBITDA. Among these 12 companies, only six of them recorded both positive EV and positive EBITDA based on the latest available published financial information of the relevant companies, and were subsequently selected as the comparable companies (the "**Valuation Comparables**") in the Valuation.

Notably, only 1 out of 6 Valuation Comparables (namely, Fiyta Holdings Limited (200026 CH)) is a listed company in the PRC, while the remaining Valuation Comparables are listed companies in the Stock Exchange. As the majority of the revenue of the Target Company are generated in the PRC and Hong Kong, we understand that Greater China Appraisal has also conducted the screening procedures so as to ensure that, to the best of their knowledge, all companies listed in the PRC were properly included in the pool of the Valuation Comparables and Fiyta Holdings Limited also is the only company listed in the PRC and engaged in watch related business in the PRC and/or Hong Kong. As advised by Greater China Appraisal, based on the best available information, they have researched and studied public companies listed in the PRC and Hong Kong which are typically engaged in wholesale or trading of luxury branded watches and jewellery. We understand that, based on the above steps, Greater China Appraisal could not locate any other companies comparable to the Target Company other than the Valuation Comparables.

As confirmed by Greater China Appraisal, the Valuation Comparables represent an exhaustive list of comparable companies having met all of the aforesaid section criteria as set out above. It is noted that Greater China Appraisal has relied upon Bloomberg as the source of information on the Valuation Comparables. As part of our independent due diligence, we have reviewed the respective financial reports and websites of the Valuation Comparables and noted that the branded watches being traded by the Valuation Comparables are comparable to the branded watches traded by the Target Company, and that the Valuation Comparables fulfill the Selection Criteria. In addition, we have also conducted independent research through Bloomberg and public domains. Based on our findings, we concur with the view of Greater China Appraisal that the Valuation Comparables are sufficiently representative of its selection criteria for sampling comparables to the Target Company and serve as the best available comparable companies for the valuation analysis.

Valuation multiples

In formulating the Valuation, Greater China Appraisal adopted the multiple of enterprise value ("**EV**") to earnings before interests, taxes, depreciation and amortization ("**EBITDA**"). According to the Valuation Report, the EV and EBITDA of the Valuation Companies used in the Valuation are calculated in accordance with the following formula:

EV = market value of common stock + market value of preferred equity + market value of debt + minority interest - cash and investments

EBITDA = Operating Income or Losses + Depreciation and Amortization

As advised by Greater China Appraisal, EV-to-EBITDA multiple ("**EV/EBITDA**") is a commonly used metric for comparing companies in the same industry with different capital structures, and can avoid distortion of any tax effect and non-cash items in earnings. We have discussed with Greater China Appraisal and were given to understand that in view of the difference between the debt and equity structure of the Target Company and that of the Valuation Comparables, EBITDA can provide a closer view of performance and earning ability related to its direct operation of the Target Company regardless of its capital structure. Therefore, Greater China Appraisal adopted EV/EBITDA multiple in determining the equitable value of the Target Company.

In this regard, we have reviewed the debt-to-equity ratio (the "**Debt to Equity ratio**") of the Valuation Comparables based on the then respective latest published financial reports of the Valuation Comparables prior to the date of the Valuation. The Debt to Equity ratios of the Valuation Comparables are set out as below:

Table 3: Debt to Equity ratio of the Valuation Comparables

Stock code	**The Valuation Comparables**	**Total Debt** *HK$'000*	**Equity attributable to owners of the company** *HK$'000*	**Debt to Equity ratio** *(Note 1)* *(times)*
104 HK	Asia Commercial Holdings Limited	110,265	429,832	0.26
256 HK	Citychamp Watch & Jewellery Group Limited	1,771,367	4,037,431	0.44
398 HK	Oriental Watch Holdings Limited	110,740	2,146,006	0.05
887 HK	Emperor Watch & Jewellery Limited	–	4,230,211	–
2033 HK	Time Watch Investments Limited	180,378	1,878,025	0.10
200026 CH	Fiyta Holdings Limited	1,020,198	2,913,807	0.35
			Maximum	0.44
			Minimum	–
			Average	0.20
			Median	0.18
Target Company		**38,795**	**13,366**	**2.90** *(Note 2)*

Sources: the website of the Stock Exchange (www.hkex.com.hk) and the Shenzhen Stock Exchange (www.szse.cn) and the respective financial reports of the Valuation Comparables

Notes:

1. The Debt to Equity ratios of the Valuation Comparables are calculated by dividing the respective total debts of the Valuation Comparables by the respective equity attributable to owners of the Valuation Comparables as extracted from the then respective latest published financial reports of the Valuation Comparables prior to the date of the Valuation.

2. The Debt to Equity ratio of the Target Company is calculated based on the management account of the Target Company as at 31 October 2017 (i.e. the date of the Valuation).

As set out in Table 3 above, the Debt to Equity ratios of the Valuation Comparables ranged from nil to approximately 0.44 times with an average of approximately 0.20 times and a median of approximately 0.18 times. The Debt to Equity ratio of the Target Company of approximately 2.90 times is much higher than that of the Valuation Comparables.

Accordingly, we consider that the adoption of EV/EBITDA multiple is appropriate and reasonable in arriving at the equitable value of the Target Company.

In order to further evaluate the fairness and reasonableness of the Consideration, we have attempted to adopt price-to-earnings ratio (the "**PE ratio**") and price-to-book ratio (the "**PB ratio**"), both of which are valuation multiples commonly used in assessing the value of a company, implied by the Consideration with that of listed companies with similar nature as the Target Company. However, as the Target Company is operating under asset light business model which the current assets represented 91.8% of the total assets as at 30 September 2017, therefore, we consider PB ratio does not provide meaningful comparable analysis. Consequently, we have conducted analysis on the PE ratio with the companies. Having considered that (i) the Target Company is principally engaged in trading of luxury branded watches; (ii) all the revenue of the Target Company was derived from trading of luxury branded watches; and (iii) the audited net assets of the Target Company as at 30 September 2017 was approximately HK$11.8 million, we attempted to identify companies listed on the Stock Exchange based on the following selection criteria: (i) principally engaged in trading of luxury branded watches; (ii) all revenue for the latest full financial year was derived from trading of luxury branded watches; and (iii) market capitalization of which is less than HK$1 billion as at 30 November 2017 (being the date of the Initial Sale and Purchase Agreement). Nevertheless, we could not locate any comparable companies based on the aforementioned selection criteria.

In this regard, we relaxed the selection criteria to those companies (the "**Comparable Companies**") listed on the Stock Exchange which (i) are principally engaged in trading, wholesales, retailing and/or manufacturing of luxury branded watches (the "**Relevant Business**"); (ii) over 50% of revenue for the latest full financial year was derived from the Relevant Business; and (iii) are of market capitalization of less than HK$2 billion as at 30 November 2017. To the best of our knowledge and endeavor, we have identified an exhaustive list of 8 Comparable Companies which fulfill the aforementioned 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 PE ratios between the Comparable Companies and the Target Company may not represent an identical comparison. However, given that (i) the business natures and scale of operations of the Comparable Companies are similar to the Target Company; (ii) the principal activities of the Comparable Companies and the Target Company are in general affected by similar macro-economic factors, including but not limited to economy and the customers' demand for the watches; and (iii) the PE ratios of the Comparable Companies provide a general reference under recent market condition and sentiment in assessing the fairness and reasonableness of the Considerations, we consider that the

Comparable Companies could be treated as an indication as to the reasonableness and fairness of the Consideration. The relevant details of the Comparable Companies are set forth in Table 4 below:

Table 4: Details of the Comparable Companies

Stock code	Name	Principal activities	Market capitalization as at 30 November 2017 (being the date of the Initial Sale and Purchase Agreement) *(HK$'000)*	Profit/(loss) attributable to equity holders in the latest full financial year prior to the date of the Initial Sale and Purchase Agreement *(HK$'000)*	PE ratio *(Note 1)* *(times)*
84 HK	Stelux Holdings International Limited	Trading of watches and glasses	565,096	(177,921)	NA *(Note 2)*
104 HK	Asia Commercial Holdings Limited	Retail and distribution of watches	360,379	31,104	11.59
398 HK	Oriental Watch Holdings Limited	Trading of watches including Hong Kong, Taiwan, Macau and the PRC	1,004,274	16,383	61.30 *(Note 3)*
444 HK	Sincere Watch (Hong Kong) Limited	Distribution of branded watches, timepieces and accessories, dining businesses and property investment	722,390	(158,935)	NA *(Note 2)*
1327 HK	Time2U International Holding Limited	Design, production and assembly of watches for original equipment manufacturer (OEM) customers and the design, manufacture and sales of watches	193,536	(381,083)	NA *(Note 2)*
1470 HK	Prosper One International Holdings Company Limited (formerly known as Tic Tac International Holdings Company Ltd)	Retail and wholesale of multi brands of watches in Hong Kong	632,000	(27,691)	NA *(Note 2)*
2033 HK	Time Watch Investments Limited	Manufacturing and retail sales of watches	1,934,350	235,744	8.21
3389 HK	Hengdeli Holdings Limited	Retail and distribution of mid-to-high-end consumer goods	1,826,966	(11,974)	NA *(Note 2)*
			Maximum		**61.30**
			Minimum		**8.21**
			Average		**27.03**
			Median		**11.59**
			Excluding outlier *(Note 3)*		
			Maximum		**11.59**
			Minimum		**8.21**
			Average		**9.90**
			Median		**9.90**
The Target Company					**10.00** *(Note 4)*

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

Notes:

1. The PE ratios of the Comparable Companies are calculated by dividing the respective market capitalisation of the Comparable Companies as at the date of the Initial Sale and Purchase Agreement by the respective profit attributable to owners of the Comparable Companies as extracted from their respective latest published annual reports.

2. The PE ratios of the relevant Comparable Companies are not available because they recorded loss in their respective latest full financial year.

3. Among the above Comparable Companies, we noted that the PE ratio of Oriental Watch Holdings Limited of 61.3 times was exceptionally high as compared with the other Comparable Companies. We are therefore of the view that the aforesaid PE ratio is an outlier.

4. The PE ratio of the Target Company is calculated based on the Consideration of HK$50 million and the Guaranteed Profit of HK$5 million.

As set out in Table 4 above, the PE ratios of the Comparable Companies (excluding outliers) ranged from approximately 8.21 times to approximately 11.59 times with an average of approximately 9.90 times and a median of approximately 9.90 times. Notwithstanding that the PE ratio implied by the Consideration of 10 times is slightly higher than the average and median PE ratios of the Comparable Companies (excluding outlier), having considered that (i) the PE ratio implied by the Consideration of 10 times falls within the range of the PE ratios of the Comparable Companies (excluding outlier); and (ii) the reasons for and the possible benefits of the Acquisition as mentioned in the paragraph headed "*3. Background of, reasons for and benefits of the Acquisition*" above, we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

Conclusion

Based on the above and our discussion with Greater China Appraisal as detailed above and our review on the Valuation Report, we are of the view that the methodology, bases and assumptions adopted in establishing the Valuation is in line with market practice, and is fair and reasonable.

Having considered the facts that (i) the Consideration was determined after arm's length negotiations between the parties to the Sale and Purchase Agreement; (ii) the Consideration represents a discount of approximately 18.8% to the equitable value of the Target Company as at 31 October 2017; (iii) the Consideration represents a discount of approximately 12.0% to the Hypothetical Fair Value (please refer to our analysis as set out in the sub-paragraph headed "*B. Proposed distribution of dividend*" below); (iv) the methodology, bases and assumptions adopted in establishing the Valuation is in line with market practice, and is fair and reasonable; and (v) the PE ratio implied by the Consideration falls within the range of the PE ratios of the Comparable Companies (excluding outlier), we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

B. Proposed distribution of dividend

We were given to understand by the Management that the Target Company intends to declare and distribute dividends for the year ended 31 December 2017 (the "**2017 Dividends**") to the Vendor in cash prior to Completion. However, the actual amount of the 2017 Dividends to be declared and distributed to the Vendor had not yet been determined before the entering into of the Sale and Purchase Agreement, and is expected to be determined by the Vendor after the finalisation of the 2017 Accounts in mid-April 2018 (or on such other dates as the Vendor and the Purchaser may from time to time mutually agree in writing). As advised by the Company, the 2017 Dividends did not form part of any terms under the Sale and Purchase Agreement. In order to safeguard the interests of the Company under the Acquisition, according to the Sale and Purchase Agreement, the Vendor covenants to the Company that the net assets of the Target Company as at 31 December 2017, after distribution of the 2017 Dividends, shall not be less than HK$7 million (the "**Vendor Undertaking**"). Prior to Completion, if any of the Vendor's warranties is found to be untrue, inaccurate or misleading or has not been fully carried out in any respect save and except for such matters disclosed, the Purchaser may by notice in writing rescind the Sale and Purchase Agreement.

We have discussed with Greater China Appraisal in respect of the impact of the 2017 Dividends on the Valuation, and were given to understand that having considered the facts that (i) the 2017 Dividends has not yet been declared and distributed to the Vendor on or before 31 October 2017 (being the date of the Valuation); and (ii) the actual amount of the 2017 Dividends has not yet been determined before the entering into of the Sale and Purchase Agreement, Greater China Appraisal did not take into account the distribution of the 2017 Dividends when determining the Valuation as at 31 October 2017.

In this regard, we have attempted to estimate the equitable value (the "**Hypothetical Fair Value**") of the entire equity interest in the Target Company as at 31 October 2017 based on the calculation of the Valuation as set out in the paragraph headed "*Determination of Value*" in the Valuation Report as contained in Appendix IV to the Circular and on the assumption that the 2017 Dividends would have been distributed on or before 31 October 2017. As our analysis on the Consideration is primarily based on the Valuation Report while the date of the Valuation is 31 October 2017, we consider it reasonable and appropriate to make use of the unaudited net assets of the Target Company as at 31 October 2017 (i.e. the date of the Valuation) for our further analysis, so as to keep the consistency with the Valuation Report.

In determining the amount of the 2017 Dividends in our estimation of the Hypothetical Fair Value as at 31 October 2017, we have taken into consideration the factors that (i) the 2017 Dividends will be distributed to the Vendor in cash; and (ii) the Vendor covenants to the Company that the net assets of the Target Company as at 31 December 2017, after distribution of the 2017 Dividends, shall not be less than HK$7 million. Based on the unaudited financial statements of the Target Company for the ten months ended 31 October 2017, we concluded that the maximum amount of the 2017 Dividends (the "**Hypothetical Maximum Dividends**") would be HK$6.4 million, being the difference of (a) the unaudited net assets of the Target Company as at 31 October 2017 of approximately HK$13.4 million; and (b) the minimum net asset value of the Target Company of HK$7 million pursuant to the Vendor Undertaking.

Our estimation on the Hypothetical Fair Value is set forth in the table below:

	HKD'000
The Estimated Result after the adjustment of the total debt and excess assets *(Note 1 and 2)*	68,292
Add: cash and cash equivalents *(Note 3)*	9,043
Implied equity value before control premium	77,335
Add: control premium (i.e. 5%)	3,867
Implied equity value before marketability discount	81,202
Less: marketability discount (i.e. 30%)	(24,361)
the Hypothetical Fair Value	56,841

Note:

1. Based on the Valuation Report, the estimated result (the "**Estimated Result**") is calculated by multiplying the median of EV/EBITDA of the Valuation Comparables by EBITDA of the Target Company.

2. Based on the Valuation Report, the Estimated Result, total debt and excess assets of the Target Company as at 31 October 2017 were approximately HK$102.6 million, HK$38.8 million and HK$4.5 million. For details of breakdown of the Valuation, please refer to the paragraph headed "*Determination of Value*" in the Valuation Report as contained in Appendix IV to the Circular.

3. Based on the management account of the Target Company, the cash and cash equivalents of the Target Company as at 31 October 2017 was approximately HK$15,443,000. Assuming the Target Company distributes the Hypothetical Maximum Dividend in cash, the remaining balance of cash and cash equivalent as at 31 October 2017 would be reduced to approximately HK$9,043,000 (i.e. HK$15,443,000 – HK$6,400,000).

Based on our calculation above, the Hypothetical Fair Value as at 31 October 2017 amounted to approximately HK$56.8 million. The Consideration of HK$50 million represents a discount of approximately 12.0% to the Hypothetical Fair Value as at 31 October 2017.

It should be noted that the actual net assets of the Target Company upon Completion may be different (subject to the business operation and environment, profitability and financial position of the Target Company and the actual amount of distribution of the 2017 Dividends before Completion), the Hypothetical Fair Value may not represent the actual equitable value of the Target Company upon Completion. We, however, consider such estimation could be treated as an indication as to the reasonableness and fairness of the Consideration. Having considered the fact that the Consideration of HK$50 million represents a discount of approximately 12.0% to the Hypothetical Fair Value, we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

C. Profit Guarantee

Pursuant to the Sale and Purchase Agreement, the Vendor irrevocably warrants and guarantees to the Purchaser that the 2017 Net Profit shall not be less than HK$5 million. In the event that the 2017 Net Profit is less than HK$5 million, the Consideration shall be adjusted downward based on the formula (the "**Formula**") set out below:

Shortfall = (Guaranteed Profit - the 2017 Net Profit) x 10

Pursuant to the Sale and Purchase Agreement, the Vendor shall repay the shortfall (the "**Shortfall**") calculated based on the Formula in cash within 14 Business Days upon the delivery of the 2017 Accounts by the Vendor to the Purchaser or on such other dates as the Vendor and the Purchaser may from time to time mutually agree in writing. The 2017 Accounts are expected to be delivered in mid-April 2018. The multiple of 10 used in the Formula represents the PE ratio derived by reference to the Consideration of HK$50 million and the Guaranteed Profit of HK$5 million.

As advised by the Management, the Profit Guarantee was arrived at after business negotiations between the Company and the Vendor and was determined with reference to the financial performance of the Target Company for the year ended 31 December 2016 and for the nine months ended 30 September 2017. In the event that the Profit Guarantee cannot be fulfilled, the Company will be compensated by the amount of the Shortfall. Hence, the Directors are of the view that the Profit Guarantee is beneficial to the Company.

Based on our discussion with the Management, we understand that (i) the Target Company have a promising financial performance and recorded growth in both revenue and profit attributable to the owners of the Target Company as discussed in the section headed "2. *Information on the Target Company*" above; (ii) the Guaranteed Profit is higher than the profit attributable to the owners of the Target Company in FY2014, FY2015 and FY2016; and (iii) the profit attributable to owner of the Target Company for the nine months ended 30 September 2017 amounted to approximately HK$3.5 million. In addition, we consider that the Profit Guarantee serves as a safeguard to the Company's investment in the Target Company for the year ended 31 December 2017 and the Profit Guarantee is also beneficial to the Company without incurring any extra costs.

Taking into account of the facts that (i) the Vendor provided the Profit Guarantee to the Company which signals his confidence to the profitability of the Target Company; (ii) the Profit Guarantee serves as a safeguard to the Company's investment in the Target Company and it is an additional benefit to the Company; and (iii) the Consideration will only be adjusted downward and no additional amount beyond the Consideration will be paid to the Vendor, we concur with the Directors' view that the Profit Guarantee is fair and reasonable and safeguard the interests of the Company and the Shareholders as a whole.

D. Our view

Having considered the above, we are of the view that the terms of the Sale and Purchase Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned.

5. Financial effects of the Acquisition

Based on the our discussion and the representation from the Management, we understand that the Management has taken into account the following factors when considering the potential impact of the Acquisition on the financial position of the Group:

A. Effect on earnings

As stated in the Letter from the Board, immediately upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and its financial results, assets and liabilities will be consolidated into the financial statements of the Group. According to the audited financial information of the Target Company as set out in Appendix II to the Circular, the Target Company was in a profit making position in FY2016 and for the nine months ended 30 September 2017. Should the Target Company sustains its profitability in future, the Acquisition is expected to have positive financial effects on the profit attributable to the owners of the Company.

B. Effect on net assets

According to the 2017 Interim Report, the unaudited consolidated net assets of the Group as at 30 June 2017 was approximately HK$436.6 million. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, assuming Completion had taken place on 30 June 2017, the unaudited pro forma net assets of the Enlarged Group would be slightly decreased to approximately HK$435.3 million. Such decrease would be mainly due to the cost of approximately HK$1.3 million incurred from the Acquisition.

C. Effect on working capital

According to the 2017 Interim Report, the bank balances and cash of the Group as at 30 June 2017 were approximately HK$18.2 million. As advised by the Company, the Consideration shall be fully settled in cash. Among which, HK$25 million has been settled by way of payment of the Deposit by the Company and the remaining balance of the Consideration of HK$25 million will be settled by the internal resources of Group upon Completion. The Directors consider that the Group would have sufficient internal resources to fulfill its payment obligations under the Acquisition.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon Completion.

OPINION

Having taken into account the factors and reasons as stated above, we consider that the terms of the Sale and Purchase Agreement are on normal commercial terms, and fair and reasonable as far as the Independent Shareholders are concerned, and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise, and ourselves recommend, the Independent Shareholders to vote in favor of the relevant resolution at the EGM to approve the Acquisition and the transactions contemplated thereunder.

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

Hidulf Kwan	**Alfred Wong**
Managing Director	*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 SFO and has approximately 19 years of experience in the corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the audited financial results of the Group for each of the financial years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the unaudited financial results of the Group for the six months ended 30 June 2017 are available on the website of the Stock Exchange (http://www.hkex.com.hk) and the website of the Company (http://www.ernestborel.ch) in the following documents:

(i) for the year ended 31 December 2014, on pages 38 to 95 of the annual report of the Company for the year ended 31 December 2014 released on 23 April 2015 at http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0423/LTN20150423755.pdf;

(ii) for the year ended 31 December 2015, on pages 37 to 99 of the annual report of the Company for the year ended 31 December 2015 released on 27 April 2016 at http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0427/LTN20160427722.pdf;

(iii) for the year ended 31 December 2016, on pages 48 to 109 of the annual report of the Company for the year ended 31 December 2016 released on 25 April 2017 at http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0425/LTN20170425605.pdf; and

(iv) for the six months ended 30 June 2017, on pages 21 to 42 of the interim report of the Company for the six months ended 30 June 2017 released on 28 September 2017 at http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0928/LTN20170928510.pdf.

There was no qualified opinion issued for the audited financial results of the Group for the last three financial years.

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 January 2018, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following indebtedness:

Borrowings

As at 31 January 2018, the Group had bank borrowings of approximately HK$12.3 million, of which HK$12.3 million were secured and unguaranteed.

As at 31 January 2018, the Target Company had secured and guaranteed bank borrowings of approximately HK$57.4 million and unsecured and unguaranteed amount due to a shareholder and sole director of approximately HK$6.0 million.

Other indebtedness

As at 31 January 2018, the Group had outstanding convertible bond with principal amount of HK$100 million with maturity date of 11 January 2019, and outstanding notes payable with principal amounts of HK$40 million and HK$100 million with maturity dates of 28 October 2018 and 21 September 2019, respectively. All of the convertible bond and notes are unsecured and guaranteed by Mr. Sit Yau Chiu, an executive director, the chairman and a Substantial Shareholder of the Company.

Pledge of assets

As at 31 January 2018, the Group's bank deposits of approximately HK$1 million and deposits placed for life insurance policies of approximately HK$17.4 million were pledged to secure certain bank borrowings.

As at 31 January 2018, the Target Company's bank deposits of approximately HK$5.3 million, and deposits placed for life insurance policies of approximately HK$6.5 million were pledged as security for the Target Company's short term bank borrowings.

Capital commitments

As at 31 January 2018, the Group had the following capital commitments:

	HK$'000
Contracted for capital commitments in respect of investment in a subsidiary	25,000
Contracted for but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	1,098
	26,098

Operating lease commitments

As at 31 January 2018, the Group had commitments for future minimum lease payments for premises under non-cancelling operating lease which fall due as follows:

	HK$'000
Within one year	8,037
In the second to fifth years inclusive	7,278
	15,315

Contingent liabilities

As at the close of business on 31 January 2018, the Enlarged Group had the following litigations:

a) On 6 October 2017, there is a claim against Ernest Borel (Far East) Company Limited ("**EB Far East**"), a wholly-owned subsidiary of the Company, for RMB1,726,664.80 in relation to the rentals in respect of a store operated by the landlord under an agreement dated 1 August 2012 and a co-operation agreement dated 21 July 2015 purportedly made between EB Far East and the landlord, plus interest accruing on the claimed rentals and other related costs. On 10 January 2018, EB Far East filed a counter-claim. The above litigation is still at the early stage and EB Far East will vigorously defend against the claim taken by the landlord. However, for prudence's sake, a full provision for the claimed rentals of RMB1,726,664.80 has been made in the books of EB Far East.

b) On 20 October 2017, Guangzhou Tianhe Labour Tribunal* (廣州市天河區勞動人事爭議仲裁委員會) issued a judgment (the "**Judgment**") against Ernest Borel (Guangzhou) Trading Co., Ltd. ("**EB Guangzhou**"), an indirect wholly-owned subsidiary of the Company, for a claim of salaries and other benefits totaling RMB2,566,186.83 in favour of Ms. Liu Libing ("**Mr. Liu**"). Ms. Liu brought the claim in the capacity of employee regarding her employment as the general manager of EB Guangzhou. Ms. Liu was also a director of the Company but was retired by rotation on 26 May 2017. On 21 November 2017, EB Guangzhou instituted a legal action in Guangzhou Tianhe District Court* (廣州市天河區法院) to set aside the Judgment. On 24 November 2017, Ms. Liu further claimed RMB1,173,000 against EB Guangzhou. The directors of the Company believe that EB Guangzhou shall have valid grounds to defend and to set aside all those claims taken by Ms. Liu. The legal proceeding taken by EB Guangzhou in Guangzhou Tianhe District Court is still at its early stage. However, for prudence's sake, a full provision for the claim of RMB3,739,186.83 has been made in the consolidated financial statements of the Company.

c) On 12 June 2017, Mr. Su Da, a former employee of the Company instigated a legal action against the Company for claim of salaries and other benefits in arrears in the capacity of employee regarding his employment as the chief executive officer of the Company. The Company does not agree on the basis of the claim. No provision for the claim has been made in the consolidated financial statements of the Company and the Company does not expect to have further material amount arising from the claim.

d) On 20 July 2017, EB Guangzhou instituted a legal action against a distributor for the settlement of outstanding trade debts of RMB26,529,351.70 and related overdue interest. This distributor counterclaimed against EB Guangzhou for losses of RMB3,979,000 arising from termination of the distributorship agreement.

Save as disclosed above and apart from intra-group liabilities, the Group and the Target Company did not have any outstanding mortgages, charges, debentures, loan capital, term loans and overdrafts, debt securities, hire purchase commitment, liabilities under acceptances (other than normal trade bills) or acceptance credits, borrowings or indebtedness in the nature of borrowings or any guarantees or other material contingent liabilities as at the close of business on 31 January 2018.

3. WORKING CAPITAL

Taking into account the effect of the transactions contemplated under the Sale and Purchase Agreement and the present internal financial resources available to the Enlarged Group, including cash and bank balances as well as the available banking facilities, the Directors are of the opinion that, the Enlarged Group has sufficient working capital for its requirements for at least 12 months from the date of publication of this circular.

4. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The Group is principally engaged in the design, manufacture, marketing and sale of Swiss-made mechanical and quartz premium watches for men and women. The Target Company is a limited company principally engaged in the wholesale business of the trading of luxury brand watches.

The Acquisition will create synergies to the Group from the enhancement of the product mix and the integration of trading networks and the expertise and experience in the watches industry. After the Acquisition, the Enlarged Group is expected to offer not only Swiss-made watches and the Group's self-branded watches, but also various choices of premium watches of other luxury brands. The Enlarged Group will be able to utilize the existing customer base of the Target Company and offer products to a wider range of target customers to enhance its profitability.

Furthermore, in addition to the retail sales network of the Group, the Enlarged Group will be able to leverage the well-established and solid wholesale trading network of the Target Company after the Acquisition. The teams of talents in the Group and the Target Company can also integrate and share with each other their knowhow, experience and network regarding the watches industry. It is expected that the competitiveness of the Enlarged Group will be enhanced.

* *Unofficial English translation denotes for identification purposes only*

1. ACCOUNTANTS' REPORT OF THE TARGET COMPANY

The following is the text of a report received from the Company's reporting accountant, Crowe Horwath (HK) CPA Limited, for the purpose of inclusion in this circular.

Crowe Horwath™

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ERNEST BOREL HOLDINGS LIMITED

INTRODUCTION

We report on the historical financial information of Top Win International Trading Limited (the "**Target Company**"), which comprises the statements of financial position as at 31 December 2014, 2015 and 2016 and 30 September 2017, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for each of the three years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017 (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages 45 to 92 forms an integral part of this report, which has been prepared for inclusion in the circular of the Company dated 26 March 2018 (the "**Circular**") in connection with the proposed acquisition of 100% equity interest of the Target Company.

SOLE DIRECTOR'S RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The sole director of the Target Company is responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the sole director of the Target Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Information is free from material misstatement.

Our work involved in performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluation the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the sole director of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2014, 2015 and 2016 and 30 September 2017 and of the Target Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2(b) to the Historical Financial Information.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information of the Target Company which comprises the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the nine months ended 30 September 2016 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The sole director of the Target Company is responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the International Auditing and Assurance Standards Board. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES") AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

ADJUSTMENTS

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements have been made.

DIVIDENDS

We refer to Note 10 to the Historical Financial Information which contains information about the dividends paid by the Target Company in respect of the Relevant Periods.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong

26 March 2018

I. HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms part of an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by Crowe Horwath (HK) CPA Limited in accordance with International Standards on Auditing ("**ISA**") issued by the International Accounting Standards Board ("**IASB**").

The Historical Financial Information is presented in HK$ and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			Nine months ended 30 September	
	Notes	**2014**	**2015**	**2016**	**2016**	**2017**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Revenue	*4*	108,854	90,124	113,041	80,952	111,259
Cost of sales		(101,642)	(83,077)	(106,403)	(76,269)	(103,613)
Gross profit		7,212	7,047	6,638	4,683	7,646
Other revenue and other net income	*5*	1,312	793	338	231	276
Administrative expenses		(4,965)	(4,568)	(2,585)	(1,193)	(2,264)
Profit from operations		3,559	3,272	4,391	3,721	5,658
Finance costs	*6*	(1,779)	(1,638)	(1,776)	(1,382)	(1,531)
Profit before taxation	*7*	1,780	1,634	2,615	2,339	4,127
Income tax	*8*	(345)	(142)	(467)	(419)	(663)
Profit and total comprehensive income for the year/period attributable to owner of the Target Company		1,435	1,492	2,148	1,920	3,464

STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 September
	Notes	**2014**	**2015**	**2016**	**2017**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*12*	2,262	777	95	76
Deposit and prepayments for a life insurance policy	*13*	4,301	4,413	4,515	4,653
		6,563	5,190	4,610	4,729
Current assets					
Inventories	*14*	36,936	41,553	42,435	27,225
Trade and other receivables	*15*	17,812	7,541	7,649	7,338
Amounts due from related companies	*25(d)*	44,891	22,333	–	5,111
Tax recoverable	*16(a)*	157	–	4	–
Pledged bank deposits	*17*	10,268	10,375	10,160	10,308
Cash and bank balances	*18*	3,645	3,667	2,867	3,248
		113,709	85,469	63,115	53,230
Current liabilities					
Trade and other payables	*19*	1,207	864	632	793
Secured bank borrowings	*20*	35,782	39,344	42,480	38,684
Obligations under finance lease	*21*	782	411	–	–
Amount due to a related company	*25(e)*	51,225	37,743	–	–
Amount due to a shareholder and sole director	*25(f)*	5,838	6,000	16,254	6,000
Tax payable	*16(a)*	–	86	–	659
		94,834	84,448	59,366	46,136
Net current assets		18,875	1,021	3,749	7,094
Total assets less current liabilities		25,438	6,211	8,359	11,823
Non-current liabilities					
Obligations under finance lease	*21*	411	–	–	–
Deferred tax liabilities	*16(b)*	363	55	55	55
		774	55	55	55
Net assets		24,664	6,156	8,304	11,768
Capital and reserves					
Share capital	*22*	10	10	10	10
Retained profits		24,654	6,146	8,294	11,758
Total equity		24,664	6,156	8,304	11,768

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2014	10	23,219	23,229
Profit and total comprehensive income for the year	–	1,435	1,435
At 31 December 2014 and 1 January 2015	10	24,654	24,664
Dividend paid	–	(20,000)	(20,000)
Profit and total comprehensive income for the year	–	1,492	1,492
At 31 December 2015 and 1 January 2016	10	6,146	6,156
Profit and total comprehensive income for the year	–	2,148	2,148
At 31 December 2016	10	8,294	8,304
At 1 January 2017	10	8,294	8,304
Profit and total comprehensive income for the period	–	3,464	3,464
At 30 September 2017	10	11,758	11,768
At 1 January 2016	10	6,146	6,156
Profit and total comprehensive income for the period	–	1,920	1,920
At 30 September 2016 (Unaudited)	10	8,066	8,076

STATEMENTS OF CASH FLOWS

	Year ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Operating activities					
Profit before taxation	1,780	1,634	2,615	2,339	4,127
Adjustments for:					
Interest income	(133)	(107)	(125)	(96)	(149)
Finance costs	1,779	1,638	1,776	1,382	1,531
Depreciation	1,221	472	49	36	28
Imputed interest income form deposit placed for a life insurance policy	(252)	(129)	(133)	(133)	(127)
Premium charge on a life insurance policy	40	20	20	20	20
Exchange (gain)/loss on a life insurance policy	–	(3)	11	11	(31)
Operating profit before changes in working capital	4,435	3,525	4,213	3,559	5,399
Decrease/(increase) in inventories	5,643	(4,617)	(882)	1,243	15,210
(Increase)/decrease in trade and other receivables	(1,800)	10,271	(108)	699	311
(Increase)/decrease in amounts due from related companies	(11,191)	23,630	–	–	(5,111)
Decrease in trade and other payables	(294)	(343)	(232)	1,569	161
Increase/(decrease) in amount due to a related company	10,658	(13,482)	–	–	–
Cash generated from operations	7,451	18,984	2,991	7,070	15,970
Hong Kong Profits Tax paid	(441)	(207)	(557)	–	–
Interest received	133	107	125	96	149
Cash generated from operating activities	7,143	18,884	2,559	7,166	16,119
Investing activities					
Decrease/(increase) in pledged bank deposits	331	(107)	215	(96)	(148)
Acquisition of property, plant and equipment	(155)	(59)	(13)	(13)	(9)
Net cash generated from/(used in) investing activities	176	(166)	202	(109)	(157)
Financing activities					
Proceeds from new bank loans raised	4,820	–	–	–	–
Repayment of bank loans	(39,595)	(29,107)	(101,302)	(100,591)	(112,265)
Interest paid	(1,779)	(1,638)	(1,776)	(1,382)	(1,531)
Increase in trade import loans	26,491	32,669	104,438	99,866	108,469
Capital element of finance lease paid	(726)	(782)	(411)	(411)	–
Dividend paid	–	(20,000)	–	–	–
Increase/(decrease) in amount due to a shareholder and sole director	770	162	(4,510)	(8,113)	(10,254)
Net cash used in financing activities	(10,019)	(18,696)	(3,561)	(10,631)	(15,581)
(Decrease)/increase in cash and cash equivalents	(2,700)	22	(800)	(3,574)	381
Cash and cash equivalents at beginning of year/period	6,345	3,645	3,667	3,667	2,867
Cash and cash equivalents at end of year/ period	3,645	3,667	2,867	93	3,248

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

Top Win International Trading Limited (the "Target Company") is a limited liability company domiciled and incorporated in Hong Kong. The address of its registered office and principal place of business is 33/F, Sunshine Plaza, 353 Lockhart Road, Wan Chai, Hong Kong. The Target Company is engaged in trading of fashion jewellery and watches.

The Target Company is ultimately owned and controlled by its sole director, Mr. Sit Yau Chiu.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Relevant Periods, unless otherwise stated.

a) Basis of preparation

The principal accounting policies in the preparation of the Historical Financial Information which are in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the IASB are set out below. The Historical Financial Information has been prepared under the historical cost convention.

At the date of this report, the Target Company has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[3]
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC – Int 23	Uncertainty Over Income Tax Treatments[3]
Amendments to IFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate and Joint Venture[2]
Amendments to IFRSs	Annual Improvements to HKFRSs 2014 – 2016 Cycle Except for Amendments to HKFRS 12[1]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after a date to be determined

3 Effective for annual periods beginning on or after 1 January 2019

Except as described below, the sole director of the Target Company anticipates that the application of the new and amendments to IFRSs and the new interpretations will have no material impact on the financial statements of the Target Company.

IFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations.

IFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The sole director of the Target Company anticipates that the application of IFRS 15 in the future may result in more disclosures. However, the sole director of the Target Company does not anticipate that the application of IFRS 15 will have a significant impact on the amounts recognised in the Target Company's financial statements in the future.

IFRS 16 – Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16, which upon the effective date will supersede IFRS 17 "Leases" and the related requirements when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessees accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lese liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Target Company currently presents operating lease payments as operating cash flows. For the classification of cash flows, the Target Company currently presents operating lease payments as operating cash flows. Under IFRS 16, the lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lease accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continuous to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16. The application of new requirements may result changes in measurement, presentation and disclosure. However, the sole director of the Target Company does not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Target Company's financial statements in the future.

The sole director of the Target Company anticipates that the application of the other new and revised IFRSs will have no material impact on the results and financial position of the Target Company.

b) Property, plant and equipment

Property, plant and equipment are stated in statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(d)(ii)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Office equipment	20%
Furniture and fixtures	20%
Motor vehicle	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/(losses) on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economics benefits associated with the item will flow to the Target Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

c) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) Classification of assets leased to the Target Company

Assets that are held by the Target Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risk and rewards to the Target Company are classified as operating leases.

ii) Assets acquired under finance leases

When the Target Company acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments of such assets are included in the property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Target Company will obtain ownership of the asset, the life of the asset, as set out in note 2 (b). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

iii) Operating lease charges

Where the Target Company has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged as expenses in the accounting period in which they are incurred.

d) Impairment of assets

i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Company about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If such evidence exists, any impairment loss is determined and recognised as follows:

For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group of assets.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Target Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) to reduce the carrying amount of the assets in the unit (or group units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favorable change in the estimate used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

e) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in which the reversal occurs.

f) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

g) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

h) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case, they are stated at cost.

i) Cash and cash equivalents

Cash and cash equivalents comprise cast at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Target Company cash management are also included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

j) Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Company of non-monetary benefits are accrued in the year in which the associated services are rendered by employee of the Target Company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values. Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to profit or loss when incurred.

k) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue of disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost, any differences between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Target Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

m) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Target Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

o) Revenue recognition

Revenue is measured at the fair value of the consideration received and receivables. Provided it is probable that the economic benefits will flow to the Target Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premise which is taken to be the point when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

p) Borrowing costs

Borrowing costs are interests and other costs incurred in connection with the borrowings of funds. The borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sales are capitalised as part of the cost of that asset. All other borrowing costs are charged to profit or loss in the year in which they are incurred.

q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

r) Related parties

(a) A person or a close member of that person's family is related to the Target Company if that person:

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of key management personnel of the Target Company or its parent.

(b) An entity is related to the Target Company if any of the following conditions apply:

(i) The entity and the Target Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Target Company or an entity related to the Target Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the Target Company (or of a parent of the Target Company).

(viii) The entity, or any member of a group of which is a group provides key management personnel services to the Target Company or to the parent of the Target Company.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Target Company's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of asset and liabilities within the next financial year, as discussed below.

a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. These estimates used are based on the current market conditions and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to change in market conditions. Management reassesses these estimates at the end of each reporting period to ensure inventory is shown at the lower of cost and net realisable value.

b) Impairment of trade, bills and other receivables (including amount due from a shareholder and director)

The Target Company makes provision for impairment of trade and other receivables (including amount due from a shareholder and director) based on the evaluation of collectibility and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Target Company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

c) Income taxes

The Target Company is subject to income tax in Hong Kong. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Target Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. REVENUE

	Year ended 31 December			Nine months ended 30 September	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Sale of goods	108,854	90,124	113,041	80,952	111,259

5. OTHER REVENUE AND OTHER NET INCOME

	Year ended 31 December			Nine months ended 30 September	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Bank interest income	133	107	125	96	149
Exchange gain	915	555	78	–	–
Imputed interest income on life insurance policy	252	129	133	133	127
Sundry income	12	2	2	2	–
	1,312	793	338	231	276

6. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest on bank overdrafts and borrowings wholly repayable in five years	602	394	272	216	116
Interest on trade import loans	1,066	1,244	1,504	1,166	1,415
Finance lease charge	111	–	–	–	–
Total interest expense on financial liabilities not at fair value through profit and loss	1,779	1,638	1,776	1,382	1,531

7. PROFIT BEFORE TAXATION

Profit before taxation is stated at after charging:

	Year ended 31 December			Nine months ended 30 September	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Auditor's remuneration	100	95	100	–	–
Cost of inventories sold	101,642	83,077	106,403	76,269	103,613
Depreciation	1,221	472	49	36	28
Operating lease charges in respect of property	300	300	120	90	90
Staff costs (including sole director's remuneration):					
– Salaries and allowances	2,360	2,677	1,513	749	926
– Defined contributions pension costs	96	122	69	41	37

8. INCOME TAX

The income tax expense comprises:

	Year ended 31 December			Nine months ended 30 September	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Hong Kong Profits Tax					
– Provision for current year	345	450	467	419	663
– Deferred taxation *(note 16(b))*	–	(308)	–	–	–
	345	142	467	419	663

The income tax for the Relevant Periods can be reconciled to the profit before income tax per the statements of comprehensive income as follows:

	Year ended 31 December			Nine months ended 30 September	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit before taxation	1,780	1,634	2,615	2,339	4,127
Tax at Hong Kong Profits Tax rate 16.5%	294	269	431	386	681
Tax effect of non-taxable income	(10)	–	–	–	–
Tax effect of temporary difference	81	(107)	56	53	2
Tax effect of special deduction	(20)	(20)	(20)	(20)	(20)
Income tax expense	345	142	467	419	663

Hong Kong Profits Tax is calculated at 16.5% for the Relevant Periods.

9. EMOLUMENTS OF SOLE DIRECTOR AND HIGHEST PAID INDIVIDUALS

Sole director's remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

a) Director's emolument

Year ended 31 December 2014

Name of sole director	Fees	Salaries and allowances	Contributions to defined contribution retirement plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Sit Yau Chiu	–	455	18	473

Year ended 31 December 2015

Name of sole director	Fees	Salaries and allowances	Contributions to defined contribution retirement plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Sit Yau Chiu	–	455	18	473

Year ended 31 December 2016

Name of sole director	Fees	Salaries and allowances	Contributions to defined contribution retirement plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Sit Yau Chiu	–	–	–	–

Nine months ended 30 September 2016 (Unaudited)

Name of sole director	Fees	Salaries and allowances	Contributions to defined contribution retirement plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Sit Yau Chiu	–	–	–	–

Nine months ended 30 September 2017

Name of sole director	Fees	Salaries and allowances	Contributions to defined contribution retirement plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Sit Yau Chiu	–	–	–	–

b) Among the five individuals with highest emoluments during the Relevant Periods, one is the sole director whose emoluments are disclosed in note 9(a) above. Details of the four non-director higher paid employees of the Target Company for the Relevant Periods are as follows:

	Year ended 31 December			**Nine months ended 30 September**	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries and allowances	1,905	2,222	1,513	749	926
Contributions to defined contribution retirement plan	78	104	69	41	37
	1,983	2,336	1,582	790	963

The emoluments of the four non-director higher paid employees fall within the band of HK$Nil to HK$1,000,000 for the Relevant Periods.

10. DIVIDENDS

	Year ended 31 December			**Nine months ended 30 September**	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Dividend declared and paid	–	20,000	–	–	–

11. EARNINGS PER SHARE

Earnings per share of the Target Company is not presented as such information is not considered meaningful in the context of this report.

12. PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicle	Office equipment	Furniture and fixtures	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1/1/2014	3,787	248	2,231	6,266
Additions	–	97	58	155
At 31/12/2014 and 1/1/2015	3,787	345	2,289	6,421
Additions	–	–	59	59
Disposals	(3,787)	–	–	(3,787)
At 31/12/2015 and 1/1/2016	–	345	2,348	2,693
Additions	–	13	–	13
Disposals	–	–	(1,986)	(1,986)
At 31/12/2016 and 1/1/2017	–	358	362	720
Additions	–	3	6	9
At 30/9/2017	–	361	368	729
Accumulated depreciation and impairment				
At 1/1/2014	1,958	204	776	2,938
Charge for the year	757	33	431	1,221
At 31/12/2014 and 1/1/2015	2,715	237	1,207	4,159
Charge for the year	–	34	438	472
Written back on disposal	(2,715)	–	–	(2,715)
At 31/12/2015 and 1/1/2016	–	271	1,645	1,916
Charge for the year	–	34	15	49
Written back on disposal	–	–	(1,340)	(1,340)
At 31/12/2016 and 1/1/2017	–	305	320	625
Charge for the period	–	12	16	28
At 30/9/2017	–	317	336	653
Carrying amounts				
At 31/12/2014	1,072	108	1,082	2,262
At 31/12/2015	–	74	703	777
At 31/12/2016	–	53	42	95
At 30/9/2017	–	44	32	76

Notes:

a) At 31 December 2014, 2015 and 2016 and 30 September 2017, the carrying amount of motor vehicle held under finance lease was HK$1,072,000, HK$Nil and HK$Nil and HK$Nil, respectively.

b) At 1 January 2015 and 2016, motor vehicle and furniture and fixtures with carrying amount of HK$1,072,000 and HK$646,000 were sold to a related company, at a consideration of HK$1,072,000 and HK$646,000, respectively.

13. DEPOSIT AND PREPAYMENTS FOR A LIFE INSURANCE POLICY

In January 2013, the Target Company entered into a life insurance policy (the "Policy") with an insurance company to insure the sole director of the company, Mr. Sit Yau Chiu. Under the Policy, the beneficiary and policy holder is the Target Company and the total insured sum is US$2,000,000 (equivalent to HK$15,528,000).

The principal terms of the Policy are as follows:

i) The Target Company is required to pay an upfront payment of US$481,790 (equivalent to HK$3,740,618) (the "Upfront Payment") at inception of the policy and a single premium charge (the "Prepaid Premium") at inception of the policy amounting to US$35,560 (equivalent to HK$276,088).

ii) The Target Company can terminate the Policy at any time based on the net carrying value of the Policy at the date of withdrawal, which is determined by the Upfront Payment, plus accumulated interest earned and minus the surrender charges.

iii) If withdrawal is made between the 1st to 15th policy year, there is a specified amount of surrender charge.

iv) The insurance company will pay the Target Company a guaranteed interest rate of 3.6% (2014: 3.6%) per annum on the outstanding net carrying value of the Policy for the fourth insurance year. Commencing on the fifth insurance year, the guaranteed interest rate will become 2.5% per annum.

The sole director of the Target Company did not expect termination of the Policy. The death benefit of US$2,000,000 is guaranteed at age 87. The financial impact of the option to terminate the Policy was considered as insignificant.

At initial recognition, the balance was split into three components:

i) An interest bearing deposit (the "**Deposit**") amounting to US$413,099 (equivalent to HK$3,027,304) which based on the Upfront Payment less the prepayment of the accumulated Policy Expense Charges and the Surrender Charge at the Withdrawal Date (the "**Prepaid Charges**").

ii) The Prepaid Charges amounted to US$68,691 (equivalent to HK$533,314).

iii) The Prepaid Premium at inception of the Policy amounted to US$35,560 (equivalent to HK$276,088).

The Deposit is carried at amortised cost with an effective interest rate of 2.54% per annum which based on the discounted future cash receipts through the expected life of the Policy. While the Prepaid Premium and the Prepaid Premium will be amortised to profit or loss through the expected life of the Policy.

The carrying values of the components at the end of the reporting period are set out below:

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposit	3,593	3,706	3,828	3,981
Prepaid charges- non-current	467	466	453	443
Prepaid premium – non-current	241	241	234	229
	4,301	4,413	4,515	4,653

During the years ended 31 December 2014, 2015 and 2016 and nine months ended 30 September 2017, imputed interest income of HK$252,000, HK$129,000 and HK$133,000 and HK$127,000 respectively and amortisation of the prepaid insurance expenses (included the Prepaid Charges and Prepaid Premium) of HK$40,000, HK$20,000 and HK$20,000 and HK$20,000 were recognised in the profit or loss.

At 31 December 2014, 2015 and 2016 and 30 September 2017, the current portion of the Prepaid Charges amounting to HK$40,000, HK$20,000 and HK$20,000 and HK$20,000 were classified as current assets which were included in prepayment, deposits and other receivables.

The Deposit and Prepaid Charges for a life insurance policy are denominated in US$, a currency other than the functional currency of the Target Company.

14. INVENTORIES

Inventories comprised of trading stock of fashion jewellery and watches.

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fashion jewellery	8,914	8,586	9,224	803
Watches	28,022	32,967	33,211	26,422
	36,936	41,553	42,435	27,225

During the Relevant Periods, the inventories recognised as expenses amounted to HK$101,642,000, HK$83,077,000, HK$106,403,000, HK$76,269,000 and HK$103,613,000, respectively.

15. TARDE AND OTHER RECEIVABLES

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	6,432	3,697	2,510	4,690
Deposits paid to suppliers	832	3,528	4,941	2,546
Prepayments	368	316	198	102
Other receivables	10,180	–	–	–
	11,380	3,844	5,139	2,648
	17,812	7,541	7,649	7,338

a) As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date net of allowance for doubtful debts, is as follows:

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 month	5,549	2,796	1,465	4,272
1 to 2 months	201	45	382	41
2 to 3 months	193	–	60	110
Over 3 months	489	856	603	267
	6,432	3,697	2,510	4,690

Trade receivables are due within 120 days from the date of billing. Further details on the Target Company's credit policy are set out in note 24 (a)(i).

b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the company is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 2(f)(i)). At 31 December 2014, 2015 and 2016 and 30 September 2017, no impairment on trade receivables is required.

c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Neither past due nor impaired	5,943	2,841	1,465	4,272
More than 3 months past due	489	856	1,045	418
	6,432	3,697	2,510	4,690

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the company. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

d) Other receivables represented advances to three independent third parties, which were unsecured, interest-free and were fully repaid during the year ended 31 December 2015.

16. INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION

a) Taxation in the statements of financial position represents:

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong Profits Tax (Recoverable)/payable in respect of prior year	(61)	(157)	86	(4)
Tax paid during the year	(441)	(207)	(557)	–
Provision for the year	345	450	467	663
Tax (recoverable)/payable	(157)	86	(4)	659

b) Deferred tax assets and liabilities recognised

The components of deferred tax liabilities recognised in the statements of financial position and the movements during the year were as follows:

	Accelerated tax allowances – property plant and equipment
	HK$'000
At 1 January 2014, 31 December 2014 and 1 January 2015	363
Credited to statement of comprehensive income	(308)
At 31 December 2015 and 1 January 2016	55
Credited to statement of comprehensive income	–
At 31 December 2016 and 30 September 2017	55

17. PLEDGED BANK DEPOSITS

At 31 December 2014, 2015 and 2016 and 30 September 2017, bank deposits of HK$10,268,000, HK$10,375,000, HK$10,160,000 and HK$10,308,000, respectively are pledged to a bank to secure bank loans of the Target Company. These pledged bank deposits carry fixed interest rate ranging from 0.1% to 0.9% per annum for the Relevant Periods.

18. CASH AND BANK BALANCES

	As at 31 December			**As at 30 September**
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and on hand	3,645	3,667	2,867	3,248
Cash and cash equivalents in the statements of financial position and statements of cash flows	3,645	3,667	2,867	3,248

Deposits with banks carry interest at prevailing market rates ranging from 0.001% to 0.01% per annum for the Relevant Periods.

19. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	164	98	487	–
Receipts in advance	55	60	–	653
Accrued expenses	988	706	145	140
Other payables	1,043	766	145	793
	1,207	864	632	793

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 3 months	164	98	487	–

20. SECURED BANK BORROWINGS

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured bank loans	35,782	39,344	42,480	38.684
Current liabilities				
Portion of term loan from bank due for repayment within one year	29,107	35,341	40,753	37,584
Non-current portion of term loan from bank subject to immediate demand repayment clause	6,675	4,003	1,727	1,100
	35,782	39,344	42,480	38,684

At 31 December 2014, 2015 and 2016 and 30 September 2017, the bank borrowings were repayable as follows:

	As at 31 December			As at 30 September
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	29,108	35,341	40,753	37,584
After one year but within two years	4,916	3,117	841	874
After two years but within five years	1,758	886	886	226
After five years	–	–	–	–
	35,782	39,344	42,480	38,684

All of the bank borrowings are carried at amortised cost.

At 31 December 2014, 2015 and 2016 and 30 September 2017, all of the trade import loans were denominated in the HK$, EURO and Swiss Franc.

The range of effective interest rates on the Target Company's bank loans are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Effective interest rates:					
Bank loans	1.50%-6.25%	1.59%-5.86%	2.83%-6.95%	2.83%-6.95%	2.25%-5.86%
Trade import loans	3.3%-7.8%	3.33%-7.8%	3.50%-7.50%	3.50%-7.50%	3.50%-7.50%

At 31 December 2014, 2015 and 2016 and 30 September 2017, the Target Company had banking facilities totaling HK$97,060,000, HK$85,060,000 and HK$75,000,000 and HK$68,500,000, respectively. These banking facilities were secured by the Target Company's bank deposits of HK$10,268,000, HK$10,375,000 and HK$10,160,000 and HK$10,308,000, respectively, leasehold land and buildings of New Harvest Investment Holdings Limited, which is beneficially owned and controlled by Mr. Sit Yau Chiu, the sole director of the Target Company, the life insurance policy (Note 13), joint and several guarantees executed by Mr. Sit Yau Chiu and his spouse, Ms. Ho Ling Fung, and corporate guarantees executed by related companies, Top Pride International Limited, New Harvest Investment Holdings Limited and Ho Hon Brothers Holdings Limited which are owned and controlled by Mr. Sit Yau Chiu. Such banking facilities were utilised to the extent of HK$35,782,000, HK$39,344,000 and HK$42,480,000 and HK$38,684,000 by the Target Company at the end of the reporting period.

All of the Target Company's banking facilities are subject to the fulfillment of covenants relating to certain of the Target Company's statements of financial position ratios, which are commonly found in lending institutions. If the Target Company were to breach the covenants, the drawn down facilities would become payable on demand. The Target Company regularly monitors its compliance with these covenants. As at 31 December 2014, 2015 and 2016 and 30 September 2017, none of the covenants relating to drawn down facilities had been breached.

21. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 2014 and 2015, the Target Company had obligations under finance lease repayable as follows:

	2015		2014	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	411	419	782	838
After 1 year but within 2 years	–	–	411	419
	411	419	1,193	1,257
Less: total future finance charges		(8)		(64)
Present value of lease obligations		411		1,193

The Target Company's obligations under finance lease were secured by the lessor's charge over the leased asset (note 12(b)), which was sold to the related company on 1 January 2015.

22. SHARE CAPITAL

	As at 31 December			As at 30 September
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Issued and fully paid:				
10,000 ordinary shares	10	10	10	10

23. FINANCIAL INSTRUMENTS BY CATEGORIES

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets:				
Deposit and prepayment paid to a life insurance policy	4,301	4,413	4,515	4,653
Trade receivables	6,432	3,697	2,510	4,690
Other receivables	10,180	–	–	–
Amounts due from related companies	44,891	22,333	–	5,111
Pledged bank deposits	10,268	10,375	10,160	10,308
Cash and bank balances	3,645	3,667	2,867	3,248
	79,717	44,485	20,052	28,010
Financial liabilities:				
Trade and other payables	1,152	804	632	140
Secured bank borrowings	35,782	39,344	42,480	38,684
Obligations under finance lease	1,193	411	–	–
Amount due to a related company	51,225	37,743	–	–
Amount due to a shareholder and sole director	5,838	6,000	16,254	6,000
	95,190	84,302	59,366	44,824

24. FINANCIAL RISK MANAGEMENT

a) Financial risk factors

The Target Company's major financial instruments include bank borrowings, trade and other receivables and trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, foreign exchange risk, and interest rate risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

i) Credit risk

The carrying amounts of deposit and prepayments for a life insurance policy, bank deposits, trade and other receivables, and amounts due from related companies included in the statements of financial position represent the Target Company's maximum exposure to credit risk in relation to its financial assets.

The Target Company has limited credit risk with its banks, which are leading and reputable and are assessed having low credit risk. The Target Company has not any significant loss arising from non-performance by these banks in the past and management does not expect so in the future.

For other receivables and amounts due from related companies, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Given the constant repayment history, the sole director of the Target Company is of the opinion that the risk of default by these counterparties is low.

In respect of trade receivables, in order to minimise risk, the management has a credit policy in place and the exposures to these credit risks and monitored on an ongoing basis. Credit evaluation of its debtors' financial position and condition is performed on each and every major debtor periodically. These evaluations focus on the debtors past history of making payments when due and current ability to pay, and take into account information specific to the debtor as well as pertaining to the economic environment in which the debtor operates. The sole director of the Target Company considers the credit risk in these debtors as low because of its strong financial background and profitability.

ii) Liquidity risk

The Target Company's policy is regularly monitored its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The table below analyses the Target Company's financial liabilities, including other payables, bank loans and overdrafts into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances within 12 months equal their carrying balances, as the impact of discounting is not significant.

	As at 31 December 2014					
	Repayable on demand	**Within 1 year**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total contractual undiscounted cash flow**	**Carrying amount**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	–	1,207	–	–	1,207	1,207
Secured bank loans	–	3,009	2,939	4,237	10,186	9,291
Secured trade import loans	–	26,262	–	–	26,262	26,491
Obligations under finance lease	–	838	419	–	1,257	1,193
Amount due to a related company	–	51,225	–	–	51,225	51,225
Amount due to a shareholder and sole director	–	5,838	–	–	5,838	5,838
	–	88,379	3,358	4,237	95,975	95,245
Adjustment to disclose cash flows on term loans based on lender's right to demand repayment	36,343	(29,271)	(2,939)	(4,237)	(104)	–
	36,343	59,108	419	–	95,871	95,245

	As at 31 December 2015					
	Repayable on demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	–	864	–	–	864	864
Secured bank loans	–	2,941	2,383	1,854	7,178	6,675
Secured trade import loans	–	32,689	–	–	32,689	32,669
Obligations under finance lease	–	419	–	–	419	411
Amount due to a related company	–	37,742	–	–	37,742	37,743
Amount due to a shareholder and sole director	–	6,000	–	–	6,000	6,000
	–	80,655	2,383	1,854	84,892	84,362
Adjustment to disclose cash flows on term loans based on lender's right to demand repayment	39,611	(35,629)	(2,383)	(1,854)	(255)	–
	39,611	45,026	–	–	84,637	84,362

	As at 31 December 2016					
	Repayable on demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	–	632	–	–	632	632
Secured bank loans	–	2,416	911	910	4,237	4,004
Secured trade import loans	–	38,741	–	–	38,741	38,475
Obligations under finance lease	–	–	–	–	–	–
Amount due to a related company	–	–	–	–	–	–
Amount due to a shareholder and sole director	–	16,254	–	–	16,254	16,254
	–	58,043	911	910	59,864	59,365
Adjustment to disclose cash flows on term loans based on lender's right to demand repayment	42,885	(41,157)	(911)	(910)	(93)	–
	42,885	16,886	–	–	59,771	59,365

	As at 30 September 2017					
	Repayable on demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	–	793	–	–	793	793
Secured bank loans	–	1,086	874	226	2,186	2,104
Secured trade import loans	–	36,795	–	–	36,795	36,580
Obligations under finance lease	–	–	–	–	–	–
Amount due to a related company	–	–	–	–	–	–
Amount due to a shareholder and sole director	–	6,000	–	–	6,000	6,000
	–	44,674	874	226	45,774	45,477
Adjustment to disclose cash flows on term loans based on lender's right to demand repayment	40,789	(37,880)	(874)	(226)	1,809	–
	40,789	6,794	–	–	47,583	45,477

Bank borrowings with a repayment on demand clause are included in the "repayable on demand" time band in the above maturity analysis.

iii) Interest rate risk

Other than the bank balances, the Target Company has no significant interest-bearing financial assets, the income and operating cash flows of the Target Company are substantially independent of changes in market interest rates. The interest rate risk of the company arises from variable-rate bank borrowings.

The Target Company is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 20). It is the company's policy to keep its borrowings at floating rate of interests so as to minimize the fair value interest rate risk.

The Target Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Target Company's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Target Company's HKD borrowings.

The following table details the interest rate profile of the Target Company's bank borrowings at the end of the reporting period:

	As at 31 December						As at 30 September	
	2014		2015		2016		2017	
	Effective interest rate per annum	*HK$'000*	Effective interest rate per annum	*HK$'000*	Effective interest rate per annum	*HK$'000*	Effective interest rate per annum	*HK$'000*
Variable rate borrowings:								
– bank loans	1.50% to 6.25%	9,292	1.59% to 5.86%	6,674	2.83% to 6.95%	4,004	2.25% to 5.35%	2,104
– trade import loans	3.33% to 7.80%	26,490	3.33% to 7.80%	32,670	3.50% to 7.50%	38,476	0.50% to 5.50%	36,580
		35,782		39,344		42,480		38,684

At 31 December 2014, 2015 and 2016 and 30 September 2017, if interest rates on the bank borrowings had been 100 basis points higher/lower with all variables held constant, post-tax profit would have been HK$358,000, HK$393,438 and HK$354,000 and HK$352,000, respectively lower/higher, mainly as a result of higher/lower floating rate interest expense on the borrowings.

The sensitivity analysis has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the amounts of interest-bearing borrowings outstanding at the end of the reporting period being outstanding for the whole year. The analysis is performed on the same basis for the Relevant Periods.

iv) Foreign currency risk

The Target Company is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily US dollars, RMB, JPY, EUR, CHF and KRW.

In respect of trade receivables, other receivables, cash and bank balance, accrual and other payables and interest-bearing borrowings denominated in currencies other than functional currency of the operations to which they relate, the Target Company has no hedging policy with respect to foreign exchange exposure.

Exposure to currency risk

The following table details the Target Company's major exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	USD	RMB	JPY	EUR	CHF
	$'000	*'000*	*$'000*	*$'000*	*$'000*
As at 31 December 2014					
Deposits and prepayment for a life insurance policy	559	–	–	–	–
Trade and other receivables	159	569	6,900	17	–
Pledged bank deposits	–	8,211	–	–	–
Cash and bank balances	–	6	–	–	–
Accrual and other payables	–	55	–	–	–
Interest-bearing borrowings	370	–	22,342	1,522	794
	1,088	8,841	29,242	1,539	794

	USD	RMB	JPY	EUR	CHF	KRW
	$'000	**'000**	**$'000**	**$'000**	**$'000**	**$'000**
As at 31 December 2015						
Deposits and prepayment for a life insurance policy	572	–	–	–	–	–
Trade and other receivables	85	932	6,910	209	7	–
Pledged bank deposits	–	8,299	–	–	–	–
Cash and bank balances	1	6	–	–	–	211
Trade and other payables	–	–	–	11	–	–
Interest-bearing borrowings	241	–	–	503	814	–
	899	9,237	6,910	723	821	211

	USD	RMB	JPY	EUR	CHF
	$'000	*'000*	*$'000*	*$'000*	*$'000*
As at 31 December 2016					
Deposits and prepayment for a life insurance policy	584	–	–	–	–
Trade receivables	–	472	27,543	9	353
Pledged bank deposits	–	10,159	–	–	–
Cash and bank balances	(1)	7	–	–	–
Accrual and other payables	–	–	–	–	–
Interest-bearing borrowings	–	–	–	(186)	(1,183)
	583	10,638	27,543	(177)	(830)

	USD	RMB	JPY	EUR	CHF
	$'000	*'000*	*$'000*	*$'000*	*$'000*
As at 30 September 2017					
Deposits and prepayment for a life insurance policy	598	–	–	–	–
Trade and other receivables	–	1,912	29,060	67	–
Pledged bank deposits	–	8,515	–	–	–
Cash and bank balances	5	8	–	8	–
Accrual and other payables	2	–	5,750	–	–
Interest-bearing borrowings	19	–	–	767	2,921
	624	10,435	34,810	842	2,921

Sensitivity analysis

The following table indicates the approximate change in the Target Company's profit after tax (and retained profits) and other components of equity in response to reasonably possible changes in the foreign exchange rate of HK$/USD, HK$/RMB, HK$/JPY, HK$/EUR and HK$/CHF to which the Target Company has significant exposure at the end of the reporting period.

	As at 31 December 2014		
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	**Increase/ (decrease) in equity**
		HK$'000	*HK$'000*
USD	5%	135	135
USD	(5%)	(135)	(135)
RMB	5%	460	460
RMB	(5%)	(460)	(460)
JPY	5%	18	18
JPY	(5%)	(18)	(18)
EUR	5%	(170)	(170)
EUR	(5%)	170	170
CHF	5%	(203)	(203)
CHF	(5%)	203	203

	As at 31 December 2015		
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	**Increase/ (decrease) in equity**
		HK$'000	*HK$'000*
USD	5%	113	113
USD	(5%)	(113)	(113)
RMB	5%	455	455
RMB	(5%)	(455)	(455)
JPY	5%	42	42
JPY	(5%)	(42)	(42)
EUR	5%	(590)	(590)
EUR	(5%)	590	590
CHF	5%	(260)	(260)
CHF	(5%)	260	260

	As at 31 December 2016		
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	**Increase/ (decrease) in equity**
		HK$'000	*HK$'000*
USD	5%	191	191
USD	(5%)	(191)	(191)
RMB	5%	521	521
RMB	(5%)	(521)	(521)
JPY	5%	80	80
JPY	(5%)	(80)	(80)
EUR	5%	(60)	(60)
EUR	(5%)	60	60
CHF	5%	(265)	(265)
CHF	(5%)	265	265

	As at 30 September 2017		
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits** *HK$'000*	**Increase/ (decrease) in equity** *HK$'000*
USD	5%	190	190
USD	(5%)	(190)	(190)
RMB	5%	511	511
RMB	(5%)	(511)	(511)
JPY	5%	68	68
JPY	(5%)	(68)	(68)
EUR	5%	(29)	(29)
EUR	(5%)	29	29
CHF	5%	(933)	(933)
CHF	(5%)	933	933

The above sensitivity analysis has been determined assuming that the change in foreign exchange rate of HK$/USD, HK$/RMB, HK$/JPY, HK$/EUR and HK$/CHF had occurred at the end of the reporting period and had been applied to each of the Target Company's exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

b) Capital risk management

The Target Company's primary objectives when managing capital are to safeguard the Target Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Target Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with high levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic condition.

The Target Company monitors its capital structure on the basis of net debt-to-equity ratio. For this purpose, the Target Company defines debt-to-equity ratio as total borrowings less cash and bank balances and pledged bank deposits, divided by total equity.

The Target Company's net debt-to-equity ratio as at 31 December 2014, 2015 and 2016 and 30 September 2017 were as follows:

	As at 31 December			As at 30 September
	2014	2015	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured bank borrowings	35,782	39,344	42,480	38,684
Obligations under finance lease	1,193	411	–	–
Total borrowings	36,975	39,775	42,480	38,684
Less: Cash and bank balances	(3,645)	(3,667)	(2,867)	(3,248)
Pledged bank deposits	(10,268)	(10,375)	(10,160)	(10,308)
Net debt	23,062	25,713	29,453	25,128
Total equity	24,664	6,156	8,304	11,768
Net debt-to-equity ratio	93.50%	417.65%	354.68%%	213.53%

Save as disclosed above and the financial covenants disclosed in note 20 to the financial statements, the Target Company is not subject to externally imposed capital requirements.

25. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Target Company had the following transactions and balances with related parties:

a) Relationship

Name of related party	Relationship
Top One International Holdings Limited ("**Top One**")	Mr. Sit Yau Chiu is the common shareholder and director
Ho Hon Brothers Holdings Limited ("**Ho Hon**")	Mr. Sit Yau Chiu is the common shareholder and director
New Harvest Investment Holdings Limited ("**New Harvest**")	Mr. Sit Yau Chiu is the common shareholder and director
Top Pride International Limited ("**Top Pride**")	Mr. Sit Yau Chiu is the common shareholder and director
福州偉峰房地產開發有限公司 ("**福州偉峰**")	Mr. Sit Yau Chiu is the common director
Ms. Ho Ling Fung	Spouse of Mr. Sit Yau Chiu

b) Transactions with key management personnel

The key management personnel is the sole director of the Target Company and the remuneration to the sole director of the Target Company is disclosed in note 9(a) to the historical financial information.

c) Transactions with related parties

Name of related party	Nature of transactions	As at 31 December			Nine months ended 30 September	
		2014	**2015**	**2016**	**2016**	**2017**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Ho Hon	Sale of property, plant and equipment	–	1,072	646	–	–
New Harvest	Rental expenses	300	300	120	90	90
Top Pride	Purchases	–	2,210	247	247	–

The above transactions were conducted at terms mutually agreed by the respective parties.

d) Amounts due from related companies

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-trade nature				
Top One	11,176	–	–	–
Ho Hon	15,892	–	–	–
New Harvest	13,649	22,333	–	5,111
福州偉峰	4,174	–	–	–
	44,891	22,333	–	5,111
Maximum outstanding during the year/period				
Top One	11,176	–	–	–
Ho Hon	15,892	–	–	–
New Harvest	13,649	22,333	–	5,111
福州偉峰	4,174	–	–	–

The amounts due were unsecured, interest free and repayable on demand. The carrying amounts approximate their respective fair values at the end of each reporting period.

e) Amount due to a related company

As at 31 December 2014 and 2015, the amount due to a related company, Top Pride, was unsecured, interest free and was repaid during the year ended 31 December 2016. The amount was nil at 31 December 2016 and 30 September 2017.

f) Amount due to a shareholder and sole director

The amount due to a shareholder and sole director of the Target Company, Mr. Sit Yau Chiu, is unsecured, interest free and repayable on demand. Included in the balance due to Mr. Sit Yau Chiu, there was HK$5 million as at 31 December 2014, 2015 and 2016 and HK$6 million as at 30 September 2017 subordinated to the Target Company's bank borrowings of HK$1,180,000, HK$659,885, HK$2,298,314 and HK$2,952,587, as at 30 September 2017, 31 December 2016, 2015 and 2014, respectively.

g) Guarantees and pledge of assets for banking facilities

At the end of each reporting period, the Target Company's banking facilities were secured by the personal guarantees of Mr. Sit Yau Chiu and his spouse, corporate guarantees of Top Pride, New Harvest and Ho Hon, and certain land and buildings of New Harvest, as further detailed in note 20. The fair values of these guarantees were considered to be insignificant at each of the reporting period end.

26. OPERATING LEASE COMMITMENTS

At 31 December 2014, 2015 and 2016 and 30 September 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at 30 September
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	35	73	–	30
After 1 year but within 5 years	–	37	–	–
	35	110	–	30

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 September 2017.

Yours faithfully

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 26 March 2018

Leung Chun Wa
Practising Certificate Number P04963

2. MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET COMPANY

Set out below is the management discussion and analysis of the Target Company for the three years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017 (the "**Relevant Periods**"). All amounts are expressed in HK$ and rounded to the nearest thousand except when otherwise indicated.

1. General information

During the Relevant Periods, the Target Company has been principally engaged in the business of trading of luxury brand watches.

2. Business and financial review

Set out below is the financial performance of the Target Company during the Relevant Periods:

	Year ended 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2016	Nine months ended September 2016	Nine months ended September 2017
(HK$'000)					
Revenue	108,854	90,124	113,041	80,952	111,259
Gross profit	7,212	7,047	6,638	4,683	7,646
Profit attributable to the shareholders of the Target Company	1,435	1,492	2,148	1,920	3,464

Revenue

During the Relevant Periods, the Target Company derived revenue mainly from the trading of luxury brand watches. For the year of 2014, 2015 and 2016, the revenue of the Target Company amounted to approximately HK$108,854,000, HK$90,124,000 and HK$113,041,000 respectively. With reference to The Deloitte Swiss Watch Industry Study 2015, weakening demand of luxury watches started in September 2014 and had continued in 2015. The downward trend was due to the negative impact caused by the Umbrella Revolution, numbers of tourist was decreased. The Target Company and the other competitors in the industry had a hard time in 2015, revenue had dropped by 17%, it was back to normal in 2016.

The revenue increased by approximately 37% to HK$111,259,000 for the nine months ended 30 September 2017 from HK$80,952,000 for the corresponding period of 2016. The political and economic environment has improved in 2017, a strong demanding of luxury watches in Hong Kong and China Market. With the strong network of sourcing of luxury products and the trustful partners as the Target Company customers, the revenue growth rate of 37% reflected the success of the Target Company.

Results of the Relevant Periods

For the financial years ended 31 December 2014, 2015, 2016 and the nine-month periods ended 30 September 2016 and 2017, the profits of the Target Company amounted to approximately HK$1,435,000, HK$1,492,000, HK$2,148,000, HK$1,920,000 and HK$3,464,000, respectively.

Profits for the nine-month period ended 30 September 2017 increased by HK$1,544,000 or approximately 80% from the corresponding period of 2016, mainly due to the increase in the revenue and increase in gross profit margin, from 5.8% for the period ended 30 September 2016 to 6.9% for the period ended 30 September 2017. The increase in gross profit margin was mainly due to the change of product mix and the improvement of sales strategies by the sales and marketing team.

Assets and liabilities

Set out below is the financial position of the Target Company for the Relevant Periods as extracted from the accountants' report set out in Appendix II part 1 of the circular:

	31 December 2014	**31 December 2015**	**31 December 2016**	**30 September 2017**
(HK$'000)				
Non-current assets	6,563	5,190	4,610	4,729
Current assets	113,709	85,469	63,115	53,230
Total assets	120,272	90,659	67,725	57,959
Non-current liabilities	774	55	55	55
Current liabilities	94,834	84,448	59,366	46,136
Total liabilities	95,608	84,503	59,421	46,191
Net Assets	24,664	6,156	8,304	11,768

Decrease in net assets of approximately HK$18,508,000 from 31 December 2014 to 31 December 2015 was mainly attributable to dividend of HK$20,000,000 declared and paid in the year of 2015.

The increase in net assets from approximately HK$6,156,000 as at 31 December 2015 to approximately HK$11,768,000 as at 30 September 2017 was mainly due to the profit attributable to shareholders for the years ended 31 December 2015, 2016 and for the period ended 30 September 2017.

At 31 December 2014, 2015 and 2016 and 30 September 2017, the Target Company had banking facilities totaling HK$97,060,000, HK$85,060,000 and HK$75,000,000 and HK$68,500,000, respectively. These banking facilities were secured by the Target Company's bank deposits of HK$10,268,000, HK$10,375,000 and HK$10,160,000 and HK$10,308,000, respectively, leasehold land and buildings of a related company with carrying amount of HK$22,901,000 HK$22,445,000 and HK$21,990,000 and HK$21,990,000, joint and several guarantees executed by the sole director, Mr. Sit Yau Chiu and his spouse, Ms. Ho Ling Fung, and corporate guarantees executed by related companies, Top Pride International Limited, New Harvest Investment Holdings Limited and Ho Hon Brothers Holdings Limited. Such banking facilities were utilized to the extent of HK$35,782,000, HK$39,344,000 and HK$42,480,000 and HK$38,685,000 by the Target Company at the end of the Relevant Periods.

All of the Target Company's banking facilities are subject to the fulfillment of covenants relating to certain of the Target Company's statements of financial position ratios, which are commonly found in lending institutions. If the Target Company were to breach the covenants, the drawn down facilities would become payable on demand. The Target Company regularly monitors its compliance with these covenants. As at 31 December 2014, 2015 and 2016 and 30 September 2017, none of the covenants relating to drawn down facilities had been breached.

Current ratio

The current ratios of the Target Company (total current assets divided by total current liabilities) were approximately 106% and 115% as at 31 December 2016 and 30 September 2017, respectively. The slight increase in the current ratio was mainly due to the decrease to amount due to a shareholder and sole director had net off the effect in the decrease in inventories.

Gearing ratio

The gearing ratio of the Target Company (total debts divided by total assets) were approximately 63% and 66% as at 31 December 2016 and 30 September 2017, respectively. The increase was mainly due to decrease in inventories of approximately HK$15,210,000 during the period.

Leverage ratio

The leverage ratios of the Target Company (total liabilities divided by total assets) were approximately 88% and 80% as at 31 December 2016 and 30 September 2017, respectively. The significant decrease in the leverage ratio was mainly due to fact that the decrease in amount due to a shareholder and sole director has net off the effect of the decrease in inventories.

Capital structure

The Target Company's policy regularly monitors the Target Company's liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

At 31 December 2014, 2015 and 2016 and 30 September 2017, bank deposits of HK$10,268,000, HK$10,375,000, HK$10,160,000 and HK$10,308,000, respectively are pledged to a bank to secure bank loans of the Target Company. These pledged bank deposits carry fixed interest rates ranging from 0.1% to 0.9% per annum for the Relevant Periods. Please refer to note 17 of the Accountants' Report on disclosure of pledged bank deposits.

Deposits with banks carry interest at prevailing market rates ranging from 0.001% to 0.01% per annum for the Relevant Periods. Please refer to note 18 of the Accountants' Report on disclosure of cash and bank balances.

At 31 December 2014, 2015 and 2016 and 30 September 2017, all of the trade import loans were denominated in the HK$, EURO and Swiss Franc. Please refer to note 20 of the Accountants' Report on the disclosure of secured bank borrowings.

Pledge of assets

At 31 December 2014, 2015 and 2016 and 30 September 2017, bank deposits of HK$10,268,000, HK$10,375,000, HK$10,160,000 and HK$10,308,000, respectively are pledged to a bank to secure bank loans of the Target Company. These pledged bank deposits carry fixed interest rate ranging from 0.1% to 0.9% per annum for the Relevant Periods.

Contingent liabilities

As of 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017, the Target Company had no material contingent liabilities.

Capital commitments

As of 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017, the Target Company had no capital commitments.

Foreign exchange exposure

The Target Company is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily US dollars, RMB, JPY, EUR, CHF and KRW.

In respect of trade receivables, other receivables, cash and bank balance, accrual and other payables and interest-bearing borrowings denominated in currencies other than functional currency of the operations to which they relate, the Target Company has no hedging policy with respect to foreign exchange exposure.

Material acquisition or disposal

During the Relevant Periods, the Target Company did not carry out material acquisition or disposal.

Employees and remuneration policies

As of 31 December 2014, 31 December 2015, 31 December 2016 and 30 September 2017, the Target Company had 7, 8, 14, and 5 employees, respectively. During the year ended 31 December 2016 and nine months ended 30 September 2017, the staff costs of the Target Company were approximately HK$1,513,000 and HK$926,000, respectively. Employees' remunerations of the Target Company include basic salaries, wages, allowances, performance-based bonuses and retirement benefit scheme contributions. The remuneration packages of the employees are determined based on their work performance, human resource market conditions and economic environment. The remuneration policies are reviewed on a regular basis. The Target Company offers internal trainings to the employees for their self-elevation and improvement on skills related to their positions.

Future plans for material investments and capital assets

As at the Latest Practicable Date, the Target Company did not have any future plans for material investments and capital assets.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The following is the unaudited pro forma consolidated statement of financial position (the "**Unaudited Pro Forma Financial Information**") of the Enlarged Group, being Ernest Borel Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") together with Top Win International Trading Limited (the "**Target Company**"), as if the transaction of the acquisition of the Target Company (the "**Acquisition**") had been completed on 30 June 2017. Details of the Acquisition are out in the section headed "Letter from the Board" contained in this circular.

The Unaudited Pro Forma Financial Information has been prepared in accordance with paragraph 4.29 of the Listing Rules and has been prepared by the Directors of the Company for the purpose of illustrating the effect of the Acquisition. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as of 30 June 2017, where applicable, or any future date.

The Unaudited Pro Forma Financial Information is based upon: (i) the unaudited consolidated statement of financial position of the Group as of 30 June 2017, which has been extracted from the Company's interim report for the six months ended 30 June 2017; and (ii) the audited statement of financial position of the Target Company as at 30 September 2017 as set out in the accountants' report of the Target Company as set out in Appendix II to this circular, and adjusted on a pro forma basis to reflect the effect of the Acquisition. These unaudited pro forma adjustments are directly attributable to the Acquisition and factually supportable.

The Unaudited Pro Forma Financial Information has been prepared using the accounting policies consistent with those of the Group as set out in the published annual report of the Group for the year ended 31 December 2016.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group set out in the Company's interim report for the six months ended 30 June 2017, the accountants' report on the financial information of the Target Company as set out in Appendix II to this circular and other financial information contained in this circular.

Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

	Unaudited consolidated statement of financial position of the Group as at 30 June 2017	Audited statement of financial position of the Target Company as at 30 September 2017	Pro forma adjustments		Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2017
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
	(Note 1)	*(Note 2)*			
Non-current assets					
Property, plant and equipment	55,371	76			55,447
Goodwill	–	–	43,000	*3*	43,000
Deposits placed for life insurance policies	17,847	4,653			22,500
Deposit paid for acquisition of a subsidiary	25,000	–	(25,000)	*3, 4*	–
Deferred tax assets	7,450	–			7,450
Total non-current assets	105,668	4,729			128,397
Current assets					
Inventories	479,332	27,225			506,557
Trade and other receivables	63,012	7,338			70,350
Amounts due from related companies	–	5,111			5,111
Tax recoverable	7,071	–			7,071
Pledged bank deposits	1,026	10,308			11,334
Bank balances and cash	18,197	3,248	(1,300)	*5*	20,145
Total current assets	568,638	53,230			620,568
Current liabilities					
Trade and other payables	38,899	793	25,000	*3, 4*	64,692
Amount due to a shareholder and sole director	–	6,000			6,000
Dividend payable	–	–	4,768	*3*	4,768
Tax payable	1,899	659			2,558
Bank and other borrowings	11,561	38,684			50,245
Total current liabilities	52,359	46,136			128,263

	Unaudited consolidated statement of financial position of the Group as at 30 June 2017	Audited statement of financial position of the Target Company as at 30 September 2017	Pro forma adjustments		Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2017
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
	(Note 1)	*(Note 2)*			
Net current assets	516,279	7,094			492,305
Total assets less current liabilities	621,947	11,823			620,702
Non-current liabilities					
Deferred tax liabilities	14,320	55			14,375
Pension obligation	5,324	–			5,324
Note payable	80,000	–			80,000
Convertible bond	85,739	–			85,739
Total non-current liabilities	185,383	55			185,438
Net assets	436,564	11,768			435,264
Equity					
Equity attributable to the owners	436,564	11,768	(11,768)	*3*	435,264
			(1,300)	*5*	

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The amounts are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2017 as set out in the published interim report of the Group for the six months ended 30 June 2017.

2. The audited statement of financial position of the Target Company as at 30 September 2017 is extracted from the Accountants' Report as set out in Appendix II to this circular.

3. The Acquisition of the Target Company will be accounted for in the consolidated financial statements of the Enlarged Group, using the acquisition method, as a business combination in accordance with International Financial Reporting Standard 3 (Revised) "Business Combinations".

   For illustrative purposes, the Directors of the Company have assumed the carrying values of the identifiable assets and liabilities of the Target Company approximated to their fair values. The goodwill is recognised as the fair value of the consideration of the Acquisition minus identifiable net assets acquired at 30 June 2017 as if the Acquisition had been completed on 30 June 2017.

   For the purpose of preparation of the Unaudited Pro Forma Financial Information and for illustrative purpose, the recognition of goodwill arising from the Acquisition is analysed as follows:

	HK$'000
Total consideration of acquisition of equity interest in the Target Company	50,000
Less: Negative consideration receivables under the profit guarantee clause of the Sale and Purchase Agreement, (Note 4 below)	–
Less: Identifiable net assets acquired	(7,000)
Goodwill arising from the Acquisition of the Target Company	43,000

   During the initial negotiations between the Company and the Vendor, the Vendor intended to declare dividends of prior years. As the sale and purchase agreement was only entered into between the Purchaser and the Vendor on 30 November 2017 (the "**Sale and Purchase Agreement**"), the Vendor requested to include the dividends declared for 2017 (the "**Dividend Payable**") as well. However, the amount of Dividend Payable cannot be determined before the finalization of the 2017 Accounts. Accordingly, the Vendor agreed to guarantee the net asset value after the declaration of dividends shall not be less than HK$7,000,000. The Dividend Payable does not form part of the terms under the Sale and Purchase Agreement. For the purpose of the above Unaudited Pro Forma Financial Information and for illustrative purpose, it has been assumed that the identified net assets acquired would be reduced to HK$7,000,000, after the deduction of a distribution of profits payable to the Vendor of HK$4,768,000 (based on the net assets of HK$11,768,000 as shown in the statement of financial position of the Target Company at 30 September 2017, Appendix II). At the completion date of the Acquisition, the figure of the actual net assets of the Target Company may be different (subject to the actual amount of distribution of profits to the Vendor before completion) but it shall not be less than HK$7,000,000 under the Sale and Purchase Agreement.

   Upon the completion of the Acquisition, the actual goodwill of the Enlarged Group, for accounting purpose, will need to be recalculated based on the fair value of the net identifiable assets and liabilities of the Target Company at the date of completion, the goodwill recognised for identifiable assets and liabilities acquired may be different from the amount presented above.

The Group's accounting policies for goodwill is in accordance with the applicable accounting standards. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the identifiable net assets acquired and liabilities assumed. After the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

The Directors of the Company confirm that the basis used in the preparation of the Unaudited Pro Forma Financial Information is consistent with the accounting policies of the Group. The Group will adopt the accounting policies for goodwill, save for compliance to any new or revised IFRSs that would be issued by the IASB, to perform impairment test of the Enlarged Group's goodwill during the future accounting periods of the Enlarged Group. The Directors of the Company consider that the Group's accounting treatment and principal assumptions used to assess the impairment of such goodwill will be the same as other acquisition of similar nature.

Impairment test on the goodwill will be carried out in the subsequent reporting periods in the future. For the purpose of the Unaudited Pro Forma Financial Information, the business valuation of the Target Company amounted to approximately HK$61 million as at 31 October 2017, performed by an independent professional valuer, Greater China Appraisal Limited, as set out in the Appendix IV of this circular. Directors of the Company assessed and concluded that there would be no impairment indication of the goodwill arising from the Acquisition of the Target Company in accordance with the International Accounting Standard 36 "Impairment of Assets" which is consistent with the Group's accounting policy. Accordingly, there is no impairment indication on the goodwill arising from the Acquisition of the Target Company in the Unaudited Pro Forma Financial Information.

4. The consideration for the acquisition of the Target Company is HK$50,000,000 (subject to a downward adjustment, which is based on the guaranteed profit for the year ended 31 December 2017 not less than HK$5,000,000 of the Target Company or HK$50,000,000 minus the 2017 audited net profit of the Target Company multiplied by 10. Details of the downward adjustment are set in page 7 of the section headed "Letter from the Board" contained in this circular). The Group paid a deposit of HK$25,000,000 by cash and the payment of the remaining balance of HK$25,000,000 is to be paid after the completion of the transaction or such earlier date as the Company may notify the vendor in writing. Consideration payable is accounted for as other payable in the pro forma consolidated statement of financial position of the Enlarged Group.

   The Directors of the Company and the Vendor considered that there will be no material downward adjustment on the consideration arising from the guaranteed profit for the year ended 31 December 2017.

5. The adjustment represents the costs incurred in relation to the Acquisition, which are approximately HK$1,300,000 which shall be charged to profit or loss.

6. There is no intra-group balance or transaction between the Group and the Target Company.

7. No other adjustments have been made to reflect any trading results or other transactions of the Group and the Target Company subsequent to 30 June 2017 and 30 September 2017, respectively.

(B) REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, Crowe Horwath (HK) CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Circular.

Crowe Horwath™

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the Directors of Ernest Borel Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Ernest Borel Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") and Top Win International Trading Limited (the "**Target Company**") by the Directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2017 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out in Appendix III to the circular (the "**Circular**") issued by the Company dated 26 March 2018, in connection with the proposed acquisition of the Target Company. The applicable criteria on the basis of which the Directors of the Company have compiled the Unaudited Pro Forma Financial Information are described in Appendix III.

The Unaudited Pro Forma Financial Information has been compiled by the Directors of the Company to illustrate the impact of a major transaction of the proposed acquisition of the Target Company (the "**Acquisition**") on the Group's financial position as at 30 June 2017 as if the Acquisition had taken place at 30 June 2017. As part of this process, information about the Group's unaudited consolidated financial position has been extracted by the Directors of the Company from the Group's unaudited consolidated financial statements for the six months ended 30 June 2017.

Directors' responsibilities for the unaudited Pro Forma Financial Information

The Directors of the Company are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7, ("**AG 7**") "*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1, "*Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Engagements*", and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420, "*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors of the Company have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in this Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effects to those criteria; and

- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed in pursuant to paragraph 4.29 (1) of the Listing Rules.

Yours faithfully
Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 26 March 2018

Leung Chun Wa
Practising Certificate Number
P04963

GREATER CHINA APPRAISAL LIMITED
漢 華 評 值 有 限 公 司

26 March 2018

Ernest Borel Holdings Limited
Unit 1612-18, Level 16
Tower I, Grand Century Place
193 Prince Edward Road West
Mongkok, Kowloon, Hong Kong

Attn: The Board of Directors

Dear Sir/Madam,

VALUATION OF 100% EQUITY INTEREST IN TOP WIN INTERNATIONAL TRADING LIMITED

In accordance with the instructions from Ernest Borel Holdings Limited (the "**Company**"), we were engaged to perform a valuation analysis in relation to the equitable value of 100% equity interest (the "**Equity Interest**") in Top Win International Trading Limited (the "**Target**") as at 31 October 2017 (the "**Valuation Date**").

It is our understanding that our analysis will be used by the management of the Company for the transaction relating to the Company's potential acquisition in the Target. Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purpose without our express written consent. The standard of value is equitable value; whilst the premise of value is going concern.

The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our valuation.

I. PURPOSE OF ENGAGEMENT

It is our understanding that our analysis will be used by the management of the Company solely for transaction reference purpose.

II. SCOPE OF SERVICES

We were engaged by the management of the Company in evaluating the equitable value of the Equity Interest as at the Valuation Date.

III. BASIS OF VALUATION

We have performed valuation of the Equity Interest on the basis of equitable value. The opinion of value in the valuation will be on the basis of equitable value which we would define as intended to mean "*the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties*".

Our valuation has been prepared in accordance with the International Valuation Standards (2017 Edition) on business valuation published by International Valuation Standards Council. This standard contains guideline on the basis and valuation approaches used in business valuation.

IV. LEVEL OF VALUE

Valuation is a range concept and current valuation theories suggest that there are three basic "levels" of value applicable to a business or business interest. The levels of value are respectively:

- **Controlling interest:** the value of the controlling interest, always evaluate an enterprise as a whole;
- **As if freely tradable minority interest:** the value of a minority interest, lacking control, but enjoying the benefit of market liquidity; and
- **Non-marketable minority interest:** the value of a minority interest, lacking both control and market liquidity.

This valuation is primarily prepared on controlling interest basis.

V. PREMISE OF VALUE

Premise of value relates to the concept of valuing a subject in the manner that would generate the greatest return to the owner of the property. It takes account of what is physically possible, financially feasible and legally permissible. Premise of value includes the following:

- **Going concern:** appropriate when a business is expected to continue operating without the intention or threat of liquidation in the foreseeable future;
- **Orderly liquidation:** appropriate for a business that is clearly going to cease operations in the near future and is allowed sufficient time to sell its assets in the open market;
- **Forced liquidation:** appropriate when time or other constraints do not allow an orderly liquidation; and

- **Assembled group of assets:** appropriate when all assets of a business are sold in the market piecemeal instead of selling the entire business.

This valuation is prepared on going concern basis.

VI. SOURCES OF INFORMATION

Our analysis and conclusion of opinion of value were based on our discussions with the management of the Company, as well as our review of relevant documents, including but not limited to:

- Financial statements of the Target as at the Valuation Date;
- Audited financial statements of the Target for the years ended 31 December 2014, 2015 and 2016;
- Audited financial statements of the Target for the nine-month period ended 30 September 2017;
- Memorandum of Understanding between the Company and Mr. Sit Yau Chiu (the "**Vendor**") signed on 10 May 2017;
- Top ten customers list for the year of 2014, 2015 and 2016; and
- Top ten customers list for period ended 31 October 2017.

We also relied upon publicly available information from sources on capital markets, including industry reports, and various databases of publicly traded companies and the news.

VII. COMPANY OVERVIEW

Ernest Borel Holdings Limited (the "Company")

The Company was incorporated in the Cayman Islands under the Companies Law of Cayman Islands as non-resident company with limited liability on 18 January 1991 and re-registered as an exempted company with limited liability on 14 April 2014 under the Companies Law. The Company is a public company listed on the Main Board of The Stock Exchange of Hong Kong Limited (1856.HK). The Company acts as an investment holding company. The Company and its subsidiaries (collectively referred to as the "**Group**") are engaged in design, production, marketing and sale of mechanical and quartz premium watches under its own brand "Ernest Borel". In 2016, the distribution network of the Group covers retail markets in China, Hong Kong, Macau and Southeast Asia.

Top Win International Trading Limited (the "Target")

The Target was incorporated in Hong Kong with limited liability on 15 June 2001. It is engaged in wholesales and trading of fashion jewellery and watches. Although it has a show room in Hong Kong, it focuses more on wholesale business. Luxury brands traded by the Target include but not limited to Cartier, IWC Schaffhausen, Jaeger-LeCoultre, Longines, Omega, Patek Philippe and Rolex. The Target is ultimately owned and controlled by the Vendor.

VIII. TRANSACTION OVERVIEW

On 10 May 2017, the Company and the Vendor entered into a memorandum of understanding, pursuant to which the Vendor conditionally agreed to sell, and the Company conditionally agreed to acquire 100% issued share capital of the Target (the "**Proposed Transaction**"). The proposed consideration for the Proposed Transaction is expected to be about HK$50,000,000 and the final consideration will be further negotiated.

The Target is engaged in trading of watches of luxury brands. It has started to build its own distribution network and customer relationship since its establishment in 2001. The intention of the acquisition is to facilitate diversification to the business scope of the Group. The Proposed Transaction provides an opportunity for the Group to enhance the future development to participate in the sales of watches other than its own brand and hence, strengthen the revenue basis of the Group.

IX. ECONOMIC OVERVIEW

In conjunction with the preparation of the valuation, we have reviewed and analysed the current economic condition of Hong Kong where the profits of the Target are derived, and how the value of the Equity Interest may be impacted.

1. Gross Domestic Product

Hong Kong, a global free port and financial hub, continues to thrive on the free flow of goods, services and capital. As an economic and financial gateway to China, and with an efficient regulatory framework, low and simple taxation, sophisticated capital market and excellent telecommunications, Hong Kong continues to offer the most convenient platform for international companies doing business on the mainland.

As of 2016, the territory continues to become the world's freest economy and the world's most services-oriented economy, with services sector contributing for more than 90% of Hong Kong's gross domestic product ("**GDP**").

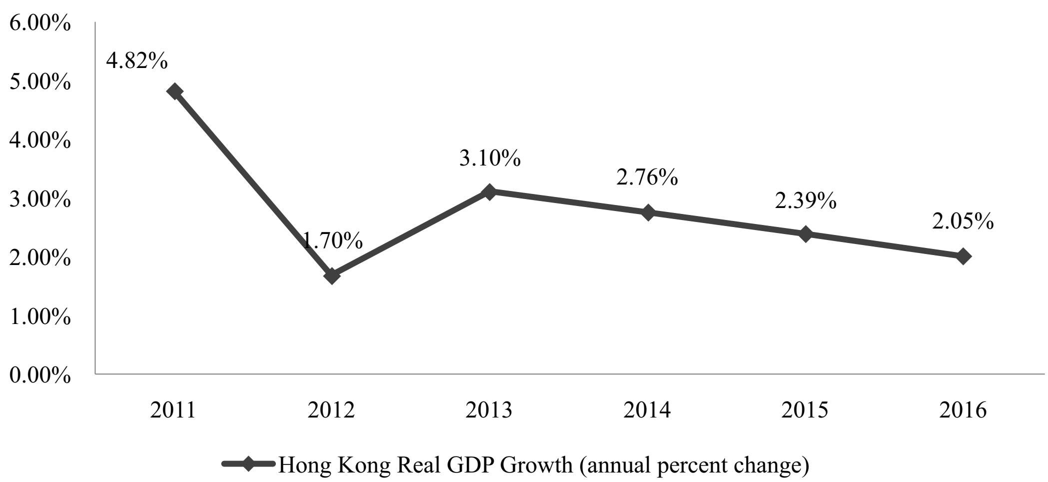
Hong Kong's economy achieved moderate growth in 2016 with the resilient domestics demand. Per Hong Kong Trade Development Council ("**HKTDC**"), Hong Kong's economy expanded by 4.0 % year-on-year in real terms in the first half of 2017, after growing by 2.0% in 2016. According to the World Economic Outlook Database published by International Monetary Fund

("**IMF**") in October 2017, the real GDP of Hong Kong has increased by 2.39% and 2.05% in 2015 and 2016 respectively after the gradual recovery from the global financial tsunami in 2008 and the euro debt crisis in recent years.

For the rest of 2017, the external environment is expected to improve further whereas domestic demand should continue to be supported by favourable employment and income conditions.

The following graph and table illustrate the real growth of GDP in Hong Kong from 2011 to 2016 and the forecast from 2017 to 2022 respectively.

Figure 9 – 1 Summary of Real GDP Growth (%) in Hong Kong from 2011 to 2016



Source: World Economic Outlook Database, October 2017, IMF

Table 9 – 1 Forecast of Real GDP Growth (%) in Hong Kong from 2017 to 2022

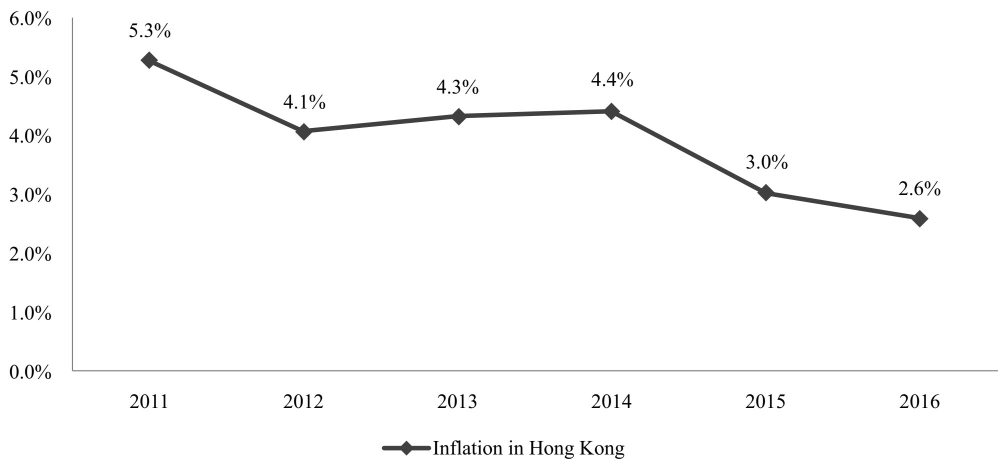
	2017F	**2018F**	**2019F**	**2020F**	**2021F**	**2022F**
Real GDP Annual Growth Rate	3.54%	2.65%	2.86%	2.96%	3.07%	3.26%

Source: World Economic Outlook Database, October 2017, IMF

2. Inflation Rate

Local inflationary pressures have remained moderate in the first half of 2017. According to Hong Kong Monetary Authority ("**HKMA**"), the underlying composite consumer price index (CCPI) picked up to 2.0% in the second quarter from 1.4% in the first quarter of 2017, on a year-on-year comparison. Inflation momentum, as measured by the annualised three-month-on-three-month underlying inflation rate, also rose from 0.8% in April to 2.2% in July 2017. The faster pace of price increases was mainly due to the higher costs of tradables as their price inflation turned positive to 2.4% in the three months ending July from a negative territory in the preceding three-month period. Growth in the housing rental component of the CCPI remained soft in the first half of 2017 amid the feedthrough of the earlier moderation in private residential rentals. On the whole, the annual year-on-year inflation rate in 2017 is expected to decelerate from 2.6% in 2016 to 2.0% in 2017, with reference to the IMF forecasting in October 2017. The following graph and table illustrate the inflation trend in Hong Kong from 2011 to 2016 and the inflation forecast in Hong Kong respectively.

Figure 9 – 2 Summary of Inflation Rate in Hong Kong from 2011 to 2016



Source: World Economic Outlook Database, October 2017, IMF

Table 9 – 2 Forecast of Inflation Rate (%) in Hong Kong from 2017 to 2022

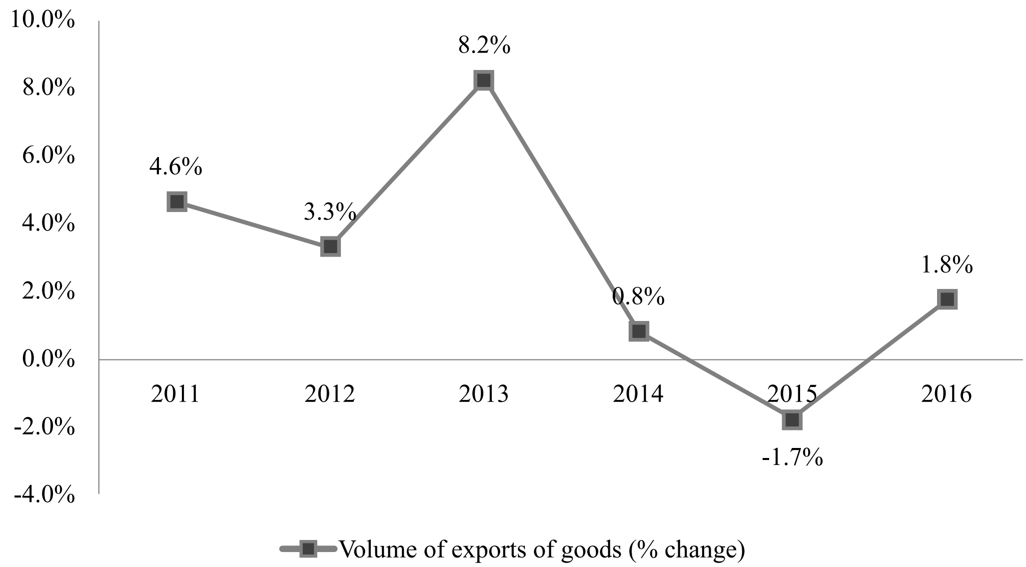
	2017F	**2018F**	**2019F**	**2020F**	**2021F**	**2022F**
Inflation (% change in average consumer prices)	2.0%	2.2%	2.4%	2.6%	2.8%	3.0%

Source: World Economic Outlook Database, October 2017, IMF

3. Export Performance

Hong Kong exporters' confidence dropped started to improve in 2016 and have become slightly conservative in the third quarter of 2017. According to HKTDC, Hong Kong's merchandise exports increased by 8.5% year-on-year in January-September 2017, after a marginal decrease of 0.5% in 2016. Hong Kong's merchandise exports are projected to grow by 5% as a whole in 2017. Undercurrent of US protectionism, political uncertainties in the EU, renewed faltering of emerging markets and heightened geopolitical tensions are the major downside risks. On the supply side, Hong Kong exporters have to live with a challenging production environment on the mainland China, especially in the Pearl River Delta, which include the rising input costs. The following graph illustrates the growth in the volume of exports in Hong Kong from 2011 to 2016:

Figure 9 – 3 Summary of Export Growth (%) in Hong Kong from 2011 to 2016



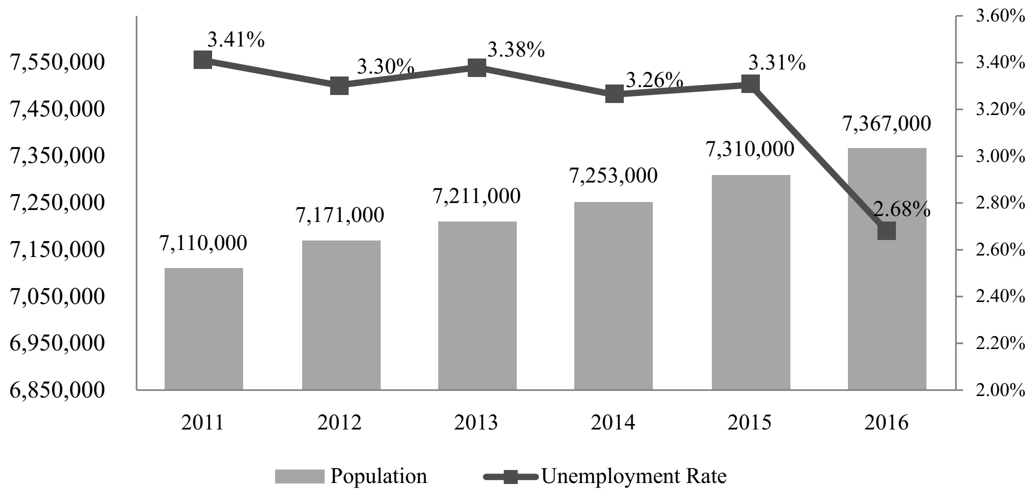
Source: World Economic Outlook Database, October 2017, IMF

Major export market of Hong Kong are Chinese mainland, the European Union, the United States, ASEAN, India and Japan, which accounts for approximately 54%, 8.9%, 8.6%, 7.5%, 4.2% and 3.3% of total exports in January to September of 2017 respectively. According to the information released by HKTDC, Hong Kong was ranked the 6th in the world's largest trading economy and the 15th in the world's largest exporter of commercial services.

4. Population and Unemployment Rate

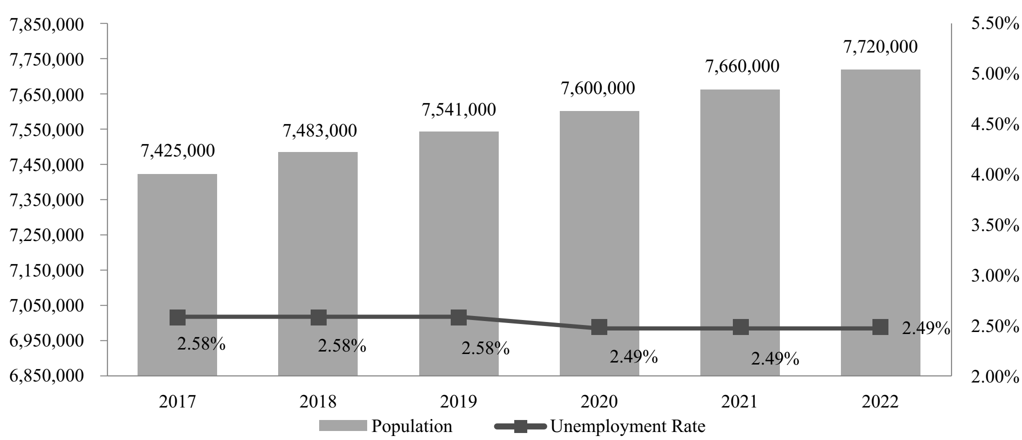
The population in Hong Kong has been increasing steadily from 7.11 million in 2011 to 7.37 million in 2016, while unemployment rate has dropped from 3.4% in 2010 to 2.7% in 2016. The population is estimated to reach 7.72 million in 2022 and the unemployment rate in the long run would stay below 2.6%. The following graphs show the population and unemployment trend in Hong Kong from 2011 to 2016 and the forecast from 2017 to 2022 respectively:

Figure 9 – 4 Summary of Population and Unemployment Rate in Hong Kong from 2011 to 2016



Source: World Economic Outlook Database, October 2017, IMF

Figure 9 – 5 Forecast of Population and Unemployment Rate in Hong Kong from 2017 to 2022



Source: World Economic Outlook Database, October 2017, IMF

5. Budget and Government Initiatives

The 2017-18 Budget laid out supportive measures to strengthen the competitiveness of the Hong Kong economy and make Hong Kong an even more liveable city. The government aims at: 1) examining facilitation measures to support the growth in transhipment, cross-boundary e-commerce and high value-added air cargo business in Hong Kong; 2) exploring with the Chinese authorities ways to open up more channels for two-way cross-border RMB fund flows and two-way participation of investors in the bond market; 3) providing funding for universities and industry to conduct research and development activities and to support start-ups; 4) striving to further improve air quality, water quality, green and blue assets and waste management; 5) taking measures to support SMEs such as extending the application period for the special concessionary measures under the SME Financing Guarantee Scheme to February 2018 to help enterprises tide over their liquidity needs.

The 2017 Policy Address highlighted that the Hong Kong Government will focus to achieve the following targets:

- Explore further with the Mainland the expansion and enhancement of CEPA in investment, economic and technical co-operation, etc. with a view to achieving results by mid-2017;

- Continue to co-operate closely with the Guangdong Provincial Government under the Guangdong-Hong Kong co-operation mechanism to better seize new opportunities for Hong Kong in the Guangdong-Hong Kong in-depth co-operation zone in Nansha;

- Actively consider the recommendations on the sustainable development of Hong Kong's financial market and financial services sector by the Financial Services Development Council concerning taxation, laws and regulations, nurturing talent, etc., and take forward the feasible measures. Invite the HKTDC to strengthen the promotion of our financial services industry outside Hong Kong;

- Strengthen Hong Kong's status as a global offshore Renminbi business hub, taking advantage of the demand arising from the Belt and Road Initiative and the Mainland-Hong Kong Mutual Recognition of Funds Arrangement; and

- Strive to complete by mid-2017 the procedures for Hong Kong joining the Asian Infrastructure Investment Bank.

X. INDUSTRY OVERVIEW

Hong Kong is the largest single importer of luxury watches, with almost half of Swiss watchmakers' production being exported to Hong Kong. According to Federation of the Swiss Watch Industry, in the first three quarters of 2017, Hong Kong secure in its position as the leading direct market for Swiss watch exports, with the total import value reached 2028.8 million francs, representing a 5.4% growth rate on year-over-year basis.

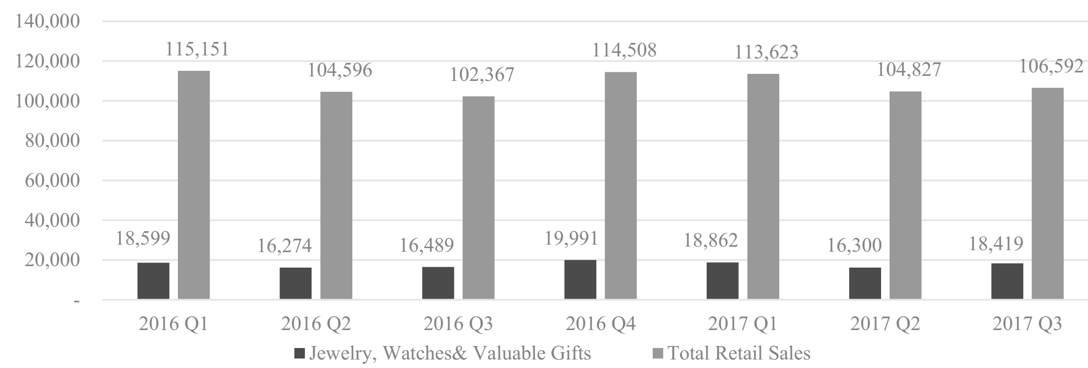
Table 11 – 1 Top 5 Countries and Regions Watch Importer from Swiss (Unit: Million Swiss Francs)

Rank	Countries	2015	2016	2017 Jan – Oct
1	Hong Kong	2,680.6	1,925	2,028.8
2	USA	1,958	1,768	1,689.2
3	China	1,119.5	1,037.3	1,217
4	UK	936.3	979.6	1,070
5	Japan	1,091	1,061.7	999.5

Source: Federation of the Swiss Watch Industry

As a re-export hub for China and other Asian markets, it gives the potential to reach far beyond Hong Kong's 7 million consumers and 57 million visitors a year (2016 figures), of which 75% of visitors to Hong Kong in 2016 came from Mainland China. Shopping, in particular for jewelry and watches, is the main attraction for many of these visitors. According to HKTDC, spending on luxury goods in market by Hong Kong locals is forecast to double over the 10 years from 2010 to 2020, whereas spending in Hong Kong by Mainland visitors on luxury goods is forecast to increase by 800%. According to Bloomberg Business Intelligence, retail sales in Hong Kong grew 1.68% in 2017 Q3, with jewelry, watches and valuable gifts accounting for 17.3% of all retail sales.

Figure 11 – 1 Jewelry, Watches and Valuable Gifts Sales in Hong Kong, 2016 Q1 – 2017 Q3



Source: Bloomberg Business Intelligence

China plans to soon slash import duties on opulent items to encourage wealthy local shoppers to buy more pricey cosmetics, watches and liquor at home instead of on shopping trips overseas. China's high import duties of 50% on cosmetics and 30% on luxury watches are why Hong Kong is so attractive to many rich Chinese consumers. According to media reports, several Chinese ministries want to encourage the country's high rollers to do their shopping domestically in line with the government's goal to encourage domestic consumption to reduce China's dependence on exports to drive its economy. Owing to hefty import taxes, prices of 20 luxury brands of watches, suitcases, clothes, liquor and consumer electronics in China are 45% higher than those in Hong Kong, according to a study by China's Ministry of Commerce.

There are also a number of Hong Kong companies selling watches with their own brands, for instance, MEMORIGIN, NSQUARE and Jazma. There are also some few examples that Hong Kong companies have acquired Swiss brand names or their Swiss counterparts as a means to extend marketing and distribution network, and/or to gain access to better technology and designs. In addition, some Hong Kong companies have begun business in major cities in the Chinese mainland via co-operation arrangements with department stores and shopping malls, aiming at promoting their own-brand products there.

Spurred by the growing popularity of wearable technology, smart watch is likely to become the new growth pole for timepieces. Apart from functions such as linking up with a smartphone, tracking a person's movements and measuring vital signs, smart watch now also provides identification and security features. According to HKTDC Watch & Clock Fair on-site survey (September 2016), in terms of product segment, fashion watches would enjoy the biggest market growth in 2017, followed by leisure watches. Aside from traditional watches, smart watch has become one of the most popular items in the marketplace. Girly design with vivid colours, such as pink and white are sort of a rage among female consumers. Besides jewellery watches, bracelet and bangle styled watches are classy for formal occasions. For male consumers, wrist watch with chronograph functionality feature with a bezel is getting popular.

XI. VALUATION METHODOLOGY

The valuation of the any asset or business can be broadly classified into one of the three approaches, namely the asset approach, the income approach and the market approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the equitable value analysis of that asset.

1. Asset Approach

This is a general way of determining an equitable value indication of a business, business ownership interest, security, or intangible asset by using one or more methods based on the value of the assets net of liabilities.

Value is established based on the cost of reproducing or replacing the asset, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable.

2. Income Approach

This is a general way of determining an equitable value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that convert anticipated benefits into a present value amount.

In the income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the valuation date, business risks associated with the industry in which the company operates, and other risks specific to the asset being valued.

3. Market Approach

This is a general way of determining an equitable value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Value is established based on the principle of competition. This simply means that if one thing is similar to another and could be used for the other, then they must be equal. Furthermore, the price of two alike and similar items should be approximate to one another.

4. Selection of Valuation Approach

4.1 Asset approach – Rejected

Under the asset approach, the value of the Equity Interest is determined based on the replacement cost or reproduction cost rather than the ability to generate streams of benefits in the future. For the Target, it has been operated for certain years with established business. As such, the asset approach cannot reliably reflect the value of the Equity Interest. Accordingly, the asset approach was rejected.

4.2 Income approach – Rejected

Under the income approach, the value of the Equity Interest is determined based on the estimation of the projected inputs, such as projected revenue, operating costs and risk-adjusted discount rate. A major challenge to income approach is its sensitivity to model inputs, as slight deviation in discount rate and forecasted operating cash flows would result in significantly different valuation results. It is noted that the demand of luxury jewellery and watches is highly dependent on the demand from Chinese consumers which is affected by Chinese government's policy and economic growth in China. Hence we considered that the historical results may not be representative to the future in this case. Regarding the correlation between the aforementioned factors and performance of the industry, high level of uncertainty would be involved inevitably in forming a financial forecast, i.e. revenue forecast, revenue growth rate, profit margin. Therefore, we are in opinion that income approach is not preferable. Comparatively, market approach referred to the public information of the market participants, which involve fewer assumptions on the input in the valuation and reflecting the market expectation and view on the industry. The result derived from the market approach is considered to be fairer in this case. As such, the market approach is more preferable and the income approach was rejected.

4.3 Market approach – Accepted

Under the market approach, the value of the Equity Interest could be determined based on the recently published financial data of listed comparable companies such as the trading prices and fundamentals. Market expectation on the industry is also reflected in the valuation of the comparable companies. As there were sufficient numbers of comparable public companies available in markets which facilitate a meaningful comparison and provide inputs for determining the valuation multiple, the market approach was considered as appropriate and reliable.

XII. GENERAL VALUATION ASSUMPTIONS

A number of general valuation assumptions had to be established in order to sufficiently support our conclusion. The general assumptions adopted in this valuation were:

- The selected guideline public company (the "**Guideline Public Companies**") share sufficient similarities to the underlying business of the Target so as to provide a meaningful comparison;

- The median multiple assumed to reflect a fair and objective market expectation on the industry;
- Performance of the Target is expected not significantly deviate from the performance of its industry peers;
- There would be no material changes in the existing political, legal, fiscal, foreign trade and economic conditions in countries where the Target is operated;
- There would be no significant deviation in the industry trends and market conditions from the current market expectation;
- There would be no major change in the current taxation law in Hong Kong and countries of origin of our comparable companies;
- There would be no material changes in interest rates or foreign currency exchange rates from those currently prevailing;
- All relevant legal approvals, business certificates or licenses for the normal course of operation have been formally obtained, in good standing and that no additional costs or fees are needed to procure such during the application; and
- The Target would retain competent management, key personnel, and technical staff to support the ongoing operation of its business.

XIII. MARKET APPROACH

Guideline Public Company Method

The premise behind the Guideline Public Company Method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence as to values at which investors are willing to buy and sell interest of companies in that industry.

In applying the Guideline Public Company Method, we compute a pricing multiple for various benefit streams for each of the Guideline Public Companies. The appropriate valuation multiple is determined and adjusted for the unique aspects of the subject company being valued. This multiple is then applied to the subject company being valued to arrive at an estimate of value for the appropriate ownership interest. Valuation multiples selected is based on the enterprise value ("**EV**"). The formula for calculating EV is:

EV = market value of common stock + market value of preferred equity + market value of debt + minority interest - cash and investments

A valuation multiple represents a ratio that uses a comparative company's EV on the Valuation Date as the numerator and a measure of the company's operating results (or financial position) as the denominator. For this valuation, we have selected EV/EBITDA as the valuation multiple. The EV/

EBITDA measures the amount of EV can be created by a unit of EBITDA. EBITDA measures the operating performance of a company and excludes depreciation, amortization, financing and tax expenses, so EBITDA provides a closer view of company's earning ability related to its direct operation of the subject companies. The formula for calculating EBITDA is:

EBITDA = Operating Income or Losses + Depreciation & Amortization

Once we have selected numbers of the Guideline Public Companies and made the necessary adjustments to their financial information, the next step is to determine and compute the appropriate valuation multiples, and the calculation method is the same for all selected the Guideline Public Companies. The process of computing the valuation multiple in this case consists of the following procedures:

1. Determination of the EV for each of the Guideline Public Companies as at the Valuation Date

   Firstly, the EV for each of the Guideline Public Companies is calculated by multiplying their share prices to the number of shares outstanding as at the Valuation Date in order to obtain the market capitalization of the Guideline Public Companies. Secondly, add back company's interest-bearing debt, minority interest and preferred equity interest. Finally, subtract cash and cash equivalent items to obtain the EV of each of the Guideline Public Companies.

2. Determination of the measure of operating results i.e. EBITDA, which represent the denominators of the multiple.

Selection of Guideline Public Companies

The application of this method depends on the selection of the Guideline Public Companies that are similar enough to the underlying business of the subject companies so as to provide a meaningful comparison. We exercised due care in the selection of the Guideline Public Companies by using reasonable criteria in deciding whether or not a particular Guideline Public Companies is relevant.

In selecting the Guideline Public Companies, we started with a description of the potential companies, in terms of lines of business, market location of business, financial result and other criteria. In order to comprise a representative set of Guideline Public Companies to derive the valuation result, certain criteria have to be set to ensure similarity between the guideline public companies and the Target. Firstly, we focused to identify those Guideline Public Companies which were engaged in wholesale or trading of luxury or branded watches and jewellery. We noted that no public company was solely engaged in trading of luxury watches. We therefore expanded our selection basis. Companies with retailing and/or manufacturing activities were also included in the pool of Guideline Public Companies. After that we narrowed down the pool of listed companies which generated majority of revenue (i.e. 50% or above in the latest financial year) from wholesales or trading of luxury or branded watches. These criteria resulted in a pool of selected Guideline Public Companies which had a similar product mix to the Target. Then, we looked into the detail of product brands traded by these comparable companies to assess their comparability against the Target. The comparability analyses presented in the following page have identified the product attribute of the comparable companies and the Target.

Table 13 – 1 Comparison between the Target and Comparable Companies as at the Valuation Date

	Comparable Company	Ticker	Brand(s) Being Primarily Traded *(Note 1)*	EV *(HKD million)*	EBITDA *(HKD million)*
1	Stelux Holdings Intl Ltd	84 HK	Catena, Claude Bernard, Casio, DKNY, Dolce&Gabbana, Cyma, Amani Exchange, Emporio Armani	1,209.01	(52.63)
2	Asia Commercial Holdings Ltd	104 HK	Accord, Audemars Piguet, Ball, Baume & Mercier, Breitling, Girard-Perregaux, Juvenia, Leonard, Rolex, TagHeuer, Wakmann	392.01	16.00
3	Citychamp Watch & Jewellery Group Ltd	256 HK	Corum, Rossini, Rotary, Ebohr, Eterna, Dreyfuss & Co.	4,587.22	333.80
4	Oriental Watch Holdings Ltd	398 HK	Rolex, Tudor, Omega, Ball, Cartier, Casio, Ernest Borel, Jaeger Lecoultre, Orient, Panerai, Patek Philippe, Piaget, Tado, Raymond Weil, Rado, Vacheron Constantin.	436.60	51.20
5	Sincere Watch HK Ltd	444 HK	Franck Muller, de Grisogono, CVSTOS, Pierre Kunz, European Company Watch, Backers & Strauss	374.72	(57.10)
6	Emperor Watch & Jewellery Ltd	887 HK	Rolex, Tudor, Baume & Mercier, Bedat & Co Geneve, Bell & Ross, Cartier, Chopard, Franck Muller, Omega, Panerai, Patek Philippe, Piaget, Rado, Tissot, Vachron Constantin, Jaeger-LeCoultre, Montblanc	1,224.09	97.10
7	Time2U Intl Holding Ltd	1327 HK	Time2U, Jonquet, Nordic Design, Extreme, MOD	167.05	(147.36)
8	Prosper One Intl Holdings Company Ltd	1470 HK	Ball, Balmain, Casio, Calvin Klein, Certina, Citizen, DOXA, Emporio Amani, Hamilton, Tissot, Longines, Roamer	866.94	(12.60)
9	Ernest Borel Holdings Ltd	1856 HK	Ernest Borel	690.68	(80.73)
10	Time Watch Investments Ltd	2033 HK	Tian Wang Watch and Balco Watch.	1,267.73	382.70
11	Hengdeli Holdings Ltd	3389 HK	Balmain, Certina, Blancpain, Omega, Longines, IWC Schaffhausen, Cartier, Montblanc, Rolex, Titoni, Chopard	(1,825.17)	504.90
12	Fiyta Holding Ltd	200026 CH	Fiyta and Jonas & Verus	6,290.42	262.30
	The Target *(Note 2)*	**N/A**	**Cartier, IWC Schaffhausen, Jaeger-LeCoultre, Longines, Omega, Patek Philippe and Rolex** *(Note 2)*		7.79

* All the EV and EBITDA are rounded to 2 decimal places

Note 1: Official website of each company identified

Note 2: Per management of the Target

In order to ensure the Guideline Public Companies are comparable to the Target, we looked into the operation exposure, product mix portfolio, profitability and target market of those comparable companies. In the comparability analysis, it is noted that the brands being traded by the comparable companies are either upper or middle class, which is comparable to the brands traded by the Target. Despite the brands similarity, these market players performed differently in recent years. In the view of the continuous profit making record of the Target, we considered that companies with net profit record share a higher similarity with the Target in terms of operation. Also, given that the valuation multiple applied in this case is EV/EBITDA, companies with negative EV or negative EBITDA were rejected in the selection. Based on the comparability analysis above, six comparable companies are ultimately selected as Guideline Public Companies for this valuation. We believed that the selected listed companies were sufficiently comparable to the operations of the Target and gave a meaningful comparison.

Also, we have studied the EBITDA margin of Guideline Public Companies. EBITDA margin of Guideline Public Companies ranged from 1.6% to 13.9%, with a median of 4.9%. Comparing this median to the EBITDA Margin of the Target of 5.3%, we are in opinion that Guideline Public Companies and the Target shared a certain level of similarity in terms of margin.

The following is the list of the six Guideline Public Companies that we have selected in connection with the valuation of the Equity Interest:

Table 13 – 2 Guideline Public Companies

	Guideline Public Companies	**Ticker**	**Business Activities**
1.	Asia Commercial Holdings Ltd.	104 HK	• Engaged in high-end watch retailing and its retail sales network set up luxury watch stores and flagship stores to sell international brands of watches to customers.
2.	Citychamp Watch & Jewellery Group Ltd.	256 HK	• Manufactures and distributes watches and timepieces
3.	Oriental Watch Holdings Ltd.	398 HK	• Engaged in trading of watches.
4.	Emperor Watch & Jewellery Ltd	887 HK	• Retails luxurious branded watches, and offers design and sales of jewellery products.
5.	Time Watch Investments Ltd.	2033 HK	• Designs, develops, assembles, markets and sells brand name watches throughout Hong Kong and China.
6.	Fiyta Holdings Ltd.	200026 CH	• Designs, manufactures, and markets watches and clocks

Source: Bloomberg; Companies' annual reports

Based on the foresaid selection basis, five companies listed in Hong Kong and one company listed in China are selected as Guideline Public Companies. We have studied the customer base of the Target and it is noted that the Target has a large customer exposure in China. Although the trading behaviours and government policy might be different in two places, there is no evidence that any market is fairer than the others, we therefore shall not eliminate any of the selection based on the listing country.

We have reviewed the EV/EBITDA of these 6 Guideline Public Companies to assess the overall reasonableness of selection. A range of EV/EBITDA from 3.31x to 24.50x was formed, while the EV/EBITDA of 23.98x from the only Guideline Public Company listed in China lied within this range. No extreme multiple is resulted simply due to different listing location, we therefore believed our selection of Guideline Public Company is not inappropriate.

In the view of the similarity in the principal business activity, the product mixed, target market and EV/EBITDA of the Guideline Public Companies and the Target, we believed that the selected listed companies were sufficiently comparable to the operations of the Target and gave a meaningful comparison.

Details of the calculation of valuation multiples for the Guideline Public Companies were as follows:

Table 13 – 3 EV/EBITDA for the Guideline Public Companies as at the Valuation Date

	Ticker	**EV** *(in HKD millions)*	**EBITDA** *(in HKD millions)*	**EV/EBITDA**
1.	104 HK	392.01	16.00	24.50x
2.	256 HK	4,587.22	333.80	13.74x
3.	398 HK	436.60	51.20	8.53x
4.	887 HK	1,224.09	97.10	12.61x
5.	2033 HK	1,267.73	382.70	3.31x
6.	200026 CH	6,290.42	262.30	23.98x
	Median (before rounding)			13.17445x
	Median (rounded)			**13.17x**

Source: Bloomberg

* All the EV and EBITDA are rounded to 2 decimal places

Table 13 – 4 Summary of the Selected Multiples

Valuation Date	**Selected Multiple**	**Median**
As at 31 October 2017	EV/EBITDA	13.17x

Determination of Value

Based on the investigation and analysis stated above and on the valuation method employed, it was our opinion that the equitable value of the Equity Interest as at the Valuation Date was as follows:

Table 13 – 5 Equity Interest in the Target as at the Valuation Date

		EV/EBITDA
Selected Multiple (rounded)		13.17x
Subject Financial Performance:-		
Trailing 12-month EBITDA for the period ended 31 October 2017	HKD' 000	7,786
Estimated Result	HKD' 000	102,572
Less: Total Debt		(38,795)
Add: Excess Assets *(Note 1)*		4,515
Add: Cash and Cash Equivalent		15,443
Implied Equity Value before Control Premium		83,735
Control Premium *(Note 2)*	5%	4,187
Implied Equity Value before DLOM	HKD' 000	87,922
Less: DLOM *(Note 3)*	-30%	(26,377)
Implied 100% Equity Value after DLOM	HKD' 000	61,545
Equitable value of 100% Equity Interest in the Target (rounded)	**HKD**	**61,545,000**

* Products of the figures and sum of the figures may equal to the total of the figures due to rounding

Note 1: Excess assets are those assets that are not essential for the operation of a business. The amount of HKD4,515,000 represented the deposit and prepayments for a life insurance policy of the sole director. Considering the life insurance policy are of non-operating in nature, the assets are therefore classified as excess assets. The result calculated from the EV/EBITDA multiple represents the implied value of the Target's operation, value of excess assets is not reflected. Thus, value of excess assets is added as a separate item.

Note 2: Please refer to Section XIV Control Premium for detailed discussion

Note 3: Please refer to Section XV. Discount for Lack of Marketability for detailed discussion

Discussion on the Equitable Value

To further assess the reasonableness and fairness of the equitable value above, additional analytical reviews have been carried out below:

a) Accessibility to Supply-Side of Luxury Brands

The supply of products of the Target has been stable during the last few years. Based on the purchase documents of the Target, it is noted that procurement of watches from its major suppliers in the last three years were stable in terms of amount and variety of brands. According to the management of the Company, the major suppliers sell watches of luxury brands from Switzerland, which coincide with the market being positioned by the Target. Therefore, the accessibility to supply-side of luxury brands has been maintained by the Target stably.

b) Sustainability of Customer Relationship

The demand from the customers of the Target has been steady in recent years. From the sales record of the Target, the major customers have kept trading with the Target during the last three years. This shows that the Target has built up sustainable customer relationship by utilizing its sales channel.

c) Diversity of Customer Base

The customer base of the Target is diversified. According to the sales record of the Target, the top five customers only accounted for approximately half of the revenue between 2014 and 30 September 2017, with the remaining sales being contributed by numerous customers. Therefore, the risk of any potential customer loss is not expected to be significant.

d) Ongoing Business Development

The Target has started expanding of its customer base. According to the latest sales record of the Target, revenue was generated by some new customers, which attributed to certain proportion of revenue. This has been reflected in the year-on-year revenue growth as of 30 September 2017.

e) Cross-checking

Other than EBITDA, we consider sale is another key performance indicator to assess the value of a trading and wholesale business. As such, we perform analysis on sales to cross check the valuation result derived from the EV/EBITDA multiple. We computed the implied EV/Sales of the Target and compared with those of the market participants in the following table. The equity value of HKD61,545,000 in Table 13-5 implied a EV of HKD80,382,000. Dividing the EV by trailing-12-month revenue of the Target of HKD146,250,000, it gives an implied EV/Sales of 0.55 times.

Table 13 – 6 EV/Sales for the Guideline Public Companies as at the Valuation Date

	Ticker	EV *(in HKD millions)*	Sales *(in HKD millions)*	EV/Sales
1.	104 HK	392.01	850.22	0.46x
2.	256 HK	4,587.22	2,972,37	1.54x
3.	398 HK	436.60	3,142.30	0.14x
4.	887 HK	1,224.09	3,794.21	0.32x
5.	2033 HK	1,267.73	2,762.88	0.46x
6.	200026 CH	6,290.42	3,654.99	1.72x
	Average (rounded)			0.77x
	Mean (rounded)			0.46x

Source: Bloomberg

* *All the EV and Sales are rounded to 2 decimal places*

The implied EV/Sales of the Target lied between the market average and median of EV/Sales of 0.77 times and 0.46 times, respectively. Such cross-check result suggests that the application of the median EV/EBITDA in this valuation is reasonable.

For the reasons stated above, we believed the equitable value derived above is reasonable and fair.

XIV. CONTROL PREMIUM

Premium for control is generally regarded as the amount in excess of the current traded market price that a buyer is willing to pay to acquire the control of a publicly traded company. A buyer is willing to pay a premium for control when obtaining the controlling advantages they would not receive if only a minority interest was purchased.

Estimating the value of premium for control is necessary when valuing large blocks of shares. The size of the premium for control varies from industry to industry, with the size of the company. In our valuation analysis, the equity interest in the subject companies is at controlling, so it is reasonable to apply a premium for control to reflect this advantage. With reference to the comparison of the average premium offered for a controlling equity interest (acquisitions of more than 50% of a company's shares outstanding) to that for a minority equity interest (purchases of 10% – 50%) during 2011 to 2016 stated in FactSet Mergerstat Review, 2017[1], we believe a premium for control of 5% is fair and reasonable for the valuation of the Equity Interest.

[1] FactSet Mergerstat is one of the world's major providers of financial information and analytical data for investment professionals.

XV. DISCOUNT FOR LACK OF MARKETABILITY

DLOM is the valuation adjustment with the largest single monetary impact on the final determination of value. Marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimal transaction costs. DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

In selecting the appropriate DLOM, we considered the length of time and effort required by the management in order to sell a controlling interest. This typically would take at least three to nine months if a transaction could be consummated at all. A controlling interest does enjoy the benefit of controlling the cash flow stream of the business. Lastly, we considered the expenses that are typically incurred to sell a business which are substantial such as legal fees, accounting fees and intermediary fees.

As the Equity Interest is on a non-marketable controlling basis, prudent investors would apply a discount to reflect its lack of marketability. With reference to the comparison of the median price-to-earning offered for public companies to that for private companies during 2011 to 2016 stated in FactSet Mergerstat Review, 2017[1], we believe a 30% DLOM is fair and reasonable for the valuation of the Equity Interest.

XVI. LIMITING CONDITIONS

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Company and the Target.

The opinions expressed in this report have been based on the information supplied to us by the Company/the Target and their staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the management of the Company. Readers of this report may perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflects facts and conditions existing at the Valuation Dates. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

XVII. CONCLUSION OF VALUE

In conclusion, based on the analysis stated above and on the valuation method employed, it is our opinion that the equitable value of 100% Equity Interest of Top Win International Trading Limited as at 31 October 2017 is as follows:

Subject of Valuation	**Equitable value** *(HKD)*
100% equity interest in Top Win International Trading Limited	61,545,000

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under valuation. Moreover, we have neither personal interests nor bias with respect to the parties involved.

This valuation report is issued subject to our general service conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED

Max K.P. Tsang, *CPA, CFA, FRM, MRICS, MStat*
Director

Analysed and Reported by:

Elaine Y.T. Leung, *CPA*
Senior Manager, Business Valuation & Transaction Advisory

Marvin K.C. Wong, *CPA*
Senior Manager, Business Valuation & Transaction Advisory

Faye C.Y. Chan, *CPA (Aust.)*
Assistant Manager, Business Valuation & Transaction Advisory

INVOLVED STAFF BIOGRAPHY

Max K.P. Tsang, *CPA, CFA, FRM, MRICS, MStat*

Director

Mr. Tsang has been working in the professional valuation field since 2011. Before joining the valuation field, he worked in banking and finance sector from 2008 to 2010. Mr. Tsang has been leading the team of business valuation for private and listed companies for the purposes of financial reporting, initial public offerings, mergers and acquisitions, financing, tax and litigation support. The scope of services includes business valuation and intangible asset valuation.

He has performed valuation and provided fairness opinion for listed companies in the United States, Australia and Germany. He has participated in many representative projects, such as valuation of global luxury brands, oil and gas extraction projects in the United States and Canada, BOT infrastructural projects, solar and wind power plants, banks, logistic hub in Singapore, toll road in the United Kingdom, container port in Brazil and premium food manufacturer in Spain.

He has provided valuation advisory services for private equity funds in Hong Kong and the PRC regarding market value assessment of the general partner's stakes and investment portfolios for valuation control and financial reporting purposes (including compliance with IFRS 9). The investment portfolios included renowned internet and technology companies as well as infrastructural projects in China.

He has also served as the expert witness for litigation. He is also experienced in valuation of overseas project for State-owned Assets Supervision and Administration Commission of the State Council (SASAC) filing in the PRC. The valuation reports prepared by Mr. Tsang and his team have been regularly referenced by Hong Kong listed companies in their circulars, including companies in agriculture, retail, mining, internet, automobile, education, financial services, multimedia, internet, real estate, entertainment, electronic equipment and infrastructural sectors.

Elaine Y.T. Leung, *CPA*

Senior Manager, Business Valuation & Transaction Advisory

Ms. Leung is experienced in valuation of both business and intangibles assets with industry ranging from post-production service, port operation, mining, metal processing, food & beverage, financial services to information technology. Her valuation jobs have been performed for transaction reference, IRS filing and financial reporting propose. The clients of her jobs cover both public and listed companies located in United Kingdom, China, Hong Kong.

Marvin K.C. Wong, *CPA*

Senior Manager, Business Valuation and Transaction Advisory

Mr. Wong is experienced in performing business valuation for private and public companies on industries including but not limited to tea plantation, forest, infrastructure, manufacturing, marketing, pharmacy and trading. He has experience in valuation of intangible assets including customer relationships, trademarks of an international toy company, concession right, mining right, patents and distribution network of a pharmaceutical company, etc.

Faye C.Y. Chan, *CPA (Aust.)*

Assistant Manager, Business Valuation & Transaction Advisory

Ms. Chan's experiences in business valuation cover different industries including foresting, medical, food & beverage, financial services, infrastructure, real estate, multimedia and information technology. Her works have been performed for purposes of financial reporting, initial public offerings, mergers and acquisitions. She also has experience in valuation of intangible asset including trademarks, patents, distribution networks and concession rights.

GENERAL SERVICE CONDITIONS

The service(s) provided by Greater China Appraisal Limited will be performed in accordance with professional appraisal standard. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least seven years after completion of the engagement.

Our report is to be used only for the specific purpose stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Greater China Appraisal Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company/firm name and logo in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Interests and Short Positions of the Directors and Chief Executive in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares or underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the Company's Shares

Name of Director/ Chief Executive	Nature of interest	Number of interested Shares held	Approximate percentage (%) in the issued share capital of the Company
Sit Yau Chiu ("**Mr. Sit**")	Interest in controlled corporation[(1)]	102,520,000	29.51%
Xiong Wei ("**Mr. Xiong**")	Interest in controlled corporation[(2)]	37,935,000	10.92%

Notes:

(1) Top One Global Holdings Limited ("**Top One**") is a company wholly-owned and controlled by Mr. Sit. Mr. Sit is therefore deemed to be interested in the shares held by Top One.

(2) Prime Route Investment Limited ("**Prime Route**") is a company wholly-owned and controlled by Mr. Xiong. Mr. Xiong is therefore deemed to be interested in the shares held by Prime Route.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDER

As at the Latest Practicable Date, the following Directors is a director or employee in the following companies, each of which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

a. Mr. Sit Yau Chiu, an executive Director, is the chairman of Top One; and

b. Mr. Xiong Wei, an executive Director, is the chairman of Prime Route.

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, there is no contract or arrangement entered into by a related party subsisting in which a Director is materially interested and significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors has, directly or indirectly, any interest in any assets which have since 31 December 2016 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

5. INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or controlling shareholders (as defined in the Listing Rules) and their respective close associates was interested in any business apart from the Enlarged Group's business which competes or is likely to compete, either directly or indirectly, with the Enlarged Group's businesses.

6. LITIGATION

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors, save as disclosed in the section headed "Indebtedness Statement" in Appendix I to this circular, no member of the Enlarged Group was engaged in any litigation or claims of material importance, and no such litigation or claim of material importance was known to the Directors to be pending or threatened by or against any members of the Group.

7. SERVICES CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with any member of the Group which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

8. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts who have been named in this circular:

Name	Qualifications
Astrum Capital	A licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Crowe Horwath (HK) CPA Limited	Certified public accountants
Greater China Appraisal	Independent valuer

Each of Astrum Capital, Crowe Horwath (HK) CPA Limited and Greater China Appraisal has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, neither Astrum Capital, Crowe Horwath (HK) CPA Limited nor Greater China Appraisal had any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, neither Astrum Capital, Crowe Horwath (HK) CPA Limited nor Greater China Appraisal had any interest, direct or indirect, in any assets which since 31 December 2016, the date to which the latest published audited financial statements of the Company were made up, had been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. MATERIAL ADVERSE CHANGE

Reference is made to the announcement of the Company dated 2 March 2018 in relation to the disclosure of inside information. Based on the Board's preliminary review of the unaudited consolidated management accounts of the Group for the year ended 31 December 2017, it is expected that the Group will record a net loss for the year ended 31 December 2017. This expected loss is primarily attributable to (1) the increase in the provisions of trade receivables; (2) the provisions made to the loss of inventories; (3) the increase in finance costs and (4) the decrease in gross profit and margin due to a decrease in revenue of approximately 9% as compared to the same period in 2016 resulting from a decrease in orders placed by watch retailers and authorized distributors.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016 (being the date to which the latest published audited financial statements of the Company were made up).

10. GENERAL

a. The English text of this circular shall prevail over the Chinese text.

b. The company secretary of the Company is Mr. Lau Fan Yu. Mr. Lau was admitted as a fellow of the Association of Chartered Certified Accountants in October 2004. He has also been a certified accountant of the Hong Kong Institute of Certified Public Accountants since January 2000. Mr. Lau has over 24 years of experience in the field of finance and accounting.

c. The registered office of the Company is situated at P.O. Box 10008, Willow House, Cricket Square, Grand Cayman, KY1-1001, Cayman Islands. The head office in Switzerland is at 8, rue des Perrières 2340 Le Noirmont Switzerland and the principal place of business and head office of the Company in Hong Kong is at Unit 1612-18, Level 16 Tower 1, Grand Century Place 193 Prince Edward Road West Mongkok, Kowloon Hong Kong.

d. The branch share registrar and transfer office of the Company is Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

11. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Group) have been entered into by members of the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

a) the Initial Sale and Purchase Agreement;

b) the Supplemental Sale and Purchase Agreement;

c) the subscription agreement dated 18 September 2017 entered into between the Company (as issuer) and COFCO Capital (Hong Kong) Co., Limited (as initial investor) in relation to the subscription of 8.5% guaranteed notes up to a principal amount of HK$100,000,000;

d) the subscription agreement dated 5 January 2017 entered into between the Company (as issuer) and Phoenix Green Limited (as subscriber) in relation to the subscription of the 10% guaranteed convertible bond in the principal amount of HK$100,000,000; and

e) the subscription agreement dated 24 October 2016 entered into between the Company (as issuer) and Chance Talent Management Limited (as initial investor) in relation to the subscription of 10% guaranteed notes up to a principal amount of HK$80,000,000.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:00 p.m. at the head office and principal place of business of the Company in Hong Kong at Unit 1612-18, Level 16 Tower 1, Grand Century Place 193 Prince Edward Road West Mongkok, Kowloon Hong Kong, from the date of this circular up to and including 13 April 2018:

a) the memorandum and articles of association of the Company;

b) the Initial Sale and Purchase Agreement;

c) the Supplemental Sale and Purchase Agreement;

d) the letter from the Board dated 26 March 2018, the text of which is set out on pages 4 to 14 of this circular;

e) the letter from the Independent Board Committee dated 26 March 2018, the text of which is set out on pages 13 to 14 of this circular;

f) the letter from the Independent Financial Adviser dated 26 March 2018, the text of which is set out on pages 15 to 40 of this circular;

g) the accountants' report on the Target Company, the text of which is set out on Appendix II of this circular;

h) the report of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

i) the valuation report from the Independent Valuer dated 26 March 2018, the text of which is set out on Appendix IV of this circular;

j) the annual reports of the Company for the three years ended 31 December 2014, 2015 and 2016;

k) the interim report of the Company for the six months ended 30 June 2017;

l) the written consent referred to in the section headed "Experts and consents" in this appendix;

m) the material contracts referred to in the section headed "Material contracts" in this appendix; and

n) a copy of this circular.

ERNEST BOREL 1856

ERNEST BOREL HOLDINGS LIMITED
依波路控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting ("**EGM**") of Ernest Borel Holdings Limited (the "**Company**") will be held at Room A2, 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong on Tuesday, 17 April 2018 at 3:00 p.m. for the purpose of transacting the following businesses:

ORDINARY RESOLUTION

To consider and, if thought fit, to pass with or without modification the following ordinary resolution:

1. "**THAT**:

   (a) the sale and purchase agreement dated 30 November 2017 and the supplemental sale and purchase agreement dated 22 March 2018 (the "**Sale and Purchase Agreements**") entered into between Swissmount Holdings Limited and Mr. Sit Yau Chiu, a copy of the Sale and Purchase Agreements has been produced to the EGM marked "A" and signed by the chairman of the EGM for identification purpose, and the transactions contemplated thereby be and are hereby approved, confirmed and ratified; and

   (b) any director(s) of the Company be and is/are hereby authorised, for and on behalf of the Company, to enter into any agreement, deed or instrument and/or to execute and deliver all such documents and/or do all such acts on behalf of the Company as he/she may consider necessary, desirable or expedient for the purpose of, or in connection with (i) the implementations and completion of the Sale and Purchase Agreements and transactions contemplated thereunder; and/or (ii) any amendment, variation or modification of the Sale and Purchase Agreements and the transactions contemplated thereunder upon such terms and conditions as the board of directors of the Company may think fit."

By order of the Board of
Ernest Borel Holdings Limited
Sit Yau Chiu
Chairman

Hong Kong, 26 March 2018

Principal place of business in Hong Kong:

Unit 1612-18, Level 16
Tower 1, Grand Century Place
193 Prince Edward Road West
Mongkok, Kowloon
Hong Kong

Registered office:

P.O. Box 10008, Willow House
Cricket Square
Grand Cayman
KY1-1001
Cayman Islands

As at the date of this notice, the Board comprises Mr. Sit Yau Chiu and Mr. Xiong Wei as executive Directors; Mr. Chan Kwan Pak Gilbert and Ms. Lou Liuqing as non-executive Directors; and Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa as independent non-executive Directors.

Notes:

1. A shareholder of the Company entitled to attend and vote at the above meeting is entitled to appoint one proxy or more than one proxy (if he holds two or more shares) who must be an individual or individuals to attend and vote instead of him. A proxy does not need to be a shareholder of the Company.

2. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not less than 48 hours before the time appointed for holding the meeting and any adjourned meeting.

3. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 13 April 2018 to Tuesday, 17 April 2018 both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 12 April 2018.

4. If typhoon signal no. 8 or above remains hoisted or a black rainstorm warning signal is in force at 8:00 a.m. on the date of the EGM, the EGM will be postponed. The Company will post an announcement on the Company's website at www.ernestborel.ch and the HKExnews website at http://www.hkexnews.hk to notify shareholders of the date, time and place of the rescheduled meeting.

5. Shareholders are advised to read the circular of the Company dated 26 March 2018 which contains information concerning the resolution to be proposed at the EGM.