

博資財務顧問有限公司
AMS Corporate Finance Limited

20th Floor
Hong Kong Diamond Exchange Building
8-10 Duddell Street
Central, Hong Kong

22 November 2006

*To the Independent Board Committee of
Asia Commercial Holdings Limited*

Dear Sirs,

MANDATORY UNCONDITIONAL CASH OFFERS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Offers, details of which are set out in the composite offer document jointly issued by Asia Commercial Holdings Limited (the "Company") and the Offeror to the Shareholders and the Optionholders dated 22 November 2006 (i.e. the Composite Document), of which this letter forms part. This letter contains our advice to the Independent Board Committee as to whether the terms of the Offers are fair and reasonable as far as the Independent Shareholders and the Optionholders are concerned. Unless otherwise stated, terms defined in the Composite Document have the same meanings in this letter.

As at the date hereof, the Company has one non-executive director, namely Miss Leung Miu King, Marina, and three independent non-executive directors, namely Mr. Sit Kien Ping, Peter, Mr. Lai Si Ming and Mr. Frank H. Miu. Miss Leung Miu King, Marina is the younger sister of one of the Vendors and a managing director of the ultimate holding company of the other Vendor and is therefore presumed to be not independent for the purpose of giving advice to the Independent Shareholders and the Optionholders in respect of the Offers. The Independent Board Committee comprising all the independent non-executive directors of the Company has been established for the purpose of advising the Independent Shareholders and the Optionholders on the terms of the Offers. Each of Mr. Sit Kien Ping, Peter, Mr. Lai Si Ming and Mr. Frank H. Miu has confirmed that he does not have any direct or indirect interests in the Offers. Based on such confirmation, we consider that all independent non-executive directors of the Company are eligible to be members of the Independent Board Committee to advise the Independent Shareholders and the Optionholders in respect of the Offers.

Apart from the normal professional fees payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee in respect of the Offers, no agreement or arrangement exists whereby AMS Corporate Finance Limited will receive any fees or benefits from the Company, the Offeror, or any of their respective associates.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and representations contained or referred to in the Composite Document and the information and representations provided to us by the Company, its advisers and the directors of the Company (the "Directors"). We have assumed that all

information and representations contained or referred to in the Composite Document were true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion and intention made by the Company, the Directors or the Offeror (together with its sole director) in the Composite Document have been arrived at after due and careful consideration.

We consider that we have reviewed sufficient information to enable us to reach an informed view. The Directors and the sole director of the Offeror have confirmed respectively that there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document, including this letter, misleading. We have no reason to doubt the truth, accuracy or completeness of the information provided to us by the Company, its advisers and the Directors. We have not, however, conducted any independent verification of the information provided, nor have we carried out any in-depth investigation into the business and affairs of the Company and its subsidiaries (collectively, the "Group") or the prospects of the markets in which the Group operates.

We have not considered the tax consequences on the Independent Shareholders and the Optionholders of acceptance of the Offers since these are particular to their individual circumstances. In particular, Independent Shareholders and Optionholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the terms of the Offers, we have taken into consideration the following principal factors:

I. The Share Offer

1. Background information

On 25 October 2006, the Offeror acquired a total of 75,000,000 Shares from Pacific Apex (as to 55,000,000 Shares) and Mr. Leung (as to 20,000,000 Shares), representing approximately 22.47% in aggregate of the issued share capital of the Company. Immediately after the Acquisition, the Offeror Parties were interested in 128,334,558 Shares, representing approximately 38.46% of the issued share capital of the Company. The Offeror is therefore required to make a mandatory conditional general offer for all the issued Shares (other than those already owned by the Offeror Parties) and to make a comparable offer for all the Share Options pursuant to the requirements under Rule 26.1 and Rule 13 of the Takeovers Code. Accordingly, on 27 October 2006, the Company and the Offeror jointly issued an announcement in relation to the Offers. Subsequent to the Announcement and up to and including 9 November 2006, the Offeror acquired an additional 44,400,000 Shares on the Stock Exchange and the Shares held by the Offeror Parties therefore increased to 172,734,558 Shares, representing approximately 51.76% of the issued Shares of the Company as at 9 November 2006. As the total number of Shares held by the Offeror Parties constitutes more than 50% of the voting rights of the Company since 9 November 2006, the Offers are now being made unconditionally.

The Offeror is a company incorporated in the BVI, and wholly owned by Mr. Eav Yin. Immediately prior to the Acquisition, the Offeror Parties were already interested in 53,334,558 Shares, representing approximately 15.98% of the issued share capital of the Company. Subsequent to 9 November 2006 and up to and including the Latest Practicable Date, the Offeror Parties has acquired an additional 15,000,000 Shares on the Stock Exchange, and as at the Latest Practicable Date, the Offeror Parties were interested in 187,734,558 Shares, representing approximately 56.26% of the issued share capital of the Company.

BNP Paribas, as the financial adviser to the Offeror in relation to the Offers, is offering on behalf of the Offeror, and subject to the terms of the Offers set out in Appendix I to the Composite Document, to acquire all the outstanding Shares not already owned by the Offeror Parties and cancel all the outstanding Share Options on the following basis:

For each Share HK\$0.68 in cash

For cancellation of each Share Option HK\$0.01 in cash

As stated in the letter from BNP Paribas (the "Letter from BNP Paribas") contained in the Composite Document, the Offeror does not intend to revise the Share Offer Price and the Option Offer Price.

2. *Share Offer Price*

As stated in the Letter from BNP Paribas, the Share Offer Price of HK\$0.68 is the same as the price per Share paid by the Offeror in the Acquisition. Based on 333,719,516 Shares in issue as at the Latest Practicable Date and the Share Offer Price of HK\$0.68, the Share Offer values the entire issued share capital of the Company at approximately HK\$226.9 million. On the basis of 145,984,958 Shares subject to the Share Offer, the Share Offer is valued at approximately HK\$99.27 million.

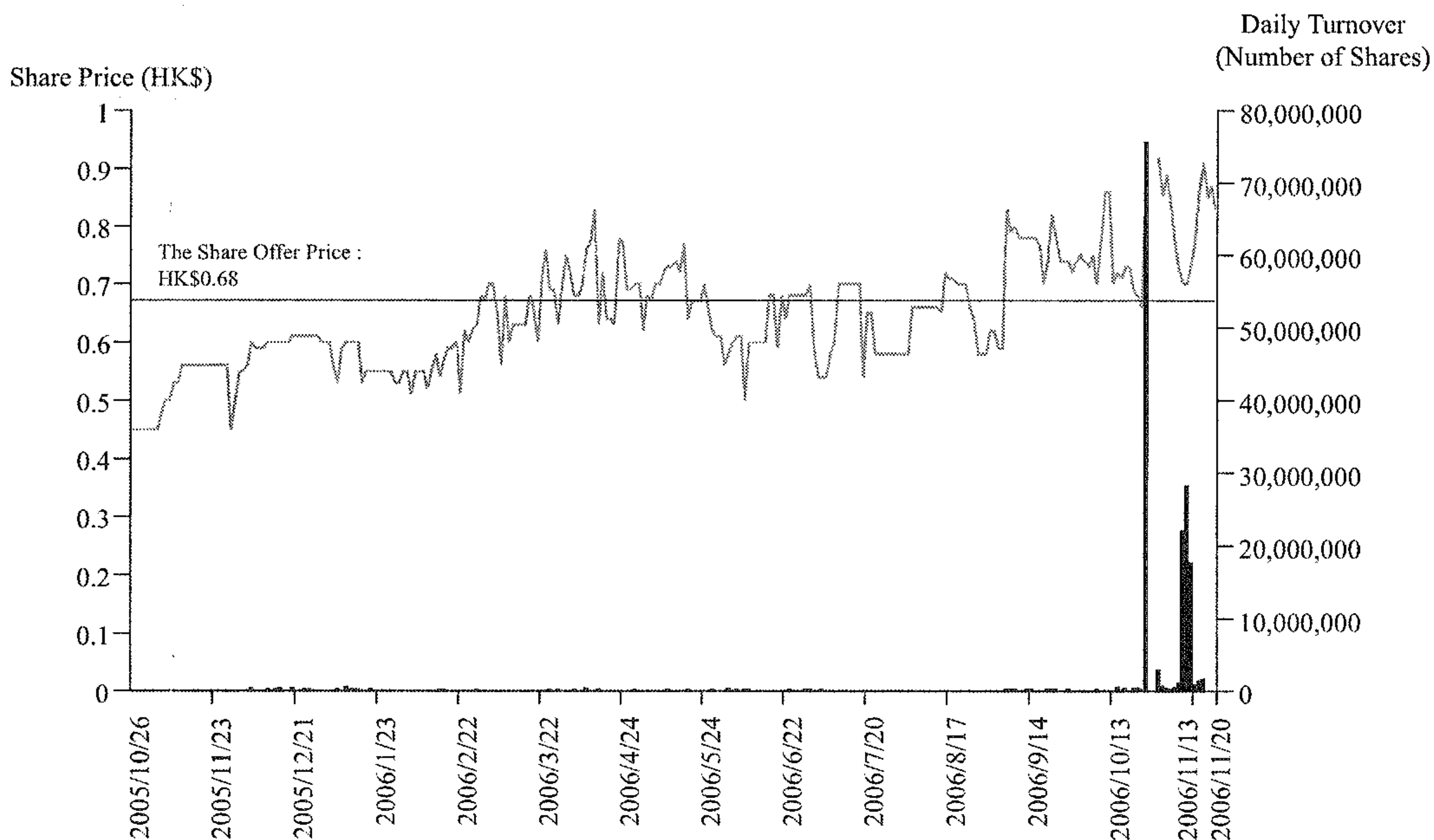
The Share Offer Price of HK\$0.68 represents:

- (i) a discount of approximately 25.3% to the closing price of HK\$0.91 per Share as quoted on the Stock Exchange on 25 October 2006, i.e. the Last Trading Day;
- (ii) a premium of approximately 3.0% over the closing price of HK\$0.66 per Share as quoted on the Stock Exchange on the trading day immediately prior to the Last Trading Day;
- (iii) a discount of approximately 8.1% to the average closing price of approximately HK\$0.74 per Share for the 10 consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 9.3% to the average closing price of approximately HK\$0.75 per Share for the last 30 consecutive trading days up to and including the Last Trading Day (the "30-day Average Closing Price");
- (v) a discount of approximately 4.2% to the average closing price of approximately HK\$0.71 per Share for the last 60 consecutive trading days up to and including the Last Trading Day (the "60-day Average Closing Price");
- (vi) an equivalent amount to the average closing price of approximately HK\$0.68 per Share for the last 90 consecutive trading days up to and including the Last Trading Day (the "90-day Average Closing Price");
- (vii) a discount of approximately 26.1% to the closing price of HK\$0.92 on the first trading day immediately after publication of the Announcement;
- (viii) a discount of approximately 18.1% to the closing price of HK\$0.83 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

- (ix) a premium of approximately 33.3% over the audited consolidated net asset value of approximately HK\$0.51 per Share as at 31 March 2006, being the date of the Group's latest published consolidated balance sheet.

3. Share performance

The following chart illustrates the daily turnover and the closing price of the Shares on the Stock Exchange for the period from 26 October 2005 (being the first trading day of the 12-month period up to and including the Last Trading Day) to the Latest Practicable Date:



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

- (i) During the period from 26 October 2005 to the Last Trading Day (the “Review Period”), the highest and lowest closing prices per Share were HK\$0.91 (recorded on the Last Trading Day) and HK\$0.45 (recorded from 26 October to 3 November 2006) respectively. The Share Offer Price of HK\$0.68 represents a discount of approximately 25.3% to and a premium of approximately 51.1% over such highest and lowest closing prices per Share respectively. As shown in the chart above, the Shares had been traded at levels between HK\$0.50 and HK\$0.60 at the beginning of the Review Period and up to late February 2006. Since then, the market prices of the Shares had been picking up but fluctuated within the range between HK\$0.60 and HK\$0.80 during the rest of the Review Period. At the Last Trading Day, the closing price of the Shares surged by about 37% to HK\$0.91 from the closing price of HK\$0.66 per Share as quoted on the Stock Exchange on the preceding trading day. While there may be no conclusive reason for such fluctuation in the Share price on the Last Trading Day, we consider that the surge in the market prices of the Shares would probably have been prompted by speculation following the Acquisition, under which the transfer of 75,000,000 Shares was recorded as a share trade on the main board of the Stock Exchange before the end of the trading session on the Last Trading Day.

- (ii) During the period from 31 October 2006 (being the first trading day immediately following the Announcement) to the Latest Practicable Date, the closing prices of the Shares fluctuated significantly with the highest and the lowest prices per Share of HK\$0.92 recorded on 31 October 2006 and HK\$0.70 recorded on 8 and 9 November 2006, respectively. The average closing price during this period was approximately HK\$0.82 per Share. The Share Offer Price represents a discount of approximately 17.1% to such average.
- (iii) The Share Offer Price represents a discount of approximately 18.1% to the closing price of HK\$0.83 per Share on the Latest Practicable Date as quoted on the Stock Exchange.

As indicated from the above, there was significant fluctuation of the market prices of the Shares during the Review Period. While the Share Offer Price of HK\$0.68 represents a discount of approximately 25.3% to the closing price of HK\$0.91 per Share on the Last Trading Day and is below the closing prices of the Shares during the whole period from 6 September to 20 October 2006, it equals the closing price of the Shares on 23 October 2006 and offers a slight premium over the closing price of HK\$0.66 per Share on 24 October 2006, i.e. the trading day immediately prior to the Last Trading Day. The Share Offer Price represents a discount of approximately 9.3% and 4.2% to the 30-day Average Closing Price and the 60-day Average Closing Price respectively, and it approximates the 90-day Average Closing Price. Accordingly, despite the substantial discount as represented by the closing price of the Shares at the Last Trading Day, the Share Offer Price is more in line with the average market prices of the Shares when a longer timeframe prior to the Last Trading Day is taken into account. During the Review Period, the Shares had been traded below the Share Offer Price in 159 days out of a total of 249 trading days. Independent Shareholders and Optionholders are advised to read the price chart above for a better understanding of the price movement of the Shares during the Review Period.

4. Liquidity

The following table sets out the average daily trading volume of the Shares and the relative value as a percentage of the total issued share capital of the Company for the Review Period and up to the Latest Practicable Date:

Month	Average daily trading volume (Shares)	Percentage to the total issued share capital of the Company (%)
2005		
October (from 26 October)	1,927	Negligible
November	1,542	Negligible
December	67,268	0.02
2006		
January	63,507	0.02
February	14,298	Negligible
March	11,455	Negligible
April	38,283	0.01
May	13,864	Negligible
June	39,197	0.01
July	6,907	Negligible
August	2,061	Negligible
September	41,264	0.01
October*	4,452,205	1.33
November (up to the Latest Practicable Date)	5,372,130	1.61

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

* Trading of the Shares was suspended on 27 and 28 October 2006 pending the release of the Announcement.

As noted from the table above, the average daily trading volume of the Shares was minimal during the period under review. Independent Shareholders should also note that the relatively high average daily trading volume of over four million Shares in October was due to the Acquisition on 25 October 2005 under which the Offeror had acquired a total of 75,000,000 Shares from the Vendors. If we exclude such Shares for our review, the average daily trading volume in October was only 285,538 Shares, representing approximately 0.09% of the total issued share capital of the Company. From the date of the Announcement to the Latest Practicable Date, the daily trading volume of the Shares increased with relatively high volume on 8 November 2006 (21,963,880 Shares), 9 November 2006 (28,163,800 Shares) and 10 November 2006 (17,581,000 Shares).

In view of the generally low liquidity of the Shares during the Review Period and prior to the Acquisition, we are of the opinion that it may be difficult for the Independent Shareholders who wish to dispose of their Shares in the open market to do so without posing any pressure on the market price of the Shares. We therefore consider that the Share Offer provides an opportunity to these Independent Shareholders to realise their investment in the Company at the Share Offer Price.

5. *Price-to-earnings ratio and dividend yield*

Based on the earnings per Share of HK\$0.0162 set out in the Company's audited consolidated income statement for the year ended 31 March 2006 and the Share Offer Price of HK\$0.68, the price-to-earnings ratio ("PER") of the Company is approximately 42.0 times. In order to assess the reasonableness of the Share Offer Price, we have attempted to make reference to the PER of those companies which have principal business similar to those of the Group and have their shares listed on the Main Board of the Stock Exchange (the "Comparable Companies"). In this connection, we have identified a total of five Comparable Companies, which represent, to the best of our knowledge, all those companies listed in Hong Kong that are principally engaged in the retail and wholesale of watches in Hong Kong and/or the PRC. Our findings are summarised below:

Stock Code	Company	Closing price as at the Last Trading Day (HK\$)	Earnings per share set out in the latest published audited financial statements (HK\$)	Net asset value per share (HK\$)	PER as at the Last Trading Day (times)	Premium/(discount) of closing price over/(to) latest published net asset value per share (%)	Market capitalisation as at the Last Trading Day (HK\$' million)
398	Oriental Watch Holdings Limited	1.50	0.2688	2.60	5.6	(42.3)	412.9
304	Peace Mark (Holdings) Limited	5.36	0.2213	1.58	24.2	239.2	5,305.0
444	Sincere Watch (Hong Kong) Limited	0.58	0.141	0.48	4.1	20.8	236.6
84	Stelux Holdings International Limited	0.67	0.1971	0.68	17.6	(1.5)	637.4
3389	Xinyu Hengdeli Holdings Limited	6.56	0.14	0.77	46.9	751.9	6,412.4
<i>Average</i>		<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>19.7</i>	<i>premium: 337.3 discount: (21.9)</i>	<i>2,600.9</i>
104	The Company	0.68 (being the Share Offer Price)	0.0162	0.510	42.0	33.3	307.3

As shown in the table above, the PERs of the Comparable Companies range from approximately 4.1 times to 46.9 times, with an average of approximately 19.7 times. The PER of the Company (as represented by the Share Offer Price) of approximately 42.0 times falls within such range of the Comparable Companies and is significantly higher than their average of approximately 19.7 times. Accordingly, as far as the PER is concerned, we are of the view that the Share Offer Price of HK\$0.68 is fair and reasonable. As regards the net asset value, the share closing prices of three Comparable Companies represent a premium ranging from approximately 20.8% to 751.9%, while those of the other two Comparable Companies represent a respective discount of approximately 1.5% and 42.3%. The premium of approximately 33.3% as represented by the Share Offer Price of HK\$0.68 over the net asset value per Share is the third highest percentage among all the Comparable Companies. On this basis, we are also of the view that the Share Offer Price is fair and reasonable as far as comparison with the net asset value is concerned.

We note that the Company had not declared or made any dividend for the past two financial years ended 31 March 2006. On the other hand, we understand from the latest published financial statements of the Comparable Companies that all of them had declared or paid dividends for the current financial year. Accordingly, in terms of dividend yield and by way of comparison with the Comparable Companies, the Shares do not appear to be an attractive investment.

6. *Cash offer comparables*

In assessing the fairness and reasonableness of the Share Offer Price, we have also attempted to compare it with the general cash offers made during the Review Period for companies listed on the main board of the Stock Exchange and engaged in a similar business to the Group. However, we are unable to identify any cash offers in such period for companies engaged in watch trading and luxury products retailing. As an alternative, we have sought to compare the Share Offer Price with all cash offers made during the Review Period for companies that are listed on the Main Board of the Stock Exchange (the "Comparable Offers"). Our findings on the Comparable Offers are summarised below:

Stock Code	Company	Date of announcement	Share price offered (HK\$)	Closing price as at the last trading day (HK\$)	Net asset value per share (Note 1) (HK\$)	Dividend yield as represented by the share offer price (Note 1) (%)	PER as represented by the share offer price (Note 1) (times)	Premium/(discount) of share offer price over/(to) closing price as at the last trading day (%)	Premium/(discount) of share offer price over/(to) latest published net asset value per share (%)	Market capitalisation as at the last trading day (HK\$ million)	Principal business
512	Maxx Bioscience Holdings Limited	12/21/2005	0.075	0.103	0.111	n.a.	n.a.	(27.2)	(32.4)	110.6	Manufacture and sales of pharmaceutical and health products and trading of securities
989	China Motion Telecom International Limited	1/12/2006	0.069	0.115	0.468	n.a.	n.a.	(39.7)	(85.2)	60.4	Provision of international telecommunications services, mobile communications services, technical consultancy services, repair and maintenance services for telecommunications equipment, and trunking radio services
979	China Nan Feng Group Limited	1/26/2006	0.093	0.075	0.007	n.a.	0.3	24.0	1,228.6	64.1	Construction contractor and provision of management services
711	Chun Woo Holdings Limited	2/22/2006	0.740	0.710	1.016	3.4	10.6	4.2	(27.2)	528.6	Civil engineering, electrical and mechanical engineering, foundation and building construction work, property development and property investment
305	Magnum International Holdings Limited	3/30/2006	0.032	0.080	n.a.	n.a.	n.a.	(60.6)	n.a.	615.0	Securities dealing and margin finance, money lending and property investment
660	Nority International Group Limited	4/4/2006	0.470	0.410	0.780	n.a.	n.a.	14.6	(39.7)	110.0	Manufacture and export of athletic, athletic-style leisure footwear and sport shoes
32	Cross Harbour (Holdings) Limited	4/10/2006	4.083	6.750	7.040	6.9	7.4	(39.5)	(42.0)	2,030.7	Investment holdings, operation of driver training centres and operation of the Western Harbour Tunnel and electronic toll collection system
142	First Pacific Company Limited	4/28/2006	2.200	3.250	0.940	1.4	8.7	(32.3)	134.0	10,363.7	Telecommunications and consumer food products
597	CSMC Technologies Corporation	5/12/2006	0.420	0.400	0.457	n.a.	n.a.	5.0	(8.1)	1,070.1	Operation of semi-conductor foundries in China
650	Shun Cheong Holdings Limited	5/16/2006	0.300	0.370	0.730	n.a.	n.a.	(18.9)	(58.9)	42.9	Provision of building related maintenance services
1031	Golden Resorts Group Limited	7/25/2006	1.940	2.000	1.990	n.a.	n.a.	(3.0)	(2.5)	2,425.3	Operation of hotels with gaming facilities in Macau
662	Asian Financial Holdings Limited	8/9/2006	3.500	4.240	3.490	2.9	20.1	(17.5)	0.3	4,486.0	Provision of insurance and investment services
3333	Senyuan International Holdings Limited	8/22/2006	1.490	1.430	0.640	3.7	8.8	4.2	132.8	436.2	Manufacture of vacuum circuit breakers and other components of switchgears in China

Stock Code	Company	Date of announcement	Share offer price (HK\$)	Closing price as at the last trading day (HK\$)	Net asset value per share (Note 1) (HK\$)	Dividend yield as represented by the share offer price (Note 1) (%)	PER as represented by the share offer price (Note 1) (times)	Premium/(discount) of share offer price over/(to) closing price as at the last trading day (%)	Premium/(discount) of share offer price over/(to) latest published net asset value per share (%)	Market capitalisation as at the last trading day (HK\$ million)	Principal business
996	CASH Retail Management Group Limited	8/28/2006	0.360	0.405	0.220	n.a.	n.a.	(11.1)	63.6	442.5	Operation of department store and provision of store management services in China
275	Hanny Holdings Limited	9/1/2006	3.800	3.530	7.880	2.6	n.a.	7.6	(51.8)	884.1	Trading of securities, property investment and trading, holding of vessels for sand mining and other strategic investments
989	China Motion Telecom International Limited	9/8/2006	0.055	0.110	0.100	n.a.	n.a.	(50.0)	(45.0)	60.6	Provision of international telecommunications services, mobile communications services and distribution and retail chain
120	Cosmopolitan International Holdings Limited	10/4/2006	0.050	0.086	0.139	n.a.	n.a.	(41.9)	(64.0)	45.8	Investments in properties and securities and provision of information technology services
593	Quality HealthCare Asia Limited	10/5/2006	3.250	3.900	0.769	1.8	11.6	(16.7)	322.6	782.2	Health administration, medical scheme administration, and the provision of healthcare services
595	AV Concept Holdings Limited	10/9/2006	0.530	0.490	1.030	3.8	20.4	8.2	(48.5)	198.5	Marketing and distribution of semiconductors and electronic components, and design and manufacture of electronic products and internet appliances
<i>Maximum</i>					6.9	20.4	24.0		1228.6		
<i>Minimum</i>					—	—	(60.6)		(85.2)		
<i>Average</i>					3.3 (Note 2)	11.0 (Note 2)	premium: 9.7 discount: (29.9)		premium: 313.7 discount: (42.1)		
104	The Company	10/27/2006	0.680	0.910	0.510	n.a.	42.0	(25.3)	33.3	307.3	Watch trading and luxury products retailing in China

Notes:

1. Based on the financial information set out in the latest published audited financial statements prior to the respective date of the announcement of the Comparable Offers, and n.a. denotes not applicable as the relevant company recorded audited net loss or audited net liabilities or did not declare or pay any dividend for the relevant financial year.
2. Those denoted n.a. as shown in the column above have been excluded in the computation of the relevant average figure.

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

2

The table above shows that seven Comparable Offers had the offer prices set at a premium over their respective closing prices as quoted on the last trading day prior to the date of the relevant announcement, ranging from approximately 4.2% to 24.0%, with an average premium of approximately 9.7%. On the other hand, 12 Comparable Offers had the offer prices set at a discount to their respective closing prices as quoted on the last trading day prior to the date of the relevant announcement, ranging from approximately 3.0% to 60.6%, with an average discount of approximately 29.9%. The Share Offer Price of HK\$0.68 represents a discount of approximately 25.3% to the closing price of the Shares as at the Last Trading Day which is within the range of the discount and is below the average discount of the 12 Comparable Offers.

Six Comparable Offers had the offer prices set at a premium over their respective latest published net asset value prior to the publication of the announcement in relation to the offers, ranging from approximately 0.3% to 1,228.6% with an average of 313.7%. On the other hand, 12 Comparable Offers had the offer prices set at a discount to their respective latest published net asset value prior to the publication of the announcement in relation to the offers, ranging from approximately 2.5% to 85.2% with an average of 42.1%. The subject company of one of the Comparable Offers recorded audited net liabilities as at its latest published balance sheet date prior to the date of the announcement in relation to the offer. As a majority of the Comparable Offers, i.e. 12 cases out of a total of 19 had offer prices set at a discount to the respective net asset value of the subject companies, we consider that the Share Offer Price, representing a premium of approximately 33.3% over the audited consolidated net asset value of the Company as at 31 March 2006, has been determined at a level which is more favourable than the majority of the offer prices under the Comparable Offers as far as the net asset value is taken into account.

As regards the dividend yield of the companies under the Comparable Offers, eight out of a total of 19 companies under the Comparable Offers had declared or paid dividends for their respective last financial years, with dividend yield ranging from 1.4% to 6.9%. As mentioned above, the Company had not declared or made any dividend for the past two financial years ended 31 March 2006. Therefore, in terms of dividend yield and by way of comparison with the companies under the Comparable Offers, the Shares do not appear to be an attractive investment.

As regards the PER, eight companies under the Comparable Offers recorded net profit for their respective last financial years and the relevant PERs as represented by the respective share offer price range from 0.3 times to 20.4 times, which are all below the PER of the Company of 42.0 times as represented by the Share Offer Price. It should however be noted that the subject companies of the Comparable Offers listed above are engaged in various businesses different from that of the Group. Accordingly, the respective PER of the subject companies under the Comparable Offers may not be directly comparable to that of the Company.

Based on the above analysis on the Share Offer Price by comparison with those under the cash offers made for companies that are listed on the main board of the Stock Exchange during the Review Period, we are of the view that the Share Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

7. Financial performance of the Group

The Group is principally engaged in watch trading and luxury products retailing in the PRC. The businesses of the Group also include property investment and sale and design of contract software programs; however, based on the latest published financial information of the Group for the year ended 31 March 2006, these business segments were loss-making and the sales generated from them

amounted to less than 1% of the Group's total consolidated revenue for the year. Set out below is a summary of the Group's audited financial information for the past five financial years extracted from the Company's latest annual report for the year ended 31 March 2006:

	For the year ended 31 March				
	2002	2003	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(as restated)	(as restated)	(as restated)	(as restated)	
Turnover	189,360	245,596	261,477	255,650	330,233
Profit/(loss) for the year attributable to equity holders of the Company	152	(32,293)	32,743	4,386	5,414

For the year ended 31 March 2004, the Group recorded a net profit attributable to the Shareholders of approximately HK\$32.7 million, representing a significant improvement over the net loss of approximately HK\$32.3 million for the preceding financial year. As noted in the Company's annual report for 2004, the favourable financial results for the financial year was largely attributable to the receipt of the partial payment of approximately HK\$47 million from the disposal of the Group's interests in a property development project in Dongguan, the PRC in August 2003 (the "Disposal"). Without taking into account such receipt from the Disposal, the loss attributable to the Shareholders for 2004 would have amounted to approximately HK\$14 million.

For the year ended 31 March 2005, the Group recorded a net profit attributable to the Shareholders of approximately HK\$4.4 million. However, as noted in the Company's annual report for 2005, the Group received the final payment of approximately HK\$21 million from the Disposal during the financial year 2005. Had the final receipt of approximately HK\$21 million from the Disposal not be taken into account, the Group would have recorded a loss attributable to the Shareholders of approximately HK\$17 million.

For the year ended 31 March 2006, the Group's turnover increased substantially by approximately 29% from approximately HK\$255.7 million for 2005 to approximately HK\$330.2 million. As explained in the Company's annual report for 2006, such increase in the Group's turnover was mainly attributable to the Group's efforts in enhancing its brand awareness as well as the competitiveness of its retail chain in the PRC by redecorating the shops, expanding the store space and enriching the product assortment. As a result of the significant improvement in its sales of watches during the financial year 2006, the Group recorded a net profit attributable to the Shareholders of approximately HK\$5.1 million. As noted in the annual report, given the fact that the Group had completed the disposal of its major property interests in Dongguan in the financial year 2005 (i.e. the Disposal), gross rental income generated from the Group's property investment business amounted to less than HK\$1 million for the year ended 31 March 2006.

Based on our review of the financial performance of the Group in recent years, we are of the view that its principal business, i.e. watch trading and luxury products retailing in the PRC, is yet to demonstrate a stable track record of profitable results. In addition, the Company had not declared or made any dividend for the past two financial years ended 31 March 2006. While the Group had recorded profitable results for each of the past three financial years ended 31 March 2006, the Independent Shareholders should note that the favourable financial results of the Group for the two financial years 2004 and 2005 were principally attributable to the receipts from the disposal of the Group's major property interests in the PRC which was not recurring in nature.

As regards the prospects of the Group's watch trading and luxury products retailing in the PRC, although the income and consuming power of urban and suburban citizens of China are expected to grow along with the general economic development of the nation, retail business for luxury products in the PRC will become increasingly competitive as large foreign retailers continue their efforts in targeting the Chinese market. This is of particular relevance as China's retailing industry has been moving toward full liberalisation to foreign enterprises following China's accession to the World Trade Organisation. In addition, distribution cost, being the major cost component of a luxury products retail business after inventories, has been rising substantially in recent years due to the increases in salaries and commission, rental expenses and advertising and promotional expenses. Based on our discussion with the management of the Company, we understand that the Chinese authorities have recently introduced a consumption tax of 20% for jewellery including luxury watches which has come into effect since 1 April 2006, and that the Group has managed to mitigate only partially the adverse effect of such consumption tax through its pricing policy for certain products. As stated in its 2006 annual report, the Company believes that it is important to cultivate strong brand loyalty and recognition of the Group's retail chain and brand products, and that the Group will continue to implement a series of strategies such as advertising, renovating the shops, joint co-operative programs with international brands and participating in their public functions so as to promote the corporate image of the retail chain. All these may increase the Group's operating costs.

Given the unstable historical financial performance of the Group and the recent developments in the watch and luxury products retailing business in the PRC, in particular, the introduction of the consumption tax for jewellery, and the intensifying competition in the retailing industry in China following the liberalisation to foreign enterprises, it is uncertain as to whether the Group will be able to maintain the significant growth in revenue and profitability in the future as seen in its financial results for 2006. As such, the Share Offer provides an opportunity to the Independent Shareholders who are not optimistic about the future business prospects of the Group to dispose of their investments in the Company at the Share Offer Price.

8. *Intention of the Offeror*

As stated in the Letter from BNP Paribas, it is the intention of the Offeror to continue the existing business of the Group. The Offeror will conduct a more detailed review of the financial position and the operations of the Group with a view to developing a corporate strategy upon completion of the Offers. Although the Offeror does not have any immediate plan for redeploying the material fixed assets of the Group, it may consider restructuring the Group's non-core businesses including the sale and design of contract software programs. The Offeror will also conduct a thorough appraisal on the performance of the employees of the Group upon completion of the Offers. Subject to such performance reviews, the Offeror intends to continue the employment of the employees for the core business of the Group and would consider appointing certain new directors and senior management to the subsidiaries of the Company. The Offeror may have to make redundant certain employees from the Group's non-core businesses if it has decided that any non-core business would be discontinued and that the affected employees would not be relocated to the continuing businesses of the Group.

The Board of the Company currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors. As stated in the Letter from BNP Paribas, except for Mr. Lai Si Ming, all of the existing Directors will resign and their resignations will take effect on the First Closing Date. The Offeror intends to nominate Mr. Eav Yin and Mr. Eav Ming Keong, Kinson as executive Directors as soon as practicable upon the issuance of the Composite Document. The Offeror also intends to nominate Miss Wong Wing Yue, Rosaline and Mr. Lee Tat

Cheung, Vincent as independent non-executive Directors, both with effect on or around the First Closing Date and Mr. Au Shiu Leung, Alex as executive Director with effect in January 2007. Biographical details of the proposed Directors are set out in the Letter from BNP Paribas.

Based on the biographical details of the proposed Directors, we note that Mr. Eav Yin is the founder of the Company and has extensive experience of distributing watches in Cambodia and Vietnam and Mr. Au Shiu Leung, Alex was previously employed by the Company from 1995 to 1997 and was its company secretary from 1996 to 1997. However, we understand from the Company that although Mr. Eav Yin is the founder of the Company, he has not been involved in the management of the Company since 1999. As stated in the Letter from BNP Paribas, subject to the performance reviews by the Offeror, it is the intention of the Offeror to continue the employment of the employees for the watch trading and luxury products retailing business of the Group after the Offers. Accordingly, we consider that the Offers may not give rise to any adverse impact on the continuity of the Group's existing core business. However, in the absence of a concrete business strategy, there are uncertainties as to the effects of the new management on the overall business, operating performance and financial position of the Group after the close of the Offers. There may also be short-term impact on the overall business performance of the Group if the new management decides to dispose of or discontinue the Group's non-core business.

II. The Option Offer

As at the Latest Practicable Date, there were 7,200,000 outstanding Share Options entitled the Optionholders to subscribe for a total of 7,200,000 new Shares, at an exercise price of HK\$1.00 per Share.

BNP Paribas, on behalf of the Offeror, is making the Option Offer to the Optionholders in respect of all the outstanding Share Options as part of the Offers. The Optionholders will receive HK\$0.01 in cash for each Share Option. By accepting the Option Offer, the Optionholders will surrender the subscription rights attaching to the Share Options granted to them, which will be cancelled by the Company.

Based on the prevailing market prices of the Shares and the exercise price of HK\$1.00 per Share of the Share Options, the Share Options are currently out-of-the-money. On this basis, we consider that the determination of the Option Offer Price at a nominal value of HK\$0.01 is fair and reasonable.

RECOMMENDATION

In formulating our advice to the Independent Board Committee, we have considered the above principal factors and reasons, in particular, the following:

- (i) The principal business of the Group, i.e. watch trading and luxury products retailing in the PRC, is yet to demonstrate a stable track record of profitable results. The favourable financial results of the Group for the two financial years 2004 and 2005 were principally attributable to the receipts from the disposal of the Group's major property interests in the PRC. Without taking into account such receipts which were non-recurring in nature, the Group would have recorded net losses for the relevant financial years. Given the recent introduction of the consumption tax for jewellery and the growing competition in luxury products retailing business in the PRC, it is uncertain as to whether the Group will be able to maintain its revenue and profitability at levels comparable to those for the financial year 2006. Therefore, the Share Offer provides an opportunity to the Independent Shareholders who are not optimistic about the business prospects of the Group to dispose of their investments in the Company.
- (ii) The liquidity of the Shares was extremely low before the release of the Announcement.

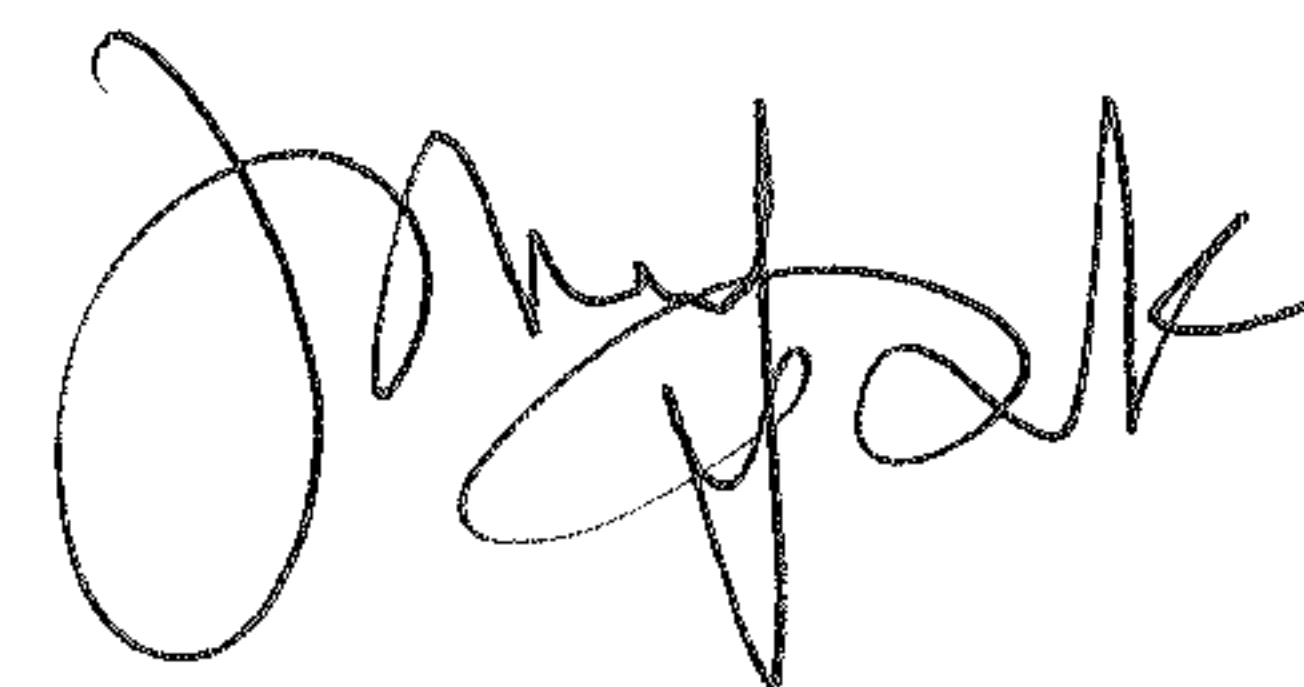
- (iii) Having compared the PER of the Company and the premium over the net asset value per Share as represented by the Share Offer Price with those of companies which are listed on the Main Board of the Stock Exchange and have principal business similar to that of the Group, the Share Offer Price is fair and reasonable, details of which are set out in the section headed "Price-to-earnings ratio and dividend yield" above. Investment in the Shares did not offer any dividend yield for the last two years.
- (iv) The Share Offer Price is fair and reasonable by comparison with those offer prices under the cash offers made for companies that are listed on the main board of the Stock Exchange during the Review Period, details of which are set out in the section headed "Cash offer comparables" above.
- (v) Although the Shares were traded at a premium to the Share Offer Price during most of the time in September 2006 and after the release of the Announcement and up to the Latest Practicable Date, the trading volume of the Shares has been small. It should also be noted that the Share Offer Price approximates the 90-day Average Closing Price, and that the Shares had been traded below the Share Offer Price in 159 days out of a total of 249 trading days during the Review Period. Accordingly, the Share Offer Price is more in line with the average market prices of the Shares when a longer timeframe prior to the Last Trading Day is taken into account. The price of the Shares is vulnerable to fluctuations caused by small trading volume and may or may not sustain at the current level after the close of the Offers.
- (vi) The Option Offer Price of HK\$0.01 per Share Option is fair and reasonable given the fact that the Share Options are currently out-of-the-money.

Based on the above factors, we consider the terms of the Offers to be fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and the Optionholders that they should consider accepting the Share Offer or, as the case may be, the Option Offer.

However, it should be noted that the Shares had been traded at a premium over the Share Offer Price after the Announcement and the Share Offer Price represented a discount of approximately 18.1% to the closing price of the Shares as at the Latest Practicable Date. Independent Shareholders who intend to accept the Share Offer should closely monitor the market prices and the liquidity of the Shares before the close of the Offers and should sell their Shares in the open market rather than accepting the Share Offer if the net proceeds from the sale of Shares in the open market after deducting all transaction costs are more than the net amount to be received under the Share Offer.

The Optionholders are also advised to exercise their Share Options and dispose of the Shares so converted in the open market if the market price per Share exceeds the exercise price of the Share Option before the close of the Offers and if the net proceeds from the sale of the Shares in the open market after deducting all transaction costs are more than the net amount to be received under the Option Offer. In addition, those Optionholders who do not intend to accept the Option Offer are reminded that pursuant to the terms of the relevant Share Option Scheme, the Optionholders will be entitled to exercise their Share Options within one month from the date on which the Share Offer becomes or is declared unconditional (i.e. within one month from the date of the despatch of the Composite Document as and when the Offers are being made unconditionally), and the Share Options (to the extent not already exercised) will lapse immediately upon the expiry of such one-month period.

Yours faithfully,
For and on behalf of
AMS Corporate Finance Limited

A handwritten signature in black ink, appearing to read 'Jinny Mok', written in a cursive style.

Jinny Mok
Director