



L U X X U

GROUP LIMITED

Luxxu Group Limited

勵時集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1327)

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Mr. Yang Xi

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To the Shareholders,

Dear Sir or Madam,

**(1) PROPOSED CAPITAL REORGANISATION;
(2) PROPOSED CHANGE IN BOARD LOT SIZE;
(3) PROPOSED RIGHTS ISSUE ON THE BASIS OF
ONE (1) RIGHTS SHARE FOR EVERY ONE (1) ADJUSTED SHARE
HELD ON THE RECORD DATE; AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

References are made to the Announcement in relation to, the Capital Reorganisation which involves the Share Consolidation, the Capital Reduction and the Share Subdivision, the Change in Board Lot Size, the Rights Issue and the Placing.

The purpose of this circular is to provide you with further information regarding (i) details of the Capital Reorganisation and the Change in Board Lot Size; (ii) further information regarding the Rights Issue and the transactions contemplated thereunder; (iii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue; (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue; (v) other information required under the Listing Rules; and (vi) the notice of the EGM.

(1) PROPOSED CAPITAL REORGANISATION

The Board proposes to implement the Capital Reorganisation which will involve the Share Consolidation, Capital Reduction and Share Subdivision as follows:

(1) Share Consolidation

Every five (5) issued and unissued Existing Shares of par value of HK\$0.10 each will be consolidated into one (1) Consolidated Share of par value of HK\$0.50 each;

(2) Capital Reduction

The issued share capital of the Company will be reduced by cancelling the paid-up share capital of the Company to the extent of HK\$0.49 on each of the then issued Consolidated Shares such that the par value of each issued Consolidated Share will be reduced from HK\$0.50 to HK\$0.01. The credit arising from the Capital Reduction be applied towards offsetting against the accumulated loss of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated loss of the Company; and

(3) Share Subdivision

Immediately following the Capital Reduction becoming effective, each of the authorised but unissued Consolidated Shares of par value of HK\$0.50 each in the authorised share capital of the Company will be subdivided into fifty (50) authorised but unissued Adjusted Shares of par value of HK\$0.01 each.

Effect of the Capital Reorganisation

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$130,000,000 divided into 1,300,000,000 Existing Shares of par value of HK\$0.10 each, of which 539,136,000 Existing Shares have been issued and are fully paid or credited as fully paid. Upon the Share Consolidation becoming effective but before the completion of the Capital Reduction and Rights Issue and assuming no change in the number of Shares in issue from the Latest Practicable Date to the effective date of the Share Consolidation, the

authorised share capital of the Company will become HK\$130,000,000 divided into 260,000,000 Consolidated Shares of HK\$0.50 each, of which 107,827,200 Consolidated Shares (which are fully paid or credited as fully-paid) will be in issue.

Upon the Share Consolidation becoming effective, the Consolidated Shares will rank *pari passu* in all respects with each other. No fractional Consolidated Shares will be issued by the Company. Any fractional entitlements of the Consolidated Shares will be aggregated and sold for the benefit of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder.

Immediately upon the Capital Reduction becoming effective and assuming no further Shares will be issued or repurchased from the Latest Practicable Date up to and including the date of which the Capital Reorganisation shall become effective, the par value of all the issued Consolidated Shares shall be reduced from HK\$0.50 each to HK\$0.01 each by cancelling the paid-up share capital to the extent of HK\$0.49 per Share in issue.

Upon the Share Subdivision becoming effective, each of the authorised but unissued Consolidated Shares of par value of HK\$0.50 each will be subdivided into fifty (50) authorised but unissued Adjusted Shares of par value of HK\$0.01 each.

The Adjusted Shares will rank *pari passu* in all respects with each other in accordance with the Memorandum and the Articles. The issued share capital will be reduced to HK\$1,078,272 divided into 107,827,200 Adjusted Shares of par value of HK\$0.01 each.

Based on the 539,136,000 Existing Shares in issue as at the Latest Practicable Date, a credit of approximately HK\$52,835,328 will arise from the Capital Reduction, which will be applied towards offsetting against the accumulated loss of the Company as at the effective date of the Capital Reduction.

Other than the relevant expenses incurred and to be incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company.

The Capital Reorganisation will not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any unpaid capital of the Company nor will it result in any change in the relative rights of the Shareholders.

Assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date until the effective date of the Capital Reorganisation, the share capital structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after

completion of the Share Consolidation but prior to the Capital Reduction and the Share Subdivision becoming effective; and (iii) immediately after the implementation of the Capital Reorganisation is summarised below:

	As at the Latest Practicable Date	Immediately after completion of the Share Consolidation but prior to the Capital Reduction and the Share Subdivision becoming effective	Immediately upon the Capital Reorganisation becoming effective
Par value	HK\$0.10 per Existing Share	HK\$0.50 per Consolidated Share	HK\$0.01 per Adjusted Share
Authorised share capital	HK\$130,000,000 divided into 1,300,000,000 Existing Shares	HK\$130,000,000 divided into 260,000,000 Consolidated Shares	HK\$130,000,000 divided into 13,000,000,000 Adjusted Shares
Issued and fully paid-up or credited as fully paid-up share capital	HK\$53,913,600 divided into 539,136,000 Existing Shares	HK\$53,913,600 divided into 107,827,200 Consolidated Shares	HK\$1,078,272 divided into 107,827,200 Adjusted Shares
Unissued share capital	HK\$76,086,400 divided into 760,864,000 Existing Shares	HK\$76,086,400 divided into 152,172,800 Consolidated Shares	HK\$128,921,728 divided into 12,892,172,800 Adjusted Shares
Unaudited accumulated losses of the Company as at 30 June 2024	Approximately RMB458.2 million (equivalent to approximately HK\$504.0 million)	Approximately RMB458.2 million (equivalent to approximately HK\$504.0 million)	Approximately RMB410.2 million (equivalent to approximately HK\$451.2 million) (assuming no change in the accumulated losses from 30 June 2024 up to the date of the Capital Reorganisation becoming effective)

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon the following:

- (i) the passing of a special resolution to approve the Capital Reorganisation by the Shareholders at the EGM;
- (ii) the Grand Court granting an order confirming the Capital Reduction;
- (iii) compliance with any conditions which the Grand Court may impose in relation to the Capital Reduction;

- (iv) registration by the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court confirming the Capital Reduction and the minute approved by the Grand Court containing the particulars required under the Companies Act with respect to the Capital Reduction; and
- (v) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares arising from the Capital Reorganisation.

For the avoidance of doubt, the Capital Reorganisation and the Rights Issue are not interconditional. In the event the ordinary resolution is not passed at the EGM for approving the Rights Issue, the Capital Reorganisation will proceed as scheduled provided the above conditions of the Capital Reorganisation are fulfilled.

Application for listing and dealings

Application will be made to the Listing Committee for the granting of the listing of, and permission to deal in, the Adjusted Shares arising from the Capital Reorganisation.

Subject to the granting of the listing of, and permission to deal in, the Adjusted Shares on the Stock Exchange, the Adjusted Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Status of the Adjusted Shares

The Adjusted Shares will be identical in all respects and rank *pari passu* in all respects with each other. All necessary arrangements will be made for the Adjusted Shares to be admitted into CCASS.

Free exchange of share certificates

Subject to the Capital Reorganisation becoming effective, the Shareholders may, on or after Friday, 14 March 2025 until Thursday, 24 April 2025 (both days inclusive), submit share certificates for the Existing Shares (in blue colour) to the Company's branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, to exchange, at the expense of the Company, for new share certificates for the Adjusted Shares (in green colour). Thereafter, certificates for the Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be specified by the Stock Exchange) by the Shareholders for each

share certificate for the Existing Shares submitted for cancellation or each new share certificate issued for the Adjusted Shares, whichever the number of certificates cancelled/issued is higher.

All existing share certificates of the Company will continue to be evidence of title to the Shares and continue to be valid for trading, settlement, registration and delivery purposes.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots of the Adjusted Shares arising from the Capital Reorganisation and the Change in Board Lot Size, a designated broker, Astrum Capital Management Limited, an independent third party, has been appointed by the Company to match the purchase and sale of odd lots of the Shares at the relevant market price per Share. Holders of the Shares in odd lots represented by valid share certificates for the Shares who wish to take advantage of this facility either to dispose of their odd lots of the Shares or to top up their odd lots to a full board lot, may directly or through their brokers, contact Ms. Angie Yeung of Astrum Capital Management Limited at Room 2704, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong (telephone number: (852) 3665 8160) during office hours (i.e. 9:00 a.m. to 12:00 noon and 1:00 p.m. to 4:00 p.m.) for the period from Friday, 28 March 2025 to Tuesday, 22 April 2025 (both days inclusive).

Holders of odd lots of the Adjusted Shares, should note that successful matching of the sale and purchase of odd lots arising from the Capital Reorganisation and the Change in Board Lot Size are not warranted. Any Shareholder who is in any doubt about the odd lots arrangements is recommended to consult his/her/its own professional advisers.

(2) PROPOSED CHANGE IN BOARD LOT SIZE

As at the Latest Practicable Date, the Existing Shares are traded on the Stock Exchange in the board lot size of 10,000 Existing Shares. The Board proposes, subject to the Capital Reorganisation becoming effective, to change the board lot size for trading on the Stock Exchange from 10,000 Existing Shares to 20,000 Adjusted Shares. Hence, the Capital Reorganisation and the Change in Board Lot Size are inter-conditional.

Based on the closing price of HK\$0.068 per Existing Share (equivalent to the theoretical closing price of HK\$0.340 per Adjusted Share) as at the Latest Practicable Date, (i) the value of each existing board lot of 10,000 Existing Shares is HK\$680; (ii) the theoretical value of each board lot of 10,000 Adjusted Shares would be HK\$3,400 assuming the Capital Reorganisation becoming effective; and (iii) the theoretical value per board lot of 20,000 Adjusted Shares would be HK\$6,800 assuming that the Capital Reorganisation and the Change in Board Lot Size becoming effective.

The Change in Board Lot Size will not result in change in the relative rights of the Shareholders. Shareholders should take note that Shareholders approval is not required for the Change in Board Lot Size.

Reasons for the Capital Reorganisation and the Change in Board Lot Size

Pursuant to Rule 13.64 of the Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the Stock Exchange reserves the right to require the issuer either to change the trading method or proceed with a consolidation or splitting of securities. The “Guide on Trading Arrangements for Selected Types of Corporate Actions” issued by the Hong Kong Exchanges and Clearing Limited on 28 November 2008 and last updated in September 2024 (the “Guide”) has further stated that (i) market price of the shares at a level less than HK\$0.10 each will be considered as trading at extremity as referred to under Rule 13.64 of the Listing Rules; and (ii) taking into account the minimum transaction costs for a securities trade, the expected value per board lot should be greater than HK\$2,000.

During the past 12 months immediately prior to and including the Latest Practicable Date, the closing price per Existing Share fell within the range between HK\$0.04 and HK\$0.146; whereas the value of each existing board lot of 10,000 Existing Shares lied within the range between HK\$400 and HK\$1,460. Out of the 246 trading days during the past 12 months immediately prior to and including the Latest Practicable Date, the closing price per Existing Share fell below HK\$0.1 on a total of 243 days and the value of each existing board lot of 10,000 Existing Shares remained below HK\$2,000 throughout the entire period. The Board considers that the proposed Share Consolidation, resulting in a theoretical value of HK\$0.340 per Consolidated Share (based on the closing price of HK\$0.068 per Existing Share on the Latest Practicable Date), would enable the Company to avoid the occurrence of non-compliance with the trading requirements under the Listing Rules.

Assuming the Share Consolidation and the Change in Board Lot Size having become effective, (i) based on the closing price of HK\$0.068 per Share (equivalent to the theoretical closing price of HK\$0.340 per Consolidated Share) as quoted on the Stock Exchange on the Latest Practicable Date, the theoretical value of each board lot of 20,000 Consolidated Shares would be HK\$6,800; whereas (ii) based on the theoretical ex-rights price of HK\$0.21 per Adjusted Share (taking into account the effect of the Capital Reorganisation and calculated based on the benchmarked price of approximately HK\$0.270 (taking into account the effect of the Capital Reorganisation) per Adjusted Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (i) the closing price of HK\$0.054 per Existing Share as quoted on the Stock Exchange on the Last Trading Day; and (ii) the average closing price of HK\$0.054 per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to the Last Trading Day), the theoretical value of each board lot of 20,000 Adjusted Shares would

be HK\$4,200. It is expected that the Share Consolidation and the Change in Board Lot Size will increase the nominal value of the Shares and will bring about a corresponding upward adjustment in the trading price per board lot of the Consolidated Shares on the Stock Exchange, which will reduce the overall transaction and handling costs of dealings in the Consolidated Shares.

Pursuant to the Companies Act, the Company may not issue Shares at a discount to the nominal value of such Shares. As the Subscription Price, which was determined with reference to the prevailing market price of the Existing Shares, is below the par value of each Consolidated Share, the Company is not permitted to issue the Rights Shares under the laws of the Cayman Islands until and unless the par value of each Consolidated Share is reduced pursuant to the Capital Reorganisation. In order to facilitate possible fund raising activities including the Rights Issue in the future, it is necessary to implement the Capital Reorganisation to lower the par value of the Shares, giving greater flexibility to the Company to issue new Shares in the future.

The proposed Capital Reorganisation will enable the par value of the Consolidated Shares to be reduced from HK\$0.50 to HK\$0.01 each. The credit arising from the Capital Reduction will be transferred to the contributed surplus account and the contributed surplus account will be applied towards offsetting against the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company. The balance of the credit (if any) of the contributed surplus account after offsetting against the accumulated losses will be applied by the Company in any manner as permitted by all applicable laws and the Memorandum and Articles.

As at 30 June 2024, the unaudited accumulated losses of the Company was approximately RMB458.2 million. Upon the Capital Reorganisation becoming effective, the accumulated losses of the Company will be reduced by approximately RMB48.0 million (equivalent to approximately HK\$52.8 million).

The Board is of the opinion that the proposed Capital Reorganisation will give greater flexibility to the Company to (i) conduct fundraising exercise to raise capital, including the Rights Issue; (ii) declare dividends; and/or (iii) undertake any corporate exercise which requires the use of distributable reserves in the future, subject to the Company's performance and when the Board considers that it is appropriate to do so in the future.

As at the Latest Practicable Date, save as disclosed in this circular, the Company currently (i) does not have any agreement, arrangement, understanding, intention, or negotiation (either concluded or in process) on any potential fundraising activities which will involve issue of equity securities of the Company; (ii) has no other plan or intention to carry out any future corporate actions in the next twelve months which may have an effect

of undermining or negating the intended purpose of the Share Consolidation and the Change in Board Lot Size; and (iii) has no plan to declare dividends or undertake any corporate exercise which requires the use of distributable reserves of the Group.

As such, the Directors are of the view that the Capital Reorganisation and the Change in Board Lot Size are in the best interests of the Company and its Shareholders as a whole. In the event there is any change to the business environment and/or financial position of the Company due to unforeseeable circumstances, and the Company is required to conduct further fund raising exercises when suitable opportunities arise in order to support future development of the Group, the Company will publish further announcement(s) in compliance with the Listing Rules, as and when appropriate.

(3) PROPOSED RIGHTS ISSUE

The Board proposes, subject to the Capital Reorganisation becoming effective, to conduct the Rights Issue on the basis of one (1) Rights Share for every one (1) Adjusted Share held as at the Record Date. Set out below are the details of the Rights Issue statistics.

Rights Issue statistics

Basis of the Rights Issue	:	One (1) Rights Share for every one (1) Adjusted Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$0.15 per Rights Share
Net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue)	:	Approximately HK\$0.141 per Rights Share (on the basis that all the Rights Shares will be taken up)
Number of Existing Shares in issue as at the Latest Practicable Date	:	539,136,000 Existing Shares
Number of Adjusted Shares in issue upon the Capital Reorganisation becoming effective	:	107,827,200 Adjusted Shares (assuming there is no change in the number of Shares in issue up to the effective date of the Capital Reorganisation)

Number of Rights Shares (Shares to be issued pursuant to the Rights Issue)	:	107,827,200 Rights Shares (assuming there is no change in the number of Shares in issue on or before the Record Date other than the Capital Reorganisation) with an aggregate nominal value of HK\$1,078,272
Total number of Adjusted Shares in issue upon completion of the Rights Issue	:	215,654,400 Adjusted Shares (assuming no change in the number of Shares in issue on or before the Record Date other than the Capital Reorganisation)
Gross proceeds from the Rights Issue	:	Approximately HK\$16.2 million before expenses (assuming no change in the number of Shares in issue on or before the Record Date other than the Capital Reorganisation)

As at the Latest Practicable Date, the Company has outstanding Share Options entitling the holders thereof to subscribe for a total of 29,376,000 Existing Shares under the Share Option Scheme.

Save for the Share Options, the Company has no outstanding warrants, options or convertible securities in issue or other similar rights entitling holders thereof to convert into or exchange into or subscribe for new Shares as at the Latest Practicable Date.

Assuming no change in the number of Shares in issue on or before the Record Date, other than the Capital Reorganisation becoming effective, the aggregate 107,827,200 Rights Shares to be issued pursuant to the terms of the Rights Issue represent 100% of the total number of issued Adjusted Shares upon the Capital Reorganisation becoming effective and 50% of the total number of issued Adjusted Shares as enlarged by the issue of the Rights Shares (assuming full acceptance by the Qualifying Shareholders).

Dealing in the Rights Shares in both their nil-paid and fully-paid forms will be in the new board lot size of 20,000 Rights Shares.

The Subscription Price

The Subscription Price is HK\$0.15 per Rights Share, which shall be payable in full by the Qualifying Shareholders upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 55.88% to the adjusted closing price of HK\$0.340 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the closing price of HK\$0.068 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 44.44% to the adjusted closing price of HK\$0.270 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the closing price of HK\$0.054 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 44.44% to the adjusted average closing price of HK\$0.270 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the average closing price of HK\$0.054 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 45.45% to the adjusted average closing price of HK\$0.275 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the average closing price of approximately HK\$0.055 per Existing Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 44.44% to the adjusted average closing price of HK\$0.270 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the average closing price of HK\$0.054 per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to the Last Trading Day;
- (vi) theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 22.22%, based on the theoretical diluted price of HK\$0.210 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) to the benchmarked price of approximately HK\$0.270 (taking into account the effect of the Capital Reorganisation) per Adjusted Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (i) the closing price of HK\$0.054 per Existing Share as quoted on the Stock Exchange on the Last Trading Day; and (ii) the average closing price of HK\$0.054 per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to the Last Trading Day);

- (vii) a discount of approximately 79.45% to the unaudited consolidated net asset value per Adjusted Share of approximately RMB0.664 (equivalent to approximately HK\$0.730) based on the unaudited consolidated net asset value of the Company of approximately RMB71.6 million as at 30 June 2024 and the total number of 107,827,200 Adjusted Shares in issue immediately upon completion of the Capital Reorganisation;
- (viii) a discount of approximately 82.10% to the audited consolidated net asset value per Adjusted Share of approximately RMB0.762 (equivalent to approximately HK\$0.838) based on the audited consolidated net asset value of the Company as at 31 December 2023 of approximately RMB82.2 million and the total number of 107,827,200 Adjusted Shares in issue immediately upon completion of the Capital Reorganisation.

The Subscription Price was determined with reference to the followings:

- (i) *Market comparables*: With reference to the 25 rights issue exercises conducted by other companies listed on the Stock Exchange during the three months immediately prior to the Last Trading Day, the discount of subscription price per rights share to the closing price per share on the last trading day prior to the announcement of the respective rights issue generally ranged from a premium of approximately 37.90% to a discount of approximately 73.68% (the “**Range of Market Discount Rate**”) with average and median discounts of approximately 23.64% and 22.03%, respectively. Taking into consideration the discount of the Subscription Price of approximately 44.44% to the adjusted closing price of HK\$0.270 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the closing price of HK\$0.054 per Existing Share as quoted on the Stock Exchange on the Last Trading Day falls within the Range of Market Discount Rate, the Directors consider that the discount of the Subscription Price is in line with market practice. Besides, the Directors also consider that it is commercially prudent to set the Subscription Price at a discount which is above the average of the Range of Market Discount Rate taking into consideration factors pertinent to the Group including (i) the relatively challenging outlook of the Hong Kong retail industry in which the Group is engaged in; (ii) the indebtedness position and declining financial performance of the Group; and (iii) the lack of liquidity and demand for the Shares in light of the relatively low trading volume of the Company during the six months prior to and including the Last Trading Day, details of which are set forth herein below;

- (ii) *Market conditions:* Looking forward, the Group will continue face challenges in the Hong Kong retail industry in the near future. Based on information publicly available from The Census and Statistics Department, the retail sales value of jewellery, valuable gifts and watches and clocks in Hong Kong decreased from approximately HK\$50,003 million for the ten months ended 30 October 2023 to approximately HK\$42,246 million for the corresponding period in 2024. Global economic uncertainties, geopolitical tensions, and underperformance in Hong Kong's equity and real estate markets will continue to bring adverse impacts on the local economy and consumer market. According to a report from DBS (https://www.dbs.com/content/article/pdf/AIO/112024/241120_insights_annual_outlook_hongkong.pdf), retail sales in Hong Kong are forecast to remain stagnant in 2025, after a 4% drop in 2024. Taking into consideration the industry outlook of the Hong Kong retail industry, the Directors consider that it is reasonable to set the Subscription Price at a discount in order to stir up investment sentiment among investors;
- (iii) *Financial position of the Group:* According to the Company's interim report for the six months ended 30 June 2024, the Group's revenue generated from branded watches business and exhibition business decreased from approximately RMB27.3 million for the six months ended 30 June 2023 to approximately RMB22.1 million for the six months ended 30 June 2024. Further, the Group recorded a net loss of approximately RMB10.7 million for the six months ended 30 June 2024. As at 30 June 2024, the Group had bond payables of approximately RMB27.8 million (equivalent to approximately HK\$30.6 million) in aggregate and the gearing ratio (defined as total interest bearing borrowings divided by shareholders equity) of the Group increased from approximately 32.5% as at 31 December 2023 to approximately 38.8% as at 30 June 2024. In light of the indebtedness position and declining financial performance of the Group during 2023 and 2024, the Directors consider that it is reasonable to set the Subscription Price at a discount in order to garner continuous support from existing Shareholders and interest from potential investors to invest in the Company; and
- (iv) *Reasons for and benefits of the proposed Rights Issue:* details of which are set forth in the paragraph headed "Reasons for the Rights Issue, the Placing and the use of proceeds" in this section.

The Directors consider that it is reasonable to set the Subscription Price at a discount to the prevailing market price and the adjusted consolidated net asset value per Adjusted Share as illustrated above, taking into consideration:

- (i) based on the closing price of HK\$0.054 per Existing Share as quoted on the Stock Exchange on the Last Trading Day, the Existing Shares have been traded at a discount of approximately 63.01% to the unaudited consolidated net asset value per Existing Share of approximately RMB0.133 (equivalent to approximately HK\$0.146) with reference to the unaudited consolidated net asset value of the Company of approximately RMB71.6 million as at 30 June 2024 and the total number of 539,136,000 Existing Shares in issue as at the Latest Practicable Date;
- (ii) during the six months prior to and including the Last Trading Day, the Company's average daily trading volume (calculated based on the total trading volume divided by the total number of days during the six months prior to and including the Last Trading Day) represented merely approximately 0.06% of the total issued share capital of the Company; and
- (iii) for the year ended 31 December 2022 and 2023, the Company recorded total comprehensive expense of approximately RMB36.0 million and RMB36.2 million, respectively.

Under the prevailing market conditions and economic sentiment and with reference to (i) the recent market performance of the Existing Shares particularly the Company's average daily trading volume during the six months prior to and including the Last Trading Day as illustrated above indicated a lack of liquidity and demand for the Shares; (ii) the latest business performance and financial position of the Group, particularly the Group has been in a loss position during the two years ended 31 December 2022 and 2023; and (iii) the Shares have been traded at a discount to the net asset value per Share, the Directors consider that it would be more practical and commercially reasonable to set a subscription price which is lower than the prevailing market price and the consolidated net asset value per Adjusted Share as illustrated above in order to enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders and investors to participate in the Rights Issue.

The Directors (excluding the members of the Independent Board Committee, whose opinion will be provided after taking into account the advice of the Independent Financial Adviser) consider that, despite any potential dilution impact of the proposed Rights Issue on the shareholding interests of the Shareholders, the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account that (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the Rights Issue can sell the nil-

paid rights in the market; (ii) the Rights Issue allows the Qualifying Shareholders to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the historical market price of the Shares and discount to the recent closing prices of the Shares; (iii) the funding needs of the Group, details of which are set forth in the paragraph headed Reasons for the Rights Issue, the Placing and the use of Proceeds in this circular; and (iv) the majority of the net proceeds from the Rights Issue will be applied towards the repayment of the Group's outstanding bonds, thereby lowering the interest burden as well as the Group's bond payables by approximately HK\$12.6 million. The Group's gearing ratio (defined as total interest-bearing borrowings divided by shareholders' equity) will decrease from approximately 38.8% as at 30 June 2024 to approximately 22.1% upon the application of the net proceeds from the Rights Issue as to approximately HK\$12.6 million for the repayment of the Group's outstanding bonds, resulting in an improvement in the financial condition of the Group.

Non-underwritten basis

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event of an undersubscription of the Rights Issue, any Unsubscribed Rights Shares together with the NQS Unsold Rights Shares will be placed on a best effort basis by the Placing Agent to independent placees under the Placing. Any Unsubscribed Rights Shares or NQS Unsold Rights Shares remain not placed under the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

There is no minimum amount to be raised under the Rights Issue. There are no applicable statutory requirements under the laws of the Cayman Islands regarding minimum subscription levels in respect of the Rights Issue.

As the Rights Issue will proceed on a non-underwritten basis, Shareholder who applies to take up all or part of his/her/its entitlement under the PAL may result in the public float of the Shares falling below the minimum public float requirements under Rule 8.08 of the Listing Rules or unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders (other than HKSCC Nominees Limited) to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which (i) does not result in any non-compliance with the public float requirements under Rule 8.08 of the Listing Rules on the part of the Company; and (ii) does not trigger an obligation on the part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance with the note to Rule 7.19(5)(b) of the Listing Rules.

Possible adjustment to outstanding Share Options

As at the Latest Practicable Date, the Company has outstanding Share Options entitling the holders thereof, being employees of the Company, to subscribe for a total of 29,376,000 Existing Shares under the Share Option Scheme.

Pursuant to the terms of the Share Option Scheme, the Rights Issue may lead to adjustments to, among others, the exercise price and/or the number of Shares to be issued upon exercise of the outstanding Share Options under the Share Option Scheme. The Company will notify the holders of such Share Options and the Shareholders by way of announcement (as and when appropriate) regarding adjustments to be made (if any) pursuant to the terms of the Share Option Scheme, and such adjustment will be certified by an independent financial adviser or auditors of the Company (as the case may be).

Save for the foregoing, as at Latest Practicable Date, the Company had no outstanding debt securities, derivatives, options, warrants, convertible securities or other similar securities which are convertible or exchangeable into Shares prior to the Record Date. The Company has no intention to issue or grant any Shares, convertible securities, warrants and/or options on or before the Record Date.

Conditions of the Rights Issue

The Rights Issue is conditional upon each of the following conditions being fulfilled:

- (i) the Capital Reorganisation and the Change in Board Lot Size having become effective;
- (ii) the passing by more than 50% of the votes cast by the Independent Shareholders by way of poll of all necessary resolutions to be proposed at the EGM for the transactions contemplated under the Rights Issue to be effective in compliance with the Listing Rules, including but not limited to approving, confirming and/or ratifying the Rights Issue, including the allotment and issue of the Rights Shares in their nil-paid and fully paid forms;
- (iii) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively of the Prospectus Documents in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance not later than the Posting Date;
- (iv) following registration, the Prospectus Documents having been made available to the Qualifying Shareholders and the Prospectus for information only to the Non-Qualifying Shareholders the publication of the Prospectus Documents on the websites of the Stock Exchange and the Company on or before the Posting Date;

- (v) the grant of listing of the Rights Shares (in both nil-paid and fully paid forms) by the Stock Exchange (either unconditionally or subject only to the allotment and despatch of the share certificates in respect thereof) and the grant of permission to deal in the nil-paid Rights Shares and the fully-paid Rights Shares by the Stock Exchange (and such permission and listing not subsequently having been withdrawn or revoked);
- (vi) the Placing Agreement not having been terminated in accordance with the provisions thereof; and
- (vii) all other necessary waivers, consent and approvals (if required) from the relevant governmental or regulatory authorities for the Rights Issue and the transactions contemplated thereunder having been obtained and fulfilled.

In relation to the condition set out in paragraph (vii) above, the Directors confirmed that, save for (a) the grant of listing of the Rights Shares (in both nil-paid and fully paid forms) and the grant of permission to deal in the nil-paid Rights Shares and the fully-paid Rights Shares by the Stock Exchange; and (b) the registration of the Prospectus Documents by the Stock Exchange and the Company Registrar of Companies in Hong Kong, no other waiver, consent or approval is considered to be necessary for the Rights Issue to be effective.

None of the above conditions precedent can be waived. As at the Latest Practicable Date, none of the above conditions has been fulfilled. If any of the above conditions are not satisfied at or before 4:00 p.m. on Monday, 30 June 2025 (or such later date as the Company may determine), the Rights Issue will not proceed.

As the proposed Rights Issue is subject to the above conditions, it may or may not proceed.

Status of the Rights Shares

The Rights Shares (when allotted, fully-paid or credited as fully paid and issued) will rank *pari passu* in all respects among themselves and with the Adjusted Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment and issue of the fully paid Rights Shares.

Stamp duty and other applicable fees

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to payment of stamp duty, Stock Exchange trading fee, SFC transaction levy, AFRC transaction levy or any other applicable fees and charges in Hong Kong.

Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders. To qualify for the Rights Issue, Shareholder must be registered as a member of the Company on the Record Date and not be a Non-Qualifying Shareholder.

In order to be registered as members of the Company prior to the closing of business on the Record Date, all transfers of Adjusted Shares (together with the relevant share certificates and instruments of transfer) must be lodged with the Company's branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by 4:30 p.m. on Tuesday, 18 March 2025.

Closure of register of members

The register of members of the Company will be closed from Wednesday, 19 March 2025 to Tuesday, 25 March 2025 (both days inclusive) for determining the entitlements to the Rights Issue. No transfer of Shares will be registered during this period.

Basis of provisional allotment

The basis of the provisional allotment shall be one (1) Rights Share (in nil-paid form) for every one (1) Adjusted Share held by the Qualifying Shareholders as at the close of business on the Record Date. There will be no excess application arrangements in relation to the Rights Issue.

Acceptance for all or any part of a Qualifying Shareholder's provisional allotment should be made only by lodging a duly completed PAL with a remittance for the Rights Shares being accepted by the Registrar by the Latest Time for Acceptance.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots of the Rights Shares arising from the Rights Issue, a designated broker, Astrum Capital Management Limited, an independent third party, has been appointed by the Company to match the purchase and sale of odd lots of the Shares at the relevant market price per Share. Holders of the Shares in odd lots represented by valid share certificates for the Shares who wish to take advantage of this facility either to dispose of their odd lots of the Shares or to top up their odd lots to a full board lot, may directly or through their brokers, contact Ms. Angie Yeung of Astrum Capital Management Limited at Room 2704, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong (telephone number: (852) 3665 8160) during office hours (i.e. 9:00 a.m. to 12:00 noon and 1:00 p.m. to 4:00 p.m.) for the period from Friday, 28 March 2025 to Tuesday, 22 April 2025 (both days inclusive).

Holders of odd lots arising from the Rights Issue should note that successful matching of the sale and purchase of odd lots arising from the Rights Issue are not warranted. Any Shareholder who is in any doubt about the odd lots arrangements is recommended to consult his/her/its own professional advisers.

Rights of Overseas Shareholders (if any)

As at the Latest Practicable Date, based on the register of members of the Company, there were a total of 14 Overseas Shareholders with registered addresses located outside Hong Kong, details of which are set out below:

Jurisdiction	Number of Overseas Shareholder(s)	Aggregate number of Existing Shares held by Overseas Shareholder(s) in the jurisdiction	Approximate percentage of issued share capital of the Company
The PRC	13	71,098,000	13.19%
Taiwan	1	4,260,000	0.79%

Save for the 14 Overseas Shareholders with registered addresses located in the PRC and Taiwan, there were no other Overseas Shareholders based on the register of members of the Company as at the Latest Practicable Date.

In compliance with Rule 13.36(2)(a) of the Listing Rules, the Company has made enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholders. On the basis of the results of such enquiries obtained, the Directors are of view that there are no legal restrictions under the laws of or the requirements of the relevant regulatory bodies or stock exchange in the PRC and Taiwan with respect to the offer of the Rights Shares to the Overseas Shareholders with registered addresses in such jurisdictions as at the Latest Practicable Date. Accordingly, the Directors have decided to extend the Rights Issue to the Overseas Shareholders having registered addresses in the PRC and Taiwan and such Overseas Shareholders are considered as Qualifying Shareholders.

Overseas Shareholders should note that they may or may not be entitled to participate in the Rights Issue, subject to the results of the enquiries to be made by the Board pursuant to Rule 13.36(2)(a) of the Listing Rules. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares.

The Prospectus Documents are not intended to be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong. In the event that additional Overseas Shareholder(s), other than the Overseas Shareholders with registered addresses located in the PRC and Taiwan as mentioned above, is/are identified as at the Record Date, such Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below.

In the event additional Overseas Shareholder(s), other than the Overseas Shareholder with registered address located in the PRC and Taiwan as mentioned above, is/are identified as at the Record Date, the Company will comply with Rule 13.36(2)(a) of the Listing Rules to make enquiries regarding the feasibility of extending the offer of the Rights Issue to Overseas Shareholders, if any, under the laws of the relevant overseas jurisdictions and the requirements of the relevant regulatory bodies or stock exchanges. If, based on the legal advice to be provided by the legal advisor of the Company, the Board considers that it would be necessary or expedient not to offer the Rights Shares to the Overseas Shareholders on account of either the legal restrictions under the laws of the relevant jurisdiction or the requirements of the relevant regulatory body or stock exchange in such relevant jurisdiction, the Rights Issue will not be extended to such Overseas Shareholders. In such circumstances, the Rights Issue will not be extended to the Non-Qualifying Shareholders. The basis for excluding the Non-Qualifying Shareholders, if any, from the Rights Issue will be set out in the Prospectus to be issued.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, to be sold in the market in their nil-paid form as soon as practicable after dealings in the Rights Shares in their nil-paid form commence and before dealings in the Rights Shares in their nil-paid form end, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses and stamp duty, of more than HK\$100 will be paid to the Non-Qualifying Shareholders pro rata to their shareholdings held on the Record Date. In light of administrative costs, the Company will retain individual amounts of HK\$100 or less for its own benefit.

Procedures in respect of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares and the Compensatory Arrangements.

The Company will make arrangements described in Rule 7.21(1)(b) of the Listing Rule to dispose of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by offering the Unsubscribed Rights Shares and NQS Unsold Rights Shares to independent placees for the benefit of Shareholders to whom they were offered by way of the Rights Issue. There will be no excess application arrangements in relation to the Rights Issue. On 2 December 2024, the Company entered into the Placing Agreement with the Placing Agent in relation to the placing of the Unsubscribed Rights Shares and NQS Unsold Rights Shares to independent placees on a best effort basis.

Pursuant to the Placing Agreement, the Company appointed the Placing Agent to place the Placing Shares during the Placing Period to independent placees on a best effort basis, any premium over the Subscription Price for those Rights Shares that is realised will be paid to those No Action Shareholders and Non-Qualifying Shareholders on a pro-rata basis. The Placing Agent will on a best effort basis, procure, by not later than 4:00 p.m. on Wednesday, 30 April 2024, placees to subscribe for all (or as many as possible) of those Unsubscribed Rights Shares and NQS Unsold Rights Shares. Any Unsubscribed Rights Shares and NQS Unsold Rights Shares remain not placed after completion of the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

Net Gain (if any) will be paid (without interest) to the No Action Shareholders and Non-Qualifying Shareholders as set out below on a pro rata basis (but rounded down to the nearest cent):

- A. for No Action Shareholders, the relevant Qualifying Shareholders (or such persons who hold any nil-paid rights at the time such nil-paid rights are lapsed) whose nil-paid rights are not validly applied for in full, by reference to the extent that Shares in his/ her/its nil-paid rights are not validly applied for; and
- B. for Non-Qualifying Shareholders, the relevant Non-Qualifying Shareholders with reference to their shareholdings in the Company on the Record Date.

If and to the extent in respect of any Net Gain, any No Action Shareholders or Non-Qualifying Shareholders become entitled on the basis described above to an amount of HK\$100 or more, such amount will be paid to the relevant No Action Shareholders and Non-Qualifying Shareholders in Hong Kong Dollars only and the Company will retain individual amounts of less than HK\$100 for its own benefit.

The Optionholder's Undertakings

As at the Latest Practicable Date, each of the holders of the Share Options, being employees of the Company has signed an Optionholder's Undertaking not to exercise the Share Options granted to him/her on or before the Record Date.

Save for the Optionholder's Undertakings, the Company has not received any information or irrevocable undertaking from any other Shareholders of their intention in relation to the Rights Shares to be provisionally allotted to them under the Rights Issue as at the Latest Practicable Date.

Placing Agreement for Unsubscribed Rights Shares and NQS Unsold Rights Shares

Details of the Placing Agreement are summarised below:

Date : 2 December 2024 (after trading hours)

Issuer : The Company

Placing Agent : Astrum Capital Management Limited, a licensed corporation under the SFO to engage in 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, was appointed as the Placing Agent to procure, on a best effort basis, places to subscribe for the Unsubscribed Rights Shares and NQS Unsold Rights Shares during the Placing Period.

The Placing Agent confirmed that it and its ultimate beneficial owner(s) (i) are not Shareholder(s); and (ii) are Independent Third Parties.

Placing Period : The period commencing from the first Business Day after the date of announcement of the number of the Unsubscribed Rights Shares and NQS Unsold Rights Shares, which is expected to be Tuesday, 22 April 2025 and ending at 4:00 p.m. on Wednesday, 30 April 2025.

Commission and expense : The Company shall pay the Placing Agent a placing commission equivalent to (i) a fixed fee of HK\$100,000; or (ii) 1.5% of the amount which is equal to the Placing Price multiplied by the total number of the Unsubscribed Rights Shares and NQS Unsold Rights Shares which are successfully placed by the Placing Agent, whichever is higher.

For illustrative purpose, the maximum amount of commission payable by the Company to the Placing Agent is HK\$242,611.2, assuming no subscription by the Qualifying Shareholders and all the Placing Shares are placed to Independent Third Parties under the Placing.

- Placing price : The placing price of each of the Placing Shares shall be not less than the Subscription Price. The final price determination will be dependent on the demand and market conditions of the Placing Shares during the process of placement.
- Placees : The Placing Shares are expected to be placed to placee(s), who and whose ultimate beneficial owner(s) shall be Independent Third Party(ies) and who are independent among each other. The Placing will not have any implication under the Takeovers Code and no Shareholder will be under any obligation to make a general offer under the Takeovers Code as a result of the Placing.
- Ranking of the Placing Shares : The Placing Shares (when placed, allotted, issued and fully paid), shall rank *pari passu* in all respects among themselves and with the Adjusted Shares in issue at the date of completion of the Placing.
- Conditions Precedent : The Placing is conditional upon the following conditions being fulfilled (or being waived by the Placing Agent in writing, if applicable):
- (i) the Capital Reorganisation having become effective;
 - (ii) the Listing Committee of the Stock Exchange having granted the listing of, and the permission to deal in, the Rights Shares;
 - (iii) the approval of the Rights Issue and the transactions contemplated thereunder including the Placing Agreement, by more than 50% of the Independent Shareholders at the EGM by way of poll;

- (iv) none of the representations, warranties or undertakings contained in the Placing Agreement being or having become untrue, inaccurate or misleading in any material respect at any time before the completion, and no fact or circumstance having arisen and nothing having been done or omitted to be done which would render any of such undertakings, representations or warranties untrue or inaccurate in any material respect if it was repeated as at the time of completion; and
- (v) the Placing Agreement not having been terminated in accordance with the provisions thereof.

The Placing Agent may, in its absolute discretion, waive the fulfillment of all or any part of the conditions precedent to the Placing Agreement (other than those set out in paragraphs (i), (ii), (iii) and (v) above) by notice in writing to the Company.

Termination : The Placing Period shall end at 4:00 p.m. on Wednesday, 30 April 2025 or any other date by mutual written agreement between the Placing Agent and the Company.

The engagement of the Placing Agent may also be terminated by the Placing Agent at any time prior to 4:00 p.m. on Friday, 2 May 2025 or any other date by mutual written agreement between the Placing Agent and the Company in case of force majeure resulting in the Company and the Placing Agent being unable to fulfill its duties and responsibilities under the engagement. Further, if during the course of the engagement it has come to the Placing Agent's knowledge that there is any material adverse change in the business and operational environment in the Company which, in the reasonable opinion of the Placing Agent, may make it inadvisable to continue the engagement, the Placing Agent shall have the right to terminate the engagement by written notice to the Company with immediate effect.

The Company shall use its best endeavours to procure the fulfillment of such conditions precedent to the Placing Agreement by the Placing Long Stop Date. If any of the conditions precedent to the Placing Agreement have not been fulfilled by the Placing Long Stop Date or become incapable of being fulfilled (subject to the Placing Agent not exercising its rights to waive or extend the time for fulfillment of such conditions), then the Placing will lapse and all rights, obligations and liabilities of the Company and the Placing Agent in relation to the Placing shall cease and determine, save in respect of any accrued rights or obligations under the Placing Agreement or antecedent breach thereof.

The engagement between the Company and the Placing Agent in respect of the Placing Shares (including the commission and expenses payable) was determined after arm's length negotiation between the Placing Agent and the Company and is on normal commercial terms with reference to the 25 rights issue exercises conducted by other companies listed on the Stock Exchange during the three months immediately prior to the Last Trading Day, the commission charged by placing agent in a rights issue exercise conducted on a non-underwritten basis generally ranged between 1.0% to 3.5%, with an average of approximately 1.72% and a median of 1.5%. Given the commission rate of 1.5% charged by the Placing Agent falls within the market commission rate (i.e. 1.0% to 3.5%), the Directors consider that the commission rate charged by the Placing Agent under the Placing is fair and reasonable and on normal commercial terms.

Based on the above analysis, the Board considers that the terms of Placing Agreement in respect of the Placing Shares (including the commission and expenses payable) are on normal commercial terms.

As explained above, the Unsubscribed Rights Shares and NQS Unsold Rights Shares will be placed by the Placing Agent to Independent Third Parties on a best effort basis for the benefits of the No Action Shareholders and Non-Qualifying Shareholders. If all or any of the Unsubscribed Rights Shares and NQS Unsold Rights Shares are successfully placed, any premium over the Subscription Price will be distributed to the relevant No Action Shareholders and Non-Qualifying Shareholders on a pro-rata basis.

The Board considered that the Compensatory Arrangements are fair and reasonable and provide adequate safeguard to protect the interests of the Company's minority Shareholders since the Compensatory Arrangements would provide (i) a distribution channel of the Placing Shares to the Company; and (ii) an additional channel of participation in the Rights Issue for the Qualifying Shareholders and the Non-Qualifying Shareholders taking into consideration the No Action Shareholders, being Qualifying Shareholders who neither subscribe for the Rights Shares nor sell their nil-paid rights, and the Non-Qualifying Shareholders would be compensated under the Compensatory Arrangements. As illustrated above, the Unsubscribed Rights Shares and the NQS Unsold Rights Shares will be placed by the Placing Agent to Independent Third Parties on a best effort under the Compensatory Arrangements and any premium over the Subscription Price will be distributed to the relevant No Action Shareholders and Non-Qualifying Shareholders on a pro-rata basis.

Share certificates and refund cheques for the Rights Issue

Subject to fulfilment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be posted on or before Monday, 12 May 2025 to those entitled thereto at their registered addresses by ordinary post at their own risk. If the Rights Issue does not become unconditional, refund cheques without interest are expected to be posted on or before Monday, 12 May 2025 by ordinary post to the respective applicants, at their own risk, to their registered addresses.

Fractional entitlement to the Rights Shares

On the basis of provisional allotment of one (1) Rights Share for every one (1) Adjusted Share held on the Record Date, no fractional entitlements to the Rights Shares shall be issued to the Shareholders.

Application for listing of the Rights Shares

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue. No part of the equity and debt securities of the Company is listed or dealt in, and no listing of or permission to deal in any such securities is being or is proposed to be sought, on any other stock exchanges.

The nil-paid and fully-paid Rights Shares will be traded in the new board lot size of 20,000 Shares.

Rights shares will be eligible for admission into CCASS

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their licensed securities dealer(s) or other professional adviser(s) for details of those settlement arrangements and how such arrangements will affect their rights and interests.

WARNING OF THE RISKS OF DEALING IN THE EXISTING SHARES, THE ADJUSTED SHARES AND/OR THE NIL-PAID RIGHTS SHARES

Shareholders and potential investors of the Company should note that the Capital Reorganisation is conditional upon satisfaction of the conditions set out in the paragraph headed “(1) Proposed Capital Reorganisation – Conditions of the Capital Reorganisation” in this circular. Therefore, the Capital Reorganisation may or may not proceed.

The Rights Issue is subject to the fulfilment of conditions including, among other things, the Stock Exchange granting the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms. Please refer to the paragraph headed “(3) Proposed Rights Issue – Conditions of the Rights Issue” in this circular.

Shareholders and potential investors of the Company should note that each of the Rights Issue and the Placing is subject to the fulfilment of certain conditions. If any of the conditions of the Rights Issue and/or the Placing are not fulfilled, the Rights Issue and/or the Placing will not proceed.

Subject to the fulfilment of conditions, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of provisionally allotted Rights Shares. Accordingly, if the Rights Issue is undersubscribed, the size of the Rights Issue will be reduced. Qualifying Shareholders who do not take up their assured entitlements in full and Non-Qualifying Shareholders, if any, should note that their shareholdings in the Company may be diluted, the extent of which will depend in part on the size of the Rights Issue.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Existing Shares, the Adjusted Shares and/or the Rights Shares. Any party who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s).

REASONS FOR THE RIGHTS ISSUE, THE PLACING AND THE USE OF PROCEEDS

The Company is principally engaged in investment holding. The subsidiaries of the Company are principally engaged in the manufacture and sales of own-branded watches and jewellerys, including but not limited to diamond watches, tourbillon watches and luxury jewellery watches, OEM watches and third-party watches and assists customers to hold exhibition.

According to the Company's interim report for the six months ended 30 June 2024, the Group's revenue generated from branded watches business and exhibition business decreased from approximately RMB27.3 million for the six months ended 30 June 2023 to approximately RMB22.1 million for the six months ended 30 June 2024. Further, the Group recorded a net loss of approximately RMB10.7 million for the six months ended 30 June 2024.

As at 30 June 2024, the Group had bond payables of approximately RMB27.8 million (equivalent to approximately HK\$30.6 million) in aggregate. The bond payables comprised three bonds owed to three Independent Third Parties, in the principal amount of HK\$17.0 million ("**Bond A**"), HK\$5.0 million ("**Bond B**") and HK\$5.0 million ("**Bond C**"), respectively. The table below sets forth details of the Group's bond payables for the six months ended 30 June 2024:

	Bond A	Bond B	Bond C	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2024	16,686	5,080	4,945	26,711
Imputed interest charge	738	136	219	1,093
Repayments during the six months ended 30 June 2024	—	(232)	(416)	(648)
Exchange realignment	<u>414</u>	<u>118</u>	<u>113</u>	<u>645</u>
As at 30 June 2024	<u>17,838</u>	<u>5,102</u>	<u>4,861</u>	<u>27,801</u>

The gearing ratio (defined as total interest-bearing borrowings divided by shareholders equity) of the Group increased from approximately 32.5% as at 31 December 2023 to approximately 38.8% as at 30 June 2024. In August 2024, Bond B with bond payables of approximately HK\$5 million which bears 5% annual interest was matured. After negotiation with the bondholder in relation to the extension, they decided to request the settlement. In October 2024, the Group received an early repayment request from one of the bondholders in relation to a bond with principal amount of HK\$17 million which bears 9% annual interest rate (the Bond). Subsequent to negotiation between the Company and the bondholder, the bondholder agreed to accept an early repayment of HK\$7 million, representing part of the principal amount of the Bond on or before 30 June 2025, thereby allowing the Company to obtain sufficient external funding for the repayment of the Bond.

The Company currently intends to apply in aggregate approximately HK\$12.6 million of the net proceeds from the Rights Issue for the repayment of the Group's outstanding bonds and to repay the remaining balance of the outstanding bonds using internal financial resources of the Group. The relevant bondholders have indicated that in the event the Company fails to raise sufficient funds for the repayment of the bond payables, the relevant bondholders would then engage in separate negotiations with the Company regarding further possible extension and/or other means of settlement for the repayment of the bonds. As at the Latest Practicable Date, the relevant bondholders have confirmed to the Company that they would not take any legal actions against the Company with respect to the repayment of bonds before completion of the Rights Issue.

As at 30 June 2024, the Company had cash and bank balances of approximately RMB1.4 million. Taking into consideration the Group's indebtedness and gearing ratio as compared to its cash position and loss-making performance, the Directors consider that it is financially prudent for the Group to raise funds through the Rights Issue to improve its financial condition of the Group and reduce its gearing and interest burden.

Use of proceeds

Assuming there will be no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than as a result of the Capital Reorganisation and full subscription of the Rights Issue, the maximum net proceeds from the Rights Issue (after deducting the related expenses) is expected to be approximately HK\$15.2 million. The Company intends to apply the net proceeds from the Rights Issue as follows:

- (i) approximately 82.9% of the net proceeds or approximately HK\$12.6 million for repayment of the Group's bond payables (including interest expenses) on or before 31 May 2025; and
- (ii) approximately 17.1% of the net proceeds or approximately HK\$2.6 million for general working capital of the Group comprising rental expenses and other miscellaneous expenses, on or before 31 December 2025.

In the event that there is an undersubscription of the Rights Issue, the net proceeds of the Rights Issue will be utilised in proportion to the above uses.

Alternative fund-raising methods considered

The Company had considered other fund-raising alternatives available to the Group, including debt financing and other equity financing such as placing or subscription of new Shares.

The Board considers that to finance the funding needs of the Group in the form of equity is a better alternative than debt as it would not result in additional interest burden and will improve the gearing of the Group. In particular, the Company had faced difficulties in sourcing debt financing as its application for loans had previously been rejected by financial institutions due to the lack of security as the Company does not have material tangible assets in Hong Kong.

Amongst the equity financing methods, placing or subscription of new Shares would dilute the shareholding of the existing Shareholders without giving the chance to the existing Shareholders to participate. In particular, placing is relatively smaller in scale as compared to fund raising through rights issue and it would lead to immediate dilution in the shareholding interest of the existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company. On the contrary, the Rights Issue is pre-emptive in nature, as it allows Qualifying Shareholders to maintain their proportional shareholdings in the Company through participation in the Rights Issue. The Rights Issue also allows the Qualifying Shareholders to (a) increase their respective shareholding interests in the Company by acquiring additional rights entitlement in the open market (subject to the availability); or (b) reduce their respective shareholding interests in the Company by disposing of their rights entitlements in the open market (subject to the market demand). As an open offer does not allow the trading of rights entitlements, a rights issue is preferred. Further, the Rights Issue will enable the Group to strengthen its capital base and to enhance its financial position without increasing its debt or finance costs.

Based on the above, the Board (excluding the members of the Independent Board Committee whose opinion will be rendered after considering the advice from the Independent Financial Adviser) considers that raising capital through the Rights Issue is in the interests of the Company and the Shareholders as a whole. In addition, based on enquiries with the Placing Agent, the Board understands that if the Unsubscribed Rights Shares and NQS Unsold Rights Shares were to be fully-underwritten, the underwriting commission proposed to be charged by the Placing Agent would be around 5% which is higher than the commission of 1.5% charged for the Placing on a best effort basis. To improve the cost effectiveness of the Rights Issue and having considered the capital needs of the Group, the terms of the Rights Issue and the Subscription Price, the Board considers that it is in the interests of the Company to proceed with the Rights Issue on a non-underwritten basis. However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholder(s), if any, should note that their shareholdings will be diluted.

EQUITY FUNDRAISING ACTIVITIES IN THE PAST 12 MONTHS

The Company has not conducted any fund-raising activities involving issue of its securities in the past 12 months immediately preceding the Latest Practicable Date.

TAXATION

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf.

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Capital Reorganisation; (iii) immediately upon completion of the Rights Issue assuming full acceptance by all Qualifying Shareholders under the Rights Issue; and (iv) immediately upon completion of the Rights Issue assuming (a) no subscription by the Qualifying Shareholders; and (b) all the Placing Shares are placed to Independent Third Parties under the Placing:

Shareholder	As at the Latest Practicable Date		Immediately upon completion of the Capital Reorganisation		Immediately upon completion of the Rights Issue assuming full acceptance by all Qualifying Shareholders		Immediately upon completion of the Rights Issue assuming (a) no subscription by the Qualifying Shareholders; and (b) all the Placing Shares are placed to Independent Third Parties under the Placing		Immediately upon completion of the Rights Issue assuming (a) no subscription by the Qualifying Shareholders; and (b) no Placing Shares are placed to Independent Third Parties under the Placing	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Public Shareholders	539,136,000	100.0	107,827,200	100.0	215,654,400	100.0	107,827,200	50.0	107,827,200	100.0
Placees	–	–	–	–	–	–	107,827,200	50.0	–	–
	<u>539,136,000</u>	<u>100.0</u>	<u>107,827,200</u>	<u>100.0</u>	<u>215,654,400</u>	<u>100.0</u>	<u>215,654,400</u>	<u>100.0</u>	<u>107,827,200</u>	<u>100.0</u>

Notes:

1. The percentage figures have been subject to rounding adjustments. Any discrepancies between totals and sums of amounts listed herein are due to rounding adjustments.
2. The Company will at all time and continue to comply with the public float requirements under Rule 8.08 of the Listing Rules before and after completion of the Rights Issue.

LISTING RULES IMPLICATIONS

The Capital Reorganisation is conditional upon, among other things, the approval by the Shareholders by way of poll at the EGM. None of the Shareholders or their respective associates had any interest in the Capital Reorganisation. Accordingly, no Shareholder is required to abstain from voting in favour of the resolutions relating to the Capital Reorganisation at the EGM.

In accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, as the Rights Issue will increase the total number of issued Shares of the Company by more than 50% within 12 months period immediately preceding the Latest Practicable Date (after taking into account the effect of the Capital Reorganisation), the Rights Issue is conditional upon the minority Shareholders' approval at the EGM, and any controlling shareholders of the Company and their associates, or where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) in relation to the Rights Issue at the EGM.

As at the Latest Practicable Date, the Company has no controlling shareholder as defined under the Listing Rules and none of the Directors, the chief executive of the Company and their respective associates is interested in any Shares. Therefore, no Shareholder is required to abstain from voting in favour of the proposed resolutions to approve the Rights Issue, the Placing Agreement and the transactions contemplated thereunder at the EGM.

The Rights Issue will not result in a theoretical dilution effect of 25% or more. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Yu Chon Man, Mr. Zhong Weili and Ms. Duan Baili, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote at the EGM. Vinco Financial has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable.

GENERAL

The EGM will be convened for the Shareholders to consider and, if fought fit, approve the Capital Reorganisation and the Rights Issue. For the purpose of determining the Shareholders entitlements to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 29 January 2025 to Friday, 7 February 2025 (both days inclusive).

In order to be registered as members of the Company prior to the closing of business on the Record Date, all transfers of Adjusted Shares (together with the relevant share certificates and instruments of transfer) must be lodged with the Company's branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by 4:30 p.m. on Tuesday, 18 March 2025. A notice convening the EGM to be held at Portion 2, 12/F., The Center, 99 Queen's Road Central, Central, Hong Kong on Friday, 7 February 2025 at

11:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular. Whether you are able to attend the EGM or not, you are requested to complete the enclosed proxy form in accordance with the instructions printed on it and return the completed proxy form to the Registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event so that it is received at least 48 hours before the time appointed (i.e. Wednesday, 5 February 2025 at 11:00 a.m.) for the EGM or adjourned meeting (as the case may be). Submission of a proxy form shall not preclude you from attending the EGM (or any adjournment of such meeting) and voting in person should you so wish.

DESPATCH OF PROSPECTUS DOCUMENTS AND CIRCULAR

Subject to the fulfilment of the conditions of the Rights Issue, the Prospectus Documents containing, among other matters, details of the Rights Issue, will be made available and/or despatched to the Qualifying Shareholders on or before Wednesday, 26 March 2025. The Company will despatch the Prospectus only (without the PAL(s)) will be made available and/or despatched to the Non-Qualifying Shareholders (if any) for their information purpose only to the extent permitted under the relevant laws and regulations and reasonably practicable.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 19 March 2025 to Tuesday, 25 March 2025 (both days inclusive) for determining the entitlements to the Rights Issue. No transfer of Shares will be registered during this period.

THE EGM

The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the necessary resolution(s), among other things, in respect of the proposed Capital Reorganisation. As at the Latest Practicable Date, the Company has no controlling shareholder as defined under the Listing Rules and none of the Directors, the chief executive of the Company and their respective associates is interested in any Shares. Therefore, no Shareholder is required to abstain from voting in favour of the proposed resolutions to approve the Rights Issue, the Placing Agreement and the transactions contemplated thereunder at the EGM.

A notice convening the EGM to be held at Portion 2, 12/F., The Center, 99 Queen's Road Central, Central, Hong Kong on Friday, 7 February 2025 at 11:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular. Whether you are able to attend the EGM or not, you are requested to complete the enclosed proxy form in accordance with the instructions printed on it and return the completed proxy form to the Registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event so that it is received at least 48 hours before the time appointed (i.e. Wednesday, 5 February 2025 at 11:00 a.m.) for the EGM or adjourned meeting (as the case may be). Submission of a proxy form shall not preclude you from attending the EGM (or any adjournment of such meeting) and voting in person should you so wish.

VOTING BY POLL

All the resolutions set out in the notice of the EGM would be decided by poll in accordance with Rule 13.39(4) of the Listing Rules and the Articles of Association. On a poll, every Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by a proxy shall have one vote for every fully paid Share held. A Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy who is entitled to more than one vote need not use all his/her/its votes or cast all his/her/its votes in the same way. After the conclusion of the EGM, the poll results will be published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.luxxu.hk.

STATEMENT OF RESPONSIBILITY

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.

RECOMMENDATION

The Independent Board Committee, which comprises all the independent non-executive Directors has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the Placing Agreement, and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM on the relevant resolutions. Vinco Financial has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Your attention is drawn to the letter from the Independent Board Committee set out on pages 47 to 48 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from the Independent Financial Adviser set out on pages 49 to 77 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors consider that the terms of the Capital Reorganisation are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Further, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) consider that the terms of the Rights Issue and the Placing Agreement, and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) recommend the Shareholders and the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM.

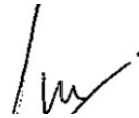
ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendices I to III to this circular.

MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

Yours faithfully,
By order of the Board
Luxxu Group Limited



Liang Yanhuang
Executive Director