17 January 2025

To the Independent Board Committee and the Independent Shareholders of
Luxxu Group Limited

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY ONE (1) ADJUSTED SHARE HELD ON THE RECORD DATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the terms of the Rights Issue and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 17 January 2025 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context requires otherwise.

Reference is made to the Announcement in relation to, among other things, the Capital Reorganisation, the Change in Board Lot Size and the 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 by the Qualifying Shareholders as at the Record Date at the Subscription Price of HK$0.15 per Rights Share, to raise up to approximately HK$16.2 million before expenses by way of issuing up to 107,827,200 Rights Shares (assuming full subscription under the Rights Issue and there is 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).

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 to (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.

There will be no excess application arrangements in relation to the Rights Issue. 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. There are no statutory requirements regarding the minimum subscription levels in respect of the Rights Issue and there is no minimum amount to be raised under the Rights Issue. In the event of an undersubscription of the Rights Issue, the size of the Rights Issue will be reduced accordingly.

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, chief executives of the Company and their respective associates are 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 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, after taking into account the recommendations of the Independent Financial Adviser.

We, Vinco Financial Limited, have been appointed and approved by the Independent Board Committee, comprising three independent non-executive Directors, to advise the Independent Board Committee and the Independent Shareholders on the Rights Issue. In our capacity as the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee as to whether the Rights Issue are on normal commercial terms, fair and reasonable, are in the interest of the Company and the Shareholders as a whole and whether to vote in the favour of the resolutions to be proposed at the EGM to approve the Rights Issue so far as the Independent Shareholders are concerned.

OUR INDEPENDENCE

As at the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We are not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the proposed Rights Issue of the Company. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fee or benefit from the Group and its associates. During the past two years, there was no engagement between the Group and us. Also, we are not aware of the existence of or change in any circumstances that could affect our independence. Accordingly, we consider that we are eligible to give independent advice on the proposed Rights Issue and the transactions contemplated thereunder of the Company.

BASIC OF OUR OPINION

In formulating our opinion and advice, we have relied upon the accuracy of the information and representations contained in the Circular and information provided to us by the Company, the Directors and the management of the Company. We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. The Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any omission of any material facts that would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and the management of the Company.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no omission of other facts that would make any statements in the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter.

We have not considered the taxation and regulatory implications on the Group or the Independent Shareholders as a result of the Rights Issue since these depend on their individual circumstances, and if in any doubt, should consult their own professional advisers. We will not accept responsibility for any tax effect on or liability of any person resulting from his or her acceptance or non-acceptance of the Rights Issue.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. In rendering our opinion in the Circular, we have researched, analyzed and relied on (i) the interim report of the Company for the six months ended 30 June 2024 (the "**Interim Report 2024**"); (ii) the annual report of the Company for the year ended 31 December 2023 (the "**Annual Report 2023**"); (iii) the management account of the Group; (iv) the Placing Agreement; (v) the relevant documents in relation to the bond agreements; (vi) the Circular; and (vii) market information obtained from the website of the Stock Exchange. Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Rights Issue, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Rights Issue and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, we have taken into account the following principal factors and reasons:

1. Business and financial information of the Group

Information of the Group

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 jewelleries, 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.

Business and financial performance of the Group

Set out below is a summary of (i) the audited consolidated financial information of the Group for the two years ended 31 December 2023 ("**FY2023**") and 31 December 2022 ("**FY2022**"); and (ii) the unaudited consolidated financial information of the Group for the six months ended 30 June 2024 ("**HY2024**") and 30 June 2023 ("**HY2023**") which were extracted from the Annual Report 2023 and Interim Report 2024 respectively:

	For the six months ended		**For the year ended**	
	30 June	**30 June**	**31 December**	
	2024	**2023**	**2023**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	22,090	27,289	31,667	64,409
Gross profit	5,946	4,342	5,553	4,805
Loss for the period/year	(10,729)	(18,074)	(39,536)	(48,247)

	As at 30 June 2024 *RMB'000* (unaudited)	As at 31 December 2023 *RMB'000* (audited)	2022 *RMB'000* (audited)
Cash and cash equivalents	1,381	1,998	9,559
Bond payables	27,801	26,711	25,181
– Current	5,944	4,854	16,040
– Non-current	21,857	21,857	9,141
Total assets	102,036	113,629	155,179
Total liabilities	30,438	31,438	36,804
Net assets	71,598	82,191	118,375

FY2023 vs FY2022

According to the Annual Report 2023, the Group recorded revenue in the amount of approximately RMB31.7 million in FY2023, representing a decrease of approximately 50.8% as compared to in the amount of approximately RMB64.4 million in FY2022. Such decrease was mainly due to the net effect of (i) decrease of sales demand watches due to the keen competition in the industry; and (ii) the increase in average selling price in FY2023. We also note that the Group's gross profit of approximately RMB5.6 million in FY2023 increased by approximately 15.6% from approximately RMB4.8 million in FY2022, despite the decrease in revenue, which was in line with the increase in the average selling price in FY2023. The Group recorded a net loss in FY2023 in the amount of approximately RMB39.5 million, which improve from that in FY2022 in the amount of approximately RMB48.2 million. Such improvement was mainly due to the decrease in allowance for inventories.

The Group's cash and cash equivalents amounted to approximately RMB2.0 million as at 31 December 2023, which decreased by approximately RMB7.6 million, as compared to that of approximately RMB9.6 million as at 31 December 2022. The Group's total assets as at 31 December 2023 amounted to approximately RMB113.6 million and its total liabilities as at 31 December 2023 amounted to approximately RMB31.4 million. The Group's net assets amounted to approximately RMB82.2 million as at 31 December 2023, representing a decrease of approximately 30.6% as compared to that of approximately RMB118.4 million as at 31 December 2022. Such decrease was mainly due to the decrease in trade receivables by approximately RMB30.3 million, deposits, prepayments and other receivables by approximately RMB12.3 million and cash and cash equivalents by approximately RMB7.6 million, and offset by the increase in inventories by approxiamtely RMB21.7 million. The gearing ratio (defined as total interest-bearing borrowings divided by shareholders' equity) of the Group increased from 21.3% as at 31 December 2022 to approximately 32.5% as at 31 December 2023. Such increase was mainly due to the decrease in shareholders' equity.

HY2024 vs HY2023

According to the Interim Report 2024, the Group recorded revenue in the amount of approximately RMB22.1 million in HY2024, representing a decrease of approximately 19.1% as compared to in the amount of approximately RMB27.3 million in HY2023. Such decrease was mainly due to the decrease in sales order as results of the keen competition in the industry which net off with the effect of increase in exhibition income. We also note that the Group's gross profit of approximately RMB5.9 million in HY2024 increased by approximately 36.9% from approximately RMB4.3 million in HY2023, despite the decrease in revenue. The Group recorded a net loss in HY2024 in the amount of approximately RMB10.7 million as compared to that in HY2023 in the amount of approximately RMB18.1 million. Such change was mainly due to (i) the increase in gross profit as mentioned above; and (ii) the amount of other losses in HY2024 of approximately RMB5.7 million, which was lower than that in HY2023 of approximately RMB9.8 million.

The Group's cash and cash equivalents amounted to approximately RMB1.4 million as at 30 June 2024, which decreased by approximately RMB0.6 million, as compared to that of approximately RMB2.0 million as at 31 December 2023. The Group's total assets as at 30 June 2024 amounted to approximately RMB102.0 million and its total liabilities as at 30 June 2024 amounted to approximately RMB30.4 million. The Group's net assets amounted to approximately RMB71.6 million as at 30 June 2024, representing a decrease of approximately 12.9% as compared to that of approximately RMB82.2 million as at 31 December 2023. Such decrease was mainly due to the decrease in property, plant and equipment by approximately RMB3.9 million and financial assets at fair value through profit or loss by approximately RMB5.7 million. 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. Such increase was mainly due to the decrease in shareholders' equity.

Bond payables

The Group's bond payables amounted to approximately RMB25.2 million as at 31 December 2022, approximately RMB26.7 million as at 31 December 2023 and approximately RMB27.8 million as at 30 June 2024. We have obtained and reviewed the bond agreements and the letter of demand for repayment. One of the bond payables amounting to approximately HK$5.0 million which bears 5% annual interest has been past due in August 2024. Another bond payables amounting to approximately HK$7.0 million is expected to be repaid before 31 May 2025.

Having considered the bond payables, we are of the view that the Rights Issue allows additional cash flow for the repaying Group's bond and is a reasonable decision for the interests of the Company and the Shareholders as a whole.

2. Reasons for the Rights Issue, the Placing and the use of proceeds

As set out in the Board Letter, the Group's financial performance in HY2024, bond payables in HY2024 and the gearing ratio as mentioned above have been considered, in August 2024, 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. As confirmed with the management of the Company, there is no penalty for the late 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.

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.

Fund raising alternatives

With reference to the discussion with the management of the Group, 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. Accordingly, we have obtained the rejection letter of the loan application issued by the financial institution in November 2024 as to understand the feasibility of such financing method other than the Rights Issue.

Furthermore, amongst the equity financing methods, we consider 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.

Having considered (i) the Group's financial position as at 30 June 2024; (ii) its net loss making performance in FY2022, FY2023 and HY2024; (iii) its funding needs for relieve the Group's financial burden and lowering its finance costs; and (iv) the feasibility of the fund raising methods mentioned above, we are of the view that the Rights Issue is a more preferential options as compared to other alternatives under current circumstances of the Group and it offers relatively more flexibility and the opportunity to participate in the growth of the Company. As such, we concur with the Director's view that the Rights Issue is a suitable financing method, and is in the interests of the Company and the Shareholders as a whole to raise capital through the Rights Issue.

3. Principal terms of the 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 by the Qualifying Shareholders at the close of business on the Record Date. Set out below are the details of the 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, being employees of the Company, 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).

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 approximately 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 as at the Latest Practicable Date;

(ii) a discount of approximately 44.44% to the adjusted closing price of approximately HK$0.270 per Adjusted Share (after taking into account the effect of the Capital Organisation) 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 $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; and

(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:

(i) *Market comparables:* With reference to 25 rights issue exercises conducted by other companies listed on the Stock Exchange during the three months immediately prior to the Last Trading Day up to and including the Latest Practicable Date, 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;

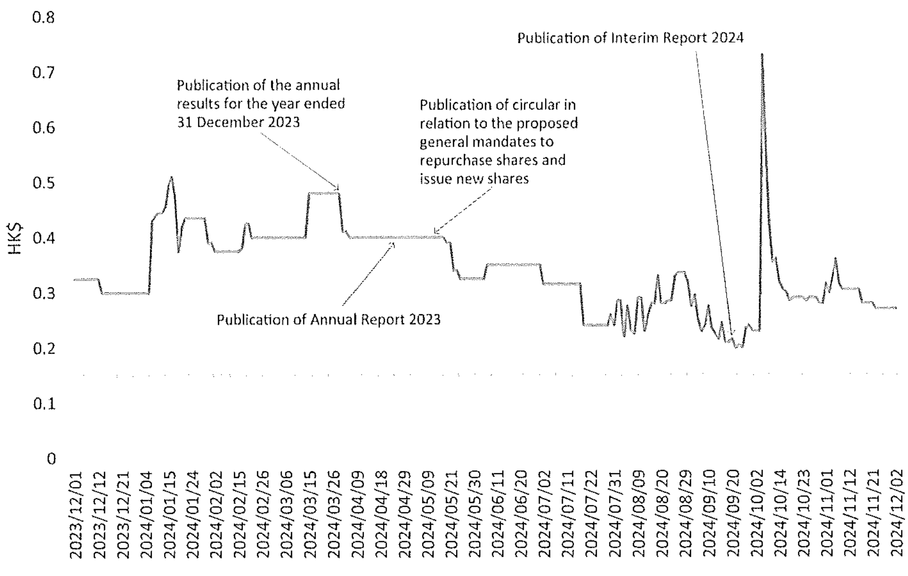
(ii) *Market conditions:* Looking forward, the Group will continue face challenges in the Hong Kong retail industry in the near future. Based on information publicly available from The Census and Statistics Department, the retail sales value of jewellery, valuable gifts and watches and clocks in Hong 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 the Board Letter.

In order to assess the fairness and reasonableness of the Subscription Price, we have taken into account (i) the theoretical closing price per Share during the one year ended the date of the Announcement (being a period of approximately one year prior to and including the Last Trading Day) (the "**Review Period**"), with a view to provide a meaningful comparison to the Subscription Price under the Rights Issue, assuming the Capital Reorganisation having become effective (the "**Closing Price**"); and (ii) the average daily trading volumes of the Existing Shares for each of the months/periods during the Review Period.

We consider that the Review Period is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical adjusted closing prices prior to the Announcement as (i) the 1-year period represents a reasonable period to reflect the performance of the closing price of the Shares in response to the prevailing market condition and operating condition; (ii) a shorter review period can only demonstrate the Share price performance in a limited and specific time which may be distorted by specific events; and (iii) it is commonly used for analysis purposes. Besides, such comparison is relevant for the assessment of the fairness and reasonableness of the Subscription Price, as the share price before the Announcement represent a fair market value of the Company, the Shareholders expected, while that after the Announcement, the value may have taken into account the potential upside of the Rights Issue which may distort the analysis. The chart below illustrates the Closing Price versus the Subscription Price of HK$0.15 per Share:



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

As shown above, the Closing Price have been fluctuated during the entire Review Period. We note that the Closing Price surged from HK$0.230 per Share on 3 October 2024 to HK$0.730 per Share on 4 October 2024 and subsequently dropped to HK$0.285 per Share on 17 October 2024. After reviewing the Company's announcements, we do not notice any specific reasons for the aforementioned movements of the Closing Price during the Review Period. As advised by the management of the Company, the Company is also not aware of any reasons for the aforementioned Share price fluctuations.

The Closing Price of the Share during the Review Period ranged from HK$0.200 per Share (the "**Lowest Closing Price**") to HK$0.730 per Share (the "**Highest Closing Price**") and with the average Closing Price of approximately HK$0.341 per Share (the "**Average Closing Price**") and the median of the Closing Price of approximately HK$0.325 per Share.

We noted from the above that during the Review Period, the Shares have been traded above the Subscription Price and that the Subscription Price of HK$0.15 represents (i) a discount of approximately 25.0% to the Lowest Closing Price; (ii) a discount of approximately 79.5% to the Highest Closing Price; (iii) a discount of approximately 56.0% to the Average Closing Price; and (iv) a discount of approximately 53.8% to the median of the Closing Price. We note that the Closing Price was higher than Subscription Price throughout the Review Period. As such, the attractiveness of the Rights Issue, for the Qualifying Shareholders to participate and maintain their respective shareholding interests in the Company, would have been enhanced accordingly with the Subscription Price offered at discounts to Lowest Closing Price, Highest Closing Price, the Average Closing Price and the median of the Closing Price respectively.

Although the Subscription Price is at all time lower than the adjusted closing price of the Consolidated Shares during the Review Period as mentioned above, after considering that (i) the low liquidity of the Shares as discussed in sub-section headed "Liquidity of the Shares" below in this letter; (ii) the funding needs to repay the debts of the Group as discussed in the section headed "2. Reasons for the Rights Issue and use of proceeds" above in this letter; (iii) the discount of the Subscription Price to the Closing Price is more significant to the median of discount of the selected market comparables but is within the range in the comparable analysis as discussed in the sub-section headed "Comparison with other rights issue transactions" below in this letter; and (iv) the industry outlook of Hong Kong retail industry being stagnant as discussed in the sub-section headed "The Subscription Price" above in this letter, we consider that the discount of the Subscription Price is fair and reasonable and the Rights Issue is in the interests of the Company and the Shareholders as a whole.

Liquidity of the Shares

The table below sets out the average daily trading volume of the Shares per month/period and the respective percentages of the average daily trading volume as compared to the total number of issued Shares during the Review Period:

	Total trading volume of the Shares in the month/period	Number of trading days in the month/period	Average daily trading volume of the Shares in the month/period *(Note 1)*	Percentage of average daily trading volume to total number of Shares *(approximately %)* *(Note 2)*
2023				
December (from 1 December 2023 to 29 December 2023 (both days inclusive))	157,000	19	8,263	0.0015
2024				
January	17,391,800	22	790,536	0.1466
February	594,800	19	31,305	0.0058
March	49,200	20	2,460	0.0005
April	58,000	20	2,900	0.0005
May	97,800	21	4,657	0.0009
June	15,200	19	800	0.0001
July	986,000	22	44,818	0.0083
August	2,830,000	22	128,636	0.0239
September	5,719,400	19	301,021	0.0558
October	27,560,200	21	1,312,390	0.2434
November	1,781,000	21	84,810	0.0157
December (up to and including the Last Trading Day)	Nil	1	Nil	Nil

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

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.

2. Calculation is based on the average daily trading volume of Consolidated Shares divided by the total issued Shares of the Company at the end of each respective month.

As illustrated in the table above, the percentage of average daily trading volume of Consolidated Shares during the Review Period ranged from nil to approximately 0.2434% of the total number of issued Shares for each of their respective month/period. As advised by the management of the Company, the Company is also not aware of any reason for the increase in trading volume in October 2024. Considering that the trading liquidity of the Shares were in general relatively thin during the Review Period, we are of the opinion that it is reasonable for the Subscription Price to be set at a discount to the prevailing theoretical adjusted closing prices of the Adjusted Shares in order to attract the Qualifying Shareholders to participate in the Rights Issue.

Comparison with other rights issue transactions

To further assess the fairness and reasonableness of the Subscription Price, we have identified an exhaustive list of 33 rights issues transactions (the "**Comparables**") announced by other companies listed on the Stock Exchange for the 3-month period immediately prior to the Last Trading Day up to and including the Latest Practicable Date (the "**Comparable Review Period**"). Shareholders should note that the Comparables may have different principal business activities, market capitalisations, profitability, financial positions and future prospects as compared to those of the Company.

Although the Comparables having rights issue on different bases, engaged in different business or with different financial performance and funding needs, having considered that (i) all of the Comparables and the Company are listed on the Stock Exchange; (ii) the analysis is mainly concerned with the principal terms of the rights issues; (iii) an approximately four months period for selection of the Comparables having generated a reasonable sampling size to reflect the market practice regarding rights issue in the recent period; and (iv) the Comparables were sorted out without filtering so the Comparables represent a complete picture of the recent market trends for similar rights issue transactions conducted by other issuers listed on the Stock Exchange (including those with excess application or purposed by GEM issuers), we consider the list of Comparables to be representative. In addition, we considers that the Comparable Review Period is adequate and fair and representative given that (i) such period would provide the Shareholders with the recent and relevant information in relation to the rights issues to demonstrate the prevailing market practices up to and including the Latest Practicable Date under the prevailing market conditions; and (ii) we are able to identify sufficient number of samples of 33 representative Comparables that meet the aforesaid criteria for comparison analysis in such period.

Shareholders should note that the Comparables may have different principal business activities, market capitalisations, profitability, financial positions and future prospects as compared to those of the Company. No direct correlation between market capitalisation or fundraising scale of the Comparables with the discount of subscription price offered is noted from the Comparables as shown in the table below. The discount of subscription price to the closing price on the last trading day of one Comparable can be deeper than other Comparables with market capitalisation/ fundraising scale higher or lower than its market capitalisation/fundraising scale. Hence, market capitalisation or fundraising scale is not considered a relevant factor in selecting Comparables.

It should be noted that, in forming our opinion, we have taken into account of the results of the below analysis together with all other factors stated in this letter as a whole. The table below provides a summary of our findings.

Date of announcement	Company name	Stock code	Basic of entitlement	Maximum dilution on the shareholding	Premium/(discount) of subscription price per rights issue share over/to closing price per share on the last trading day prior to announcement of rights issue	Premium/(discount) of the subscription price per rights issue share over/to the average closing price per share for the last five consecutive trading days immediately up to and including the last trading day and prior to announcement of rights issue	Premium/(discount) of subscription price per rights issue share over/to the net asset value per share (Note 1)	Premium/(discount) of theoretical dilution effect (Note 2)	Excess application/ Placing (Note 3)	Placing commission (Note 1)	Underwriting arrangement	Underwriting fee	Minimum placing commission	Market capitalisation	Fundraising scale (Maximum gross proceeds)
				(%)	(%)	(%)	(%)	(%)		(%)		(%)	HK$	HK$ million (approximately)	HK$ million (approximately)
31/12/2024	China Demeter Financial Investments Limited	8120	1 for 2	33.33	(25.00)	(25.32)	(59.08)	(8.55)	Placing	2.50	Non-underwritten	N/A	No	50.59	15.59
27/12/2024	China Kingstone Mining Holdings Limited	1380	2 for 5	28.57	16.28	19.62	(65.60)	4.65	Placing	2.25	Non-underwritten	N/A	300,000	32.89	21.20
20/12/2024	Mansion International Holdings Limited	8456	4 for 1	80.00	(22.90)	(23.50)	98.60	(18.50)	Placing	1.50	Non-underwritten	N/A	No	11.21	30.70
19/12/2024	HSC Resources Group Limited	1850	4 for 1	80.00	(24.29)	(23.19)	(93.31)	(19.43)	Placing	1.50	Non-underwritten	N/A	No	23.67	73.27
13/12/2024	China Energy Storage Technology Development Limited	1143	2 for 1	66.67	(36.36)	(35.78)	(90.50)	(24.24)	Placing	1.50	Non-underwritten	N/A	No	72.89	94.20
13/12/2024	Royal Century Resources Holdings Limited	8125	3 for 1	75.00	(23.95)	(22.10)	(82.69)	(17.96)	Placing	2.00	Non-underwritten	N/A	No	16.93	39.15
10/12/2024	KNT Holdings Limited	1025	3 for 1	75.00	(9.38)	(10.22)	(59.90)	(8.08)	Placing	3.00	Non-underwritten	N/A	No	17.69	44.00
6/12/2024	Xiaming China Holdings Limited	2699	4 for 1	80.00	(13.80)	(18.80)	Net liabilities	(16.90)	Placing	3.00	Non-underwritten	N/A	No	28.18	93.80
3/12/2024	Graphex Group Limited	6128	3 for 1	75.00	(32.00)	(28.27)	(51.51)	(24.00)	Placing	1.50	Non-underwritten	N/A	No	58.69	119.70
21/11/2024	Legend Strategy International Holdings Group Company Limited	1355	1 for 1	50.00	(49.71)	(49.60)	Net liabilities	(24.86)	Excess application	N/A	Non-underwritten	N/A	No	94.16	47.30
21/11/2024	Elife Holdings Limited	223	1 for 5	16.67	(6.54)	(9.91)	96.10	(0.61)	Excess application	N/A	Non-underwritten	N/A	No	147.82	27.12
19/11/2024	China Wood International Holding Co., Limited	1822	1 for 1	50.00	(45.00)	(48.60)	Net liabilities	(24.90)	Excess application	N/A	Non-underwritten	N/A	No	80.60	45.60
15/11/2024	Global Strategic Group Limited	8007	4 for 1	80.00	(12.50)	(14.10)	(91.60)	(11.30)	Excess application	N/A	Non-fully underwritten	3.00	No	16.41	51.10
12/11/2024	HG Semiconductor Limited	6908	1 for 4	20.00	(36.00)	(41.50)	(44.20)	(8.30)	Placing	1.00%	Non-underwritten	N/A	100,000	425.10	91.30
11/11/2024	Far East Holdings International Limited	36	2 for 1	66.67	(35.77)	(35.27)	(80.59)	(23.85)	Placing	2.50%	Non-underwritten	N/A	No	42.26	72.75
6/11/2024	China Water Industry Group Limited	1129	1 for 1	50.00	(49.85)	(49.54)	(93.95)	(24.92)	Placing	2.00	Non-underwritten	N/A	No	123.57	93.68
31/10/2024	Yuzhou Group Holdings Company Limited	1628	49 for 100	32.89	(73.68)	(72.99)	Net liabilities	(24.23)	Excess application	N/A	Non-underwritten	N/A	No	575.86	112.20
22/10/2024	IRC Limited	1029	1 for 2	33.33	(15.00)	(17.20)	(67.30)	(4.90)	Excess application	N/A	Non-underwritten	N/A	No	741.21	362.10
21/10/2024	China 33 Media Group Limited	8087	3 for 2	60.00	(7.41)	(8.54)	(55.62)	(5.12)	Placing	1.50%	Non-underwritten	N/A	100,000	59.79	19.40
18/10/2024	Kingkey Financial International (Holdings) Limited	1468	1 for 2	33.33	0.00	8.59	124.60	0.00	Excess application	N/A	Non-underwritten	N/A	No	769.10	542.59
18/10/2024	Gaudi Holdings Limited	1676	1 for 2	33.33	37.90	38.90	(65.50)	12.10	Placing	1.00	Non-underwritten	N/A	No	61.60	30.80
15/10/2024	Eminence Enterprise Limited	616	2 for 1	66.67	(8.00)	(24.34)	(98.98)	(21.30)	Excess application	N/A	Non-underwritten	N/A	No	29.42	62.20
8/10/2024	V & V Technology Holdings Limited	8113	1 for 2	33.33	(31.51)	(26.04)	(32.23)	(10.50)	Excess application	N/A	Non-underwritten	N/A	No	74.13	24.20
4/10/2024	Palinda Group Holdings Limited	8179	1 for 2	33.33	(18.70)	(9.42)	(66.10)	(6.23)	Excess application	N/A	Non-underwritten	N/A	No	209.86	71.70
2/10/2024	China National Culture Group Limited	745	2 for 1	66.67	(31.97)	(31.51)	(53.36)	(21.31)	Placing	2.00	Non-underwritten	N/A	No	11.25	15.60
26/9/2024	Innovax Holdings Limited	2680	1 for 2	33.33	(67.39)	(68.35)	(88.59)	(22.78)	Placing	1.00	Non-underwritten	N/A	No	50.80	12.00
23/9/2024	Hatcher Group Limited	8365	3 for 1	75.00	(31.50)	(24.00)	(94.10)	(23.60)	Placing	0.00	Fully-underwritten	0.00	No	12.85	33.00
23/9/2024	Shougang Fushan Resources Group Limited	639	1 for 30	3.23	1.96	2.52	(20.49)	0.06	Excess application	N/A	Non-underwritten	N/A	No	13,491.32	427.00
13/9/2024	Dragon Rise Group Holdings Limited	6829	1 for 1	50.00	(48.70)	(48.20)	(89.20)	(24.90)	Placing	1.00	Fully-underwritten	2.00	100,000	72.00	28.80
13/9/2024	Shougang Century Holdings Limited	103	1 for 5	16.67	10.00	8.20	(62.50)	6.80	Excess application	N/A	Non-underwritten	N/A	No	857.77	129.25
9/9/2024 *(Note 4)*	Crown International Corporation Limited	727	1 for 2	33.33	0.00	12.25	156.52	0.00	Excess application	N/A	Non-underwritten	N/A	No	588.23	159.00
4/9/2024	China New Consumption Group Limited	8275	1 for 2	33.33	(5.66)	(7.41)	(61.09)	(2.47)	Placing	3.50	Non-underwritten	N/A	250,000	74.88	24.00
2/9/2024	Guangdong – Hong Kong Greater Bay Area Holdings Limited	1396	1 for 2	33.33	(22.03)	(21.77)	(90.50)	(8.28)	Excess application	N/A	Non-underwritten	N/A	No	170.96	62.41
			Maximum	80.00	37.90	38.90	156.52	12.10		3.50		3.00	300,000		
			Minimum	3.23	(73.68)	(72.99)	(98.98)	(24.92)		0.00		0.00	100,000		
			Average	48.42	(21.77)	(21.38)	(44.23)	(12.39)		1.80		1.67	170,000		
			Median	50.00	(22.90)	(23.19)	(65.50)	(11.30)		1.50		2.00	100,000		
2/12/2024	The Company	1327	1 for 1	50.00	(44.44)	(44.44)	(79.45)	(22.22)	Placing	1.50	Non-underwritten	N/A	100,000		

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

Notes:

1. Information has been extracted from the relevant announcements or circulars of the rights issue of the respective Comparables.

2. The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Rules Governing the Listing of Securities on the Stock Exchange or Rule 10.44A of the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("**GEM Listing Rule**"), or extracted from announcement, circular or prospectus in respect of the relevant rights issue.

3. Pursuant to Rule 7.21(1) of the Listing Rule or Rule 10.31(1) of the GEM Listing Rule.

4. Information has been extracted from the prospectus published by Crown International Corporation Limited (stock code: 727) dated 7 November 2024 instead of the announcement dated 9 September 2024 as the corresponding discount rates had been updated in its prospectus.

According to our research, we observed that (i) 27 of the 33 Comparables had set the subscription price of their rights issue at a discount to the prevailing closing price of their shares on the last trading day in relation to their respective rights issue (the "**LTD Price**"); (ii) 27 of the 33 Comparables had set the subscription price of their rights issue at a discount to the average closing price per share for the last five consecutive trading days immediately up to and including the last trading day (the "**5-Day Discount Price**"); and (iii) 25 of the 33 Comparables had set the subscription price of their rights issue at a discount to the NAV per share. It indicates that it is common for listed companies to set the subscription price of rights issue at a discount to the LTD Price, 5-Day Discount Price and the NAV per share, with the view to encourage participation.

The subscription price to the LTD Price of the Comparables ranged from a premium of approximately 37.90% to a discount of approximately 73.68% with average and median discounts of approximately 21.77% and 22.90% respectively. The discount of approximately 44.44% of the Subscription Price to the LTD Price of the Company falls within the range of those of the Comparables and is more significant to the median of the Comparables.

The subscription price to the 5-Day Discount Price ranged from a premium of approximately 38.90% to a discount of approximately 72.99% with average and median discounts of approximately 21.38% and 23.19% respectively. The discount of approximately 44.44% of the Subscription Price to the 5-Day Discount Price of the Company falls within the range of those of the Comparables and is more significant to the median of the Comparables.

The subscription prices to the NAV per share of the Comparables ranged from a premium of approximately 156.52% to a discount of approximately 98.98% with average and median discounts of approximately 44.23% and 65.50% respectively. The discount of approximately 79.45% of the Subscription Price to the NAV per share of the Company falls within the range of those of the Comparables and is more significant to the median of the Comparables.

The theoretical dilution effect of the rights issue conducted by the Comparables ranged from a premium of approximately 12.10% to a discount of 24.92% with average and median discounts of approximately 12.39% and 11.30% respectively. The theoretical dilution effect of the Rights Issue of approximately 22.22% falls within the range of the Comparables and is more significant to the median of the Comparables.

Taking into account that (i) the Subscription Price falls below the Closing Price during the Comparable Review Period; (ii) the discounts of the Subscription Price to the LTD Price, the 5-Day Discount Price and the NAV per share of the Company fall within discount ranges of the Comparables; and (iii) the theoretical dilution effect of the Rights Issue falls within the range of the Comparables, we consider the Subscription Price is fair and reasonable.

Although (i) the discount of the Subscription Price is more significant to the median of the LTD Price of the Comparables; (ii) the discount of the Subscription Price is close to the higher end of the Comparables; (iii) the discount of the Subscription Price is more significant to the median of the relevant closing price for the average five days immediately before the announcement of the rights issue of the Comparables; and (iv) the theoretical dilution effect of the Rights Issue is more significant to the median of the Comparables, we have taken into account the following factors in determining whether the Subscription Price (together with its dilution effect) is fair and reasonable so far as the Independent Shareholders are concerned: (i) it is common for listed issuers in Hong Kong to issue rights shares at a discount to prevailing market prices in order to enhance the attractiveness of the Rights Issue; (ii) the higher discount of the Subscription Price could enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders to participate in the Rights Issue; (iii) having assessed Group's need to to repay the outstanding bonds as discussed in the above section headed "2. Reasons for the Rights Issue, the Placing and the use of proceeds" in this letter, which we consider reasonable given the Group's financial performance; (iv) the Rights Issue is considered to be a better financing alternative over bank borrowings, placing or subscription of new Shares; and (v) all Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares under the Rights Issue and are offered the same discounts of the Subscription Price to the closing price of the Share and the same potential maximum dilution. In light of the above, we are of the view that the Subscription Price (together with its dilution effect) is fair and reasonable so far as the Independent Shareholders are concerned, and also in alignment with the market practice.

Among the Comparables, we noted that 19 out of 33 Comparables exercise placing in their rights issues. As such, we consider that it is reasonable for rights issue to have placing arrangements.

Placing Agreement for Unsubscribed Rights Shares and NQS Unsold Rights Shares

Extracted details of the Placing Agreement are shown 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, placees 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) are not Shareholders and are Independent Third Parties.
Commission and expenses	:	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.

For further details, please refer to section headed "Placing Agreement for Unsubscribed Rights Shares and NQS Unsold Rights Shares" in the Board Letter. As stated in the Board Letter, 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 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.

According to Rule 7.21(1)(b) of the Listing Rules, the Company will make the Compensatory Arrangements to dispose of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by offering these Rights Shares to independent placees, who and whose ultimate beneficial owners(s) shall be Independent Third Party(ies), for the benefit of the Shareholders to whom they were offered by way of the Rights Issue. As the Compensatory Arrangements are in place, there will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 7.21(2)(a) of the Listing Rules. 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.

Based on our discussion with the management of the Group, excess application is considered as a passive arrangement to facilitate additional participation of the Qualifying Shareholders. Taking into account the low liquidity of the Shares before the Last Trading Day, the Directors consider it would be more desirable for the Company to adopt a more active measure by way of the Compensatory Arrangements to mitigate the uncertainty of the fund raising exercise.

Given that 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. As illustrated in the analysis set out in under paragraph headed "Comparison with other rights issue transactions" of this letter, we note that 19 out of 33 Comparables have facilitated compensatory arrangements. Therefore, we consider that the Compensatory Arrangements are in line with the market practice, and we concur with the view of the Directors that adopting the Compensatory Arrangements are not out of the ordinary and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Pursuant to the Placing Agreement, 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. To assess the fairness and reasonableness of the terms of the Placing Agreement, we have reviewed the placing commissions of the Comparables, if any. In order to calculate the average, median, minimum and maximum percentage of the placing commission of the Comparables, we have noted that their placing commissions rates ranged from nil to 3.50%, with an average and median of approximately 1.80% and 1.50% respectively. In addition, among the 19 Comparables who exercise placing in their rights issues, we noted there were five Comparables who shall pay a fixed fee or minimum fee and we are of view that it is not uncommon to have fixed fee as placing commission. We noted that their fixed placing commissions ranged from HK$100,000 to HK$300,000, with an average and median of approximately HK$170,000 and HK$100,000 respectively.

As illustrated from the Comparables, (i) the placing commissions of the Placing Agreement of 1.5% falls within the range of the placing commissions among the Comparables, lower than the average and the median of the placing commissions among Comparables; and (ii) the fixed placing commissions of the Placing Agreement of HK$100,000 falls within the range of the placing commissions among the Comparables, lower than the average and the median of the placing commissions among Comparables. Having considered that the both placing commission and fixed placing commissions of the Placing Agreement falls within the range of the Comparables, we are of the view that the placing commission of the Placing Agreement is fair and reasonable.

Potential dilution effect

All the Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market.

The changes in shareholding structure of the Company arising from completion of the Rights Issue are set out in the section headed "EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" in the Board Letter.

Immediately upon completion of the Capital Reorganisation and the Rights Issue, (i) assuming all Qualifying Shareholders have taken up all the entitled Rights Shares, their shareholding interests in the Company will remain unchanged after the Rights Issue; and (ii) assuming none of the Qualifying Shareholders has taken up any entitled Rights Shares and to Independent Third Parties under the Placing, the shareholding interests of the Qualifying Shareholders will be diluted by up to a maximum of 50.0%, which fall within the range of the Comparables.

Notwithstanding the potential dilution impact to the public Shareholders who do not participate in the Rights Issue, taking into consideration that (i) all Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares so as to maintain their respective proportionate shareholding interest in the Company; (ii) the shareholding interest of the Qualifying Shareholders would not be diluted if they elect to subscribe for in full their assured entitlements; (iii) the dilution effect of the Rights Issue is within the range of that of the Comparables; (iv) the Compensatory Arrangements would provide (a) a distribution channel of the Placing Shares to the Company; and (b) an additional channel of participation in the Rights Issue for the Qualifying Shareholders and the Non-Qualifying Shareholders; and (c) a compensatory mechanism for the No Action Shareholders and the Non-Qualifying Shareholders; (v) the Rights Issue is an appropriate financing alternative under present circumstances of the Company; and (vi) the uses of the net proceeds from the Rights Issue as discussed in this letter is expected to be applied for the repayment of the Group's bond payables on or before 31 May 2025 and the general working capital of the Group comprising rental expenses, interest expenses with respect to the Group's outstanding bonds and other miscellaneous expenses, on or before 31 December 2025 thereby lowering the interest burden and resulting in an improvement in the financial condition of the Group, including decreasing the gearing ratio from approximately 38.8% as at 30 June 2024 to approximately 22.1% upon the application of the net proceeds from the Rights Issue, we are of the opinion that the potential dilution impact to the public Shareholders who do not participate in the Rights Issue as a result of the Rights Issue is acceptable.

Financial effects of the Rights Issue

Net tangible assets

According to the "UNAUDITED PRO PORMA FINANCIAL INFORMATION" set out in the Appendix II to the Circular, the unaudited consolidated net tangible assets of the Group attributable to owners of the Company was approximately RMB71.6 million as at 30 June 2024, while the unaudited consolidated net tangible assets per Share before completion of the Rights Issue was approximately RMB0.13; upon completion of the Rights Issue, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company would increase to approximately RMB85.7 million, while (i) the unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Share Consolidation, but before the completion of the Rights issue was approximately RMB0.66; and (ii) the unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Share Consolidation and the Rights issue was approximately RMB0.40.

Gearing ratio and liquidity

According to the Interim Report 2024, as at 30 June 2024, the cash and equivalents of the Group was approximately RMB1.4 million (equivalent to approximately HK$1.5 million). Immediately upon completion of the Rights Issue, the cash and cash equivalents of the Group is expected to increase by the expected net proceeds from the Rights Issue of approximately HK$15.2 million.

Upon the completion of the Rights Issue, the equity attributable to owners of Company would be enlarged by the expected net proceeds from the Rights Issue of approximately HK$15.2 million. The Group's gearing ratio (defined as total interest-bearing borrowings divided by shareholders' equity) was approximately 38.8% as at 30 June 2024. Since the net proceeds are intended to be utilised for (i) repayment of the Group's bond payable (including interest expenses); and (ii) the general working capital of the Group, the Group's liquidity would be improved upon completion of the Rights Issue. The gearing ratio of the Group would be improved 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 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.

In light of the above, we are of the view that the overall financial impact to the Group upon completion of the Rights Issue is in the interest of the Company and the Shareholders.

Recommendation

Taking into consideration of the principal factors and reasons as set out in this letter, in particular, (i) the Group's financial position as at 30 June 2024; (ii) its net loss making performance in FY2022, FY2023 and HY2024; (iii) the funding needs of the Group to relieve its financial burden and lowering its financial cost; (iv) the Rights Issue being considered as a more preferential options as compared to other alternatives under the current circumstance of the Group; (v) the positive impact on the Group's liquidity position and gearing ratio as a result of the Rights Issue; and (vi) the Qualifying Shareholders can maintain and even increase their shareholding interest in the Company by participating into the Rights Issue, we are of the opinion that the terms of the Rights Issue are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue including the transactions contemplated thereunder are in the interests of the Company and the Shareholder as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Rights Issue and the transaction contemplated thereunder.

Yours faithfully,
For and on behalf of
Vinco Financial Limited

Alister Chung
Managing Director

Note: Mr. Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Vinco Financial Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong for over 10 years.