THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Stelux Holdings International Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

STELUX Holdings International Limited
寶光實業(國際)有限公司*

http://www.stelux.com

Incorporated in Bermuda with limited liability

Stock Code: 84

(1) MAJOR AND CONNECTED TRANSACTION – DISPOSAL OF THE OPTICAL BUSINESS
(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS: SHARED SERVICES ARRANGEMENT; TRADEMARK LICENSING ARRANGEMENT; LEASE MANAGEMENT ARRANGEMENT; AND PROPERTY ARRANGEMENT AND PARTIAL TERMINATION OF EXISTING TENANCY AGREEMENT
(3) DECLARATION OF CONDITIONAL SPECIAL DISTRIBUTION

Exclusive Financial Adviser to the Company

MOELIS & COMPANY

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

SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 7 to 30 of this circular. A letter from the Independent Board Committee is set out on page 31 of this circular. A letter from Somerley Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal is set out on pages 32 to 56 of this circular.

A notice convening the SGM to be held at Unit 901, 9/F, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong on 19 April 2018 at 3:00 p.m. is set out on pages 66 to 67 of this circular. Whether or not you are able to attend the SGM, please complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude Shareholders from attending and voting in person at the SGM or any adjourned meeting should you so wish.

* *For identification purpose only*

22 March 2018

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PAGE

This circular in both English and Chinese is available in printed form and published on the respective websites of the Company at "http://www.stelux.com" and Hong Kong Exchanges and Clearing Limited at "http://www.hkexnews.hk". To the extent that there are any inconsistencies between the English version and the Chinese version of this circular, the English version shall prevail.

In this circular the following expressions have the following meanings unless the context requires otherwise:

"Board"	the board of Directors;
"BVI"	the British Virgin Islands;
"Company"	Stelux Holdings International Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 84);
"Completion"	completion of the Disposal;
"Conditional Special Distribution"	the conditional special distribution in cash of HK$0.19 per Share as more particularly described under the section headed "DECLARATION OF CONDITIONAL SPECIAL DISTRIBUTION" in this circular;
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules;
"Director(s)"	the director(s) of the Company;
"Disposal"	the disposal of (i) the Optical 88 Share, the EGG Share, the Thong Sia Optical Share and the Receivables by the Seller to the Purchaser and (ii) the Optical 88 (Thailand) Shares by the Seller to the Purchaser Guarantor, in each case pursuant to the terms of the SPA;
"Disposed Entities"	Optical 88, EGG, Thong Sia Optical and Optical 88 (Thailand);
"Disposed Entities Group"	the Disposed Entities and their respective subsidiaries following completion of the Reorganisation;
"Disposed Entities Shares"	the Optical 88 Share, the EGG Share, the Thong Sia Optical Share and the Optical 88 (Thailand) Shares;
"EGG"	eGG Optical Boutique Group Limited, a company incorporated in the BVI;

"EGG Receivable"	all receivables that are due from EGG to the Seller as at 11:59 p.m. on the day immediately before Completion and are to be assigned by the Seller to the Purchaser at Completion;
"EGG Share"	one ordinary share in EGG (representing its entire issued share capital);
"Group"	the Company and its subsidiaries;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Independent Board Committee"	the independent committee of the Board, comprising Wu Chun Sang, Lawrence Wu Chi Man and Agnes Kwong Yi Hang, being the Independent Non-executive Directors of the Company, formed to advise the Independent Shareholders on the Disposal;
"Independent Financial Adviser"	Somerley Capital Limited;
"Independent Shareholders"	Shareholders other than those who are required by the Listing Rules to abstain from voting on the resolution approving the Disposal;
"Latest Practicable Date"	15 March 2018;
"Lease Management Arrangement"	the proposed arrangement between the Retained Group and the Purchaser Group for the provision by the Purchaser Group to the Retained Group of lease management services, as more particularly described under the section headed "THE PROPOSED CONTINUING CONNECTED TRANSACTIONS AND PARTIAL TERMINATION OF EXISTING TENANCY AGREEMENT – Lease Management Arrangement" in this circular;
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange;
"LTM EV/EBITDA"	multiple expressing enterprise value as a ratio of earnings before interest, taxes, depreciation and amortisation generated over the preceding last twelve months from the latest reporting date;

"Macau"	the Macau Special Administrative Region of the People's Republic of China;
"Macau Properties"	the two properties known as "Em Macau, Rua da Palha N22 SanVo Res-do-Chao E" and "Em Macau, Estrada da Areia Preta N5, Kei Kuan Bairro (Bloco 1 A Bloco 6) Res-do-Chao G";
"Optical 88"	Optical 88 Group (BVI) Limited, a company incorporated in the BVI;
"Optical 88 Receivable"	all receivables that are due from Optical 88 to the Seller as at 11:59 p.m. on the day immediately before Completion and are to be assigned by the Seller to the Purchaser at Completion;
"Optical 88 Share"	one ordinary share in Optical 88 (representing its entire issued share capital);
"Optical 88 (Thailand)"	Optical 88 (Thailand) Ltd., a company incorporated in Thailand;
"Optical 88 (Thailand) Shares"	245,000 ordinary shares in Optical 88 (Thailand) (representing all of the issued ordinary shares in Optical 88 (Thailand));
"Optical Business"	optical retail and optical wholesale trading business and related healthcare business operated by the Disposed Entities Group and to be disposed by the Company to the Purchaser and the Purchaser Guarantor through the Disposal;
"Optical Premises"	19th Floor of Stelux House, the portion of 21st Floor of Stelux House occupied by Thong Sia Optical and 4 carpark spaces of Stelux House occupied by the Optical Business;
"Post-Reorganisation Net Liabilities"	has the meaning given to it in the section headed "INFORMATION ON THE PARTIES TO THE DISPOSAL – Information on the Disposed Entities Group and the Optical Business" in this circular;
"PRC"	the People's Republic of China (which for the purposes of this circular shall exclude Hong Kong and Macau);

"Property Arrangement"	the proposed arrangement between the Retained Group and the Purchaser Group for the leasing, sub-leasing or licensing of offices, shops and warehouses to and from each other, as more particularly described under the section headed "THE PROPOSED CONTINUING CONNECTED TRANSACTIONS AND PARTIAL TERMINATION OF EXISTING TENANCY AGREEMENT – Property Arrangement" in this circular;
"Proposed Continuing Connected Transactions"	the Shared Services Arrangement, the Trademark Licensing Arrangement, the Lease Management Arrangement and the Property Arrangement;
"Purchase Price"	the purchase price payable by the Purchaser and/or the Purchaser Guarantor to the Seller pursuant to the SPA, as more particularly described under the section headed "THE DISPOSAL AND THE SPA" in this circular;
"Purchaser"	Bright Odyssey Limited, a company incorporated in the BVI;
"Purchaser Group"	the Purchaser and its subsidiaries following Completion, and, following Completion, Optical 88 (Thailand);
"Purchaser Guarantor"	Mr. Chumphol Kanjanapas (also known as Joseph C.C. Wong);
"Receivables"	the Optical 88 Receivable, the EGG Receivable and the Thong Sia Optical Receivable;
"Remaining Business"	watch retail, watch wholesale trading and related businesses, which will continue to be operated by the Retained Group following Completion;

"Reorganisation"	the reorganisation of the Group for the purpose of the Disposal, which involves, among others, (i) the transfer of certain subsidiaries that operate the Optical Business from members of the Group to the Disposed Entities Group; (ii) the termination of the Retained Group's existing tenancies in relation to the Optical Premises; (iii) the setting-off of all outstanding intra-group receivables and payables between the Retained Group and the Purchaser Group; and (iv) the amendment of various banking facilities of the Group, each as more particularly set out in the SPA;
"Retained Group"	the Company and its subsidiaries excluding the Disposed Entities Group;
"Seller"	City Chain (Bermuda) Holdings Limited, a company incorporated in Bermuda and a wholly-owned subsidiary of the Company;
"SFO"	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
"SGM"	the special general meeting of the Company to be held to, among other things, consider and, if thought fit, approve the Disposal;
"Shared Services Arrangement"	the proposed arrangement between the Retained Group and the Purchaser Group for the sharing of legal and compliance, financial and accounting (including insurance management), information technology, human resources and general office administration services, as more particularly described under the section headed "THE PROPOSED CONTINUING CONNECTED TRANSACTIONS AND PARTIAL TERMINATION OF EXISTING TENANCY AGREEMENT – Shared Services Arrangement" in this circular;
"Shareholder(s)"	shareholder(s) of the Company;
"Shares"	the shares in the Company;
"Singapore"	the Republic of Singapore;

"SPA"	the share purchase agreement dated 26 January 2018 entered into between the Seller, the Purchaser and the Purchaser Guarantor in relation to the Disposal;
"Stelux House"	the building known as "Stelux House" situated at 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong, erected on New Kowloon Inland Lot No. 4790;
"Stelux House Tenancy Agreement"	the tenancy agreements entered into on 5 April 2016 between Mengiwa Property Investment Limited (as landlord), and Stelux Holdings Limited and Thong Sia Watch Company Limited (as tenants) in respect of certain premises and carpark spaces at Stelux House;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Thailand"	the Kingdom of Thailand;
"Thong Sia Optical"	Thong Sia Optical Group Limited, a company incorporated in the BVI;
"Thong Sia Optical Receivable"	all receivables that are due from Thong Sia Optical to the Seller as at 11:59 p.m. on the day immediately before Completion and are to be assigned by the Seller to the Purchaser at Completion;
"Thong Sia Optical Share"	one ordinary share in Thong Sia Optical (representing its entire issued share capital);
"Trademark Licensing Arrangement"	the proposed arrangement between the Retained Group and the Purchaser Group for the licensing to members of the Purchaser Group and the Purchaser Group's franchisees, licensees and distributors various trademarks owned by members of the Retained Group, as more particularly described under the section headed "THE PROPOSED CONTINUING CONNECTED TRANSACTIONS AND PARTIAL TERMINATION OF EXISTING TENANCY AGREEMENT – Trademark Licensing Arrangement" in this circular; and
"%"	per cent.

STELUX Holdings International Limited
寶光實業(國際)有限公司*
http://www.stelux.com
Incorporated in Bermuda with limited liability
Stock Code: 84

Directors:
Mr. Chumphol Kanjanapas
(also known as Joseph C.C. Wong)[1]
(Chairman and Chief Executive Officer)
Mr. Wallace Kwan Chi Kin[1]
(Chief Financial Officer)
Mr. Wu Chun Sang[2]
Professor Lawrence Wu Chi Man[2]
Dr. Agnes Kwong Yi Hang[2]

Chief Counsel & Company Secretary:
Ms. Caroline Chong

[1] Executive Director
[2] Independent Non-executive Director

Registered Office:
Canon's Court
22 Victoria Street
Hamilton, HM12
Bermuda

Principal Office:
27th Floor, Stelux House
698 Prince Edward Road East
San Po Kong
Kowloon
Hong Kong

22 March 2018

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION – DISPOSAL OF THE OPTICAL BUSINESS
(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS: SHARED SERVICES ARRANGEMENT; TRADEMARK LICENSING ARRANGEMENT; LEASE MANAGEMENT ARRANGEMENT; AND PROPERTY ARRANGEMENT AND PARTIAL TERMINATION OF EXISTING TENANCY AGREEMENT
(3) DECLARATION OF CONDITIONAL SPECIAL DISTRIBUTION

INTRODUCTION

THE DISPOSAL

We refer to the announcement of the Company dated 26 January 2018 that the Seller, the Purchaser and the Purchaser Guarantor entered into the SPA on 26 January 2018, pursuant to which:

(1) the Seller has conditionally agreed to sell, or procure the sale of, and the Purchaser has conditionally agreed to purchase (and the Purchaser Guarantor

* *For identification purpose only*

has agreed to guarantee the obligations of the Purchaser under the SPA), the Optical 88 Share, the EGG Share, the Thong Sia Optical Share and the Receivables; and

(2) the Seller has conditionally agreed to sell, or procure the sale of, and the Purchaser Guarantor has conditionally agreed to purchase either by himself or through his nominee, the Optical 88 (Thailand) Shares,

for a total Purchase Price of HK$400 million (subject to certain adjustments which are described in the section headed "THE DISPOSAL AND THE SPA"). Upon Completion, the Disposed Entities will cease to be subsidiaries of the Company and the Company will no longer hold any shares in the Disposed Entities Group.

The Group is principally engaged in the business of watch retailing, optical retailing and the wholesale trading of watches and optical frames. The Seller is incorporated in Bermuda and is a wholly-owned subsidiary of the Company.

The Purchaser is a special purpose vehicle incorporated in the BVI and is wholly owned by the Purchaser Guarantor. The Purchaser Guarantor has been the chairman and chief executive officer of the Group since 2011 and 1996, respectively.

The Disposed Entities Group operates the Optical Business, which comprises the entirety of the Optical 88 and EGG retail operations and the Thong Sia Optical wholesale trading business, the operations of which span across Hong Kong, Macau, the PRC, Singapore, Malaysia and Thailand.

Following Completion, the Company will continue to own and operate the Remaining Business, which comprises the CITY CHAIN watch retail business, the watch wholesale trading business, as well as production facilities in Switzerland for Swiss watch movements and Swiss-made watches. The CITY CHAIN watch retail business is based on a unique business model as a multi-branded retailer selling third party foreign brands and also as a producer of its own house brands, such as "Solvil et Titus" and "CYMA", which are available exclusively at CITY CHAIN stores. The Remaining Business is also the sole distributor for SEIKO clocks and watches in Malaysia, Singapore and Hong Kong.

The Disposal will allow the Company to focus on the operation and development of the Remaining Business, which include strengthening the Remaining Business' position as a pan-Asian lifestyle-oriented fast fashion accessory business through initiatives such as:

- refreshing the watch product portfolio by introducing new affordable luxury brands and other products, including smart wearables;
- major revamping of watch retail shops, including new shop decorations and layout, to align the CITY CHAIN image with current trends to create a fresher and younger lifestyle shopping environment; and

- continuing the Company's investment in e-commerce business and online sales channels, including enhancing integration of online and offline shopping experiences for customers, developing e-commerce platforms in the PRC, Hong Kong and Southeast Asia, and increasing the level of advertising and marketing spending on social media.

The Remaining Business employs around 1,700 employees and has operations in Hong Kong, the PRC, Macau, Malaysia, Singapore, Thailand and Switzerland, including more than 250 watch retail stores across the above regions, together with a network of independent watch retailers spanning Southeast Asia.

Following Completion, the Company intends to fund the Remaining Business through its operating cashflows and existing bank facilities. Subject to future changes in the retail market, the Company intends to maintain, in the next two financial years, the present number of shops of the Remaining Business at or around the same level.

Mr. Chumphol Kanjanapas (also known as Joseph C.C. Wong), being the Company's largest shareholder and holding approximately 52.5% of the shares in the Company, has confirmed to the Company that he currently does not have any intention to reduce his shareholding in the Company.

Further information in relation to the reasons for the Disposal and the Company's plan for the Remaining Business is described in the sections headed "REASONS FOR AND BENEFITS OF THE DISPOSAL" and "BUSINESS PLAN AND FUTURE PROSPECTS OF THE REMAINING BUSINESS", respectively.

The Group intends to, upon Completion, enter into the Proposed Continuing Connected Transactions to deal with ongoing transactions after Completion between the Retained Group and the Purchaser Group so that the Optical Business and the Remaining Business are not unduly affected.

It is also proposed that, with effect from Completion, the tenancy in respect of the Optical Premises under the Stelux House Tenancy Agreement be terminated.

Further information in relation to the above is described in the section headed "THE PROPOSED CONTINUING CONNECTED TRANSACTIONS AND PARTIAL TERMINATION OF EXISTING TENANCY AGREEMENT".

The purpose of this circular is to provide you with, among other information, (a) further details of the Disposal and the Proposed Continuing Connected Transactions; (b) the recommendations of the Independent Board Committee to the Independent Shareholders in respect of the Disposal; (c) the letter from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the Disposal; and (d) a notice of the SGM.

DECLARATION OF CONDITIONAL SPECIAL DISTRIBUTION

The Board has declared a Conditional Special Distribution in cash of HK$0.19 per Share (which equals to a total of approximately HK$198.8 million based on the total number of issued Shares as at the Latest Practicable Date). The Conditional Special Distribution will be payable out of part of the proceeds from the Disposal and will be distributed as soon as practicable after Completion to the Shareholders whose names appear on the register of members of the Company on a record date to be determined by the Board. The payment of the Conditional Special Distribution is conditional upon Completion taking place.

Further details of the Conditional Special Distribution, the closure date of the register of members of the Company, the record date and the pay-out date for the Conditional Special Distribution will be determined by the Board after the SGM and announced on or around the date of Completion.

If the resolution approving the Disposal is not passed by the Independent Shareholders at the SGM or if the Disposal does not complete in accordance with the provisions of the SPA for any reason, the Conditional Special Distribution will not be paid to Shareholders. Shareholders and potential investors in the Company should therefore exercise caution when dealing in or investing in the securities of the Company.

THE DISPOSAL AND THE SPA

Date : 26 January 2018

Parties :

(a) the Seller

(b) the Purchaser

(c) the Purchaser Guarantor

General nature of the Disposal : The Seller has conditionally agreed to sell, or procure the sale of, and the Purchaser has conditionally agreed to purchase, the Optical 88 Share, the EGG Share, the Thong Sia Optical Share and the Receivables, and the Seller has conditionally agreed to sell, or procure the sale of, and the Purchaser Guarantor has conditionally agreed to purchase either by himself or through his nominee, the Optical 88 (Thailand) Shares, in accordance with the terms of the SPA. The Purchaser Guarantor has agreed to guarantee the obligations of the Purchaser under the SPA. Upon Completion, the Disposed Entities will cease to be subsidiaries of the Company.

The existing banking facilities of the Optical Business will be settled by cash held by the Optical Business prior to Completion.

The Disposal excludes the Macau Properties that are currently held by the Disposed Entities Group and the Macau Properties will be transferred back to the Retained Group.

An amount equal to approximately HK$56 million in cash will remain with the Optical Business at Completion. Cash held by the Optical Business exceeding such amount will be transferred back to the Retained Group prior to Completion.

Purchase Price and payment terms : The total Purchase Price for the Disposed Entities Shares and the Receivables is HK$400 million (subject to certain adjustments as stated below), which shall be payable in cash by the Purchaser and/or the Purchaser Guarantor at Completion.

The Purchase Price will be subject to adjustments based on the total amount of cash held by the Disposed Entities Group at Completion. Such adjustments are not expected to be material.

The Purchase Price for the Disposal was arrived at after arm's length negotiations between the Seller and the Purchaser and/or the Purchaser Guarantor with reference to the historical performance and future prospects of the Disposed Entities Group.

In determining the Purchase Price, the Company took into account the following factors: (a) the net asset value of the Optical Business and the Receivables; (b) the Optical Business' financial contribution to the Group; (c) the Group's historical trading multiples; (d) trading comparable analysis of Hong Kong retail and Asian optical peers; and (e) analysis of precedent Hong Kong retail and global optical retail transactions.

The Company notes that the Purchase Price represents a consideration that:

(a) provides a premium of HK$65 million over the combined net asset value of the Optical Business and the Receivables of HK$335 million as at the last financial reporting date of 30 September 2017 (see section headed "FINANCIAL EFFECTS OF THE DISPOSAL ON THE RETAINED GROUP – Impact on the Retained Group's Earnings" for further details);

(b) provides a premium of HK$136 million over the look-through value of the Optical Business, as determined by applying the Optical Business' approximately 40% average annual proportionate contribution to revenue and gross profit of the Group since the financial year ended 31 March 2013 to the Group's average market capitalisation of HK$660 million based on the closing price of the 30 trading days prior to 26 January 2018 (the date of the Company's announcement in respect of the Disposal). As a reference, based on the Optical Business' contribution to revenue of approximately 43% for the financial year ended 31 March 2017 and the market capitalisation of approximately HK$743 million based on the closing price as at the Latest Practicable Date, the implied valuation for the Optical Business was approximately HK$319 million;

(c) provides a premium to the Group's median LTM EV/EBITDA trading multiple over the last 5 years prior to 26 January 2018 (the date of the Company's announcement in respect of the Disposal);

(d) provides a premium over the median of LTM EV/EBITDA multiples of comparable Hong Kong retail and Asian optical listed companies as determined on the day prior to 26 January 2018 (the date of the Company's announcement in respect of the Disposal). The relevant median LTM EV/EBITDA trading multiple was 7.7x, while the Purchase Price implies a historical EV/EBITDA multiple of 11.1x. The Company considers the relevant comparables to comprise of 10 listed companies, including iconic Hong Kong retailers of fast fashion apparel, cosmetic and personal care products that similarly target mass market consumers in geographic areas in which the Company operates, as well as optical retail companies listed on other Asian stock exchanges, that employ a similar multi-brand strategy and may also have self-owned, fast-fashion brands, and have a degree of geographical overlap with the Optical Business; and

(e) provides a premium over the median of LTM EV/EBITDA multiples of comparable precedent Hong Kong retail and global optical retail transactions. The relevant median LTM EV/EBITDA multiple is 7.6x, while the Purchase Price implies a historical EV/EBITDA multiple of 11.1x. The Company considered seven M&A transactions in which a controlling stake was transacted, and in which the target was primarily focused on the retailing of fast fashion apparel, cosmetic and personal care products in Hong Kong, or was a global optical retail company.

Conditions Precedent : Completion is conditional upon the satisfaction of, among other things, the following conditions:

(i) the approval by the Independent Shareholders in respect of the Disposal;

(ii) the completion of the Reorganisation in all material respects; and

(iii) definitive agreements in respect of the Proposed Continuing Connected Transactions having been executed.

Completion : Pursuant to the SPA, Completion shall take place on the 90th day after the date on which the Seller notifies the Purchaser that certain of the conditions precedent under the SPA have been satisfied or waived (or on such other earlier date as the parties to the SPA may mutually agree).

If the conditions precedent under the SPA are not satisfied or waived on or before six months after the date of the SPA (or such later date as the parties to the SPA may agree), the SPA shall terminate (other than in respect of certain surviving provisions therein).

It is currently intended that Completion will take place in May or June 2018.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The reasons for the Disposal are explained below.

Diverging strategic focus for the Optical Business and the Remaining Business

The Disposal follows from the strategic decision made by the Company to split the Optical Business and the Remaining Business, and allows the Retained Group to focus on the operation and development of the Remaining Business, including strengthening its position as a pan-Asian lifestyle-oriented fast fashion accessory business.

Given the increasing competitiveness in the markets in which the Company operates and in order for the Company to further differentiate and protect its business, as stated in the Company's 2017 Annual Report, the majority of the Optical Business operating under the Optical 88 brand is undergoing a major strategy change to focus not only on optical retailing, but also on developing professional healthcare businesses, including professional eye-care centres and other healthcare-related services and products (such as hearing care services and products). In order to support this transformation into a more professional healthcare-based business, additional funding will be required. However, the Group is unable to commit to such further funding requirements as its current focus is on deleveraging the Group's high level of borrowings in anticipation of rising interest rates.

Furthermore, the Remaining Business and the Optical Business are serving target markets that are increasingly diverging from each other and, in fact, the Remaining Business and the Optical Business already operate relatively independently of each other.

Further information relating to the Company's plan for the Remaining Business and its prospects are set out in the section headed "BUSINESS PLAN AND FUTURE PROSPECTS OF THE REMAINING BUSINESS".

Funding requirements for the Optical Business

As a consequence of the major strategy change in the Optical Business to address the increasing competitiveness in the markets in which it operates, it is envisaged that further capital contributions will be needed to fund future investment growth of the Optical Business. However, as at 30 September 2017, the Group had total borrowings of approximately HK$1.1 billion. This relatively high level of debt would mean that it would not be economically feasible for the Group to make further borrowings to fund the proposed growth plans for the Optical Business. The Group is unable to commit to such requirements as it is focused on deleveraging in anticipation of rising interest rates.

Reduction of borrowings to strengthen the Retained Group's balance sheet

Following the Disposal, approximately HK$200 million of the net proceeds from the Disposal are intended to be used to repay existing borrowings in order to reduce the Group's gearing ratio and strengthen the Group's capital structure. Consequently, the gearing ratio of the Retained Group is expected to reduce from 65.4% (as at 30 September 2017) to approximately 54.0% and the Retained Group is expected to benefit from savings in finance costs, including interest savings of approximately HK$7 million per financial year.

Benefit to Shareholders – the Conditional Special Distribution

Shareholders are expected to benefit from the Disposal via a cash realisation from the Conditional Special Distribution.

In particular, it should be noted that the Conditional Special Distribution of HK$0.19 per Share represents: (i) approximately 50% of the Purchase Price; and (ii) 33% of the average closing trading price of the Shares for the 30 trading days immediately prior to the Latest Practicable Date. Accordingly, the Disposal will provide Shareholders with an opportunity to realise value from their investment in the Company.

BUSINESS PLAN AND FUTURE PROSPECTS OF THE REMAINING BUSINESS

Based on an assessment of the retail market from the Company's perspective as a sizeable mass market and mid-price watch retailer in Hong Kong and in the light of the Company's substantial experience in the watch retail industry in Hong Kong, it is the Company's view that the Remaining Business has been operating within a challenging retail environment, caused by a cyclical downturn in the retail business cycle and changing consumer behaviour as a result of the impact of new technologies. As a point of reference and based on the monthly statistical reports of "Report on Monthly Survey of Retail Sales" published by the Hong Kong Census and Statistics Department, the total sales value for the "jewellery, watches and clocks, and valuable gifts" sector recorded a decline of 17.1% and 11.1% in the financial years ended 31 March 2016 and 31 March 2017, respectively, compared with the same period in the previous year. Please note that the watch retail business within the Remaining Business, as a mid-price watch retail business, only forms a segment of the sector covered by the figures set out above.

To enhance its competitiveness and to better position itself for future growth, the Remaining Business is presently undergoing a major transformation to attract both a younger and local customer base through new initiatives introduced to improve and modernise the customer experience so as to embrace this fast-changing retail ecosystem.

These initiatives include: (i) refreshing product portfolio; (ii) improving store image; (iii) store network optimisation; (iv) strengthening cost containment measures; (v) pursuing other top-line opportunities; and (vi) refreshing marketing campaigns. With these initiatives, the Directors believe that the Remaining Business will be well-positioned to benefit as the industry continues to evolve and, as the retail environment continues to strengthen, expect improvements in revenue and gross margins of the Remaining Business.

(i) Refreshing Product Portfolio

To better align with the changing consumer patterns and preferences, the Company is in the process of rebalancing its product mix by not only introducing smart wearables into the Remaining Business' stores, but also introducing products that align with the refreshing store image strategy discussed below.

These new products are expected to help refresh consumer perception of the CITY CHAIN retail brand and to ultimately drive improvements in revenue and margins of the Retained Group.

Since the launching of the initiative, the Company has observed improvements in walk-in traffic and sell-through rates, which in turn have driven same store sales growth and increased gross margins. From September 2017 to December 2017, same store sales grew by 5.1% and the average monthly sales per store grew by 16.3% compared with the same period in the preceding year.

(ii) Improving Store Image

The Company has also been revamping the design of its retail stores to align the CITY CHAIN image with current trends and to roll out a new lifestyle store concept which encompasses refreshed store decorations and an inviting open store layout.

By the end of the first half of the financial year ending 31 March 2018, the Retained Group will have revamped more than one-third of its total number of stores in Hong Kong, Guangdong and Thailand. In December 2017, same store sales of these revamped stores recorded a growth of more than 10% compared with the same period in the preceding year, and was higher than the same store sales of the non-revamped stores in the same respective regions.

The Retained Group expects to revamp the majority of the Remaining Business' store portfolio over the coming two financial years as rental leases roll off, and the estimated cost required for such revamping will be approximately HK$31 million for the financial year ending 31 March 2019. This initiative to improve store image, and thus customer shopping experience, is expected to continue to drive improvements in same store sales growth going forward.

(iii) Store Network Optimisation

The Retained Group is also in the process of optimising its store network by closing non-performing stores and seeking alternative locations with appropriate customer mix and higher local footfall at reduced rentals. Closure of loss-making stores and the expiry of high rental leases have already contributed to a 20.1% fall in the total store rental expenses for the six months ended 30 September 2017 compared with the same period in the preceding year.

Going forward, the Company expects that closures or relocations of loss-making stores for which leases expire over the financial year ending 31 March 2019 will result in rental savings of at least HK$33 million in that financial year.

(iv) Strengthening Cost Containment Measures

Since late 2016, the Remaining Business has been restructuring its watch supply chain management subsidiary to enhance the gross profit margin and the quality of its house brands watches. In the past, the assembly of the Swiss-made watches of the Remaining Business was undertaken by third party assemblers in Switzerland. Going forward, part of the Swiss-made watches will be assembled by one of our Swiss subsidiaries. Bringing this assembly in-house is expected to improve the overall quality of the watches and the profitability of the Remaining Business.

In addition, the Company will continue to tighten its inventory replenishment strategy by continuing to monitor its inventory levels so that such levels align with the expected sales targets of the Remaining Business.

As a result of the supply chain management and inventory control improvements to date, operating costs of the Remaining Business fell by 12% in the first half of the financial year ending 31 March 2018 compared to the first half of the preceding financial year.

(v) Pursuing Other Top-line Opportunities

To date, the Remaining Business' e-commerce business is principally conducted through its online stores on Tmall (https://citychain-hk.tmall.hk/) and Jingdong (http://mall.jd.com/index-54221.html) in the PRC, and through an online store on International Tmall (https://titus.world.tmall.com/) in Hong Kong. In the first half of the financial year ending 31 March 2018, watch turnover through the Group's e-commerce channels accounted for approximately 1% of the total sales of the Remaining Business; however, the Company notes that this grew by more than 60% compared to the similar period in the preceding financial year. The online sales derived by the Remaining Business through the e-commerce channels are targeted to increase by at least 50% by the financial year ending 31 March 2019.

The Company plans to further expand the Remaining Business' current e-commerce activities, and launched its own "TITUS" website (https://www.solvil-et-titus.hk/) in Hong Kong shortly before Christmas 2017, with further roll out to other countries expected to take place in 2018.

The Company is also developing the Remaining Business' e-commerce platform with a view to enhance the online-to-offline synergy between the online and offline shopping experiences of the customers of the Remaining Business. The Company expects that as the e-commerce platform gains scale, this will serve as an effective marketing tool in itself and thus drive growth of in-store sales.

(vi) Refreshing Marketing Campaigns

As part of the transformation of the Remaining Business, the Company is also increasingly shifting more of its advertisement and marketing spending onto social media platforms to capture younger and more digitally savvy consumers. Focus will be on strengthening the image of CITY CHAIN and major house brand "Solvil et Titus", and expanding our customer base to include younger, local, middle-class customers in addition to tourists. The campaigns are targeted to enhance customer experience so as to improve the walk-in traffic, sell-through rate of the CITY CHAIN stores and sales of house brand products.

Sales Revenue

The combined impact of the above initiatives is expected to deliver stable organic growth for the Remaining Business. Sales of the Remaining Business is targeted to improve gradually over the financial years ending 31 March 2019 and 31 March 2020, reflecting the effects of the above initiatives and a gradual recovery in the general retail environment. The anticipated performance for the Remaining Business is based on the assumption that the number of shops will remain stable during these financial years subsequent to the completion of shop revamping and shop re-mapping measures.

Operating Results

The Company anticipates around an 8% reduction in shop rental expenses in the financial year ending 31 March 2019, after the expiration of high rental leases of non-performing shops which will either be closed or relocated. The Company is targeting to manage the growth in other operating costs at a rate that is comparable to the rate of inflation of the relevant region. As a result, the various costs to sales ratios of the Remaining Business are expected to improve gradually from the financial year ending 31 March 2019.

As the Company's competitiveness is expected to improve with the above initiatives, this will drive improvements in the financial performance of the Remaining Business. Based on the above and assuming no adverse unforeseen circumstances, the Board considers that a low to moderate organic growth rate in revenue of the Remaining Business is reasonably achievable in the medium term. The Company believes that the Remaining Business will likely return to profitability within 4 to 5 years.

Statements contained in this section that are not historical facts may be forward-looking statements. Statements in this section are based on a number of assumptions regarding our present and future business strategies and the environment in which we will operate in the future. While the Directors consider such assumptions to be reasonable, whether actual results will meet their expectations will depend on a number of risks and uncertainties over which they have no control and actual results may differ materially from those express or implied in these forward-looking statements. Under no circumstances should the inclusion of such information in this circular be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the Company, the Board, the Financial Adviser or the auditors that these results will be achieved or are likely to be achieved.

The statements in this section are not a profit forecast for the purposes of the Listing Rules and have not been reviewed or reported on by the Financial Adviser or the auditors.

Shareholders and prospective investors in the Company are cautioned not to place undue reliance on these forward-looking statements that speak only as at the date of this circular. The Company undertakes no obligation to update or revise any forward-looking statements in this section.

INFORMATION ON THE PARTIES TO THE DISPOSAL

Information on the Disposed Entities Group and the Optical Business

Following Completion, the Purchaser Group, which will include the Disposed Entities Group, will operate the Optical Business.

As at 30 September 2017, the carrying value of the Optical Business was approximately negative HK$88 million. Immediately prior to the Disposal, the Company will implement the Reorganisation, which involves implementing the following steps:

(a) settlement of existing banking facilities of the Optical Business, which equates to approximately HK$119 million as of 30 September 2017; and

(b) transfer of excess cash held at the Optical Business such that an amount equal to approximately HK$56 million in cash will remain with the Optical Business at Completion.

In addition to the Reorganisation steps set out above, the Macau Properties will be transferred by the Disposed Entities Group to the Retained Group at their independently appraised valuation of HK$56 million (valued as of 31 March 2017) as the terms of the Disposal do not include the Macau Properties. The Macau Properties are not included in the Disposal as it is not part of the Company's strategy to dispose of the Macau Properties and it is the Company's intention that the Remaining Business continue to own the Macau Properties. Part of the Macau Properties will continue to be used by the Retained Group as retail shops for the Remaining Business, with the remainder of the Macau Properties to be leased to the Optical Business for the Optical Business' current use as retail shops. For this reason, the Purchase Price excludes the value of the Macau Properties.

The impact of the implementation of the above reorganisation steps on the balance sheet of the Optical Business is set out below and is estimated to increase further the net liabilities of the Optical Business by approximately HK$17 million, resulting in net liabilities of HK$105 million after accounting for the reorganisation steps above (the "**Post-Reorganisation Net Liabilities**"):

	Optical Business as at 30 September 2017 *(HK$ million)* *(unaudited)*	Transfer of Macau Properties Note 1 *(HK$ million)* *(unaudited)*	Settlement of Optical Business Borrowings Note 2 *(HK$ million)* *(unaudited)*	Transfer of Excess Cash to the Retained Group Note 3 *(HK$ million)* *(unaudited)*	Optical Business Post-Reorganisation *(HK$ million)* *(unaudited)*
Cash	185	56	(119)	(66)	56
Fixed Asset	89	(7)	–	–	82
Other Asset	401	–	–	–	401
Total Asset	**675**	**49**	**(119)**	**(66)**	**539**
Borrowings	119	–	(119)	–	–
Other Liabilities	204	–	–	–	204
Net Intercompany Payables Note 4	440	–	–	–	440
Total Liabilities	**763**	**–**	**(119)**	**–**	**644**
Net Assets/(Liabilities)	**(88)**	**49**	**–**	**(66)**	**(105)**

Note 1: The Macau Properties have a carrying value of approximately HK$7 million as of 30 September 2017 and an independently appraised value of HK$56 million.

Note 2: As set out in the SPA, the existing banking facilities of the Optical Business will be settled prior to Completion. The Optical Business holds bank debt of HK$119 million as of 30 September 2017. The final amount to be settled at Completion will vary depending on the amount of outstanding debt as at Completion.

Note 3: As set out in the SPA, the Optical Business will be disposed with a cash amount equating to approximately HK$56 million at Completion. The amount of cash to be transferred to the Retained Group will depend on the outstanding cash balance as at Completion.

Note 4: The Net Intercompany Payables relate predominantly to historical support and financial subsidies that have been provided by the Retained Group to the Optical Business.

The following table sets out further information relating to the Optical Business for the two financial years ended 31 March 2016 and 31 March 2017:

	For the financial year ended	
	31 March 2016	**31 March 2017**
	HK$ million (unaudited)	*HK$ million* (unaudited)
Sales	1,273	1,216
Operating EBITDA Note 1	44	35
Adjusted Operating EBITDA Note 2	41	31
Net loss before taxation Note 3	(25)	(41)
Net loss after taxation	(28)	(47)

Note 1: "Operating EBITDA" refers to operating earnings, including attributable corporate overhead, before income tax, depreciation and amortisation charges and other non-cash items.

Note 2: "Adjusted Operating EBITDA" refers to Operating EBITDA, less estimated pro-forma royalty fee payments (as described in respect of the Trademark Licensing Arrangement) to the Retained Group and estimated additional standalone costs, assuming the Disposal has already occurred at the beginning of the relevant financial period.

Note 3: "Net loss before taxation" refers to Operating EBITDA less depreciation and amortisation charges, other non-cash items and finance costs.

Information on the Purchaser and the Purchaser Guarantor

The Purchaser is a special purpose vehicle incorporated in the BVI and is wholly owned by the Purchaser Guarantor. The Purchaser Guarantor has been the chairman and chief executive officer of the Group since 2011 and 1996, respectively.

Information on the Seller

The Seller is an investment holding company incorporated in Bermuda.

Information on the Group

The Group is principally engaged in the business of watch retailing, optical retailing and the wholesale trading of watches and optical frames.

FINANCIAL EFFECTS OF THE DISPOSAL ON THE RETAINED GROUP

Impact on the Retained Group's Earnings

After Completion, the Disposed Entities will cease to be subsidiaries of the Company. The Disposal is expected to record a gain of approximately HK$65 million (before deduction of transaction costs and expenses). Such gain is calculated on the basis of:

(a) the Post-Reorganisation Net Liabilities of the Optical Business as at 30 September 2017 of approximately HK$105 million (see section headed "INFORMATION ON THE PARTIES TO THE DISPOSAL – Information on the Disposed Entities Group and the Optical Business" for further information);

(b) net intra-group receivables owed by the Optical Business to the Retained Group as at 30 September 2017 of approximately HK$440 million; and

(c) the Purchase Price of HK$400 million.

Taking into account (a) and (b) above, from the perspective of the Company and as at 30 September 2017, the Disposed Entities Group and the Receivables together represented a net asset value of approximately HK$335 million. The final amount of such gain will be subject to applicable accounting adjustments and the Group's final balances as at Completion and may therefore change.

Since the Disposed Entities will cease to be subsidiaries of the Company following Completion, the financial results of the Disposed Entities Group will consequently no longer be consolidated into the consolidated financial statements of the Group after Completion.

Impact on the Retained Group's Financial Position

Based on the unaudited financial statements of the Retained Group as at 30 September 2017, as a result of the Disposal (excluding the payment of the Conditional Special Distribution and debt paydown for the Remaining Business) and subject to the adjustments resulting from the Reorganisation (as outlined in the section headed "INFORMATION ON THE PARTIES TO THE DISPOSAL – Information on the Disposed Entities Group and the Optical Business"), the total assets and total liabilities of the Retained Group are expected to decrease by HK$209 million and HK$323 million respectively, while the net assets of the Retained Group is expected to increase by HK$114 million. The Company notes that approximately HK$49 million of the increase in net assets is attributable to the revaluation of the Macau Properties as a result of the Reorganisation and the remaining HK$65 million (rounded to the nearest million) of the increase in net assets is attributable to the gain on Disposal (before deduction of transaction costs and expenses).

Net Proceeds from the Disposal

Upon Completion, the Company expects to realise gross proceeds of approximately HK$400 million (before deduction of transaction costs and expenses) from the Disposal. The Company intends to apply approximately HK$200 million of such proceeds to fund the payment of the Conditional Special Distribution to the Shareholders. The remaining proceeds of approximately HK$200 million is intended for repayment of existing debt of the Remaining Business, which will further strengthen the financial position and capital structure of the Company.

Shareholders should note that the figures set out in this section headed "FINANCIAL EFFECTS OF THE DISPOSAL ON THE RETAINED GROUP" are subject to change, as the actual gain on the Disposal will be determined based on the actual financial position of the Disposed Entities Group and the Receivables at Completion and may be different from that stated above.

THE PROPOSED CONTINUING CONNECTED TRANSACTIONS AND PARTIAL TERMINATION OF EXISTING TENANCY AGREEMENT

To ensure that neither the Remaining Business nor the Optical Business is unduly affected as a result of the Disposal and to support both the Remaining Business and the Optical Business for a transitional period following Completion, the Retained Group and the Purchaser Group intend to effect the following upon Completion:

SHARED SERVICES ARRANGEMENT

The Shared Services Arrangement will allow the Retained Group to provide to the Purchaser Group, on an at-cost basis allocated on a fair and equitable basis, certain supporting administrative services that the Optical Business currently receives from the Retained Group. These supporting administrative services include legal and compliance, financial and accounting (including insurance management), information technology, human resources and general office administration services.

The Company has internal reporting systems that allow the shared supporting administrative services to be fairly allocated between the Remaining Business and the Optical Business. In particular, the service fees payable for the shared supporting administrative services will be determined based on the Optical Business' usage of each type of service, taking into account factors such as headcount and the number of shops.

The Company's intention is for the Shared Services Arrangement to be for an initial term of up to three years and to be renewable thereafter upon mutual agreement between the parties thereto. The Company envisages for these supporting administrative services to be provided on a transitional basis until such time that the Purchaser Group can fully procure such services itself on similarly competitive terms.

TRADEMARK LICENSING ARRANGEMENT

The Trademark Licensing Arrangement will allow the Purchaser Group and its franchisees, licensees and distributors to continue to use certain trademarks owned by members of the Retained Group. Such trademarks have been used by the Optical Business for goods sold or provided by the Optical Business.

The Retained Group intends to license such trademarks to the Purchaser Group and the Purchaser Group's franchisees, licensees and distributors for a period of up to three years and to be renewable thereafter upon mutual agreement between the parties thereto.

The principal terms and conditions of the proposed trademark licence agreement reflecting the Trademark Licensing Arrangement are summarised below:

Date	:	It is proposed that the trademark licence agreement will be entered into upon Completion.
Parties	:	(i) Relevant members of the Retained Group holding the relevant trademarks (ii) Optical 88 and Optical 88 (Thailand)
Nature of the agreement	:	The trademark licence agreement governs the terms on which members of the Retained Group license various trademarks to members of the Purchaser Group and the Purchaser Group's franchisees, licensees and distributors in relation to the Optical Business. The major house brands trademarks being licensed under the Trademark Licensing Arrangement are "CYMA" and "Solvil et Titus".
Royalty payment	:	10% of the invoice value as invoiced by suppliers or vendors in respect of the supply of frames, spectacles and sunglasses and related accessories bearing the licensed trademarks, after (i) deducting discounts or rebates and (ii) excluding any value added or sales tax. The royalty payment will be paid on 31 October and 31 July of each year. The royalty payment for each financial year shall not exceed HK$2,000,000. Such annual cap has been determined with reference to the past annual total purchase costs paid to suppliers or vendors, with a reasonable annual increment.
Term	:	From Completion until (and including) 31 March 2021, and to be renewable thereafter upon mutual agreement between the parties.

LEASE MANAGEMENT ARRANGEMENT

Since the Group's lease management unit and personnel responsible for managing leases for both the Remaining Business and the Optical Business currently form part of the Optical Business, in order to ensure that the Remaining Business is not unduly affected as a result of the Disposal, the Retained Group and the Purchaser Group intend to enter into the proposed lease management agreement to maintain the provision of such services for a transitional period. The Lease Management Arrangement will allow the Purchaser Group to provide to the Retained Group lease management services in respect of all offices, warehouses and shops of the Remaining Business in Hong Kong and Macau that are subject to leases, and will be for a period of up to three years and renewable thereafter upon mutual agreement between the parties thereto.

The principal terms and conditions of the proposed lease management agreement reflecting the Lease Management Arrangement are summarised below:

Date	:	It is proposed that the lease management agreement will be entered into upon Completion.
Parties	:	(i) Stelux Holdings Limited, a wholly-owned subsidiary of the Company (ii) Optical 88 Limited
Nature of the agreement	:	The lease management agreement governs the terms on which members of the Purchaser Group provide to members of the Retained Group lease management services.
Fee	:	HK$600,000 (for the financial year ending 31 March 2019), HK$630,000 (for the financial year ending 31 March 2020) and HK$661,500 (for the financial year ending 31 March 2021).
Term	:	From Completion until (and including) 31 March 2021, and to be renewable thereafter upon mutual agreement between the parties.

PROPERTY ARRANGEMENT

Following Completion, to ensure that neither the Remaining Business nor the Optical Business is unduly affected, the Retained Group and the Purchaser Group will lease, sub-lease or license certain shops, offices and warehouses to and from each other as: (a) certain current leases are shared between the Remaining Business and the Optical Business, and such sharing of premises cannot be terminated until the expiry of the relevant leases; and (b) a number of shops and/or warehouses currently used by the Optical Business will be owned by the Retained Group (and vice versa). Therefore, a master property agreement is proposed to be entered into between the Disposed Entities and a member of the Retained Group in relation to the use of such premises after Completion. The Property Arrangement will be for a period of up to three years and renewable thereafter upon mutual agreement between the parties thereto.

The principal terms and conditions of the proposed master property agreement reflecting the Property Arrangement are summarised below:

Date	:	It is proposed that the master property agreement will be entered into upon Completion.
Parties	:	(i) Stelux Holdings Limited, a wholly-owned subsidiary of the Company (ii) the Disposed Entities
Rental	:	At cost based on the proportion of the rental, management fees and other ordinary outgoings payable to a third party under the relevant tenancy or, in respect of premises owned by the Retained Group or the Purchaser Group, at the market rate for such premises.
Term	:	From Completion until (and including) 31 March 2021, and to be renewable thereafter upon mutual agreement between the parties.
Historical transaction amounts	:	Certain transactions under the Property Arrangement will be charged at cost based on the relevant proportion of rental under the relevant existing lease agreements and/or invoices issued by third parties. There are also other new leasing/sub-leasing and licensing arrangement for which there are no historical amounts. As such there are no historical amounts for the total sums payable or receivable under these arrangements.

Annual caps and basis of determination	:	For payments payable by the Retained Group: HK$14,500,000 (for the financial year ending 31 March 2019), HK$13,500,000 (for the financial year ending 31 March 2020) and HK$14,000,000 (for the financial year ending 31 March 2021). For payments payable to the Retained Group: HK$8,500,000 (for the financial year ending 31 March 2019), HK$8,500,000 (for the financial year ending 31 March 2020) and HK$9,500,000 (for the financial year ending 31 March 2021). The annual caps have been determined with reference to: (i) historical rentals under the relevant lease agreements; (ii) expected rentals under the relevant lease agreements; (iii) the estimated incremental annual increase in the underlying lease agreements; and (iv) the estimated increases in expenses as a result of inflation, increased business activity and an increase in the value of properties.

PARTIAL TERMINATION OF THE STELUX HOUSE TENANCY AGREEMENT

Reference is made to the announcement of the Company dated 6 April 2016 in relation to, among others, the Stelux House Tenancy Agreement. As the Optical Premises will be used solely by the Optical Business following Completion, it is proposed that the Retained Group's existing tenancy for the Optical Premises be terminated with effect from Completion.

LISTING RULES IMPLICATIONS

The Disposal and the SPA

The highest of the applicable percentage ratios in respect of the Disposal is higher than 25% but below 75%. Accordingly, the Disposal constitutes a major transaction of the Company and is subject to the announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Purchaser Guarantor is a director of and a substantial shareholder of the Company. Therefore, the Purchaser Guarantor and his associates are connected persons of the Company. Since the Purchaser is wholly owned by the Purchaser Guarantor, it is an "associate" of the Purchaser Guarantor pursuant to Rule 14A.12(1)(c) of the Listing Rules and is a connected person of the Company. The Disposal therefore constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Shared Services Arrangement

The Shared Services Arrangement is a fully exempt continuing connected transaction pursuant to Rule 14A.98 of the Listing Rules.

The Trademark Licensing Arrangement

The Trademark Licensing Arrangement is a fully exempt continuing connected transaction pursuant to Rule 14A.76(1) of the Listing Rules.

The Lease Management Arrangement

The Lease Management Arrangement is a fully exempt continuing connected transaction pursuant to Rule 14A.76(1) of the Listing Rules.

The Property Arrangement

As the relevant applicable percentage ratios in respect of the Property Arrangement are more than 0.1% but less than 5%, the Property Arrangement is a continuing connected transaction that is subject to the reporting, annual review and announcement requirements, but exempt from the Independent Shareholders' approval requirement, under Chapter 14A of the Listing Rules.

INDEPENDENT FINANCIAL ADVISERS

Somerley Capital Limited was been appointed as the independent financial advisers to advise the Independent Board Committee and the Independent Shareholders. A copy of the letter from Somerley Capital Limited is set out from page 32 to page 56 of this circular.

RECOMMENDATION

Mr. Chumphol Kanjanapas (also known as Joseph C.C. Wong), being a Director with a material interest in the Disposal and the Proposed Continuing Connected Transactions, abstained from voting in the relevant resolutions of the Board in approving the above.

The Independent Board Committee comprising Mr. Wu Chun Sang, Professor Lawrence Wu Chi Man and Dr. Agnes Kwong Yi Hang, all being Independent Non-executive Directors, has been formed to advise the Independent Shareholders:

(i) as to whether the terms of the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole;

(ii) as to whether the Disposal are on normal commercial terms or better and in the ordinary and usual course of business of the Group; and

(iii) on how to vote, taking into account the recommendation of Somerley Capital Limited.

A copy of the letter from the Independent Board Committee is set out on page 31 of this circular.

The Directors (excluding the Independent Non-executive Directors who have expressed their recommendation in their letter to the Independent Shareholders on page 31 of this circular) consider that the Disposal, though not in the ordinary and usual course of business of the Group, is conducted on normal commercial terms, is fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the terms thereof were arrived at after arm's length negotiations between the Company on the one hand and the Purchaser and the Purchaser Guarantor on the other hand. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Disposal and the transactions contemplated thereunder.

The Directors (excluding the Independent Non-executive Directors who have expressed their recommendation in their letter to the Independent Shareholders on page 31 of this circular) consider that the Proposed Continuing Connected Transactions (other than the Trademark Licensing Arrangement), despite the fact that the Proposed Continuing Connected Transactions (other than the Trademark Licensing Arrangement) are not in the ordinary and usual course of business of the Group, are conducted on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the terms thereof were arrived at after arm's length negotiations between the Company on the one hand and the Purchaser and the Purchaser Guarantor on the other hand.

The Directors (excluding the Independent Non-executive Directors who have expressed their recommendation in their letter to the Independent Shareholders on page 31 of this circular) consider that the Trademark Licensing Arrangement is in the ordinary and usual course of business of the Group, is conducted on normal commercial terms, is fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the terms thereof were arrived at after arm's length negotiations between the Company on the one hand and the Purchaser and the Purchaser Guarantor on the other hand.

SGM

The SGM will be convened and held for the Independent Shareholders to, among other things, consider and, if thought fit, approve the Disposal.

Pursuant to the Listing Rules, any Shareholder with a material interest in the Disposal and its associates are required to abstain from voting at the SGM on the relevant resolutions in relation thereto. As such, the Purchaser Guarantor and his associates are required to abstain from voting at the SGM on such resolutions. To the best of the Directors' knowledge and information, no other Shareholder is required to abstain from voting at the SGM.

A notice of the SGM is set out on pages 66 to 67 of this circular.

Shareholders who are entitled to vote at the SGM are those whose names appear as Shareholders on the register of members of the Company on Thursday, 19 April 2018. In order to be entitled to vote at the SGM, all completed transfer documents, accompanied by relevant share certificates, must be lodged with the Company's Hong Kong share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 pm on Thursday, 12 April 2018.

A proxy form for use at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM or any adjournment thereof, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjourned meeting if you so wish.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

Yours faithfully,
On behalf of the Board
Wallace Kwan Chi Kin
Executive Director

STELUX Holdings International Limited
寶光實業(國際)有限公司*
http://www.stelux.com
Incorporated in Bermuda with limited liability
Stock Code: 84

22 March 2018

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION – DISPOSAL OF THE OPTICAL BUSINESS

The Independent Board Committee has been established to advise you in connection with the Disposal and the transactions contemplated thereunder, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 22 March 2018 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein, unless the context otherwise requires.

Having considered the terms of the Disposal and the transactions contemplated thereunder, and the advice of Somerley Capital Limited in relation thereto as set out on pages 32 to 56 of the Circular, we are of the opinion that the terms of the Disposal and the transactions contemplated thereunder, though the Disposal in itself is not in the ordinary and usual course of business of the Group, 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.

We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Disposal and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee of
Stelux Holdings International Limited
Wu Chun Sang **Lawrence Wu Chi Man**
Agnes Kwong Yi Hang
Independent Non-executive Directors

* *For identification purpose only*

The following is the full text of a letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders in relation to the Disposal, which has been prepared for the purpose of inclusion in the Circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

22 March 2018

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION DISPOSAL OF THE OPTICAL BUSINESS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Disposal, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 22 March 2018 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 26 January 2018, the Seller, the Purchaser and the Purchaser Guarantor entered into the SPA, pursuant to which:

1) the Seller has conditionally agreed to sell, or procure the sale of, and the Purchaser has conditionally agreed to purchase (and the Purchaser Guarantor has agreed to guarantee the obligations of the Purchaser under the SPA) the Optical 88 Share, the EGG Share, the Thong Sia Optical Share and the Receivables; and

2) the Seller has conditionally agreed to sell, or procure the sale of, and the Purchaser Guarantor has conditionally agreed to purchase either by himself or through his nominee, the Optical 88 (Thailand) Shares,

for a total Purchase Price of HK$400 million (subject to certain adjustments pursuant to the SPA).

The Disposed Entities Group operates the Optical Business, which comprises the entirety of the Optical 88 and EGG retail operations and the Thong Sia Optical wholesale trading business, the operations of which span across Hong Kong, Macau, the PRC, Singapore, Malaysia and Thailand. Upon Completion, the Disposed Entities will cease to be subsidiaries of the Company and the Company will continue to own and operate the Remaining Business (i.e. watches retail, watch wholesale trading and related business).

As stated in the letter from the Board in the Circular, a Conditional Special Distribution in cash of HK$0.19 per Share (which equals to a total of approximately HK$198.8 million based on the total number of issued Shares as at the Latest Practicable Date) has been declared by the Board. The Conditional Special Distribution will be payable out of the proceeds of the Disposal and will be distributed as soon as practicable after Completion to the Shareholders whose names appear on the register of members of the Company on a record date to be determined by the Board. The payment of the Conditional Special Distribution is conditional upon Completion taking place.

The Purchaser Guarantor is a director of and a substantial shareholder of the Company. Therefore, the Purchaser Guarantor and his associates are connected persons of the Company. Since the Purchaser is wholly owned by the Purchaser Guarantor, it is an "associate" of the Purchaser Guarantor pursuant to Rule 14A.12(1)(c) of the Listing Rules and is a connected person of the Company. The Disposal therefore constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the Independent Non-executive Directors, namely Mr. Wu Chun Sang, Professor Lawrence Wu Chi Man and Dr. Agnes Kwong Yi Hang, has been established to advise the Independent Shareholders as to whether the terms of the Disposal are fair and reasonable and in the interest of the Company and the Shareholders as a whole; as to whether the Disposal is on normal commercial terms or better and in the ordinary and usual course of business of the Group; and on how to vote, taking into account our recommendation. We, Somerley Capital Limited, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Disposal. Details of the Disposal are set out in the Circular.

We are not associated or connected with the Company, the Purchaser, the Purchaser Guarantor or their respective substantial shareholders or associates and, accordingly, are considered eligible to give independent advice on the Disposal. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Purchaser, the Purchase Guarantor or their respective substantial shareholders or associates.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company (collectively, the "**Management**"), which we have assumed to be true, accurate, complete and not misleading as at the date of this letter and will remain as at the date of the SGM. We have reviewed the published information on the Company, including the annual report of the Company for the year ended 31 March 2016 (the

"**2016 Annual Report**"), annual report of the Company for the year ended 31 March 2017 (the "**2017 Annual Report**"), interim report of the Company for the six months ended 30 September 2017 (the "**2017 Interim Report**") and other information contained in the Circular. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed by them. We consider that the information we have received is sufficient for us to reach our opinion and advice as set out in this letter. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material facts have been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Disposal, we have taken into account the following principal factors and reasons:

1. Information on the Group

1.1 Background information of the Group

The Company is a limited liability company incorporated in Bermuda. The Shares have been listed on the Stock Exchange since 2 October 1972.

The Group is principally engaged in the business of watch retailing (under the brand named "CITY CHAIN"), optical retailing (under the brands named "OPTICAL 88" and "eGG Optical Boutique") and the wholesale trading of watches and optical frames. The Company established its watch retailing business with the brand "CITY CHAIN" in 1985 and subsequently acquired the optical business with the brand "OPTICAL 88" in 1988. In 2011, the Group introduced a unique optical retail concept named "eGG Optical Boutique" in Hong Kong. According to the Management, the watch business (i.e. the Remaining Business) and the Optical Business are currently separate business streams within the Group and operate relatively independently of each other.

The watch retail business, the watch wholesale trading business, production facilities in Switzerland for Swiss watch movements and Swiss-made watches and properties holdings, which form the majority of the Remaining Business, are held and run by the Retained Group. The Retained Group, as a multi-branded retailer, sells third party foreign brands and produces its own house brands such as "Solvil et Titus" and "CYMA", which are available exclusively at CITY CHAIN stores. The Remaining Business has partnerships with independent retailers as it operates the sole distributorship for SEIKO clocks and watches in Malaysia, Singapore and Hong Kong. As at 31 December 2017, the Retained Group operated 254 retail stores in Hong Kong, Macau, the PRC, Singapore, Malaysia and Thailand, together with online stores.

As at 31 December 2017, the Optical Business (i.e. the Disposed Entities Group) operated around 279 shops under Optical 88 and eGG Optical Boutique in Hong Kong, Macau, the PRC, Singapore, Malaysia and Thailand, together with an online store operated under the eGG brand. The Optical 88 Group delivers quality professional eye care/eyewear products and services and hearing care products and services, while the eGG Group operates as a fast fashion optical retailer aimed at trend setting fashionistas. Further details regarding the Disposed Entities Group and the Optical Business are contained in section headed "2. Information on the Disposed Entities and the Optical Business" below.

As stated in the Circular, given the increasing competitiveness in the markets in which the Company operates and in order for the Company to further differentiate and protect its business, the majority of the Optical Business operating under the Optical 88 brand is undergoing a major strategy change to focus not only on optical retailing, but also on developing professional healthcare businesses, including professional eye-care centres and other healthcare-related services and products (such as hearing care services and products). The Company anticipates that the Optical Business will therefore be pivoting to a more professional healthcare-based business, diverging from the Remaining Business.

Given that the Remaining Business and Optical Business are serving target markets that are increasingly diverging from each other, together with the fact that the Remaining Business and the Optical Business already operate relatively independently of each other, the Company has made the strategic decision to split the ownership of the Optical Business and the Remaining Business to allow the Company to focus on the operation and development of the Remaining Business.

1.2 Financial performance of the Group

Set out below is key financial information on the Group as extracted from the consolidated income statement for the three years ended 31 March 2015, 2016 and 2017 and the 6 months periods ended 30 September 2016 and 2017 (the "**Period**"), details of which are set out in the 2016 Annual Report, 2017 Annual Report and the 2017 Interim Report:

	For the financial year ended 31 March			For the six months period ended 30 September	
	2017	**2016**	**2015**	**2017**	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	2,850,410	3,401,716	3,940,849	1,353,255	1,453,506
Segment revenue:–					
– Watch retailing	*1,325,295*	*1,803,771*	*2,212,456*	*594,367*	*668,492*
– Optical retailing	*1,198,318*	*1,253,808*	*1,331,505*	*617,020*	*618,442*
– Wholesale trading	*326,797*	*344,137*	*396,888*	*141,868*	*166,572*
Segment results:–					
– Watch retailing	*(118,572)*	*(30,969)*	*189,442*	*(37,703)*	*(49,434)*
– Optical retailing	*(2,951)*	*12,360*	*45,151*	*18,353*	*8,111*
– Wholesale trading	*22,288*	*10,159*	*85,103*	*13,977*	*21,589*
Cost of sales	(1,173,680)	(1,370,752)	(1,524,407)	(566,347)	(586,691)
Gross profit	1,676,730	2,030,964	2,416,442	786,908	866,815
Other gains/(losses), net	55,485	12,180	(16,557)	6,915	67,952
Other income	26,400	22,370	25,318	12,921	12,652
Selling expenses	(1,429,330)	(1,657,260)	(1,740,051)	(656,991)	(727,138)
General and administrative expenses	(364,456)	(406,717)	(413,857)	(182,167)	(198,163)
Other operating expenses	(80,098)	(96,472)	(53,344)	(15,224)	(21,657)
Operating profit/(loss)	(115,269)	(94,935)	217,951	(47,638)	461
Finance costs	(59,755)	(90,778)	(72,141)	(12,137)	(46,298)

	For the financial year ended 31 March			For the six months period ended 30 September	
	2017	2016	2015	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Share of loss of an associate	–	–	(5,302)	–	–
(Loss)/profit before income tax	(175,024)	(185,713)	140,508	(59,775)	(45,837)
Income tax expense	(2,689)	(4,066)	(48,449)	(2,123)	(1,741)
(Loss)/profit for the year/period	(177,713)	(189,779)	92,059	(61,898)	(47,578)
Attributable to:					
Equity holders of the Company	(177,921)	(190,009)	91,756	(62,005)	(47,666)
Non-controlling interests	208	230	303	107	88
	(177,713)	(189,779)	92,059	(61,898)	(47,578)

Revenue

Revenue of the Group has shown a decreasing trend during the Period, from approximately HK$3,940.8 million for the financial year ended 31 March 2015 ("**FY2015**") by around 13.7% to approximately HK$3,401.7 million for the financial year ended 31 March 2016 ("**FY2016**"), and dropped further by around 16.2% to approximately HK$2,850.4 million for the financial year ended 31 March 2017 ("**FY2017**"). Revenue of the Group also decreased by around 6.9% from approximately HK$1,453.5 million for the six months period ended 30 September 2016 ("**6M2016**") to approximately HK$1,353.3 million for the six months period ended 30 September 2017 ("**6M2017**").

As disclosed in the 2017 Annual report, during FY2017, the Group's financial performance continued to be affected by the persistent economic slowdown in the regions where the Group operates due to lower tourist spending in Hong Kong and weak Southeast Asian currencies (the "**Unfavourable Macroeconomic Factors**"). According to statistics published by the Hong Kong Tourism Board ("**HKTB**"), per capita spending of overnight visitors and same-day in-town visitors continued with a decreasing trend during the period from 2014 to 2016 (being the latest year for which statistical data was available from

HKTB), from approximately HK$7,960 and HK$2,414 respectively in 2014 to approximately HK$7,234 and HK$2,409 respectively in 2015 and further down to around HK$6,599 and HK$2,122 respectively in 2016. Based on information available from Bloomberg, we also observed that the HK$ had in general appreciated against various Southeast Asian currencies such as the Thai Baht, Malaysian Ringgit and Singapore Dollar which are the local currencies of the Southeast Asia regions where the Group operates. The compound annual growth rates represented by the average exchange rate of HK$ to each of these currencies in 2017, as compared to those in 2014, ranged from around 1.3% to 9.34%. Since the revenue generated from the Group's shops in Southeast Asia countries were denominated in local currency, the weak Southeast Asia currencies had adversely affected the Group's consolidated revenue during the Period. During the Period, the Group had three reportable operating segments: the watch retail segment, the optical retail segment and the wholesale trading segment. As provided by the Company, the Unfavourable Macroeconomic Factors impacted the Group's business divisions and geographical units to varying degrees, with the impact more apparent in the Group's watch business; the optical business by its nature being more resilient.

Save for 6M2017, the watch retail segment has been the larger revenue contributor in the range of around 46.0% to 56.1% of the total revenue of the Group for the reporting periods under the Period. Both the watch retail segment and the optical retail segment recorded segment loss for FY2017, however, both segment results showed a recovery sign during 6M2017 which was mainly due to, among others, the reduction in operation costs as the result of closure of loss-making shops, the positive impact from expiry of high rental leases during the period and efficient cost control measures. The Group has not published segment information in the forms of the Remaining Business and the Optical Business for the purposes of financial reports in the past.

Watch retail segment

As a result of the Unfavourable Macroeconomic Factors, the Group's revenue from the watch retail segment decreased by around 18.5% from approximately HK$2,212.5 million for FY2015 to approximately HK$1,803.8 million for FY2016, and further decreased by 26.5% to approximately HK$1,325.3 million in FY2017. During 6M2017, the Group's revenue from the watch retail segment, which accounted for approximately 43.9% of total revenue for 6M2017, also showed a slowdown by approximately 11.1% to approximately HK$594.4 million as compared to approximately HK$668.5 million for 6M2016. Correspondingly, segment results of the watch retail segment turned from a segment profit of approximately HK$189.4 million for FY2015 to segment losses of approximately HK$31.0 million for FY2016 and approximately HK$118.6 million for FY2017. Segment loss of the watch retail segment narrowed from approximately HK$49.4 million for 6M2016 to approximately HK$37.7 million for 6M2017. Such improvement was mainly attributable to reduction in operation costs as the results of the closure of loss-making shops and the positive impact from expiry of high rental lease during the period.

Optical retail segment

The optical retail segment of the Group also showed a decrease in revenue from approximately HK$1,331.5 million for FY2015 by around 5.8% to approximately HK$1,253.8 million for FY2016, and a further decrease by around 4.4% to approximately HK$1,198.3 million for FY2017, due to the Unfavourable Macroeconomic Factors and soft consumer demand in the PRC. The Group's revenue from the optical retail segment amounted to approximately HK$617.0 million for 6M2017 which represented a decrease of approximately 0.2% as compared to 6M2016. The optical retail segment reported a decrease in segment profit from approximately HK$45.2 million for FY2015 by around 72.6% to around HK$12.4 million for FY2016, and such segment profit further deteriorated to a segment loss of approximately HK$3.0 million for FY2017. As with the watch retail segment and due to the reduction in operation costs as a result of efficient cost control measures, the optical retail segment has shown an improvement in segment results and reported an increase in segment profit from approximately HK$8.1 million for 6M2016 to around HK$18.4 million for 6M2017.

Wholesale trading segment and supply chain management

The wholesale trading segment of the Group also recorded decrease in segment revenue from HK$396.9 million for FY2015 by around 13.3% to approximately HK$344.1 million for FY2016, and a further decrease by around 5.0% to approximately HK$326.8 million for FY2017. The Group's revenue from the wholesale trading segment for 6M2017 also showed a decrease of around 14.8% to approximately HK$141.9 million as compared to 6M2016. The wholesale trading segment recorded a substantial drop in segment profit from around HK$85.1 million for FY2015 to approximately HK$10.2 million for FY2016 mainly as a result of the non-cash intangible assets impairments of approximately HK$26.4 million recorded for FY2016. It, however, achieved a growth in segment profits to approximately HK$22.3 million for FY2017. The wholesale trading segment reported a decrease in segment profits from approximately HK$21.6 million for 6M2016 to approximately HK$14.0 million for 6M2017.

Gross profit

The gross profit margin of the Group was approximately 59.7% in FY2016, which represented an approximately 1.6% decrease from approximately 61.3% in FY2015. The gross profit margin decreased further by around 0.9% to approximately 58.8% in FY2017 as compared to FY2016.

The gross profit of the Group amounted to approximately HK$786.9 million in 6M2017, representing an approximately 9.2% decrease from approximately HK$866.8 million in 6M2016. The gross profit margin of the Group was approximately 58.1% and 59.6% for 6M2017 and 6M2016 respectively.

Net loss attributable to equity holders of the Company

The Group reported a net loss attributable to equity holders of the Company for FY2016 of approximately HK$190.0 million, against a net profit attributable to equity holders of the Company for FY2015 of approximately HK$91.8 million. The Group's net loss attributable to equity holders of the Company narrowed by around 6.4% to approximately HK$177.9 million for FY2017 as a result of, among other things, impact from the non-cash impact of the redemption of convertible bonds, the non-cash provision in respect of onerous lease and impairment on fixed assets of certain retail shops and a non-cash stock provision.

During 6M2017, due to the absence in 6M2017 of the one-off gain upon redemption of convertible bond of approximately HK$75.9 million for 6M2016, partly offset by the decrease in finance costs in 6M2017 as compared to 6M2016, the Group's net loss attributable to equity holders of the Company further deepened to approximately HK$62.0 million for 6M2017.

1.3 Financial position of the Group

Set out below is a summary of the condensed consolidated balance sheet of the Group as at 31 March 2017 and 30 September 2017 as extracted from the 2017 Interim Report:

	As at	
	30 September 2017	**31 March 2017**
	(unaudited)	*(audited)*
	HK$'000	*HK$'000*
Non-current assets		
Property, plant and equipment	409,285	403,213
Intangible assets	100,037	99,699
Debtors, deposits and prepayments	108,614	129,590
Other non-current assets	131,025	130,459
	748,961	762,961
Current assets		
Stocks	984,927	926,504
Debtors, deposits and prepayments	441,224	424,992
Bank balances and cash	527,682	533,774
	1,953,833	1,885,270
Total assets	**2,702,794**	**2,648,231**
Equity		
Capital and reserves attributable to equity holders of the Company	888,645	919,079
Non-controlling interests	7,430	7,080
Total Equity	**896,075**	**926,159**
Non-current liabilities		
Deferred tax liabilities	7,159	7,474
Borrowings	14,797	14,710
	21,956	22,184
Current liabilities		
Creditors and accruals	675,306	611,905
Income tax payable	14,960	5,338
Borrowings	1,094,497	1,082,645
	1,784,763	1,699,888
Total liabilities	**1,806,719**	**1,722,072**

As at 30 September 2017, total assets of the Group amounted to approximately HK$2,702.8 million and total liabilities amounted to approximately HK$1,806.7 million. Total assets of the Group as at 30 September 2017 went up by approximately 2.1%. Total liabilities of the Group as at 30 September 2017 went up by approximately 4.9% as compared with that as at 31 March 2017 mainly due to the increase in current liabilities including the slight increases in creditors and accruals, income tax payable and borrowings, during 6M2017.

Non-current assets were around HK$749.0 million and HK$763.0 million as at 30 September 2017 and 31 March 2017 respectively. Among the current assets, stocks slightly increased by around 6.3% as a result of the increase in finished goods as at 30 September 2017 as compared to 31 March 2017. The Group had bank balances and cash of approximately HK$527.7 million as at 30 September 2017, representing a slight drop of approximately 1.1% compared to 31 March 2017.

The Group recorded net current assets of approximately HK$169.1 million as at 30 September 2017. Total borrowings slightly increased from approximately HK$1,097.4 million as at 31 March 2017 by approximately 1.1% to approximately HK$1,109.3 million as at 30 September 2017. The current ratio of the Group was maintained at around 1.1 times as at 31 March 2017 and 30 September 2017. The Group's gearing ratio, calculated as total borrowings minus bank balances and cash and then divided by the total equity attributable to equity holders of the Company, was around 65.4% as at 30 September 2017, representing an increase from around 61.3% as at 31 March 2017.

As at 30 September 2017, total equity attributable to equity holders of the Company amounted to approximately HK$888.6 million, represented approximately HK$0.849 per Share based on 1,046,474,025 Shares in issue as at the Latest Practicable Date.

2. Information on the Disposed Entities and the Optical Business

2.1 Background information of the Disposed Entities and the Optical Business

Following Completion, the Purchaser Group, which will include the Disposed Entities Group, will operate the Optical Business.

As mentioned in the 2017 Interim Report, the Disposed Entities Group operated around 274 shops under Optical 88 and eGG Optical Boutique throughout Hong Kong, Macau, the PRC, Singapore, Malaysia and Thailand, together with an online store operated under the eGG brand. The Optical 88 Group delivers quality professional eye care/eyewear products and services and hearing care products and services, while the eGG Group operates as a fast fashion optical retailer aimed at trend setting fashionistas.

As disclosed in the 2017 Annual Report, the Optical Business has been undergoing a major strategy change to develop professional healthcare businesses. Since the establishment of the first Optical 88 Professional Eye Care Centre in 2011 followed later by Optical 88 Family Eye Care concept stores in 2016, and the introduction of hearing care products and services in 2014, the Optical Business serves customers across all age groups.

2.2 Financial information of the Optical Business

Set out below is the key financial information on the Optical Business for FY2016 and FY2017 as reproduced from the letter from the Board in the Circular:

	For the financial year ended	
	31 March 2016	**31 March 2017**
	HK$ million (unaudited)	*HK$ million (unaudited)*
Sales	1,273	1,216
Operating EBITDA*(Note 1)*	44	35
Adjusted Operating EBITDA*(Note 2)*	41	31
Net loss before taxation*(Note 3)*	(25)	(41)
Net loss after taxation	(28)	(47)

Note 1: "Operating EBITDA" refers to operating earnings, including attributable corporate overhead, before income tax, depreciation and amortisation charges and other non-cash items.

Note 2: "Adjusted Operating EBITDA" refers to Operating EBITDA, less estimated pro-forma royalty fee payments (as described in respect of the Trademark Licensing Arrangement) to the Retained Group and estimated additional standalone costs, assuming the Disposal has already occurred at the beginning of the relevant financial period.

Note 3: "Net loss before taxation" refers to Operating EBITDA less depreciation and amortization charges, other non-cash items and finance costs.

We note that the Optical Business has experienced a decline in sales, operating EBITDA and adjusted operating EBITDA, and an enlarged net loss before and after taxation for each of FY2016 and FY2017. As discussed in the 2017 Annual Report, given the Unfavourable Macroeconomic Factors and the soft consumer demand in the PRC, turnover of the Optical 88 operations decreased by around 8.3% to approximately HK$1,001.6 million for FY2017 from approximately HK$1,092.2 million for FY2016. Although the eGG operations recorded an increase in turnover by around 21.8% from approximately HK$161.6 million for FY2016 to approximately HK$196.8 million for FY2017, the overall financial performance of the Optical Business deteriorated in FY2017 as compared to FY2016.

As stated in the letter from the Board in the Circular, the net intra-group receivables owed by the Optical Business to the Retained Group as at 30 September 2017 were approximately HK$440 million. As at 30 September 2017, the carrying value of the Optical Business was approximately negative HK$88 million. As stated in the letter from the Board in the Circular, immediately prior to the Disposal, the Company will implement the Reorganisation, which involves implementing the following steps:

(a) settlement of existing banking facilities of the Optical Business, with amounts outstanding of approximately HK$119 million as of 30 September 2017; and

(b) transfer of excess cash held at the Optical Business such that an amount equal to approximately HK$56 million in cash will remain with the Optical Business at Completion.

In addition to the Reorganisation steps set out above, the Macau Properties will be transferred by the Disposed Entities Group to the Retained Group at their independently appraised valuation of HK$56 million (valued as of 31 March 2017) as the terms of the Disposal do not include the Macau Properties. As mentioned in the letter from the Board in the Circular, the Macau Properties are not included in the Disposal as it is not part of the Company's strategy to dispose of the Macau Properties and it is the Company's intention that the Remaining Business continue to own the Macau Properties. Part of the Macau Properties will continue to be used by the Retained Group as retail shops for the Remaining Business, with the remainder of the Macau Properties to be leased to the Optical Business for the Optical Business' current use as retail shops. For this reason, the Purchase Price excludes the value of the Macau Properties.

After taking into account the impact of the implementation of the above Reorganisation steps and the transfer of the Macau Properties to the Retained Group, it is estimated that there will be a further increase in the net liabilities of the Optical Business by approximately HK$17 million to net liabilities of approximately HK$105 million after accounting for the reorganisation steps above (the "**Post-Reorganisation Net Liabilities**"). Set out below is the impact of the implementation of the above reorganisation steps on the balance sheet of the Optical Business which is reproduced from the letter from the Board in the Circular:

	Optical Business as at 30 September 2017	Transfer of Macau Properties (Note 1)	Settlement of Optical Business Borrowings (Note 2)	Transfer of Excess Cash to the Retained Group (Note 3)	Optical Business Post-Reorganisation
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*
Cash	185	56	(119)	(66)	56
Fixed Asset	89	(7)	–	–	82
Other Asset	401	–	–	–	401
Total Asset	**675**	**49**	**(119)**	**(66)**	**539**
Borrowings	119	–	(119)	–	–
Other Liabilities	204	–	–	–	204
Net Intercompany Payables (Note 4)	440	–	–	–	440
Total Liabilities	**763**	**–**	**(119)**	**–**	**644**
Net Assets/ (Liabilities)	**(88)**	**49**	**–**	**(66)**	**(105)**

Note 1: The Macau Properties have a carrying value of approximately HK$7 million as of 30 September 2017 and an independently appraised value of HK$56 million.

Note 2: As set out in the SPA, the existing banking facilities of the Optical Business will be settled prior to Completion. The Optical Business holds bank debt of HK$119 million as of 30 September 2017. The final amount to be settled at Completion will vary depending on the amount of outstanding debt as at Completion.

Note 3: As set out in the SPA, the Optical Business will be disposed with a cash amount equating to approximately HK$56 million at Completion. The amount of cash to be transferred to the Retained Group will depend on the outstanding cash balance as at Completion.

Note 4: The Net Intercompany Payables relate predominantly to historical support and financial subsidies that have been provided by the Retained Group to the Optical Business.

3. Reasons for and benefits of the Disposal and the use of net proceeds

As disclosed in the letter from the Board in the Circular, the reasons for and benefits of the Disposal are as follows:

Diverging strategic focus of the Optical Business and the Remaining Business

The Disposal follows a strategic decision made by the Company to split the Optical Business and the Remaining Business, and allows the Retained Group to focus on the operation and development of the Remaining Business, including strengthening its position as a pan-Asian lifestyle-oriented fast fashion accessory business.

Given the increasing competitiveness in the markets in which the Company operates and in order for the Company to further differentiate and protect its business, as stated in the Company's 2017 Annual Report, the majority of the Optical Business operating under the Optical 88 brand is undergoing a major strategy change to focus not only on optical retailing, but also on developing professional healthcare businesses, including professional eye-care centres and other healthcare-related services and products (such as hearing care services and products). In order to support this transformation into a more professional healthcare-based business, additional funding will be required. However, the Group is unable to commit to such further funding requirements as its current focus is on deleveraging the Group's high level of borrowings in anticipation of rising interest rates.

Furthermore, the Remaining Business and the Optical Business are serving target markets that are increasingly diverging from each other and the Remaining Business and the Optical Business already operate relatively independently of each other.

Funding requirements for the Optical Business

As a consequence of the major strategy change in the Optical Business to address the increasing competitiveness in the markets in which it operates, it is envisaged that further capital contributions will be needed to fund future investment growth of the Optical Business. However, as at 30 September 2017, the Group had total borrowings of approximately HK$1.1 billion. This relatively high level of debt would mean that it would not be economically feasible for the Group to make further borrowings to fund the proposed growth plans for the Optical Business. The Group is unable to commit to such requirements as it intends to deleverage in anticipation of rising interest rates.

Reduction of borrowings to strengthen the Retained Group's balance sheet

Following the Disposal, approximately HK$200 million of the net proceeds from the Disposal are intended to be used to repay existing borrowings in order to reduce the Group's gearing ratio and strengthen the Group's capital structure. Consequently, the gearing ratio of the Retained Group is expected to reduce from 65.4% (as at 30 September 2017) to approximately 54.0% and the Retained Group is expected to benefit from savings in finance costs, including interest savings of approximately HK$7 million per financial year.

Benefit to Shareholders – the Conditional Special Distribution

Shareholders are expected to benefit directly from the Disposal in cash through the Conditional Special Distribution.

The Conditional Special Distribution of HK$0.19 per Share represents: (i) approximately 50% of the Purchase Price; and (ii) 33% of the average closing trading price of the Shares for the 30 trading days immediately prior to the Latest Practicable Date. Accordingly, the Disposal will provide Shareholders with an opportunity to realise value from their investment in the Company.

Shareholders should note that further details of the Conditional Special Distribution, the closure date of the register of members of the Company, the record date and the pay-out date for the Conditional Special Distribution will be determined by the Board after the SGM and announced on or around the date of Completion.

The Retained Group intends to apply the net proceeds from the Disposal primarily for repayment of existing debt of the Group and payment of the Conditional Special Distribution to the Shareholders.

Having considered, in particular,

(i) as discussed in the section headed "2.2 Financial information of the Optical Business", the Optical Business has been loss-making in the last two financial years. The Optical Business operating under the Optical 88 brand is undergoing a major strategy change where further capital commitment would be needed and future profitability is not guaranteed. In view of the current indebtedness level of the Group with a current ratio of around 1.1 times and gearing ratio of around 65.4% as at 30 September 2017, and the anticipation of rising interest rates, it would not be economically feasible for the Group to fund the proposed growth plans for the Optical Business by further borrowings. In addition, we note that the general retail market in regions such as Hong Kong and the PRC, being two major markets where the Group operates, have declined during recent years. According to statistics published by the Hong Kong Census and Statistics Department, value of retail sales by all type of retail outlets showed a continuous decrease between 2014 and 2017, from approximately HK$493,293 million in the year of 2014 to approximately HK$436,630 million in year 2016, and started to stabilise in the year of 2017 at around HK$446,124 million. Also based on the data released by the National Bureau of Statistics of China, the growth rate in total retail sales of consumer goods in the PRC also slowed from around 12.0% in 2014 to approximately 10.2% in 2017. In such circumstances, it is uncertain whether the outlook of the overall retail business in such regions shall remain challenging and therefore, we are of the view that the Disposal will not only represent an opportunity for the Company to manage its business risks by divesting one of the loss-making business segments which requires possible further capital commitments to support the transformation of the Optical Business but with no profitability being guaranteed, the Disposal can also allow the Group to focus its resources on the development and turn around the operation of the Remaining Business;

(ii) the Remaining Business and Optical Business are serving target markets that are increasingly diverging from each other. The Remaining Business and the Optical Business operate relatively independently of each other. Consequently, the Disposal is not expected to have any material adverse impact on the operation of the Remaining Business;

(iii) as the Hong Kong Monetary Authority had raised the base lending rate four times since December 2016, we concur with the Company's anticipation of rising interest rates. Since all the Group's outstanding borrowings drawn in Hong Kong and Macau are subject to Hong Kong Interbank Offered Rate (HIBOR), any increase in HIBOR will cause extra finance costs to the Group. Against such backdrop, we consider the use of net proceeds from the Disposal partly for the repayment of debt is justifiable and prudent as it will benefit the Group from savings in finance costs, including estimated interest savings of approximately HK$7 million per financial year, reduce the Group's gearing ratio and strengthen the Group's capital structure;

(iv) the Board has declared the Conditional Special Distribution of HK$0.19 per Share which will be payable out of part of the proceeds from the Disposal. The payment of the Conditional Special Distribution is conditional upon Completion taking place. If the Disposal is approved and Completion takes place, Shareholders will benefit directly from the Disposal in cash through the Conditional Special Distribution of HK$0.19 per Share. In addition, save for the dividend of HK$0.03 per Share paid for FY2015, the Company has not paid other dividends for two financial years ended 31 March 2016 and 2017. Accordingly, the Conditional Special Distribution of HK$0.19 per Share represents about 6.3 times of the accumulated dividends of HK$0.03 per Share over the past three financial years of the Company; and

(v) as further discussed in the section headed "6. Evaluation on the Purchase Price" below, the Purchase Price is considered fair and reasonable,

we consider that the entering into of the Disposal is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

4. Information on and future prospects of the Remaining Business

As disclosed in the letter from the Board in the Circular, following Completion, the Company will continue to own and operate the Remaining Business, which comprises the CITY CHAIN watch retail business, the watch wholesale trading business, as well as production facilities in Switzerland for Swiss watch movements and Swiss-made watches. The CITY CHAIN watch retail business is a multi-branded retailer selling third party foreign brands and also as a producer of its own house brands, such as "Solvil et Titus" and "CYMA", that are available exclusively at CITY CHAIN stores. The Remaining Business is also the sole distributor for SEIKO clocks and watches in Malaysia, Singapore and Hong Kong. The Remaining Business employs around 1,700 employees and has operations in Hong Kong, the PRC, Macau, Malaysia, Singapore, Thailand and Switzerland, including more than 250 watch retail stores across the above regions, together with an extensive network of independent watch retailers spanning Southeast Asia.

It was stated in the letter from the Board in the Circular that based on an assessment of the retail market from the Company's perspective as a sizeable mass market and mid-price watch retailer in Hong Kong and in the light of the Company's substantial experience in the watch retail industry in Hong Kong, it is the Company's view that the Remaining Business has been operating within a challenging retail environment caused by a cyclical downturn in the retail business cycle and changing consumer behaviour as a result of the impact of new technologies. As a point of reference and based on the monthly statistical reports of "Report on Monthly Survey of Retail Sales" published by the Hong Kong Census and Statistics Department, the total sales value for the "jewellery, watches and clocks, and valuable gifts" sector recorded a decline of 17.1% and 11.1% in the financial years ended 31 March 2016 and 31 March 2017, respectively, compared with the same period in the previous year. Please note that the watch retail business within the Remaining Business, as a mid-price watch retail business, only forms a segment of the sector covered by the figures set out above.

To enhance its competitiveness amidst a challenging retail environment and to better position itself for future growth, the Remaining Business is presently undergoing a revamp to attract both a younger and local customer base through new initiatives introduced to improve and modernise the customer experience so as to embrace the fast-changing retail ecosystem.

These initiatives include: (i) refreshing product portfolio; (ii) improving store image; (iii) store network optimisation; (iv) strengthening cost containment measures; (v) pursuing other top-line opportunities; and (vi) refreshing marketing campaigns. With these initiatives, the Directors believe that the Remaining Business will be well-positioned to benefit as the industry continues to evolve and, as the retail environment continues to strengthen, expect improvements in revenue and gross margins of the Remaining Business. Please refer to the section headed "BUSINESS PLAN AND FUTURE PROSPECTS OF THE REMAINING BUSINESS" in the letter from the Board in the Circular for further details of these initiatives.

5. Principal terms of the SPA

5.1 Purchase price

The total Purchase Price for the Disposed Entities Shares and the Receivables is HK$400 million (subject to certain adjustments based on the total amount of cash held by the Disposed Entities Group at Completion. Such adjustments are not expected to be material), which shall be payable in cash by the Purchaser and/or the Purchaser Guarantor at Completion.

As disclosed in the letter from the Board in the Circular, the Purchase Price for the Disposal was arrived at after arm's length negotiations between the Seller and the Purchaser with reference to the historical performance and future prospects of the Disposed Entities Group. In determining the Purchase Price, the Company took into account the following factors: (a) the net asset value of the Optical Business and the Receivables; (b) the Optical Business' financial contribution to the Group; (c) the Group's historical trading multiples; (d) trading comparable analysis of Hong Kong retail and Asian optical peers; and (e) analysis of precedent Hong Kong retail and global optical retail transactions. Further details about the basis to determine the Purchase Price are set out under the section headed "THE DISPOSAL AND THE SPA" in the letter from the Board in the Circular.

The Disposal excludes certain properties in Macau that are currently held by the Disposed Entities Group and such properties will be transferred back to the Retained Group. An amount equal to approximately HK$56 million in cash will remain with the Optical Business at Completion. Cash held by the Optical Business exceeding such amount will be transferred back to the Retained Group prior to Completion.

5.2 Conditions precedent

Completion is conditional upon the satisfaction of, among other things, the following conditions:

(i) the approval by the Independent Shareholders in respect of the Disposal;

(ii) the completion of the Reorganisation in all material respects; and

(iii) definitive agreements in respect of the Proposed Continuing Connected Transactions having been executed.

5.3 Completion

Pursuant to the SPA, Completion shall take place on the 90th day after the date on which the Seller notifies the Purchaser that certain of the conditions precedent under the SPA have been satisfied or waived (or on such other earlier date as the parties to the SPA may mutually agree).

If the conditions precedent under the SPA are not satisfied or waived on or before six months after the date of the SPA (or such later date as the parties to the SPA may agree), the SPA shall terminate (other than in respect of certain surviving provisions therein).

6. Evaluation on the Purchase Price

For comparison purposes, we have, on best effort basis, identified 21 companies whose shares are primarily listed on the Stock Exchange which (i) are principally engaged in the retailing of fashion products including apparel and cosmetic products, but excluding luxury products such as jewellery and luxury watches; and (ii) have at least 50% of their respective revenue generated from the retailing of such fashion products. However, one of them namely Pou Sheng International (Holdings) Limited (stock code: 3813) ("**Pou Sheng**") announced, amongst other things, a proposed privatisation by way of a scheme of arrangement and proposed withdrawal of listing on 21 January 2018 (after trading hours) (the "**Proposed Privatisation**"). Closing price of Pou Sheng soared substantially from HK$1.54 per share on 19 January 2018 (the trading day immediately before the announcement of the Proposed Privatisation) to HK$1.99 per share on 22 January 2018 and has remained at price levels no less than HK$1.96 per share since then. We consider the recent share price level of Pou Sheng has been possibly distorted pursuant to the announcement of the Proposed Privatisation and therefore, have excluded Pou Sheng for our analysis. We consider the remaining 20 selected companies (the "**Comparable Companies**"), in general, would serve as a fair and representative sample for the purpose of drawing a meaningful comparison to the Optical Business based on the Purchase Price.

The table below illustrates the price-to-book ratio ("**P/B Ratio(s)**") and enterprise value to earnings before interests, taxes, depreciation and amortisation ("**EBITDA**") ratio ("**EV/EBITDA Ratio(s)**") of each of the Comparable Companies.

Stock code	**Company name**	**Market capitalisation**	**Enterprise value**	**EBITDA**	**Net assets**	**EV/ EBITDA Ratios**	**P/B Ratios**
		(note 1) *HK$' million*	*(note 1)* *HK$' million*	*(note 1)* *HK$' million*	*(note 1)* *HK$' million*	*(note 2)*	*(note 3)*
84	Stelux Holdings International Limited	743.0	1,332.0	(70.8)	888.6	n/a	0.8
128	ENM Holdings Limited	1,518.6	1,030.5	(12.7)	1,011.6	n/a	1.5
178	Sa Sa International Holdings Limited	13,249.3	12,658.5	499.5	2,343.3	25.0	5.7
321	TEXWINCA Holdings Limited	5,816.9	4,404.6	586.7	5,388.5	8.0	1.1
330	Esprit Holdings Limited	5,680.5	1,105.5	346.0	10,661.0	3.0	0.5
393	Glorious Sun Enterprises Limited	1,443.9	1,350.7	107.4	2,450.9	13.0	0.6
483	Bauhaus International (Holdings) Limited	653.9	517.5	101.6	738.5	5.0	0.9
592	Bossini International Holdings Limited	606.4	252.7	64.9	919.7	4.0	0.7
647	Joyce Boutique Holdings Limited	527.8	242.8	(14.8)	505.0	n/a	1.0
653	Bonjour Holdings Limited	819.0	887.5	(32.6)	684.7	n/a	1.2
709	Giordano International Limited	6,846.8	5,679.8	783.0	2,921.0	7.0	2.3
738	Le Saunda Holdings Ltd.	910.6	179.9	205.2	1,442.1	1.0	0.6
999	I.T Limited	4,544.0	3,921.1	951.2	3,049.3	4.0	1.5
1028	C.banner International Holdings Limited	5,088.7	5,200.9	444.6	2,379.0	12.0	2.1
1150	Milan Station Holdings Limited	136.7	95.3	(63.4)	163.1	n/a	0.8
1173	Veeko International Holdings Limited	430.1	635.0	17.0	661.9	37.0	0.6
1255	S. Culture International Holdings Limited	774.7	953.5	(22.8)	161.8	n/a	4.8
1386	Vestate Group Holdings Limited	823.6	855.0	(208.2)	87.7	n/a	9.4
2030	Cabbeen Fashion Limited	1,461.3	980.6	357.5	1,177.4	3.0	1.2
3818	China Dongxiang (Group) Co., Ltd	8,625.7	7,080.4	422.8	11,911.3	17.0	0.7
					Average	**10.7**	**1.9**
					Median	**7.0**	**1.1**
					Maximum	**37.0**	**9.4**
					Minimum	**1.0**	**0.5**
	Optical Business	**400.0** *(note 4)*	**344.0** *(note 5)*	**31.0** *(note 6)*	**335.0** *(note 7)*	**11.1** *(note 8)*	**1.2** *(note 9)*

Notes:

(1) The market capitalisation of the Comparable Companies are calculated based on their share price and number of issued shares as at the Latest Practicable Date. The consolidated net assets attributable to owners are extracted from the respective latest annual reports/interim reports of the Comparable Companies. The enterprise value, which is the market capitalisation plus net debt and minority interest of the respective Comparable Companies, and EBITDA (profit before income tax, interests, depreciation and amortisation charges and other non-cash items) of the Comparable Companies are both based on their respective financial figures disclosed in their respective latest annual report.

(2) The historical EV/EBITDA Ratio of the Comparable Companies is calculated based on their latest enterprise value as at the Latest Practicable Date and their latest EBITDA.

(3) The historical P/B Ratio of the Comparable Companies is calculated based on their latest consolidated net assets attributable to owners and their market capitalisations based on the closing price of the respective Comparable Companies as at the Latest Practicable Date and the number of respective shares in issue as at the Latest Practicable Date.

(4) The theoretical market capitalisation of Optical Business is the purchase price of HK$400 million.

(5) Being the theoretical enterprise value of the Optical Business taking into account the impact of the implementation of the Reorganisation and the transfer of the Macau Properties to the Retained Group.

(6) Being the Adjusted Operating EBITDA of the Optical Business of approximately HK$31 million for FY2017.

(7) Being the sum of the unaudited net liabilities of the Disposed Entities Group of approximately HK$105 million and the Receivables of approximately HK$440 million as at 30 September 2017.

(8) The EV/EBITDA Ratio of the Optical Business is calculated based on (i) its theoretical enterprise value in note 5 above; and (ii) the Adjusted Operating EBITDA of approximately HK$31 million for FY2017.

(9) The P/B Ratio of the Optical Business is calculated based on (i) its theoretical market capitalisation as illustrated in note 4 above; and (ii) the sum of unaudited net liabilities of the Disposed Entities Group of approximately HK$105 million and the Receivables of HK$440 million as at 30 September 2017.

(10) For the purpose of this table, the translation of RMB into HK$ is based on the average exchange rate of RMB1.00 to HK$1.15 for the purpose of illustration only.

As discussed in section headed "2.2 Financial information of the Optical Business" above, the Optical Business recorded a net loss before and after taxation for the financial year ended 31 March 2017. Accordingly, price-to-earnings ratio analysis is not applicable for comparison purposes. In such circumstances, we consider comparison using EV/EBITDA Ratio a suitable alternative analysis. EBITDA is a proxy for operating cash flow and enables the evaluation of the operating performance of the Optical Business independent of non-cash items including depreciation and amortisation and foreign gains or losses. As shown in the table above, the EV/EBITDA Ratios of the Comparable Companies ranged from 1.0 to 37.0 with an average of 10.7 and a median of 7.0. The EV/EBITDA Ratio of the Optical Business of around 11.1 is higher than both the average and median of the EV/EBITDA Ratios of the Comparable Companies, which is considered favourable to the Group.

We note that the P/B Ratio of the Optical Business of around 1.2 times represented by the Purchase Price of HK$400 million is somewhat below the average P/B Ratio of the Comparable Companies of 1.9 times but above the median P/B Ratio of the Comparable Companies of 1.1 times. A P/B Ratio of 1.2 times, being above the median, ranks in the top half of the table of Comparable Companies and therefore, we consider it is in line with the market.

7. Financial effects of the Disposal on the Retained Group

7.1 Earnings

Upon Completion, the Group will no longer have any interest in the Optical Business and the results and financial performance and position of the Disposed Entities Group will cease to be consolidated in the accounts of the Group.

As disclosed in the letter from the Board in the Circular, upon Completion, it is estimated that the Group will record a potential gain on the Disposal of approximately HK$65 million. Such gain is calculated on the basis of (a) the Post-Reorganisation Net Liabilities of the Optical Business as at 30 September 2017 of approximately HK$105 million; (b) net intra-group receivables owed by the Optical Business to the Retained Group as at 30 September 2017 of approximately HK$440 million; and (c) the Purchase Price of HK$400 million.

The final amount of such gain will be subject to applicable accounting adjustments as at Completion and may therefore change.

7.2 Net asset value

As at 30 September 2017, the audited net assets of the Group attributable to equity holders of the Company were approximately HK$888.6 million.

As stated in the letter from the Board in the Circular, as a result of the Disposal (but before the payment of the Conditional Special Distribution and debt paydown for the Remaining Business), the total assets and total liabilities of the Retained Group are expected to decrease by HK$209 million and HK$323 million respectively, and the net assets of the Retained Group are expected to increase by HK$114 million. Such increase in net assets is mainly attributable to the revaluation of the Macau Properties of approximately HK$49 million as a result of the Reorganisation and the gain on Disposal (before deduction of transaction costs and expenses) of approximately HK$65 million as discussed in the paragraph namely "7.1 Earnings" above.

7.3 Working capital

The net current assets of the Group as at 30 September 2017 amounted to approximately HK$169.1 million. As the Purchase Price will be fully settled in cash, the working capital position of the Group will improve upon Completion.

Based on the above, we are of the view that the Disposal will not have any material adverse effect on the Group's earnings, net assets and working capital immediately upon Completion. It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position/ results of the Group will be upon Completion.

OPINION AND RECOMMENDATION

In summary, in reaching our opinion and recommendation, we have considered the above principal factors and reasons, in particular,

(i) as discussed in the section headed "2.2 Financial information of the Optical Business", the Optical Business has been loss-making in the last two financial years. The Optical Business operating under the Optical 88 brand is undergoing a major strategy change where further capital commitment would be needed and future profitability is not guaranteed. In light of the challenging retail markets historically and the uncertainty on whether the general retail market shall remain challenging as discussed in detail in the section headed "3. Reasons for and benefits of the Disposal and the use of net proceeds" above, we are of the view that the Disposal will, therefore, not only represent an opportunity for the Company to manage its business risks by divesting one of the loss-making business segments which requires possible further capital commitments but with no profitability being guaranteed, the Disposal also allows the Group to focus its resources on the development and turn around of the operation of the Remaining Business;

(ii) the Remaining Business and Optical Business are serving target markets that are increasingly diverging from each other. The Remaining Business and the Optical Business operate relatively independently of each other. Consequently, the Disposal is not expected to have any material adverse impact on the operation of the Remaining Business;

(iii) the use of net proceeds from the Disposal, which is partly for repayment of existing debt of the Group, will reduce the Group's gearing ratio, strengthen its capital structure and allow savings in finance costs for the Retained Group;

(iv) Shareholders should note that the Board has declared a Conditional Special Distribution in cash of HK$0.19 per Share which will be payable out of part of the proceeds from the Disposal. The payment of the Conditional Special Distribution is conditional upon Completion taking place. If the Disposal is approved and Completion takes place, Shareholders will benefit directly from the Disposal in cash through the Conditional Special Distribution of HK$0.19 per Share. In addition, save for the dividend of HK$0.03 per Share paid for FY2015, the Company has not paid other dividends for two financial years ended 31 March 2016 and 2017. Accordingly, the Conditional Special Distribution of HK$0.19 per Share represents about 6.3 times of the accumulated dividends of HK$0.03 per Share over the past three financial years of the Company;

(v) as discussed in the section headed "6. Evaluation on the Purchase Price" above, the EV/EBITDA Ratio represented by the Purchase Price is in line with the market, on which basis we consider the Purchase Price fair and reasonable as far as the Company and the Shareholders as a whole are concerned; and

(vi) as discussed in the section headed "7. Financial effects of the Disposal on the Retained Group" above, the Disposal will not have any material adverse financial effect on the Group immediately upon Completion.

Having taken into account the principal factors and reasons set out in our letter, we are of the view that that the terms of the SPA, including the Purchase Price, are on normal commercial terms, and fair and reasonable so far as the Company and the Shareholders are concerned. Although the entering into of the SPA is not in the ordinary and usual course of business of the Company, we consider that it is in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Board Committee advise, and we ourselves recommend, that the Independent Shareholders to vote in favour of the resolution(s) to approve the Disposal at the SGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 12 years of experience in corporate finance industry.

I. FINANCIAL INFORMATION OF THE GROUP

The published audited consolidated financial statements of the Group for each of the three financial years ended 31 March 2015, 2016 and 2017 are disclosed in the annual reports of the Group for the years ended 31 March 2015 (pages 40 to 139), 2016 (pages 40 to 142) and 2017 (pages 40 to 140), respectively.

The published unaudited consolidated financial statements of the Group for the six months ended 30 September 2017 are disclosed in the interim report of the Group of the six months ended 30 September 2017 (pages 1 to 19).

These financial statements can be accessed on both the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.stelux.com).

These financial statements are hereby incorporated by reference in, and form an integral part of, this circular.

II. INDEBTEDNESS STATEMENT

As at the close of business on 31 January 2018, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total outstanding borrowings of approximately HK$1,062 million, all of which are secured. Details of the total bank borrowings of the Group are summarised below:

	Disposed Entities	**Retained Group**	**The Group**
	HK$ million (unaudited)	*HK$ million (unaudited)*	*HK$ million (unaudited)*
Hong Kong			
Revolving loans	20	10	30
Trade loans	77	120	197
Term Loans	–	654	654
Overseas			
Revolving loan	–	20	20
Term loans	–	161	161
Total Bank Borrowings	**97**	**965**	**1,062**

In addition, the Group's obligations under finance leases as at 31 January 2018 were HK$119,000.

The trade loans and revolving loan of the Disposed Entities utilised as at 31 January 2018 of approximately HK$97 million are currently granted under banking facilities, with a limit of up to HK$400 million, shared between the Retained Group and the Disposed Entities and are expected to be early settled prior to Completion pursuant to the Reorganisation. For the purpose of reducing the Retained Group's gearing ratio, it is also intended that the Retained Group's bank borrowings of approximately HK$200 million will be early repaid upon Completion.

As at 31 January 2018, the Group's total bank borrowings of approximately HK$1,062 million are secured by the Group's properties and/or guaranteed by the Company, of which the Group's bank borrowings of approximately HK$1,045 million are subject to a repayment on demand clause which gives the banks the right to demand repayment at any time at the banks' sole discretion (such repayment on demand clauses are not uncommon in commercial loans). In addition, the Group's borrowings from a bank of approximately HK$611 million as at 31 January 2018, comprising HK$557 million and HK$54 million for the Retained Group and the Disposed Entities respectively, are also subject to compliance with certain financial covenant requirements which the banks review from time to time. As at the date of this circular, none of the banks have requested early repayment of any of the borrowings.

In view of the Reorganisation and the Disposal, the Company's management is in the process of negotiating a revision of the existing terms, including financial covenant requirements, of the Retained Group's banking facilities with all banks following Completion. These banks have already proposed the revised terms for the Retained Group's banking facilities which are subject to formal approval procedures to be conducted by these banks. As explained in the Letter from the Board, approximately HK$200 million of the Group's existing borrowings will be repaid by Completion. This will strengthen the Group's financial position by reducing the gearing ratio.

Except as disclosed above and apart from inter-group liabilities, as at the close of business on 31 January 2018, the Group did not have any loan capital or debt securities issued and outstanding and authorised or otherwise created but unissued, liabilities under acceptances (other than normal trade bills), acceptance credits, finance leases, hire purchase commitments, borrowings or other similar indebtedness, bank overdrafts, bank loans, mortgages, pledges, debentures, charges, contingent liabilities or guarantees.

III. WORKING CAPITAL

In determining the sufficiency of the working capital of the Group, the Directors have considered the terms of the existing banking facilities for the Group and the ongoing negotiations of the revised banking facilities of the Retained Group as described under the section headed "INDEBTEDNESS STATEMENT" on pages 57 to 58 of this circular. Based on these facts and considerations, the Directors, in preparing the working capital forecast of the Group for at least 12 months from the date of this circular, have made the following assumptions: (i) that the banks will not accelerate repayment of the Group's bank borrowings as a result of any breach of covenant requirements and/or by exercising the repayment on demand clause; and (ii) the Group's existing banking facilities will be revised and renewed when due or following Completion.

The Directors are of the opinion that, in the absence of unforeseen circumstances, after taking into account the net proceeds from the Disposal, the financial resources and banking facilities available to the Group based on the above assumptions, the Group will have sufficient working capital to meet its present requirement for at least 12 months following the date of this circular.

IV. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As disclosed in the Company's interim report for the half year ended 30 September 2017, the Remaining Business has been impacted by the combination of severe challenges of a cyclical downturn in the retail cycle and, more fundamentally, a structural change in the wider watch industry.

In response to these structural changes, the Remaining Business is undergoing a major transformation to attract both a younger and local customer base with further new initiatives to be introduced to enhance customer experience, including an enriched product portfolio to meet changing consumer patterns (see section headed "BUSINESS PLAN AND FUTURE PROSPECTS OF THE REMAINING BUSINESS" for further details).

At the same time, the Remaining Business has seen gradual signs of recovery in retail sentiment, as reflected in same store sales growth in its major markets since August 2017. With a recovering retail environment as a backdrop, the business plan in conjunction with the Disposal (as set out in the section headed "BUSINESS PLAN AND FUTURE PROSPECTS OF THE REMAINING BUSINESS") will allow the Company to focus on the operation and development of the Remaining Business, including strengthening its position as a pan-Asian lifestyle-oriented fast fashion accessory business.

Based on the unaudited financial statements of the Retained Group as at 30 September 2017, as a result of the Disposal (excluding the payment of the Conditional Special Distribution and debt paydown for the Remaining Business) and subject to the reorganisation adjustments as outlined in the section headed "INFORMATION ON THE PARTIES TO THE DISPOSAL – Information on the Disposed Entities Group and the Optical Business", the total assets and total liabilities of the Retained Group are expected to decrease by HK$209 million and HK$323 million respectively, while the net assets of the Retained Group is expected to increase by approximately HK$114 million.

It is expected that the Disposal would result in a gain on sale of approximately HK$65 million (before deduction of transaction costs and expenses). Please refer to the section headed "FINANCIAL EFFECTS OF THE DISPOSAL ON THE RETAINED GROUP" for more details.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company.

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2017, being the date to which the latest published audited accounts of the Company were made up.

3. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at the Latest Practicable Date, the interests of the Directors and the chief executive of the Company in the shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules were as follows:

(i) Long position in the Shares and underlying shares of the Company

Name of Director	Number of shares held as at the Latest Practicable Date: Personal interest	Family interest	Corporate/ trust interest	Other interest	Total	Approximate percentage of issued share capital held as at the Latest Practicable Date
Mr. Joseph C.C. Wong	548,474,814	11,000	855,200 *(Note 2)*	–	549,341,014	52.49
Mr. Sakorn Kanjanapas *(Note 1)*	68,076,278	–	855,200 *(Note 2)*	–	68,931,478	6.59
Mr. Wallace Kwan Chi Kin	–	–	–	–	–	–

Note:

(1) Mr. Sakorn Kanjanapas passed away on 8 April 2017.

(2) Yee Hing Company Limited ("Yee Hing"), indirectly through its subsidiary Active Lights Company Limited, held 855,200 shares of the Company as at 30 September 2017. 55% of the total issued ordinary shares of Yee Hing Company Limited is held by Klayze Holdings Limited, which is the trustee of a discretionary trust (the "Trust"). Mr. Joseph C.C. Wong and Mr. Sakorn Kanjanapas are the beneficiaries of the Trust and were therefore deemed to be interested in 855,200 shares of the Company through the Trust's interest in Yee Hing Company Limited.

(ii) Long positions in the shares and underlying shares of associated corporations

		Number of shares held as at the Latest Practicable Date: Personal interest	Family interest	Corporate/ trust interest	Total	Approximate percentage of the total issued preference shares held as at the Latest Practicable Date
(i)	City Chain (Thailand) Company Limited – Preference shares[1]					
	Mr. Joseph C.C. Wong	200	–	208,800	209,000	99.52
	Mr. Sakorn Kanjanapas [5]	200	–	208,800	209,000	99.52
(ii)	Stelux Watch (Thailand) Company Limited – Preference shares[2]					
	Mr. Joseph C.C. Wong	600	–	–	600	16.67
	Mr. Sakorn Kanjanapas[5]	600	–	–	600	16.67
(iii)	Optical 88 (Thailand) Company Limited – Preference shares[3]					
	Mr. Joseph C.C. Wong	5,000	–	225,000	230,000	90.20
	Mr. Sakorn Kanjanapas[5]	5,000	–	225,000	230,000	90.20
(iv)	Stelux (Thailand) Limited – Preference shares[4]					
	Mr. Joseph C.C. Wong	5,100	–	–	5,100	100.00

Note:

(1) City Chain (Thailand) Company Limited is a subsidiary of the Company. Each preference share carries a right to vote and a right to an annual fixed dividend but not to any other profit sharing. The corporate interests of each of Mr. Joseph C.C. Wong and Mr. Sakorn Kanjanapas in 208,800 preference shares duplicate with each other.

(2) Stelux Watch (Thailand) Company Limited is a subsidiary of the Company. Each preference share carries a right to vote and a right to an annual fixed dividend but not to any other profit sharing.

(3) Optical 88 (Thailand) Company Limited is a subsidiary of the Company. Each preference share carries a right to vote and a right to an annual fixed dividend but not to any other profit sharing. The corporate interests of each of Mr. Joseph C.C. Wong and Mr. Sakorn Kanjanapas in 225,000 preference shares duplicate with each other.

(4) Stelux (Thailand) Limited is a subsidiary of the Company. Mr. Joseph C.C. Wong is entitled to approximately 8.6% of the voting power of such subsidiary and an annual fixed dividend by virtue of the 5,100 preference shares held by him but not to any other profit sharing.

(5) Mr. Sakorn Kanjanapas passed away on 8 April 2017.

As at the Latest Practicable Date, so far as was known to the Directors, no Director was a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, (i) none of the Directors or chief executives of the Company had any interest or short positions in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange; and (ii) none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective associates had interests in the businesses which compete or were likely to compete, whether directly or indirectly, with the business of the Group, or which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder.

5. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 March 2017, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

6. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting and which is significant in relation to the business of the Group.

7. DIRECTORS' INTERESTS IN SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract or service agreement with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

8. EXPERT AND CONSENT

The following are the qualifications of the expert who has been named in this circular and whose advice or opinion is contained in this circular:

Name	Qualification
Somerley Capital Limited	a licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Somerley Capital Limited did not have any shareholding, direct or indirect, in any member of the Group or any right or option, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Somerley Capital Limited did not or had not had any interest, direct or indirect, in any assets which have been, since 31 March 2017, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Somerley Capital Limited has given and has not withdrawn their written consent to the issue of this circular with the inclusion herein of their report and references to their name, in the form and context in which they appear.

9. LITIGATION

There was no litigation or claims of material importance pending or threatened against any member of the Group as at the Latest Practicable Date.

10. MATERIAL CONTRACTS

Other than the SPA, the Group has not entered into any material contracts (being contracts not entered into in the ordinary course of business) within the two years immediately preceding the date of this circular.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection by Shareholders during normal business hours at the principal place of business of the Company at 27th Floor, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong (Saturdays and public holidays excepted) up to and including 19 April 2018:

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

(b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 31 of this circular;

(c) the letter from the Independent Financial Advisors to the Independent Board Committee and the Independent Shareholders, the text of which is set out from page 32 to 56 of this circular;

(d) the SPA;

(e) the audited financial information of the Group for the two financial years ended 31 March 2016 and 31 March 2017;

(f) the written consent from the expert referred to under the section headed "Expert and consent" in this appendix; and

(g) this circular.

12. MISCELLANEOUS

(a) The Chief Counsel & Company Secretary of the Company is Ms. Caroline CHONG, a Barrister-at-law in Hong Kong. She is also qualified in England and Wales.

(b) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda.

(c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(d) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

STELUX Holdings International Limited
寶光實業(國際)有限公司 *

http://www.stelux.com
Incorporated in Bermuda with limited liability
Stock Code: 84

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a Special General Meeting of Stelux Holdings International Limited (the "**Company**") will be held at Unit 901, 9/F, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong on 19 April 2018, at 3:00 pm for the purpose of considering and, if thought fit, passing with or without modifications the following as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** the Disposal (as defined in the Circular), as well as all agreements in relation to and the transactions contemplated under the Disposal, and/or set out in the circular to the shareholders of the Company dated 22 March 2018 (the "**Circular**"), be and are hereby approved, confirmed, authorised and ratified, and the directors of the Company be and are hereby authorised to do all such acts and things and execute such documents on behalf of the Company as they may in their absolute discretion consider necessary, desirable or expedient to implement and/or give effect to the Disposal, as well as all agreements in relation to and the transactions contemplated under the Disposal, and/or set out in the Circular, with such changes as the Directors may in their absolute discretion consider necessary, desirable or expedient."

On behalf of the Board
Wallace Kwan Chi Kin
Executive Director

Hong Kong, 22 March 2018

Registered Office:
Canon's Court
22 Victoria Street
Hamilton, HM12
Bermuda

Principal Place of Business:
27th Floor, Stelux House
698 Prince Edward Road East
San Po Kong
Kowloon
Hong Kong

* *For identification purpose only*

Notes:

1. A member entitled to attend and vote at the Special General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company.

2. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of authority, shall be delivered to the **Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours** before the time fixed for holding the Special General Meeting or any adjourned meeting **(i.e. not later than 3:00 p.m. on Tuesday, 17 April 2018)**.

3. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the Special General Meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

4. To determine entitlement to attend and vote at the Special General Meeting on 19 April 2018 (Thursday), the Register of Members of the Company will be closed from 13 April 2018 (Friday) to 19 April 2018 (Thursday) both days inclusive ("Book Close"), during which period no transfer of shares will be effected.

   All transfers accompanied by the relevant share certificates must be lodged with **the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 12 April 2018 (Thursday) for the Book Close**.