

Analyst: Sabina Cheng

Main Board Listing – Research

Emperor Watch & Jewellery Limited [Stock Code:00887] 英皇鐘錶珠寶有限公司

Joint Sponsors	: Dao Heng Securities Limited Emperor Capital Limited
Joint Lead Managers	: Emperor Securities Limited 3V Capital Limited
Co-Manager	: Taifook Securities Co. Limited

Sector : Watches retailer

Business : Sales of luxurious branded watches as well as the design and sales of jewellery products

Total share offer: <u>1,350,000,000</u> shares (30% of the enlarged share capital) Public Offer: 135,000,000 shares (10%) Placing: 1,215,000,000 shares (90%)	<p><u>Business of Emperor Watch & Jewellery</u></p> <p>The Group is a retailer principally engaged in the sales of luxurious branded watches, as well as the design and sales of jewellery products in Hong Kong and Macau. It targets high income group as its customers, offering a wide range of watches of famous international brands and fashionable jewellery products designed by the Group's in-house designers. The Group is the non-exclusive authorised retailer for 29 international brands of luxurious watches, including Rolex, Cartier and Piaget. The Group is also a retailer of fine jewellery products, offering a wide range of self-designed products focusing on diamond alongside with jade, pearl and 999.9 fine gold jewellery products. The Group also offers tailor-made design and production services for unique and exclusive jewellery products to its customers.</p> <p>As of 31st December 2007, approximately 86.2% of the Group's total revenue was generated from sales of watches. Emperor Jewellery Manufacturing Limited is one of the top 5 suppliers while the other 4 international watch suppliers who are all Independent Third Parties to the Group.</p> <p>The Group has established an extensive sales network in Hong Kong. It has 7 outlets and 1 boutique in Hong Kong, all of which are located in prime shopping areas including Causeway Bay, Tsimshatsui, Central and Wanchai. In 2006, the Group has also extended its retail business at Grand Emperor Hotel in Macau.</p>
Price: HK\$0.30 - HK\$0.43 per share Market Cap: HK\$1,350 million– HK\$1,935 million Pro forma FY2007E PER: 8.57X – 12.29X Adjusted NTA per share: HK\$0.16 – HK\$0.20 Staffing: 218 (as of 24 th June 2008)	
HK Public Offer period: 30 th June 2008 – 11 th July 2008 Receiving banks: The Bank of East Asia, Limited Hong Kong share registrar & transfer office: Tricor Secretaries Limited Listing date: 21 st July 2008	

This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein, while its group companies may from time to time have interests in securities of the company or companies mentioned herein.

**Shareholding Structure after Listing** (Assuming the over-allotment option is not exercised)

Allmighty Group (An investment holding company incorporated in the BVI on 6 July 2005 and wholly-owned by Jumbo Gold acting as trustee of the Albert Yeung Unit Trust, a unit trust under the AY Discretionary Trust) 70.0%

Public Investors 30.0%

100.00%

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$462.4 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$0.365 each, being the midpoint of the indicative price range)

	HK\$ million
For establishment of new retail outlets and expansion of existing outlets or for repayment of banking facilities	448.7
For the Group's marketing and promotional activities	6.15
For the general working capital of the Group	7.55

Financial Highlights

	Year ended 31 st December		
	2005 HKD'000	2006 HKD'000	2007 HKD'000
Turnover	645,264	1,084,395	1,561,463
Gross profit	92,826	171,616	349,790
Operating profit	31,731	65,084	191,757
Profits attributable to shareholders	26,126	53,963	158,788
Gross margin	14.39%	15.83%	22.40%
Operating margin	4.92%	6.00%	12.28%
Net margin	4.05%	4.98%	10.17%

Revenue by business segment

	Year ended 31 st December					
	2005		2006		2007	
	HKD'000	%	HKD'000	%	HKD'000	%
Watches	555.0	86.0%	925.1	85.3%	1,346.1	86.2%
Jewellery	90.3	14.0%	159.3	14.7%	215.4	13.8%
Total	645.3	100.0%	1,084.4	100.0%	1,561.5	100.0%



Strengths/Opportunities

- ✓ **Long operating history in Hong Kong with well-developed reputation** Emperor Watch & Jewellery's first watch and clock retail shop was founded by Dr Yeung Sau-shing's father, Yeung Shing, and opened in Hong Kong under the name Shing On Kee during the 1940s. Later, they operated another watch retail shop named Observatory Watch & Jewellery.
- ✓ **Strong growth in profit margin over the past 3 years** Gross profit increased from 14.39% to 22.40% in 2007 from 2005, driven mainly by surging tourist numbers in Hong Kong and Macau following a rebound in the global economy led by the PRC market.
- ✓ **Established business relationships with well-known international watch brand suppliers and jewellery suppliers** The Group has been purchasing jewellery, mainly diamonds as raw materials or components, from independent suppliers situated in Israel for over 5 years.
- ✓ **Sales network and rental costs** News reported that the company has entered into leases for 3 new locations situated in Causeway Bay and Central and the Grand Emperor Hotel in Macau. It is keeping its target on the high-end market, with the average customer bill running about HK\$30,000. Management indicates that as long as rent has not unreasonably above the market rental rate, they would prefer to maintain leases at existing locations and have no present intention to acquire any leased premises for retail operations. Meanwhile, it is expected that the rental costs will have a steady increase in the near future amid global slowdown.
- ✓ **Small offer size** The Group planned to sell 1.35 billion shares, aiming to raise just HK\$405 million to HK\$580.5 million. The relatively smaller size issue should raise appetite for the Group's shares given the stellar performance of the Emperor Group's other listed entity on its debut trading – Emperor Capital (stock code 0717).

Weaknesses/Threats

- × **Highly competitive industry** Competitors of the Group include specialty-branded retail shops, department stores, major chain stores and international retailers which offer luxurious watches and jewellery and other related products. They are competing with one another based on things like, product variety, product design, product quality and price.
- × **Business is highly concentrated in the HK market** For the financial year ended 31st Dec 2005, 2006 and 2007, the sales in Hong Kong represented approximately 100%, 95.4% and 95% of the total turnover of the Group respectively.
- × **Counterfeit products** There is no assurance that there will not be any significant counterfeit watches being sold in the market in the future and that the demand for the Group's products will be highly affected by those counterfeit watches.
- × **Negative cash and cash equivalents position** The Group recorded negative cash and cash equivalents of approximately HK\$14.2 million and HK\$2.8 million as at 31st Dec 2005 and 2006 respectively.

Recommendation: Hit and Run

Important Disclosure / Analyst Certification / Disclaimer

This document is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA).

The research analyst primarily responsible for the content of this report, in part or in whole certifies that the views on the companies and their securities mentioned in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. Information and opinions expressed herein reflect a judgment as of the date of this document and are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is not to be taken in substitution for the exercise of judgment by respective readers of this report, who should obtain separate legal or financial advice. East Asia Securities Company Limited and / or The BEA Group accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or further communication given in relation to this report.

At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its associates, its directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company or companies mentioned in the report.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction, publication, availability or use would be contrary to law and regulation.