

Main Board Listing - Research

先施錶行有限公司

Sincere Watch (Hong Kong) Limited [Stock Code: 0444]

Bookrunner and Lead Manager

: CIMB-GK Securities (HK) Limited

Joint Sponsors

: Tai Fook Capital Limited

CIMB-GK Securities (HK) Limited

Sector : Consumer Discretionary

Business : Distribution of imported watches in Hong Kong, Macau and the PRC

<p>Total share offer: <u>102,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 10,200,000 shares (10%)</p> <p>Placing: 91,800,000 shares (90%)</p> <p>Greenshoe: Nil</p>	<p><u>Business of Sincere Watch ("the Group")</u></p> <p>The Group is mainly engaged in brand management and wholesale distribution of <i>Franck MULLER</i> brand of watchers in Hong Kong, Macau and the PRC.</p> <p>The Group is a supplier of fine watchers and distributes premier brands of fine watches. It is currently the exclusive distributor of <i>Franck MULLER</i> brand of Swiss made watches and watch accessories in Hong Kong, Macau, the PRC, Taiwan and Thailand, and it also distributes <i>de Grisogono</i> brand of Swiss made watches and jewellery products and other two luxury brands of Swiss made watches in Hong Kong.</p> <p>Besides distributing watches via independent 3rd parties, the Group also operates two watch boutiques for <i>Franck MULLER</i> brand and <i>de Grisogono</i> brand of watches in Hong Kong. As at 23rd September 2005 (the "Latest Practicable Date"), the Group had a total of 25 points of sales in Hong Kong, Macau and the PRC for all brands of watches it distributes. In Taiwan and Thailand, the Group sold watches to a wholly-owned subsidiary and an associated company of its parent for their sale and distribution in their respective local markets.</p>
<p>Price: HK\$0.90 – HK\$1.18 per share</p> <p>Market Cap.: HK\$367 million – HK\$481 million</p> <p>FY2004/05 P/E: 7.0x – 9.2x (on a pro forma basis)</p> <p>Adjusted NTA per share: HK\$0.382 – HK\$0.450</p> <p>Staffing: 40 (as of 23rd September 2005)</p>	
<p>HK Public Offer period: 30th September 2005 – 5th October 2005 noon</p> <p>Receiving bank: DBS Bank (Hong Kong) Limited</p> <p>Share registrar: Tricor Investor Services Limited</p> <p>Listing date: 17th October 2005</p>	

Major Shareholders after Listing

Sincere Watch Limited ("SWL") – a SGX-ST listed company in Singapore

75.00%

75.00%

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$79 million

(Assuming an issue price of HK\$0.90 each, which is the lower end of the indicative price range)

	HK\$ million
For ongoing brand promotional and marketing activities	53
For development and expansion of the Group's distribution network	10
For marketing and promoting new brands	9
For general working capital of the Group	7

Financial Highlights

	For the year ended 31 st March		
	2003 HK\$ '000	2004 HK\$ '000	2005 HK\$ '000
Turnover	340,345	395,337	513,738
Gross profit / (loss)	79,847	91,750	124,441
Profit before tax / (loss)	34,065	43,926	63,268
Net profit / (loss)	28,618	36,937	52,121
EPS – basic	HK\$0.094	HK\$0.121	HK\$0.170

Strengths/Opportunities

- ✓ The Group's distribution business is only at early stage in the Mainland, with turnover in the PRC accounted for only 1% of the Group's total for the year ended 31st March 2005. With strong economic growth and rapidly rising demand for luxury goods, the Group should find bigger market potential in the Mainland.

Weaknesses/Threats

- × The FM Exclusive Distribution Agreement between Groupe Franck Muller and the Group carries a term of seven years and will expire on 30th June 2010. Despite the close and well established relationship between the two parties, there is still risk that the Group may not be re-appointed as the sole distributor for the *Franck MULLER* brand of watches in Hong Kong, Macau and the PRC after the current agreement terminates.
- × The Group is subject to a minimum annual purchase agreement, which states the minimum amount required by the Group to purchase from Groupe Franck Muller in each year. The purchase agreement is revised annually, taking into account the market conditions and historical demand. Failure to reach a fair agreement between the Groupe Franck Muller and the Group would lead to the breakdown of the FM Exclusive Distribution Agreement.
- × At 7.0x-9.2x FY2004/05 P/E, the counter is to be priced at a deep discount to the newly listed peer Xinyu Hengdeli (HKEx: 3389), which was traded at 16.7x FY2004 P/E as at 29th September 2005. However, we see the valuations not very attractive, given the risky nature of the Group's business – reliance on one single product brand. For the last three financial years, sales of *Franck MULLER* brand of watches accounted for more than 95% of the Group's total turnover. Change in market acceptance and demand for *Franck MULLER* products will, therefore, have a straight and vital impact on the Group's business and financial results.

Recommendation: Unexciting