

Larry Jewelry International

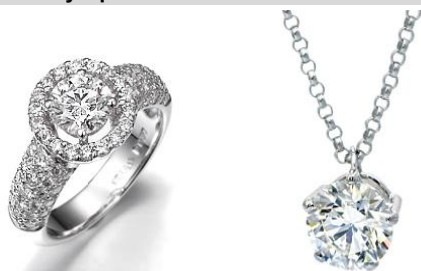
Uncovering a gem

Key Investment Themes

- Extension downstream to the lucrative jewelry retail segment with acquisition of the "Larry Jewelry" business. Listco has approved the change of company name to Larry Jewelry International Company Limited.
- Company plans to open two new Larry Jewelry stores by end 2012 and average of seven new stores per year between 2012 to 2015 in China, Macau, Taiwan and Hong Kong.
- New "Vera" line to target fast moving fashionable jewelry market and fashionable cosmopolitan females; 15 new Vera stores planned by end 2013.
- Acquisition of Parkwell Group will de-risk expansion strategy into China.
- Initiating coverage with a TP of HK\$1.05, representing 14.5x FY12/12F P/E and 8.9x FY12/13F P/E.

Eternite International acquires Larry Jewelry business to expand downstream into retail. Founded in 1999 and listed on the GEM board of HKEx in Oct 2009, Eternite International ("Eternite") was originally engaged in the design and trading of fine jewelry. After a shareholder repositioning at end 2010 when Galaxy Asset Management (HK) Ltd. ("Galaxy") and Fullink Management Ltd. ("Fullink") became the controlling shareholders, the company shifted its focus downstream to the lucrative jewelry retail segment in Greater China region and South East Asia. In Jul 2011, Eternite completed the 100% acquisition of Larry Jewelry business as its flagship vehicle to realize its new strategy to develop the jewelry retail business. As a commitment to its new jewelry retail strategy, shareholders approved the company's name change to Larry Jewelry International Company Limited ("Larry Jewelry") on 26 Oct.

Photo Set 1. Larry Jewelry's products



Source: Company data

Last reported result: For three months ended 30th of September, revenue increased 4.1x to HK\$54.4m. Gross profit increased 1.9x to HK\$8.9m. Lost amounted to HK\$38.2m. Lost per share attributed to equity holder is HK\$5.3 cents. For six months ended 30th of September, revenue increased 2.7x to HK\$60.3m. Gross profit increased 1.5x to HK\$11.6m. Lost amounted to HK\$44m. Lost per share attributed to equity holder is HK\$6.12 cents.

Brand re-energised by listed platform. Through its 44 years of operating history, Larry has successfully developed a prestigious brand, loyal client base, as well as a sales network which stretches across Hong Kong and Singapore. As a premium jeweler, the Larry brand has built up a tremendous amount of brand equity. Now, with the establishment of a fund raising platform, and infusion of new capital and strong management team, Larry is well positioned to embark on another phase of rapid expansion growth. Currently, there are 4 Larry Jewelry shops in Hong Kong (including the new Causeway Bay store, which was opened after the completion of the acquisition) and 2 in Singapore.

| Ticker | 8351 HK |
|------------------------|-----------|
| Rating | BUY |
| Price (HK\$) | 0.65 |
| Target Price (HK\$) | 1.05 |
| 12m Price Range (HK\$) | 0.43-1.95 |
| Market cap. (US\$m) | 69.2 |
| Daily t/o (US\$m) | 0.3 |
| Free float (%) | 71.40 |

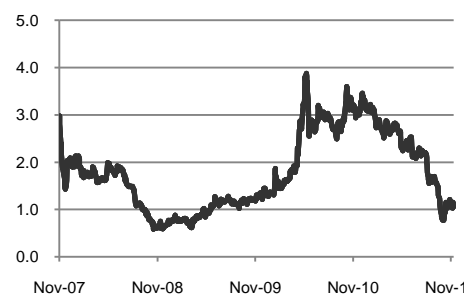
Financial summary

| Year to Dec | 09A | 10A | 11F | 12F | 13F |
|--------------------|-------|-------|-------|-------|---------|
| Turnover (HK\$m) | 326.2 | 453.1 | 504.8 | 768.6 | 1,171.9 |
| Net Profit (HK\$m) | 9.7 | (0.7) | 38.5 | 60.1 | 97.2 |
| EPS (HK\$) | 0.017 | - | 0.053 | 0.072 | 0.117 |
| P/E (x) | 38.8 | - | 12.2 | 9.0 | 5.6 |
| P/B (x) | 1.80 | 3.25 | 1.54 | 0.60 | 0.52 |
| EV/EBITDA (x) | 25.9 | 45.6 | 7.6 | 8.6 | 6.7 |
| Yield (%) | 11.5 | - | - | - | - |
| ROE (%) | 4.8 | - | 18.3 | 10.0 | 10.1 |
| ROCE (%) | 6.0 | 5.2 | 22.6 | 12.4 | 12.5 |
| N. Gear. (%) | Cash | 93.5 | Cash | 10.7 | 25.9 |

Source: SBI E2-Capital

Price performance

| Year to Dec | 1m | 3m | 12m |
|--------------------------|------|--------|------|
| Relative to HSI (%) | 13.3 | (20.4) | 62.4 |
| Actual price changes (%) | 16.1 | (25.3) | 30.0 |



Source: Bloomberg

Research Team

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“Larry” store expansion plan. Management plans to establish 5 stores under the “Larry Jewelry Brand” by end of 2012 and around 7 stores per year between 2012 to 2015. For 2012, management is presently exploring potential sites in Hong Kong (preference in Tsim Sha Tsui) China (preference in Beijing), Macau and Taiwan.

Multi-branding strategy. Larry would remain a premium jeweler, which is focusing on high-end market. To expand their brand portfolio and also capture the opportunities in the mass market, in particular the fast moving fashionable jewelry market, the group will launch a second brand, “Vera”. The “Vera” fashion jewelry brand aims target lady customers that are cosmopolitan with a strong fashion sense. The brand is positioned as a lifestyle icon, a statement of luxury jewelry at an affordable price and suitable for multiple occasions.

Well rounded management team. Post integration of Larry Jewelry, the listed company has assembled a well rounded management team in the areas of financial, retail and business development, that has the credibility of sustaining the company’s next expansion phase. For example, the group’s Chairman, Mr Joe Chan is the CIO and Managing Director of *Galaxy Asset Management*. Its Head of Retail, Ms Iris Chung, was the former CEO of *Just Gold*, a gold focused gold jewelry retailer with its own brand.

About the Larry Jewelry acquisition

Undemanding acquisition cost. In Jul 2011, the company completed the acquisition of the entire equity interests in Sharp Wonder Holdings Limited (Sharp Wonder), which held the 100% interests in Larry Jewelry Limited (Hong Kong business) and Larry Jewelry (1967) Pte Ltd. (Singapore business). The consideration of HK\$400.0m (subject to adjustment) comprised HK\$250.0m cash and HK\$150.0m promissory note (3.5% pa coupon, with HK\$50.0m payable 6 months after acquisition completion and remaining HK\$100.0m payable 1 year after acquisition completion). In our view, the acquisition valuation is not demanding, representing:

- 11.3x FY12/10A P/E
- 11.4x average P/E for guaranteed profit of HK\$70m for two successive fiscal years after acquisition completion
- 1.6x price to inventory consisting of jewelry valued at HK\$250.0m
- 1.6x FY12/10A P/B

Proven track record. Sharp Wonder’s track record revenue for FY12/08A, FY12/09A and FY12/10A were HK\$392.5m, HK\$326.2m and HK\$404.4m, with net profit of HK\$32.2m, HK\$13.3m and HK\$35.4m for the same corresponding periods. The revenue and net profit dip in FY12/09A were due to the general slowdown in economy and consumption in the aftermath of financial tsunami in 2008. However, we note the resilience of the luxury goods sector (and boosted by a gain in foreign exchange) as the business’ net profit rebounded by 58.7% YoY in FY12/10A, even surpassing its FY12/08A levels. At end FY12/10A, Sharp Wonder had outstanding net debt of about HK\$60m, bringing its net debt to equity ratio to about 24.3%.

Prestigious brand heritage. Founded in 1967, Larry Jewelry is one of the renowned jewelry retailers focusing on high-end market with strong brand awareness for its elegance and sophistication in jewelry design and mastery gem setting technique. Larry Jewelry uses only the gem quality high-grade precious stones for its jewelry creations. All products are made with perfect skill to the highest standards and quality assured by a stringent quality control process. Larry Jewelry has won numerous award and recognition for its superior product design and craftsmanship as well as premium customer services:

Table 1. Awards won by Larry Jewelry

| Year | Award Description |
|------|---|
| 1986 | De Beers 1986 Diamond International Awards (Milan, Italy) |
| 1997 | Silver Award in Brooch Category in the International South Sea Pearl Jewellery Design Competition Bronze Award in Bangle Category in the International South Sea Pearl Jewellery Design Competition |
| 1998 | The only pioneer-jeweler selected by the Singapore Tourist Board in the Singapore Gold Circle (SGC) Scheme |
| 1999 | Gold Award in Brooch Category in the International South Sea Pearl Jewellery Design Competition Silver Award in Pendant Category in the International South Sea Pearl Jewellery Design Competition |
| 2001 | Tourism Host Award from Singapore Tourism Board |
| 2003 | Bronze Award in Ring Category in the International South Sea Pearl Jewellery Design Competition Two Merit Awards in Brooch Category in the Hong Kong Jewellery Design Competition Merit award in Other Category in the Hong Kong Jewellery Design Competition |
| 2005 | Tourism Host Award from Singapore Tourism Board SuperBrands 2004/2005 National Model Company in Singapore by SPRING |
| 2007 | Excellent Service Award 2007 From Singapore Tourism Board |
| 2008 | Best Local Jewellery 2008 by Singapore Tatler |

Source: Company data

Established store network in Hong Kong and Singapore. Currently, there are 4 Larry Jewelry shops in Hong Kong (including the new Causeway Bay store, which was opened after the completion of the acquisition) and 2 in Singapore, all under the brand name of “Larry Jewelry”. The company’s stores are typically located in highly trafficked, upper middle market to up market shopping districts. Its new Causeway Bay store is located on Hennessy Road, on the through fare between Sogo Department Store and Times Square Shopping Mall.

Table 2. Larry Jewelry store location

| Country | Address |
|-----------|---|
| Hong Kong | Shop C2, Ground Floor and Mezzanine Floor, Alpha House, 33 Nathan Road, Tsim Sha Tsui |
| Hong Kong | Shop 235 Pacific Place, Admiralty |
| Hong Kong | G/F 72 Queen's Road Central |
| Hong Kong | Shop B, 482 Hennessy Road, Causeway Bay |
| Singapore | 290 Orchard Road #01-21, Paragon |
| Singapore | 2 Orchard Turn #03-04, ION Orchard |

Source: Company data

Photo Set 2. Larry Jewelry stores in Hong Kong



Source: Company data

Photo Set 3. Larry Jewelry stores in Singapore



Source: Company data

Table 3. SWOT Analysis

| Area | Description |
|---------------|--|
| Strengths | 1) Larry Jewelry itself is a prestigious brand name with high brand awareness in Greater China and Southeast Asia |
| | 2) Existing shop management team and staff team have proven track record of more than four decades |
| | 3) New senior management team is consisted of experts from financial sector, business development, marketing & promotion as well as information technology |
| | 4) Larry Jewelry has established strong foothold in jewelry market in Hong Kong and Singapore |
| | 5) The group's jewelry design and wholesales business is complementary to Larry Jewelry's retail business |
| | 6) Extensive client base with Larry's clients in Hong Kong, Greater China and Southeast Asia and Eternite's wholesales client base in Europe, Middle East, the U.S. and other part of the world. Cross-selling opportunity is expected to emerge in the group vertical integrated platform |
| | 7) Larry is one of a few distributors for top-selling Lazare jewelry in Singapore |
| | 8) Larry is one of 3 jewelers in HK recognized by De Beers to sell Forevermark diamonds |
| Weaknesses | 1) Larry's exposure in China is limited at this juncture |
| | 2) Larry has been focusing on high-end market and its exposure to mid-tier and mass market is limited |
| | 3) Compared to its competitors, the number of Larry's outlets is limited |
| Opportunities | 1) Larry's exposure in China is limited at this juncture, |
| | 2) Larry has been focusing on high-end market and its exposure to mid-tier and mass market is limited. 3.) Compared to its competitors, the number of Larry's outlets is limited |
| Threats | 1) Competition from other jewelers are always the threat. Nevertheless, in our view, Larry differentiates itself by offering broad brand selection and highly personalized customer services to its customers. It is one of few retailers in Hong Kong and Singapore, which sell Lazare jewelry and Forevermark diamonds |
| | 2) Downturn in general economic and retail market |
| | 3) Price fluctuation in raw material such as gem and precious metals |
| | 4) Change in the value of inventory will affect on the group's financials |

Source: Company data

Development blueprint

Expand into Mainland China. With the new focus under the listed entity, Larry Jewelry will serve as the group's flagship for the development in high-end jewelry retail market in Greater China region and Southeast Asia. In our view, the acquisition of Parkwell International in Sep 2011 by the company would accelerate Larry Jewelry's penetration into China. Parkwell Group has consignment stores in AA11 Sunlight Department Store located in Oriental Plaza, Beijing, and in Grand Ocean Department Store, No. 133 Baiyiqibei Road, Gulou District, Fuzhou, via franchise arrangements. The two consignment stores could be transformed into Larry store immediately. Further, the former management of Parkwell Group, led by Ms Iris Chung, has in-depth experience and knowledge in China jewelry market. Having the former Parkwell management team members in the group's management team would also reduce execution risk of Larry Jewelry's expansion plan in China.

Store network expansion plan. Management of the group targets to open five new Larry stores in China, Taiwan and Macau by the end of 2012, to capture the opportunities arising from the increase in affluence in the Greater China region, booming Macau tourism and the individual traveling scheme in Taiwan. In general, management of the group targets to open 7 new stores per year in between 2012 and 2015. To accelerate Larry Jewelry's network expansion, acquisition of other luxurious retails chains with comparable market position at right valuation would be an alternative option to organic build out. Following the grand open of flagship store in the popular shopping district Causeway Bay, Hong Kong, the company plans to open a second Larry Jewelry store in Tsim Sha Tsui, Kowloon in the very near future. Further, as part of the celebration activities for its 45 anniversary, the company will open a Larry store in Beijing.

High-end jewelry boutique. As the distributor of Forevermark diamonds and Lazare jewelry in Hong Kong and Singapore, Larry Jewelry intends to introduce the aforementioned two renowned jewelry brands, as well as other international jewelry brand to China market. Management aims to position Larry as high-end jewelry boutique offering broad selection of high-end international brand and personalize customer services. In our view, such market position targets the underserved segment between international prestigious jewelers and local branded jewelers, which addresses the mass market in Greater China region.

Penetration into mass market. In order to capture the growth opportunity in mass market and expand its source of revenue, the company will launch another jewelry brand "Vera". Unlike Larry Jewelry, Vera will be positioned as a mid-tier fashionable jeweler targeting cosmopolitan ladies with strong fashion sense. The group will promote Vera as a lifestyle icon and launch designer label jewelry. Price range for Vera branded products would be set at a comparatively more affordable level, starting from HK\$3,000, lower than the price segment in Larry Jewelry stores. Further, management plans to introduce a new form of jewelry shopping/window shopping experience resembling fashion apparel boutique. In our view, Vera's market position is similar to Folli Follie and Links of London. Management

targets to open at least 40 Vera outlets by the end of 2013. The first Vera shop will be located in Soundwill Plaza (), Causeway Bay, Hong Kong. Soundwill Plaza is well-known for housing retailers offering beauty-related products and services, such as beauty salons, spas, hair salons, fashion and accessories shops of famous brands.

Secure gem stone supply. In order to secure quality gem stones at competitive price, enhance gross profit margin as well as expand its source of revenue, management would explore opportunities in upstream. Management tends to form strategic partnership/alliance with gem stone producers/traders, rather than invest in gem stone mine directly, due to high risk and massive capital expenditure. The company is well positioned to undertake M&As, with shareholder Galaxy Asset Management particularly strong in deal sourcing. Further, management team has a long established close working relationship with a number of upstream gem stones producers.

Refining operation infrastructure. To cater with the expansion and enhance the efficiency in working capital and inventory management, the group is upgrading its MIS system, POS as well as accounting system. The group hired Mr. Francis Li, the former Senior IT Director in GAP International Sourcing, as IT Director to oversee the system upgrading.

Marketing campaign. Larry Jewelry's retail and marketing team is capable in promotion and marketing. Case in point are the team's strong execution of two events hosted in this year. In Sep 2011, Larry Jewelry celebrated the grand opening of its fourth store in Causeway Bay. During the event, catwalks featuring popular artists and top models demonstrating top of the line jewelry and ribbon-cutting ceremony presided by popular artists Moses Chan and Linda Chung. The event successfully attracted media and public attention. Again, in Jul 2011, Larry Jewelry hosted "Larry Splendour 2011", an event to celebrate the launch of its "Sea of Colours" collection which design was inspired by vibrant coral reefs and exotic marine life. The event was held in a underwater setting at Four Seasons Hotel Hong Kong, where guests previewed the collection. Going forward, the company would allocate increasing resources into its retail and marketing to cope with sales network expansion and multi-brand strategy. Ms Iris Chung, (former CEO of Just Gold) the Head of Retail Division and Ms Janet Shuen, the former Business Director of Bates Advertising as Head of Marketing will lead the charge.

Photo Set 3. Larry Jewelry store grand opening and Larry Splendour



Source: Company data

Management. Larry Jewelry's strengthened management team consists of elitist professionals from various fields. Further, externally, a number of professionals with strong background are serving as consultancy to the board and management:

Table 4. Management team

| Name | Position | Description |
|---------------|--------------------|--|
| Joe Chan | Chairman | <input type="checkbox"/> Over 20 years of advisory and trading experience at leading financial institutions |
| | | <input type="checkbox"/> Joined Morgan Stanley London, Paris & Hong Kong, 1988–1996, as the head of non-Japan Asia equity trading operation, head of bond trading in Paris and head of French Franc and ECU denominated bond trading in Paris & London |
| | | <input type="checkbox"/> Founded Galaxy Asset Management (H.K.) Limited in 1998 and is currently a Managing Director and Chief Investment Officer |
| | | <input type="checkbox"/> Received his honorable bachelor degree of social sciences from the University of Hong Kong and his MBA from Wharton Business School, University of Pennsylvania, USA |
| Pauline Tsang | Executive Director | <input type="checkbox"/> Over 8 years of experience in the accounting and finance area |
| | | <input type="checkbox"/> Joined Deloitte Touche Tohmatsu in 2002 and worked her way to senior auditor in the assurance and advisory business area |
| | | <input type="checkbox"/> Joined the Research and Strategy Group at Citi Private Bank in 2007 |
| Iris Chung | Head of Retail | <input type="checkbox"/> Over 20 years of experience in marketing and retail operations |
| | | <input type="checkbox"/> Joined the Swire Group in the 90s as Group Management Trainee and worked as the Advertising & Promotion Manager & Merchandising Manager for both Marathon Sports and The Athlete's Foot |
| | | <input type="checkbox"/> Worked for Coca Cola China as Marketing Director for Hong Kong and Macau regions |
| | | <input type="checkbox"/> Group CEO of Just Gold and spokesperson for the Company and icon for the brands |

| | | |
|-------------|--------------------------|---|
| | | <ul style="list-style-type: none"> <input type="checkbox"/> Launched Just Diamond in 1994 and steered Just Gold to China in 2002 <input type="checkbox"/> Was awarded “The 100 Most Outstanding Woman Entrepreneurs in China 2006” |
| Teddy Luk | CFO | <ul style="list-style-type: none"> <input type="checkbox"/> Over 15 years of experience in finance operation and M&A <input type="checkbox"/> Joined the corporate finance team at Arthur Andersen in the 90s, advising clients on fund raising, strategic planning and M&A <input type="checkbox"/> Associate director of PricewaterhouseCoopers corporate finance service line focusing the retail sector. <input type="checkbox"/> CFO of a HKEx listco and the VP Finance and Business Development for a MNC's operations in China |
| Janet Shuen | Head of Marketing | <ul style="list-style-type: none"> <input type="checkbox"/> Over 12 years of experience in branding & marketing, including Just Gold & Just Diamond <input type="checkbox"/> Worked in Bates Advertising as business director, responsible for overall development and advertising and marketing for local and overseas clients, including HSBC, Coca Cola, Shell and Uni-President. <input type="checkbox"/> Accomplished strategist in business administration, marketing and advertising <input type="checkbox"/> Completed the MBA program from Utah State University, USA |
| James Lee | Senior Manager | <ul style="list-style-type: none"> <input type="checkbox"/> Over 7 years of production and quality control experience in the jewelry industry <input type="checkbox"/> Responsible for raw material stock level control and conducting quality control inspections of both raw materials and finished goods <input type="checkbox"/> Monitor the whole production flow and to ensure that the process is on schedule |
| Sara Tsung | China Operations Advisor | <ul style="list-style-type: none"> <input type="checkbox"/> Over 15 years of broad experience in retail business, including Just Gold & Just Diamond., supervised setting up the first store at Beijing China World in 2002 and Shanghai’ s flagship at Xintiandi in 2005 <input type="checkbox"/> 20-year veteran in the department store retail business in Hong Kong and Mainland China <input type="checkbox"/> Background in fashion design and a certificate of diamond grading from Gemological Institute of America (GIA) |
| Francis Li | IT Director | <ul style="list-style-type: none"> <input type="checkbox"/> Over 23 years’ tenure with global experience in IT operations as well as E-Commerce business. <input type="checkbox"/> Project Manager at IBM China/HK Corporation since 1993. <input type="checkbox"/> IT Service Manager at British American Tobacco Co (HK) Ltd as covering Asia region in 1994.. <input type="checkbox"/> Worked for Arrow Electronics in 2001 as Regional IT Director. <input type="checkbox"/> Senior IT Director at GAP International Sourcing (Holdings) Ltd in 2005, led a team of professionals around the world to implement Supply Chain Solution, launch GAP China On-line and retail business. |
| Kevin Tsang | Advisor | <ul style="list-style-type: none"> <input type="checkbox"/> Assist the company in: 1) Identifying acquisition target and business partners, 2) Searching of human resources, 3) investor relations <input type="checkbox"/> 17 years experience in accounting and finance |

Source: Company data

HK market: supported by tourism. Growth in the sales of jewelries in Hong Kong has been stunning on the Chinese tourism boom. According to Hong Kong Tourism Boards survey, in 2009, vacation overnight visitors’ spending on jewelry and watch accounted for 22% of their total spending on shopping. As for those visitors from the Chinese mainland, the share was higher at 28%. According to statistics published by the Census and Statistics Department, between 2003 and 2010, value of retail sales of jewelry, watches and clocks, and valuable gifts in Hong Kong grew from approximately HK\$19.7 b to HK\$61.0 b, representing a seven-year CAGR of 17.5%.

Brand awareness in fast expanding market. Since the launching of individual travelling scheme in 2003, Hong Kong has been the most important showcase city in the world, thanks to the influx of tourists from China. As many jewelers in Hong Kong are recognized by Chinese tourists for their genuine quality, fine design and marketing campaign , HK jewelers are capitalizing their brand awareness in the fast growing China retail market by expand their retail network to China through franchising and cooperative arrangement Thanks to the growing affluence of Chinese consumers, retail sales of gold, silver and jewelry in China increased from approximately RMB16.2b in 2003 to approximately RMB125.9b in 2010, representing a seven-year CAGR of 34.1%. A recent survey conducted by the Hong Kong Trade Development Council unveiled that when buying low-to-medium and medium-to-high-end brands, Hong Kong brands are the top choice, compared with local and foreign brands, of mainland consumers. The survey also revealed that Hong Kong brands are able to command a premium of 35.9% over their domestic counterparts.

Sufficient financial resources. The company has about HK\$356m debt, consisting of HK\$56m convertible bonds, one-year term promissory note of HK\$150m as part of the consideration for the Larry situation, and a loan from third party of about HK\$150m. As aforementioned, management of the group plans to open five stores by the end of 2012, and opening cost per store is estimated to be HK\$35m. Stocking is the major expense for setting up a new store. Further, the company needs to repay the HK\$150m of promissory note in 2012. Thus, the group’s blended funding requirement in FY12/12 would be about HK\$325m. We estimate that the group has cash in hand of about HK\$70m and inventory of HK\$290m (consists of jewelry and gem stones), which was sufficient to fund its expansion by 2012.

Profit guarantee. According to the terms of the acquisition, vendor guaranteed that Larry's profit after taxation but before depreciation, interest, capital expenditure and extraordinary items shall not less than HK\$70m for a period of two successive years starting from January 2011 and ending at December 2012. Since the acquisition of Larry was completed in Aug 2011, the group will consolidate about four months of Larry's operating results to its account. Thus, the group's results in FY12/11F would be boosted by Larry's operating results in 4Q FY12/11 and the valuation of inventory.

Sales forecasts. Sales for Larry Jewelry totaled HK\$404.4m in FY2010A. Singapore stores contributed HK\$208.7m with two shops. Hong Kong stores contributed HK\$195.7m with three shops. Each shop from Singapore contributed HK\$104.3m on average, and each Hong Kong shop contributed HK\$65.2m on average. We base our estimate for Hong Kong/PRC shops to grow at 5% YoY going forward, thus average sale per store should be HK\$68.5m, HK\$71.9m and HK\$75.5m for 2011F, 2012F and 2013F respectively. We base our estimate for Singapore shops to grow at a steady pace around 3% YoY going forward due to market maturity. Thus average sale per store are HK\$107.5m, HK\$110.7m and HK\$114m for 2011F, 2012F and 2013F respectively. For the new line of Vera business, we estimate that average sales per store should be at around 30% of Hong Kong Larry Jewelry shops. We base our Vera estimate to grow at 5% YoY going forward, thus average sale per store should be HK\$20.1m and HK\$21.1m for 2012F and 2013F.

Table 2. Existing No. of Shops & Projected No. of Shops (Larry Jewelry & Vera)

| Company name | 2008A | 2009A | 2010A | 2011F | 2012F | 2013F |
|----------------------|-------|-------|-------|-------|-------|-------|
| Larry Jewelry | | | | | | |
| Hong Kong/PRC | 3 | 3 | 3 | 4 | 6 | 10 |
| Singapore | 2 | 2 | 2 | 2 | 3 | 3 |
| Total | 5 | 5 | 5 | 6 | 9 | 13 |
| Vera | | | | | | |
| HK/PRC | - | - | - | - | 4 | 15 |

Source: Company data

We estimate that total sales for Larry Jewelry should reach HK\$454.7m, HK\$636.4m and HK\$917.8m for 2011F, 2012F and 2013F respectively. The Singapore stores should contribute HK\$214.9m, HK\$276.7m and HK\$313.5m for 2011F, 2012F and 2013F respectively. We expect that there should be one new shop to be open in Singapore for FY2012. We estimate it should contribute HK\$55.4m and HK\$85.5m for 2012F and 2013F, which is base on the assumption that it should perform at about 50% sales of a mature store for the first year, perform at about 75% sales of a mature store in the second year and catch up to a mature store in the third year. The Hong Kong/PRC stores should contribute HK\$239.8m, HK\$359.7m and HK\$604.3m for 2011F, 2012F and 2013F respectively. We expect that there should be two new shops to be open in 2012F and four new shops in 2013F. For the new Vera business we estimate it should reach HK\$80.6m and HK\$200.9m for 2012F and 2013F respectively. We expect that there should be four new shops to be open in FY2012 and eleven new shops to be open in FY2013.

Table 3. Larry Jewelry sales and forecasts

| Company name | 2008A | 2009A | 2010A | 2011F | 2012F | 2013F |
|-------------------------------|-------|-------|-------|-------|-------|--------|
| Larry Jewelry | | | | | | |
| Hong Kong/PRC (HK\$m) | 197.8 | 156.8 | 195.8 | 239.8 | 359.7 | 604.27 |
| Singapore (HK\$m) | 194.8 | 169.4 | 208.7 | 214.9 | 276.7 | 313.5 |
| Total (HK\$m) | 392.6 | 326.2 | 404.4 | 454.7 | 636.4 | 917.78 |
| Vera | | | | | | |
| Hong Kong/PRC (HK\$m) | - | - | - | - | 80.6 | 200.9 |
| No. of Shops | | | | | | |
| Hong Kong | 3 | 3 | 3 | 4 | 6 | 10 |
| Singapore | 2 | 2 | 2 | 2 | 3 | 3 |
| Vera | - | - | - | - | 4 | 15 |
| Average Sales Per Shop | | | | | | |
| Hong Kong (HK\$m) | 65.9 | 52.3 | 65.2 | 68.5 | 71.9 | 75.5 |
| Singapore (HK\$m) | 97.4 | 84.7 | 104.3 | 107.5 | 110.7 | 114.0 |
| Vera (HK\$m) | - | - | - | 19.2 | 20.1 | 21.1 |

Source: Company data, SBI E2-Capital

Initiating coverage with TP of HK\$1.05. The selected HK-listed luxury goods retailers/brand owners are trading at an average historical P/E multiple of 18.3x. Chow Sang Sang (116 HK), Emperor Watch & Jewelry (887 HK), Oriental Watch (398 HK) and Prada (1913 HK) are the only four HK-listed companies with consensus earnings estimation, and their average one-year forward P/E multiple and two-year forward P/E multiple are 14.9x and 12.0x, respectively. Further, the average enterprise value per outlets of selected companies (excluding Prada) is about HK\$58.3m.

Table 3. Valuation reference

| Company | Ticker | FY end | Market cap (US\$m) | Historical PER (x) | 1-year PER (x) | 2-year PER (x) | P/BV (x) | ROE (%) |
|---------------------|----------------|---------|-----------------------|-----------------------|-------------------|-------------------|----------|---------|
| ETERNITE | 8351 HK Equity | 03/2011 | 69.2 | - | - | - | 3.7 | - |
| <u>Jewelry</u> | | | | | | | | |
| CHOW SANG SANG | 116 HK Equity | 12/2010 | 1,960.9 | 15.9 | 14.0 | 11.4 | 2.6 | 15.8 |
| TSE SUI LUEN | 417 HK Equity | 02/2011 | 169.9 | 7.2 | - | - | 1.6 | 24.5 |
| HONG KONG RESOURCES | 2882 HK Equity | 03/2011 | 129.6 | 32.8 | - | - | 1.7 | 5.7 |
| KING FOOK HLDGS | 280 HK Equity | 03/2011 | 76.9 | 17.3 | - | - | 0.6 | 3.5 |
| <u>Watch</u> | | | | | | | | |
| EMPEROR WATCH & JEW | 887 HK Equity | 12/2010 | 988.3 | 24.3 | 13.1 | 9.9 | 2.2 | 6.6 |
| ORIENTAL WATCH | 398 HK Equity | 03/2011 | 364.7 | 11.4 | 9.8 | 8.3 | 1.5 | 13.5 |
| SINCERE WATCH | 444 HK Equity | 03/2011 | 97.4 | 9.6 | - | - | 2.4 | 27.7 |
| <u>Fashion</u> | | | | | | | | |
| PRADA | 1913 HK Equity | 01/2011 | 12,463.9 | 35.9 | 23.0 | 18.4 | - | 22.3 |
| JOYCE BOUTIQUE | 647 HK Equity | 03/2011 | 178.1 | 10.4 | - | - | 2.2 | 23.4 |
| MILAN STATION | 1150 HK Equity | 12/2010 | 125.3 | - | - | - | - | 47.8 |

Source: Bloomberg

Fund raising/corporate actions. The listed entity has conducted the following fund raising/corporate actions in recent times:

Table 5. Recent corporate actions

| Date | Description |
|-----------------|---|
| Oct 2009 | Listed on the GEM board of HKEx in Oct 2009 and raised about HK\$20m by placing out 80m of new shares at HK\$0.25 each. Existing shareholders of that time sold 80m old shares at HK\$0.25 each in the initial offer |
| Apr 2010 | Company raised about HK\$19.6m via top-up placement of 72m shares at HK\$0.28 each. Galaxy Asset Management (HK) Ltd. subscribed 53m shares during the placement. Further, the group granted Galaxy a one-year term option for the subscription of 24m shares at HK\$0.28 each |
| Nov to Dec 2010 | Galaxy, Fullink, Wellchamp and Mr Chan collectively acquired 305m shares, representing about 55.3% of the total issued share capital of the group, from the controlling shareholders at HK\$0.5 per share. Further, the offerors made a general offer to acquire shares at HK\$0.5 each and employee option at HK\$0.215 each |
| Mar to Apr 2011 | Company raised about HK\$49.6m by placed out 64.5m shares and 26m new shares to new investors and connected investors/existing shareholders, respectively, at HK\$0.553 each. Further, it granted a 17m shares of 2-year terms call options at HK\$0.553 each to CCAL for the advisory services provided. CCAL shall procure Mr. Tsang Kwong Chiu, Kevin to provide advisory services to the group in business development, network expansion as well as financial services |
| Aug 2011 | Company acquired the entire share capital of Larry Jewelry at the total consideration of HK\$400m. HK\$250m was settled in cash and the balance of HK\$150m was settled by the one-year term promissory note with annual interest rate of 3.5%. The group has the obligation to provide no more than HK\$30m working capital to Larry Jewelry within three after the completion of the acquisition, upon the request from Larry Jewelry |
| Jul 2011 | Company issued a three-year terms HK\$54m CB with annual interest rate of 2% and exercise price of HK\$1.50 |
| Aug 2011 | Fullink, one of the major shareholders of the group placed out 61.8m shares and subscribed the same number of top-up subscription shares at HK\$0.75 each, and raised HK\$46.1m for the group |
| Sep 2011 | Company acquired the entire share-capital of Parkwell Group at the consideration of HK\$5.5m. The consideration was paid as to HK\$3.5m in cash and HK\$2.0m by the issuance of a three-year term, zero-coupon CB with exercise price of HK\$1.0 |
| Sep 2011 | Company issued 72.7m new shares at HK\$0.75 each to its existing major shareholders including Fullink, Galaxy Asset Management, Mr Joe Chan (Chairman of the group) and Mr Larry Chan and raised approximately HK\$54.4m. |

Source: Company data

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