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

If you have sold or transferred all your shares in **Emperor Watch & Jewellery Limited**, you should at once hand this circular with the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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英皇鐘錶珠寶有限公司
EMPEROR WATCH & JEWELLERY LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 887)

(I) CONTINUING CONNECTED TRANSACTIONS
THE MASTER LEASING AGREEMENTS
AND
(II) NOTICE OF EXTRAORDINARY GENERAL MEETING

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

MESSIS  **大有融資**

A letter from the Board is set out from pages 5 to 14 of this circular and a letter from the Independent Board Committee to the Independent Shareholders is set out on page 15 of this circular. A letter from Messis Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and Independent Shareholders in relation to the Master Leasing Agreements and the Tenancy Annual Caps is set out from pages 16 to 31 of this circular.

A notice convening the EGM to be held at 28th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong on 2 August 2018 (Thursday) at 3:00 p.m. is set out from pages 37 to 39 of this circular. Whether or not you intend to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Share Registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible, but in any event not less than 48 hours before the time of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or adjournment thereof.

17 July 2018

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DEFINITIONS

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

“Aggregate Tenancy Annual Cap”	aggregate amount of the Tenancy Annual Caps
“associates”	has the meaning ascribed to it in the Listing Rules
“AY Holdings”	Albert Yeung Holdings Limited, being the ultimate controlling shareholder of the Company
“AY Trust”	The Albert Yeung Discretionary Trust, a discretionary trust set up by Dr. Albert Yeung
“Board”	the board of Directors
“close associates”	has the meaning ascribed to in the Listing Rules
“Company”	Emperor Watch & Jewellery Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to in the Listing Rules
“Definitive Leasing Agreements(s)”	definitive agreements which have been entered and may be entered into between any member(s) of the Group and any member(s) of Emperor International Group and Emperor E Hotel Group (as the case may be) from time to time in relation to any of the Tenancy Transactions subsisting as at the date hereof and at any time during the term of the Master Leasing Agreements
“Director(s)”	the director(s) of the Company
“Dr. Albert Yeung”	Dr. Yeung Sau Shing, Albert

DEFINITIONS

“EGM”	an extraordinary general meeting (or any adjournment thereof) of the Company to be held on 2 August 2018 at 3:00 p.m. at 28th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong to consider and, if thought fit, approve, among other things, the Master Leasing Agreements and the Tenancy Annual Caps
“Emperor E Hotel”	Emperor Entertainment Hotel Limited, a company indirectly owned as to approximately 65.46% by Emperor International as at the Latest Practicable Date, an exempted company incorporated in Bermuda with limited liability, the subsidiaries of which are principally engaged in provision of entertainment and hospitality services in Macau and whose issued shares are listed on the Main Board of the Stock Exchange (Stock Code: 296)
“Emperor E Hotel Group”	Emperor E Hotel and its subsidiaries from time to time
“Emperor E Hotel Master Leasing Agreement”	the agreement dated 24 May 2018 entered into between the Company and Emperor E Hotel in relation to the Tenancy Transactions
“Emperor International”	Emperor International Holdings Limited, a company indirectly owned as to approximately 74.71% by the AY Trust as at the Latest Practicable Date, an exempted company incorporated in Bermuda with limited liability, the subsidiaries of which are principally engaged in property investments, property development and hospitality and whose issued shares are listed on the Main Board of the Stock Exchange (Stock Code: 163)
“Emperor International Group”	Emperor International and its subsidiaries from time to time, for the purpose of this circular, unless otherwise specified, Emperor E Hotel Group is excluded
“Emperor International Master Leasing Agreement”	the agreement dated 24 May 2018 entered into between the Company and Emperor International in relation to the Tenancy Transactions
“Emperor W&J Holdings”	Emperor Watch & Jewellery Group Holdings Limited, a company directly wholly-owned by AY Holdings and is interested in 53.38% of the issued Shares as at the Latest Practicable Date

DEFINITIONS

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the board of the Directors, comprising all of the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Master Leasing Agreements and the Tenancy Annual Caps
“Independent Financial Adviser” or “Messis Capital”	Messis Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Master Leasing Agreements and the Tenancy Annual Caps
“Independent Shareholders”	the Shareholders other than AY Holdings and its associates who have material interest in the Master Leasing Agreements
“Latest Practicable Date”	12 July 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Master Leasing Agreement(s)”	the Emperor International Master Leasing Agreement and the Emperor E Hotel Master Leasing Agreement, and “Master Leasing Agreement” shall mean any one of them
“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“sq. ft.”	square feet
“Tenancy Annual Cap(s)”	the maximum amount of rental/licence fee paid/payable to Emperor International Group or Emperor E Hotel Group by the Group (as the case maybe) under the Master Leasing Agreements for each of the financial years ending 31 December 2018, 2019 and 2020 and the 3 months ending 31 March 2021
“Tenancy Transaction(s)”	all existing and future tenancy/licence transaction(s) between members of the Group as tenants and Emperor International Group (including Emperor E Hotel Group) as landlords regarding the leasing of properties as contemplated under the Master Leasing Agreements and the Definitive Leasing Agreements
“%”	per cent

LETTER FROM THE BOARD



英皇鐘錶珠寶有限公司
EMPEROR WATCH & JEWELLERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 887)

Executive Directors:

Ms. Cindy Yeung (*Chairperson*)

Mr. Wong Chi Fai

Ms. Fan Man Seung, Vanessa

Independent Non-executive Directors:

Ms. Chan Sim Ling, Irene

Mr. Liu Hing Hung

Ms. Chan Wiling, Yvonne

Registered office & Principal

Place of Business:

25th Floor

Emperor Group Centre

288 Hennessy Road

Wanchai

Hong Kong

17 July 2018

To the Shareholders

Dear Sir/Madam,

**(I) CONTINUING CONNECTED TRANSACTIONS
THE MASTER LEASING AGREEMENTS
AND
(II) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 24 May 2018 whereby the Board announced that the Company, Emperor International and Emperor E Hotel entered into the Master Leasing Agreements which set out a framework of the terms governing the Tenancy Transactions between the Group and Emperor International Group.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (i) further information of the Master Leasing Agreements and the Tenancy Annual Caps; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) other information as required under Listing Rules; and (v) the notice of the EGM to be convened for the purpose of considering and, if thought fit, approving, by way of poll the Master Leasing Agreements and the Tenancy Annual Caps.

THE MASTER LEASING AGREEMENTS

Background

The Group has from time to time entered into Tenancy Transactions for leasing certain office properties or other properties (including retail shop, signage or signboard space) from Emperor International Group (including Emperor E Hotel Group). By entering into the following Master Leasing Agreements, the Group shall continue to lease properties from Emperor International Group (including Emperor E Hotel Group) subject to the terms of the Master Leasing Agreements and the terms and rental specified in each Definitive Leasing Agreement which will be entered into from time to time.

Date

24 May 2018

Parties

Agreements	Parties	Scope
(1) Emperor International Master Leasing Agreement	The Company and Emperor International	Governing the Tenancy Transactions between members of the Group as tenants and members of Emperor International Group as landlords
(2) Emperor E Hotel Master Leasing Agreement	The Company and Emperor E Hotel	Governing the Tenancy Transactions between members of the Group as tenants and a member of Emperor E Hotel Group as landlords

LETTER FROM THE BOARD

Term

Subject to the conditions set out in the Master Leasing Agreements, the Master Leasing Agreements commenced on 24 May 2018 and shall expire on 31 March 2021 or such other date (subject to a maximum period of 3 years) as agreed by the Company and Emperor International or Emperor E Hotel (as the case may be).

General terms of the Master Leasing Agreements

The relevant members of the Group and the relevant members of Emperor International Group (including Emperor E Hotel Group) may from time to time enter into Definitive Leasing Agreement(s) in relation to any Tenancy Transaction upon, and subject to, the terms and conditions in compliance with the Master Leasing Agreements. Each of the Definitive Leasing Agreements shall set out the terms of the tenancy, including the parties, detailed description of the properties, usage, duration, rental and specific terms such as rent free period, early termination, deposits, fees and charges.

The Master Leasing Agreements provide that:

- (a) the Tenancy Transactions shall be conducted in the usual and ordinary course of business of the Company and Emperor International Group (including Emperor E Hotel Group);
- (b) the terms of each Definitive Leasing Agreement shall be on normal commercial terms or on terms which are no less favourable than terms offered by independent third parties;
- (c) the terms and rental shall be subject to arm's length negotiation and be determined based on the condition of the properties and with reference to the then prevailing market rents on property(ies) comparable in location, area and permitted use;
- (d) the Tenancy Transactions shall be in compliance with all applicable provisions of the Listing Rules, the applicable laws, the Master Leasing Agreements and the relevant Definitive Leasing Agreements; and
- (e) the Group has the option to consider third party landlords and premises other than the properties of Emperor International Group (including Emperor E Hotel Group).

LETTER FROM THE BOARD

Conditions

- (1) Emperor International Master Leasing Agreement is conditional upon:
 - (a) the passing of the resolution by the Independent Shareholders at the EGM on the Emperor International Master Leasing Agreement and the Tenancy Annual Cap; and
 - (b) the approval by the independent shareholders of Emperor International on the Emperor International Master Leasing Agreement and the relevant annual cap.
- (2) Emperor E Hotel Master Leasing Agreement is conditional upon:
 - (a) the passing of the resolution by the Independent Shareholders at the EGM on the Emperor E Hotel Master Leasing Agreement and the Tenancy Annual Cap; and
 - (b) the approval by the board of directors of Emperor E Hotel on the Emperor E Hotel Master Leasing Agreement and the relevant annual cap(s).

If the conditions precedent of any of the Master Leasing Agreements set out in the above paragraphs are not satisfied within 6 months of the date of that Master Leasing Agreement, it shall cease to be of any effect and the relevant Tenancy Annual Cap shall lapse.

Historical transaction amounts

Set out below are the historical amounts of the Tenancy Transactions between the Group, Emperor International Group and Emperor E Hotel Group:

	For the year ended 31 December		
	2015	2016	2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Emperor International Group	250,243,000	162,085,000	152,282,000
Emperor E Hotel Group	<u>6,202,000</u>	<u>4,642,000</u>	<u>4,141,000</u>
Total	<u><u>256,445,000</u></u>	<u><u>166,727,000</u></u>	<u><u>156,423,000</u></u>

LETTER FROM THE BOARD

The Proposed Tenancy Annual Caps

Set out below is the proposed Tenancy Annual Caps under the Master Leasing Agreements:

	For the year ending 31 December			For the 3 months ending 31 March
	2018	2019	2020	2021
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Emperor International	216,000,000	216,000,000	216,000,000	54,000,000
Emperor E Hotel	<u>6,000,000</u>	<u>6,000,000</u>	<u>6,000,000</u>	<u>1,500,000</u>
Aggregate Tenancy Annual Cap	<u>222,000,000</u>	<u>222,000,000</u>	<u>222,000,000</u>	<u>55,500,000</u>

The proposed Tenancy Annual Caps are calculated based on a series of factors, among other things, the (i) historical transaction amounts, (ii) assumption that all the existing tenancy agreements will be renewed at market rent; and (iii) possible new tenancy agreements to be entered under the business development and expansion of the Group. The proposed Tenancy Annual Caps aggregate all Tenancy Transactions entered/to be entered with Emperor International Group and Emperor E Hotel Group respectively regardless of their location and usage and have been determined after taking into account:

- (i) the historical transaction amounts of rental, management fee (if any) and charges paid by the Group to Emperor International Group (including Emperor E Hotel Group) under all Tenancy Transactions;

LETTER FROM THE BOARD

- (ii) the number of existing Tenancy Transactions:

As at the Latest Practicable Date, the Group is leasing properties from Emperor International Group (including Emperor E Hotel Group) in the following areas in Hong Kong, Macau and PRC, mainly:

Hong Kong Island

Address

- (1) Emperor Group Centre, 288 Hennessy Road, Wanchai
- (2) Emperor Watch and Jewellery Centre, No.8 Russell Street, Causeway Bay
- (3) No.50-56 Russell Street, Causeway Bay
- (4) No.5 Canal Road East, Causeway Bay

Kowloon and New Territories

Address

- (1) Harilela Mansion, No.81 Nathan Road, Kowloon
- (2) No.4-8 of Canton Road, Tsim Sha Tsui, Kowloon
- (3) No.155 Castle Peak Road, Yuen Long, New Territories

PRC and Macau

Address

- (1) Emperor Nam Van Centre, No. 71-75, Avenida do Infante, D., Henrique and No.514-540, Avenida da Praia Grande, Macau
- (2) Grand Emperor Hotel, 288 Avenida Commercial De Macau
- (3) EM Macau, Avenida Do Infante D., Henrique N° 65-A, Macau
- (4) Emperor Group Centre, D12 Jianwai Dajie, Chaoyang District, Beijing, PRC

LETTER FROM THE BOARD

There are 21 existing tenancy/lease/licence agreements entered into between members of the Group and members of Emperor International Group and Emperor E Hotel Group. The earliest expiry date of the leases will be in March 2019 and the latest one will be in October 2022. The monthly rental ranges from HK\$2,000 to HK\$3,635,000 and the size ranges from a car parking space to a retail shop with a gross floor area of 6,564 sq. ft. The duration of the leases are usually 2 to 3 years with exception of office complex in Emperor Group Centre located in Beijing with market practices of 5 years lease term.

- (iii) assuming all the above tenancies will be renewed upon expiry and there may be an increase in rental which is assessed comparing to similar properties in the vicinity;
- (iv) the business development and expansion of the Group and the possibility of entering into new Tenancy Transactions with Emperor International Group and Emperor E Hotel under the Master Leasing Agreements in the forthcoming years; and
- (v) the location and usage of the properties of the existing portfolio of Emperor International Group (including Emperor E Hotel Group) and potential acquisition of properties by Emperor International Group which can be available for leasing to the members of the Group in the future.

Termination of the Current Tenancy Annual Caps

Subject to the conditions of the Master Leasing Agreements having been fulfilled, the Tenancy Annual Caps shall replace all the current annual caps obtained by the Company for the Tenancy Transactions entered by the Group and Emperor International Group (including Emperor E Hotel) before the date of fulfillment of the conditions of the Master Leasing Agreements.

CONTROL PROCEDURES TO ASSESS TENANCY TRANSACTIONS

The Group will follow a series of procedures to select the premises and determine the prices and terms of the tenancies. When management of the Group is about to renew existing tenancy or open a new retail shop which requires new premises, operation team of the Group will conduct site visits and manage to source available properties in selected location. The Group will then collect rental quotations of shortlisted properties from different landlords. Furthermore, the Group will further assess the rental and obtain comparable information for the determination of terms of tenancy. The Group may engage independent property appraiser to prepare valuation reports; conduct internal research to assess the valuation; and/or assess with reference to previous tenancy agreements for renewal cases. After operation team gathers and analyses the aforesaid information of the proposed tenancy, management will review and approve the tenancy. With such internal approval, the Definitive Leasing Agreement(s) will be entered into between relevant parties.

LETTER FROM THE BOARD

The Directors consider that adequate procedures have been in place to ensure the Definitive Leasing Agreements are to be entered into under normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

Should there be any future Definitive Leasing Agreement with lease term exceeding three years and subject to announcement/circular and/or shareholders' approval requirements according to applicable percentage ratios (as defined in the Listing Rules), the Company will, when entering into such Definitive Leasing Agreement, a) in compliance with Rule 14A.52 of the Listing Rules, appoint an independent financial adviser to explain why such agreement requires a longer period of lease term and to confirm that it is normal business practice for agreement of this type to be of such duration; and b) publish announcement(s) to disclose the opinion of the independent financial adviser according to the Listing Rules.

REASONS FOR AND BENEFITS OF THE MASTER LEASING AGREEMENTS

The Company is an investment holding company and its subsidiaries are principally engaged in the sales of European-made internationally renowned watches and self-designed fine jewellery products in Hong Kong, Macau, the PRC and Singapore.

The Master Leasing Agreements set out a framework of the terms governing the Tenancy Transactions between the Group and Emperor International Group (including Emperor E Hotel Group) and also serve to streamline the reporting, announcement and, if necessary, Shareholders' approval process whenever there is new tenancy or renewal of the Tenancy Transactions between the Group and Emperor International Group (including Emperor E Hotel Group). The obtaining of the Tenancy Annual Caps can help reduce the administrative burden and costs on the Company in complying with the requirements under the Listing Rules as from time to time. The Definitive Leasing Agreements will be agreed on an arm's length basis, on normal commercial terms or on terms no less favourable to the Group than those terms offered by independent third parties.

The Directors (excluding the independent non-executive Directors who provide their views after considering the opinion of an independent financial adviser) consider that the Master Leasing Agreements have been negotiated on an arm's length basis, on normal commercial terms, fair and reasonable, and in the interests of the Group and the Shareholders as a whole, and that the Tenancy Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Company, Emperor International and Emperor E Hotel are all indirectly controlled by the AY Trust. As such, under Chapter 14A of the Listing Rules, each of Emperor International and Emperor E Hotel is a connected person of the Company and accordingly, the Master Leasing Agreements constitute continuing connected transactions of the Company.

LETTER FROM THE BOARD

Ms. Cindy Yeung, the Chairperson of the Company, did abstain from voting on the relevant Board resolution of the Company in view of her deemed interest in the transactions by virtue of being one of the eligible beneficiaries of the AY Trust. Mr. Wong Chi Fai and Ms. Fan Man Seung, Vanessa were involved in the management of the counter-party to the Master Leasing Agreements, for prudence sake, both of them also abstained from voting on the same Board resolution.

As the highest applicable percentage ratios (as defined in the Listing Rules) calculated with reference to the Aggregate Tenancy Annual Cap of the Company are more than 5% and exceed HK\$10,000,000, the Master Leasing Agreements and the Tenancy Annual Caps are subject to the announcement, reporting and annual review requirements and Shareholders' approval under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Company has established an Independent Board Committee comprising Ms. Chan Sim Ling, Irene, Mr. Liu Hing Hung and Ms. Chan Wiling, Yvonne (all of whom are independent non-executive Directors) to advise the Independent Shareholders as to (i) whether the terms of the Master Leasing Agreements and the Tenancy Annual Caps are fair and reasonable; (ii) whether the transactions are on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the transactions are in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on the transactions. Messis Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

EGM

A notice convening the EGM to be held at 28th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong on 2 August 2018 (Thursday) at 3:00 p.m. is set out from pages 37 to 39 of this circular. Ordinary resolutions (“**Resolutions**”) will be proposed at the EGM for the Independent Shareholders to approve the Emperor International Master Leasing Agreement, the Emperor E Hotel Master Leasing Agreement and the Tenancy Annual Caps. As at the Latest Practicable Date, AY Holdings was directly wholly owned by the AY Trust which is beneficially interested in 3,630,950,000 Shares entitling it to exercise control over the voting rights of such Shares, representing approximately 53.38% of the issued Shares. AY Holdings and its associates will abstain from voting on the Resolutions. In compliance with the Listing Rules, the Resolutions will be voted by way of poll and the results of the EGM will be published after the EGM.

LETTER FROM THE BOARD

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Share Registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible, but in any event not less than 48 hours before the time of the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be).

In accordance with Rule 13.39(4) of the Listing Rules, all votes of the Independent Shareholders to be taken at the EGM shall be taken by poll. In order to qualify for the right to attend and vote at the above meeting, all relevant share certificates and properly completed transfer forms must be lodged for registration with the Company's Share Registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on 27 July 2018 (Friday).

RECOMMENDATION

The Board is of the view that the terms of Master Leasing Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the Resolutions to be proposed at the EGM. Before deciding how to vote on the Resolutions at the EGM, you are advised to read (i) the letter from the Independent Board Committee on page 15 of this circular; and (ii) the letter from Messis Capital from pages 16 to 31 of this circular which contains its advice to the Independent Board Committee and Independent Shareholders in relation to the Master Leasing Agreements and the Tenancy Annual Caps as well as the principal factors and reasons considered by it in arriving its opinions.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

By order of the Board
Emperor Watch & Jewellery Limited
Cindy Yeung
Chairperson

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation from Independent Board Committee to Independent Shareholders in relation to the Master Leasing Agreements and the Tenancy Annual Caps for the purpose of incorporation in this circular.



英皇鐘錶珠寶有限公司
EMPEROR WATCH & JEWELLERY LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 887)

17 July 2018

To the Independent Shareholders

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS
THE MASTER LEASING AGREEMENTS

We refer to the circular of the Company to the Shareholders dated 17 July 2018 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings as those defined in this Circular.

We, Independent Board Committee, has been appointed by the Board to advise you in respect of the terms of the Master Leasing Agreements and the Tenancy Annual Caps, Messis Capital has been appointed to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving their advice, are set out from pages 16 to 31 of the Circular. Your attention is drawn to the “Letter from the Board” and the “Letter from Messis Capital” in the Circular and the additional information set out in the appendix thereto.

Having considered, the advice given by Messis Capital, in particular the principal factors, reasons and recommendation as set out in its letter, we consider that (i) the entering into the Master Leasing Agreements are in ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Master Leasing Agreement, are on normal commercial terms and are fair and reasonable so far as the Company and Independent Shareholders are concerned, and (iii) the Tenancy Annual Caps are reasonably determined and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend you to vote in favour of the relevant ordinary resolutions at the EGM to approve the Master Leasing Agreements and the Tenancy Annual Caps.

Yours faithfully,
For and on behalf of
Independent Board Committee
Emperor Watch & Jewellery Limited

Chan Sim Ling, Irene

Liu Hing Hung
Independent non-executive Directors

Chan Wiling, Yvonne

LETTER FROM MESSIS CAPITAL

The following is the full text of the letter from Messis Capital Limited, the Independent Financial Adviser, for the purpose of inclusion in this circular, to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Master Leasing Agreements and the Tenancy Annual Caps.



17 July 2018

To: The Independent Board Committee and the Independent Shareholders of Emperor Watch & Jewellery Limited (the “Company”)

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS THE MASTER LEASING AGREEMENTS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Master Leasing Agreements and the Tenancy Annual Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 17 July 2018 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 24 May 2018, the Company, Emperor International and Emperor E Hotel entered into the Master Leasing Agreements which set out a framework of the terms governing the Tenancy Transactions between the Group and Emperor International Group.

As at the Latest Practicable Date, the Company, Emperor International and Emperor E Hotel are all indirectly controlled by the AY Trust. As such, under Chapter 14A of the Listing Rules, each of Emperor International and Emperor E Hotel is a connected person of the Company and accordingly, the Master Leasing Agreements constitute continuing connected transactions of the Company.

LETTER FROM MESSIS CAPITAL

Ms. Cindy Yeung, the Chairperson of the Company, did abstain from voting on the relevant Board resolution of the Company in view of her deemed interest in the transactions by virtue of being one of the eligible beneficiaries of the AY Trust. Mr. Wong Chi Fai and Ms. Fan Man Seung, Vanessa were involved in the management of the counter-party to the Master Leasing Agreements, for prudence sake, both of them also abstained from voting on the same Board resolution.

As the highest applicable percentage ratios (as defined in the Listing Rules) calculated with reference to the Aggregate Tenancy Annual Cap of the Company are more than 5% and exceed HK\$10,000,000, the Master Leasing Agreements and the Tenancy Annual Caps are subject to the announcement, reporting and annual review requirements and shareholders' approval under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors (namely, Ms. Chan Sim Ling, Irene, Mr. Liu Hing Hung and Ms. Chan Wiling, Yvonne), has been established in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders in respect of the terms of the Master Leasing Agreements and the transactions contemplated thereunder. We have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard and such appointment has been approved by the Independent Board Committee.

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. During the past two years, we have not acted as the independent financial adviser on any other transactions for the Company. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence and we are independent from the Company pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In arriving at our recommendations, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Company, its management and the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information and representation, which have been provided by the Company, its management and the Directors for which they are solely and wholly responsible, are true and accurate at the time they were made and continue to be accurate as at the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company.

LETTER FROM MESSIS CAPITAL

The 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 the 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 therein or the document misleading.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any material facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company, its management and the Directors, nor have we conducted an independent investigation into the business and affairs of the Group and any parties in relation to the Master Leasing Agreements and the Tenancy Annual Caps.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations, we have taken into consideration the following principal factors and reasons:

1. Background information of the Company

The Company is an investment holding company. The Company together with its subsidiaries is a leading retailer of European-made internationally renowned watches, together with self-designed fine jewellery products under its own brand, “*Emperor Jewellery*”.

LETTER FROM MESSIS CAPITAL

The Group has extensive retail networks in Hong Kong, Macau, mainland China and Singapore, as well as an online shopping platform, with over 900 staff. With a history of over 70 years, the Company carries a balanced and comprehensive watch dealership list. The target customers range from middle to high income groups worldwide. The Group's core strategy focuses on maintain its position as the leading watch and jewellery retailing group in Greater China, coupled with an eye on expansion beyond the region.

Set out below is a summary of the financial information of the Group for the each of the two years ended 31 December 2016 and 2017, which is extracted from the Company's annual report for the year ended 31 December 2017 (the "2017 Annual Report").

Consolidated statement of profit or loss

	For the year ended	
	31 December	
	2017	2016
	(audited)	(audited)
	HK\$'000	HK\$'000
Revenue	4,075,124	3,641,845
Gross profit	1,089,244	908,973
Profit/(loss) for the year	159,691	(64,821)

According to the 2017 Annual Report, the Group's total revenue increased by 11.9% to HK\$4,075.1 million (2016: HK\$3,641.8 million), driven by the recovery in consumption sentiment. As set out in the 2017 Annual Report, the luxury consumption market in Greater China showed signs of strong recovery during the year ended 31 December 2017. The pick-up in consumption was propelled by the positive market sentiment arising from the favourable economic conditions, along with increased consumer confidence driven by capital gains from the stock market boom and rising property prices. Furthermore, during 2017, the mainland Chinese visitor arrivals began to pick up on a recovery in consumer sentiment. The increase in tourist arrivals was also attributable to an enhanced price competitiveness of Hong Kong among major tourism countries as a result of a weaker United States Dollar/Hong Kong Dollar, as well as the government's tourism campaigns in celebration of 20th anniversary of the handover. Driven by the revival of inbound tourism and improvement in local consumption demand, Hong Kong retail sales rebounded in 2017. Revenue from the watch segment increased by 13.4% to HK\$3,238.6 million (2016: HK\$2,856.7 million) while the revenue from the jewellery segment increased by 6.5% to HK\$836.5 million (2016: HK\$785.1 million). 74.8% (2016: 76.8%) of the Group's total revenue was contributed by the Hong Kong market.

LETTER FROM MESSIS CAPITAL

Gross profit grew by 19.8% to HK\$1,089.2 million (2016: HK\$909.0 million). The gross profit margin was lifted by 1.7 percentage points to 26.7% (2016: 25.0%), which was mainly attributable to stronger market demand for luxury watches.

For the year ended 31 December 2017, the Group recorded an aggregated operating lease payments in respect of rented premises (including the minimum lease payments and contingent rent) of approximately HK\$431.7 million as compared to HK\$477.9 million for the year ended 31 December 2016. Such decrease was mainly attributable to the rental cuts in several retail spaces in 2016 amid the down cycle of the retail market.

Due to an improvement in sales momentum, enhanced gross profit margin and rental savings, the financial performance of the Group turned around and the Group recorded a net profit of HK\$159.7 million for the year ended 31 December 2017 (2016: net loss of HK\$64.8 million).

3. Background information on Emperor International

Emperor International is an investment holding company and its subsidiaries are principally engaged in property investments, property development and hospitality, owning properties with a total area of over 5 million sq. ft. in the Greater China and overseas. The issued shares of Emperor International are listed on the Main Board of the Stock Exchange (Stock Code: 163). Emperor International's investment property portfolio primarily focuses on quality street-level retail spaces and commercial buildings in prominent locations. In recent years, Emperor International has strived to enhance the proportion of retail and commercial buildings, on a whole block basis, among its existing property investment portfolio, aiming to diversify its rental income streams.

As set out in the annual results announcement of Emperor International for the year ended 31 March 2018, the key investment properties owned by Emperor International Group in Hong Kong include the retail shops and shopping malls in Causeway Bay, Tsim Sha Tsui, Repulse Bay, North Point, Tuen Mun, Repulse Bay and Mid-levels. It also owns office, commercial and industrial complexes in Wan Chai, Central, Kwai Chung, Kwun Tong, Tuen Mun and Sha Tin.

LETTER FROM MESSIS CAPITAL

4. Background information on Emperor E Hotel

Emperor E Hotel is an investment holding company and its subsidiaries are principally engaged in provision of entertainment and hospitality services in Macau. The issued shares of Emperor E Hotel are listed on the Main Board of the Stock Exchange (Stock Code: 296). Emperor E Hotel currently operates two hotels, Grand Emperor Hotel and Inn Hotel Macau, in Macau.

Grand Emperor Hotel is the flagship project of Emperor E Hotel Group on the Peninsula of Macau. It is an award-winning 26-storey gaming hotel with a gross floor area of approximately 655,000 sq. ft. and 307 guest room. It has six gaming floors, covering over 130,000 sq. ft. Inn Hotel Macau is a 17-storey hotel located at the heart of Macau's Taipa Island with a gross floor area of approximately 209,000 sq. ft., and 287 guest rooms.

5. Reasons for and benefits for the Master Leasing Agreements

The Group is a leading retailer of European-made internationally renowned watches, together with self-designed fine jewellery products under its own brand, "**Emperor Jewellery**". As at 31 December 2017, the Group had 80 retail stores, including 24 stores in Hong Kong, 6 stores in Macau, 44 stores in Mainland China and 6 stores in Singapore. These stores include standalone jewellery stores, specialty outlets for specific watch brands and multi-brand watch stores (with or without jewellery counters) to create a one-stop shopping experience. The Group's retail stores in Hong Kong are strategically located in major prime shopping areas, including Russell Street in Causeway Bay, Canton Road in Tsim Sha Tsui and Queen's Road Central in Central. The Group believes that having a solid presence in these prime locations is of paramount importance for a leading retailer of watches, as the Group enjoys more visitations and brand enhancement.

The Directors believe that the Group would enjoy unique advantages by leveraging synergies with other companies within Emperor International Group (including Emperor E Hotel Group). Emperor International Group owns numerous premium retail properties in renowned shopping areas. Emperor E Hotel owns Grand Emperor Hotel and Inn Hotel Macau and the corresponding retail areas. By leasing prime retail locations from it on an "arm-length basis", the Group can enjoy guarantee foot traffic.

LETTER FROM MESSIS CAPITAL

As at the Latest Practicable Date, there are 21 existing tenancy/lease/licence agreements entered into between members of the Group and members of Emperor International Group and Emperor E Hotel Group. The earliest expiry date of the leases will be in March 2019 and the latest one will be in October 2022. The monthly rental ranges from HK\$2,000 to HK\$3,635,000 and the size ranges from a car parking space to a retail shop with a gross floor area of 6,564 sq. ft. The duration of the leases are usually 2 to 3 years with exception of office complex in Emperor Group Centre located in Beijing with market practices of 5 years lease term. As advised by the Company, it intends to renew the relevant agreements upon their expiry.

As set out in the Letter from the Board, the Master Leasing Agreements set out a framework of the terms governing the Tenancy Transactions between the Group and Emperor International Group (including Emperor E Hotel Group) and also serve to streamline the reporting, announcement and, if necessary, Shareholders' approval process whenever there is new tenancy or renewal of the Tenancy Transactions between the Group and Emperor International Group (including Emperor E Hotel Group). The obtaining of the Tenancy Annual Caps can help reduce the administrative burden and costs on the Company in complying with the requirements under the Listing Rules as from time to time. The Definitive Leasing Agreement(s) will be agreed on an arm's length basis, on normal commercial terms or on terms no less favourable to the Group than those terms offered by independent third parties.

Having considered that (i) it is in the normal course of business of the Group to lease premises for its retail operations; (ii) the Group is currently using a number of premises of the Emperor International Group and Emperor E Hotel Group and hence, the transactions contemplated under the Master Leasing Agreements are expected to be of a recurrent nature and will occur on regular and continuing basis in the ordinary and usual course of business of the Group; and (iii) the Group will be benefited through leasing premises from Emperor International Group and Emperor E Hotel Group, we concur with the view of the Directors that the entering into the Master Leasing Agreements is in the ordinary and usual course of business and in the interests of the Group and the Shareholders as a whole.

LETTER FROM MESSIS CAPITAL

6. Principal terms of the Master Leasing Agreements

Date

24 May 2018

Parties

Agreements	Parties	Scope
(1) Emperor International Master Leasing Agreement	The Company and Emperor International	Governing the Tenancy Transactions between members of the Group as tenants and members of Emperor International Group as landlords
(2) Emperor E Hotel Master Leasing Agreement	The Company and Emperor E Hotel	Governing the Tenancy Transactions between members of the Group as tenants and member(s) of Emperor E Hotel Group as landlord(s)

Term

Subject to the conditions set out in the Master Leasing Agreements, the Master Leasing Agreements commenced on 24 May 2018 and shall expire on 31 March 2021 or such other date (subject to a maximum period of 3 years) as agreed by the Company and Emperor International or Emperor E Hotel (as the case may be).

General terms of the Master Leasing Agreements

The relevant members of the Group and the relevant members of Emperor International Group (including Emperor E Hotel Group) may from time to time enter into Definitive Leasing Agreement(s) in relation to any Tenancy Transaction upon, and subject to, the terms and conditions in compliance with the Master Leasing Agreements. Each of the Definitive Leasing Agreements shall set out the terms of the tenancy, including the parties, detailed description of the properties, usage, duration, rental and specific terms such as rent free period, early termination, deposits, fees and charges.

LETTER FROM MESSIS CAPITAL

The Master Leasing Agreements provide that:

- (a) the Tenancy Transactions shall be conducted in the usual and ordinary course of business of the Company and Emperor International Group (including Emperor E Hotel Group);
- (b) the terms of each Definitive Leasing Agreement shall be on normal commercial terms or on terms which are no less favourable than terms offered by independent third parties;
- (c) the terms and rental shall be subject to arm's length negotiation and be determined based on the condition of the properties and with reference to the then prevailing market rents on property(ies) comparable in location, area and permitted use;
- (d) the Tenancy Transactions shall be in compliance with all applicable provisions of the Listing Rules, the applicable laws, the Master Leasing Agreements and the relevant Definitive Leasing Agreements; and
- (e) the Group has the option to consider third party landlords and premises other than the properties of Emperor International Group (including Emperor E Hotel Group).

Conditions

- (1) Emperor International Master Leasing Agreement is conditional upon:
 - (a) the passing of the resolution by the Independent Shareholders at the EGM on the Emperor International Master Leasing Agreement and the Tenancy Annual Cap; and
 - (b) the approval by the independent shareholders of Emperor International on the Emperor International Master Leasing Agreement and the relevant annual cap.
- (2) Emperor E Hotel Master Leasing Agreement is conditional upon:
 - (a) the passing of the resolution by the Independent shareholders at the EGM on the Emperor E Hotel Master Leasing Agreement and the Tenancy Annual Cap; and
 - (b) the approval by the board of directors of Emperor E Hotel on the Emperor E Hotel Master Leasing Agreement and the relevant annual cap.

LETTER FROM MESSIS CAPITAL

If the conditions precedent of any Master Leasing Agreement set out in the above paragraphs are not satisfied within 6 months of the date of that Master Leasing Agreement, it shall cease to be of any effect and the relevant Tenancy Annual Cap shall lapse.

The Group would follow a series of procedures to select the premises and determine the prices and the terms of the tenancies. When management of the Group is about to renew an existing tenancy or open a new retail shop which requires new premise, operation team of the Group will conduct site visits and manage to source available properties in selected location. The Group will then collect rental quotations of shortlisted properties (“**Comparable Information**”) from different landlords. Furthermore, the Group would further assess the rental and obtain comparable information for the determination of terms of tenancy. The Group may engage independent property appraiser to prepare valuation reports; conduct internal research to assess the valuation; and/or assess with reference to previous tenancy agreements for renewal cases. After operation team gathers and analyses the aforesaid information of the proposed tenancy, management will review and approve the tenancy. With such internal approval, the Definitive Leasing Agreement(s) will be entered into between relevant parties. The Directors consider that adequate procedures have been in place to ensure the Definitive Leasing Agreement(s) are to be entered into under normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

We have obtained and reviewed samples of procedures (including the Comparable Information and valuation reports) in respect of leasing of premises currently in use and we note that the Group had obtained the Comparable Information for the purpose of determining the terms of the Tenancy Transactions. We also note that the relevant terms of the Tenancy Transactions (in particular the rental) were comparable to the then market rate.

Having considered the above, in particular that there are procedures in place to ensure the Definitive Leasing Agreement(s) will be entered into on normal commercial terms or on terms no less favourable than those offered by independent third parties, we are of the view that the terms of the Master Leasing Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM MESSIS CAPITAL

7. Proposed Tenancy Annual Caps

Set out below is the proposed Tenancy Annual Caps under the Master Leasing Agreements:

	For the year ending 31 December			For the 3 months ending 31 March
	2018	2019	2020	2021
	HK\$	HK\$	HK\$	HK\$
Emperor International	216,000,000	216,000,000	216,000,000	54,000,000
Emperor E Hotel	<u>6,000,000</u>	<u>6,000,000</u>	<u>6,000,000</u>	<u>1,500,000</u>
Aggregate Tenancy Annual Cap	<u><u>220,000,000</u></u>	<u><u>220,000,000</u></u>	<u><u>220,000,000</u></u>	<u><u>55,500,000</u></u>

As advised by the Directors, the proposed Tenancy Annual Caps are calculated based on a series of factors, among other things, the (i) historical transaction amounts, (ii) assumption that all the existing tenancy agreements will be renewed at market rent; and (iii) possible new tenancy agreements to be entered under the business development and expansion of the Group. The proposed Tenancy Annual Caps aggregate all Tenancy Transactions entered/to be entered with Emperor International Group and Emperor E Hotel Group respectively regardless of their location and usage and have been determined after taking into account:

- (i) the historical transaction amounts of rental, management fee (if any) and charges paid by the Group to Emperor International Group (including Emperor E Hotel Group) under all Tenancy Transactions;
- (ii) the number of existing Tenancy Transactions;
- (iii) assuming all the existing tenancies will be renewed upon expiry and there may be an increase in rental which is assessed comparing to similar properties in the vicinity;
- (iv) the business development and expansion of the Group and the possibility of entering into new Tenancy Transactions with Emperor International Group and Emperor E Hotel under the Master Leasing Agreements in the forthcoming years;
- (v) the location and usage of the properties of the existing portfolio of Emperor International Group (including Emperor E Hotel Group) and potential acquisition of properties by Emperor International Group which can be available for leasing to the members of the Group in the future.

LETTER FROM MESSIS CAPITAL

In assessing the fairness and the reasonableness of the basis in determining the proposed Tenancy Annual Caps, we have considered the following factors:

(a) The historical transaction amounts

Set out below are the historical amounts of the Tenancy Transactions between the Group, Emperor International Group and Emperor E Hotel Group:

	For the year ended 31 December		
	2015	2016	2017
	HK\$	HK\$	HK\$
Emperor International Group	250,243,000	162,085,000	152,282,000
Emperor E Hotel Group	<u>6,202,000</u>	<u>4,642,000</u>	<u>4,141,000</u>
Total	<u>256,445,000</u>	<u>166,727,000</u>	<u>156,423,000</u>

The historical amounts of the Tenancy Transactions between the Group and Emperor International Group and Emperor E Hotel Group decreased from approximately HK\$256.4 million for the year ended 31 December 2015 to approximately HK\$166.7 million for the year ended 31 December 2016, and further decreased to approximately HK\$156.4 million for the year ended 31 December 2017. Such decrease was mainly attributable to the Group successfully enjoyed rental cuts from Emperor International Group in several rental spaces amid the unfavourable luxury retail sentiment impacted by volatility in the capital market together with the PRC's moderated domestic product growth in 2016. As at the Latest Practicable Date, there are 21 existing tenancy/lease/licence agreements entered into between members of the Group and members of Emperor International Group and Emperor and Emperor E Hotel Group, which mainly cover seven properties in Hong Kong, three properties in Macau and one property in the PRC. It is intended that these tenancies would be renewed upon expiry. Moreover, as advised by the Directors, with the recent recovery of luxury consumption and tourism market, the Group will consider to expand its retail network and there is possibility that new Tenancy Transactions would be entered into with Emperor International Group and Emperor E Hotel Group under the Master Leasing Agreements in the forthcoming years. Accordingly, the relevant transaction amounts with Emperor International Group and Emperor E Hotel Group are expected to increase.

LETTER FROM MESSIS CAPITAL

(b) The business development and potential expansion of the Group

As discussed in the paragraph headed “1. Background information of the Company” above, due to (i) a recovery of consumption and market sentiments arising from favourable economic conditions; (ii) the increase in tourist arrivals; and (iii) enhanced price competitiveness of Hong Kong as a result of a weaker United States/Hong Kong Dollar; The financial performance of the Group improved for the year ended 31 December 2017 and it recorded a net profit of HK\$159.7 million for the year ended 31 December 2017 as compared to a net loss of HK\$64.8 million for the year ended 31 December 2016.

The recovery of tourism market and luxury consumption market in Hong Kong and Macau continued in the first quarter of 2018, evidenced by (i) the increase in number of visitors to Hong Kong from the PRC by 12.6% in the first quarter of 2018 as compared to the same period in 2017 according to the “Visitor Arrival Statistics – Mar 2018” published by Hong Kong Tourism Board; (ii) the value of sales in Hong Kong of jewellery, watches and clocks, and valuable gifts was increased by 22.5% in the first four months of 2018 as compared to same period in 2017 according to “Report on Monthly Survey of Retail Sales – April 2018” published by the Census and Statistics Department of Hong Kong; (iii) the increase in number of visitors to Macau from the PRC by 13.4% in the first quarter of 2018 as compared to the same period in 2017 according to the statistics from the Government of Macao Special Administrative Region Statistics and Census Services (“DSEC”); and (iv) the increase in sales of watches, clocks and jewellery in Macau increased by 17.8% as compared to the same period in 2017 according to the “Retail Sales Survey” published by DSEC.

Given (i) the improvement of the Group’s financial performance in 2017; and (ii) the recent favourable market environment and sales sentiment in both Hong Kong and Macau, it will be one of the business strategies of the Group to expand its retail network and the relevant transaction amounts with Emperor International Group and Emperor E Hotel Group are expected to increase.

LETTER FROM MESSIS CAPITAL

(c) The business development and potential portfolio expansion of Emperor International Group

As discussed in the paragraph headed “1. Background information of Emperor International”, Emperor International owns properties with a total area of over 5 million sq. ft. in the Greater China and overseas. Its investment property portfolio primarily focuses on quality street-level retail spaces and commercial buildings in prominent locations. Recently, Emperor International had significantly expanded its portfolio of properties and grown its footprint in Hong Kong, Beijing and London through development and acquisitions.

As disclosed in the annual results announcement of Emperor International for the year ended 31 March 2018, Emperor International has expanded its properties portfolio through redevelopments and acquisitions: (i) Emperor International completed an acquisition of the retail shops of Fairview Height, Mid-Levels, Hong Kong, this property is surrounded by upscale residential properties in Mid-Levels, where its local retail market is supported by high income group; (ii) in the redevelopment of Nos. 75-85 Lockhart Road, two adjacent buildings were demolished, and will be developed into a Japanese-Ginza style commercial and catering composite building with a gross floor area of approximately 96,000 sq. ft., which is scheduled for completion during 2020; (iii) Ulferts Centre is currently a industrial building for industrial purpose with a gross floor area of over 178,000 sq. ft., an application was submitted for the proposed wholesale conversion into a commercial building covering diversified purposes such as food and beverage, retail spaces and offices with target completion in 2020; (iv) Emperor International completed the acquisition of Ampersand Building, a composite building comprising retail spaces, office premises and leasehold apartments at Oxford Street, London; (v) the site at Nos. 25-27 on Oxford Street will be redeveloped into a composite retail/office building with a gross floor area of approximately 20,000 sq. ft., which is expected to be completed in 2019; (vi) Emperor Star City, Shanghai, will be developed into a shopping acade and hotel or serviced apartment complex, at a prime site adjacent to the Shanghai M10 subway route, where its foundation and basement excavation work for the development has been completed; and (vii) the construction of Emperor Nam Van Centre, a multi-storey premium retail complex on the Macau Peninsula with a gross floor area of approximately 30,000 sq. ft., was completed.

Emperor International Group adopts a pro-active approach to establishing an investment property portfolio. It will continue to source quality and upscale investment properties with good potential in the Greater China and major cities worldwide.

Having considered (i) the recent pro-active approach of Emperor International Group to expand its portfolio of retail and office properties; and (ii) certain acquisitions, constructions and redevelopments of retail properties and offices were/

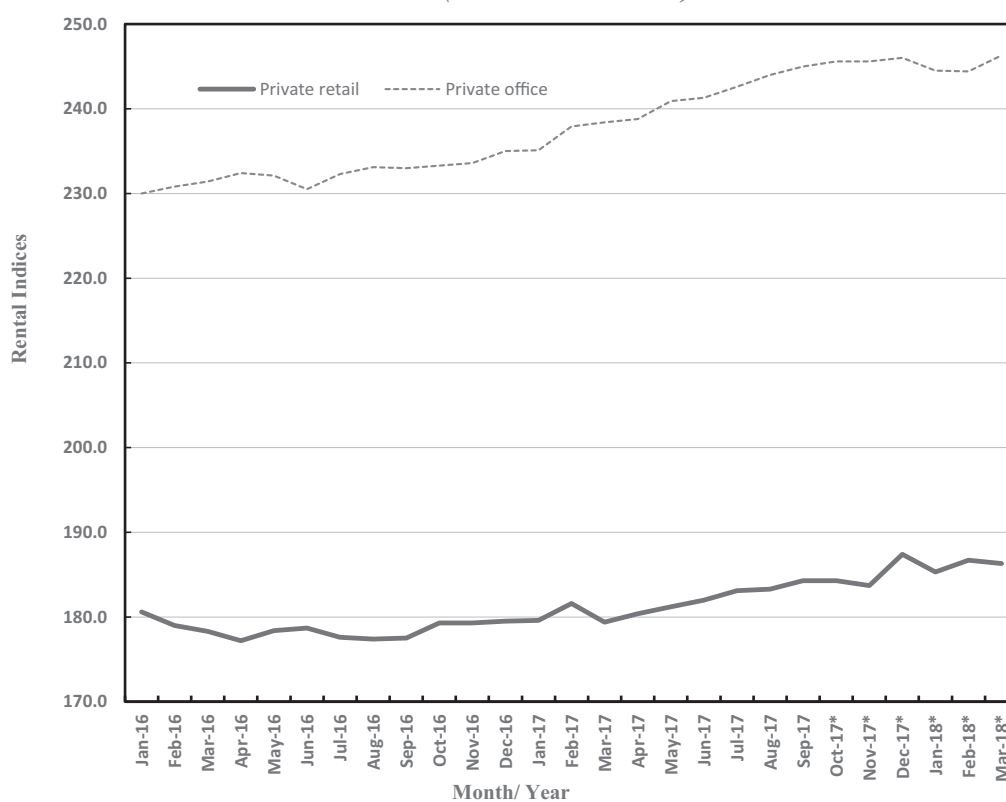
LETTER FROM MESSIS CAPITAL

will be completed as discussed above, coupled with the Group's potential expansion of its retail network, it is expected that the relevant transactions with Emperor International Group and Emperor E Hotel will increase.

(d) The recent rental market in Hong Kong

Set out below is the graph of rental indices for Hong Kong property market of private retail and private office from January 2016 to March 2018:

***Rental Indices For Hong Kong Property Market -
Private Retail and Private Offices
(1999 indices = 100)***



Source: Rating and Valuation Department of Hong Kong

Note: * Provisional figures

It is noted that the rental index for private retail properties was in a general increasing trend since April 2016 when the rental index reached the lowest of 177.2. In March 2018, the rental index for private retail properties was 186.3. The rental for private office was also in an increasing trend recently. The rental indices for private offices increased from 230.0 in January 2016 to 246.3 in March 2018.

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Having considered (i) the recent increasing trend of the rental for both private retail properties and private offices in Hong Kong; (ii) the Group's plans to renew the existing tenancies upon their expiry; and (iii) the Group may enter into new tenancies with Emperor International Group and Emperor E Hotel Group to expand its retail network, it is expected that the relevant transactions amounts with Emperor International Group and Emperor E Hotel Group will increase.

Having considered (i) the Group currently entered into 21 existing tenancy/lease/licence agreements between members of the Group and members of Emperor International Group and Emperor E Hotel Group; (ii) the relevant existing tenancy/lease/licence agreements are expected to renew upon expiry; (iii) the increasing trends in both the market rentals for private offices and retail properties as illustrated in the rental indices above; (iv) the Group's potential expansion plan on its retail network considering the improvement of the Group's financial performance and favourable consumption sentiment; and (v) the existing portfolio of Emperor International Group (including Emperor E Hotel Group) and potential acquisition of properties by Emperor International Group which can be available for leasing to the members of the Group in the future, we are of the view that the bases in determining the proposed Tenancy Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having taken into account the factors and reasons as stated above, we are of the view that (i) the entering into the Master Leasing Agreements is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Master Leasing Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Tenancy Annual Caps are reasonably determined, and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM to approve the Master Leasing Agreements and the Tenancy Annual Caps thereof.

Yours faithfully,
For and on behalf of
Messis Capital Limited
Vincent Cheung
Managing Director

Mr. Vincent Cheung is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of MESSIS CAPITAL LIMITED to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in corporate finance industry.

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. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the following Directors and chief executives of the Company were interested, or were deemed or taken to be interest in the following long and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company (“**Model Code**”) to be notified to the Company and the Stock Exchange:

(i) Long positions interest in the Company

Ordinary Shares

Name of Director	Capacity/Nature of interests	Number of issued Shares	Approximate % holding
Ms. Cindy Yeung	Beneficiary of the AY Trust	3,630,950,000	53.38%

Note: These Shares were held by Emperor W&J Holdings, a wholly-owned subsidiary of AY Holdings which is in turn owned by the AY Trust of which Ms. Cindy Yeung is one of the eligible beneficiaries.

(ii) Long position interests in associated corporations of the Company

Ordinary Shares

Name of Director	Name of associated corporation	Capacity/Nature of interests	Number of issued Shares	Approximate % holding
Ms. Cindy Yeung	Emperor International	Beneficiary of the AY Trust	2,747,610,489 (Note)	74.71%
Ms. Cindy Yeung	Emperor E Hotel	Beneficiary of the AY Trust	851,352,845 (Note)	65.46%
Ms. Fan Man Seung, Vanessa	Emperor International	Beneficial owner	10,500,000	0.29%

Note: Emperor International and Emperor E Hotel are companies with their shares listed in Hong Kong. These respective shares were ultimately owned by the AY Trust. Ms. Cindy Yeung, by virtue of being one of the eligible beneficiaries of the AY Trust, had deemed interests in the same Shares.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

3. DIRECTORS' SERVICE CONTRACTS

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

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates has any interest in business which is considered to compete or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

5. DIRECTORS' INTERESTS IN CONTRACTS AND ARRANGEMENTS

There were subsisted at the Latest Practicable Date the following agreements between members of the Group and (1) parties controlled by the AY Trust (as to items 1 to 14) of which Ms. Cindy Yeung is one of the eligible beneficiaries and (2) an associate of Ms. Cindy Yeung (as to item 15):

1. The tenancy agreement dated 31 March 2016 entered into between Very Sound Investments Limited (“**Very Sound**”) and Beauty Royal Limited (“**Beauty Royal**”), details of which were set out in the announcement of the Company dated 1 April 2016;
2. The tenancy agreement and the supplemental tenancy agreement both dated 31 March 2016 entered into between Grand Emperor Entertainment & Hotel (Macau) Limited and EWJ Macau Company Limited (“**EWJ Macau**”), details of which were both set out in the announcement of Emperor E Hotel dated 1 April 2016;
3. The tenancy agreement dated 30 March 2017 entered into between Great Future Hong Kong Limited and Beauty Royal, details of which were set out in the announcement of the Company dated 30 March 2017;
4. The tenancy agreement dated 29 June 2017 entered into between Headwise Investment Limited and Beauty Royal, details of which were set out in the announcement of the Company dated 29 June 2017;
5. The tenancy agreement dated 29 June 2017 entered into between I Soi Limitada and EWJ Macau, details of which were set out in the announcement of the Company dated 29 June 2017;
6. The three tenancy agreements all dated 30 June 2017 entered into between Richorse Limited and Beauty Royal, details of which were all set out in the announcement of the Company dated 30 June 2017;
7. The tenancy agreement dated 30 June 2017 entered into between Planwing Limited and Beauty Royal, details of which were set out in the announcement of the Company dated 30 June 2017;
8. The tenancy agreement dated 30 June 2017 entered into between Lord Link Limited and Beauty Royal, detail of which were set out in the announcement of the Company dated 30 June 2017.
9. The tenancy agreement dated 27 July 2017 entered into between Gold Pleasure Investment Limited (“**Gold Pleasure**”) and Beauty Royal, details of which were set out in the announcement of the Company dated 27 July 2017;

10. The three tenancy agreements all dated 31 October 2017 entered into between 英皇(北京)房地產開發有限公司 (“**Emperor Beijing**”) and 英皇鐘錶珠寶(北京)有限公司, details of which were all set out in the announcement of the Company dated 31 October 2017;
11. The tenancy agreement dated 31 October 2017 entered into between Emperor Beijing and 北京富善佳美鐘錶貿易有限公司, details of which were set out in the announcement of the Company dated 31 October 2017;
12. The tenancy agreement dated 15 November 2017 entered into between Fai Iek Limited and EWJ Macau, details of which were set out in the announcement of the Company dated 15 November 2017;
13. The tenancy agreement dated 16 November 2017 entered into between Very Sound and Beauty Royal, details of which were set out in the announcement of the Company dated 16 November 2017;
14. The licence agreement dated 27 February 2018 entered into between Gold Pleasure and Beauty Royal, details of which were set out in the announcement of the Company dated 27 February 2018; and
15. The consignment agreement dated 4 November 2016 entered into between the Company and Dr. Albert Yeung, details of which were set out in the announcement of the Company dated 4 November 2016.

Details of the supplemental agreements to their respective agreements have been set out in the announcements of the Company dated, as the case may be, 1 April 2016, 4 November 2016, 30 March 2017, 29 June 2017, 30 June 2017, 27 July 2017, 31 October 2017, 15 November 2017, 16 November 2017 and 27 February 2018.

Save as disclosed above, none of the Directors had any material interest in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

6. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any interests, either directly or indirectly, in any assets which have been, since 31 December 2017 (being the date to which the latest published audited financial statements 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.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

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

Messis Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report (as the case may be) and references to its names, in the form and context in which it appears.

As at the Latest Practicable Date, MESSIS Capital:

- (a) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group; or
- (b) did not have any interest, either directly or indirectly, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2017), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any circumstances or events that may give rise to a material adverse change in the financial or trading position of the Group since 31 December 2017, being the date of which the latest audited published financial statements of the Company were made up.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Master Leasing Agreements will be available for inspection during 9:00 a.m. to 5:00 p.m. on any weekday (except for Saturdays and public holidays) at 28th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong from the date of this circular and up to and including the date of the EGM.

10. MISCELLANEOUS

The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese text thereof.

NOTICE OF EXTRAORDINARY GENERAL MEETING



英皇鐘錶珠寶有限公司 EMPEROR WATCH & JEWELLERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 887)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Emperor Watch & Jewellery Limited (the “**Company**”) will be held at 28th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong on 2 August 2018 (Thursday) at 3:00 p.m., for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

“THAT:

- (1) (i) the Emperor International Master Leasing Agreement (as defined in the circular of the Company dated 17 July 2018 (“**Circular**”)) and a copy of which marked “A” was tabled before the meeting and initialled by the Chairperson of the meeting for identification purpose) and the transactions contemplated thereunder together with its Tenancy Annual Cap (as defined in the Circular) be and are hereby ratified, confirmed and approved; and (ii) any one Director of the Company be and is hereby authorized to do all such acts and things which he/she may consider necessary, desirable or expedient to implement the transactions contemplated under such agreement (with any amendments to the terms of such agreement which are not inconsistent with the purpose thereof as may be approved by the directors of the Company); and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (2) (i) the Emperor E Hotel Master Leasing Agreement (as defined in the Circular and a copy of which marked “B” was tabled before the meeting and initialled by the Chairperson of the meeting for identification purpose) and the transactions contemplated thereunder; together with its Tenancy Annual Cap (as defined in the Circular) be and are hereby ratified, confirmed and approved; and (ii) any one Director of the Company be and is hereby authorized to do all such acts and things which he/she may consider necessary, desirable or expedient to implement the transactions contemplated under such agreement (with any amendments to the terms of such agreement which are not inconsistent with the purpose thereof as may be approved by the directors of the Company).”

By order of the Board
Emperor Watch & Jewellery Limited
CHUNG Ho Ying, Frina
Company Secretary

Hong Kong, 17 July 2018

Registered Office & Principal Place of Business:

25th Floor
Emperor Group Centre
288 Hennessy Road
Wanchai
Hong Kong

Notes:

- (i) A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies (if he/she is a holder of more than one share) to attend and vote in his/her stead. A proxy need not be a member of the Company.
- (ii) In order to be valid, the form of proxy must be in writing under the hand of the appointor or his/her attorney duly authorized in writing, or if the appointor is a corporation, either under its common seal, or under the hand of an officer or attorney duly authorized on that behalf, and must be deposited at the Company’s Share Registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney, not less than 48 hours before the time for holding the meeting or adjourned meeting.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (iii) Where there are joint holders of any share, any one of such joint holder may vote, either in person or by proxy in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding of such share.
- (iv) Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting.
- (v) In order to qualify for the right to attend and vote at the above meeting, all relevant share certificates and properly completed transfer forms must be lodged for registration with the Company's Share Registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on 27 July 2018 (Friday).
- (vi) The results will be voted by the Independent Shareholders (as defined in the Circular). Pursuant to Rule 13.39(4) of the Listing Rules, all resolutions set out in this Notice will be decided by poll at the above meeting. Where the Chairman in good faith, decides to allow resolutions which relates purely to a procedural or administrative matter to be voted, such resolutions will be decided by a show of hands.
- (vii) If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 1:00 p.m. and before the above meeting time, the meeting will be postponed. The Company will post an announcement on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the Company's website (<http://www.emperorwatchjewellery.com>) to notify shareholders of the date, time and place of the rescheduled meeting.

This Circular (in both English and Chinese versions) is available to any Shareholder either in printed form or on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.emperorwatchjewellery.com>). In order to protect the environment, the Company highly recommends Shareholders to elect to receive electronic copy of this Circular. Shareholders may have the right to change their choice of receipt of all future corporate communications at any time by reasonable notice in writing to the Company's Share Registrar, Tricor Secretaries Limited, by post at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong or by email at is-enquiries@hk.tricorglobal.com.