

## LEVEL 7 ASSESSMENT SPECIFICATION



|                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                 |                                 |
|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|---------------------------------|
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| <b>Submission method:</b>              | <p>All written assessments, where practical and possible, must be submitted via Turnitin unless otherwise instructed by the Lecturer. (Please DO NOT put this assessment specification into Turnitin or it will match many similarities with other students' submissions.)</p> <p><b>Alternative submission method (if applicable):</b></p> <p><b>Late submission of the assessment will result in a late penalty mark.</b> Penalties for late submission: Up to one week late, maximum mark of 50%. Over one week late, 0%. Only the Extenuating Circumstances Panel may approve a change to submission dates.</p> |                                                                 |                                 |
| <b>Academic honesty / referencing:</b> | Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.                                                                                                                                                                                                                                                                                                     |                                                                 |                                 |



**University of Wales Trinity Saint David**

# **Finance for Business Manager**

**HKBM 7008 Assignment I – report**

## **Executive Summary**

This report will be Hong Kong listed company – Emperor Watch & Jewellery (887) financial resources management. The report will be focusing on 6 parts:

Part 1: Basic introduction, to discuss about the company background and overview. To understand the company structure versus the external business environment. Also to research and compare company's performance with companies in the same industry.

Part 2: Perform financial analysis including; 2.1) bankruptcy index Z-score analysis that based on the company's annual reports to have a better understanding of the level of risks of bankruptcy that the company will be potentially facing. 2.2) Finance structure analysis that based on comparison ratios – ie. fixed assets to long term liability ratio, current liabilities to net asset ratios, etc.to understand the company's financial situation. 2.3) To analyze the figures and identify the ability to pay debts from company; therefore to understand if the company's capacity to honor its loan obligations. 2.4) Perform analysis of the operating capacity, which to understand the maximum output of the company for operating and providing its products. 2.5) Profitability analysis, based on the total revenue exceed the total expenses for any given period of time. 2.6) To analyze the growth capacity based on positive cash flows or earnings generated; therefore to determine the future business strategy of the company. 2.7) Stock market prospects analysis to identify a company's competitiveness in a marketplace and forecast the potential future performance.

Part 3: To discuss the corporate governance assessment of the company; with a periodic assessment to identify problems or potential risk of the company's existing compliances and procedures.

Part 4: To propose investment projects that can bring prospects to company and appraisal of the potential projects by calculation and study of the cash flow, net value, rate of investment returns, etc.

Part 5: To study pros and cons of the financing programs and capital management.

Part 6: To propose recommendations based on the business needs of the company versus the external economic environment. Not only to maintain the business but also to discover potential projects that can benefit the company in a long run.

Part 7: Based on overall analysis and proposed programs to have a conclusion of what is best strategy for the company in terms of business development.

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## **Introduction**

### **1.1 Company Background**

Emperor Watch & Jewellery Ltd. (0887.HK), Hong Kong listed company principally focus its business on the sales of watches and jewellery. The company was founded by Yeung Shing, the father of Albert, Yeung Sau Shing in 1942 as Shing On Kee Watches. Later on Albert Yeung has then emerged jewellery as part of the company development blueprint since the 60s. Since 2018, the company has been listed on main board of The Stock Exchange of Hong Kong Limited. The company is a retailer of European brand watches, it also produces self-designed jewellery products. In a total 99 stores distributes in following markets: 30 in Hong Kong, 5 in Macau, 55 in Mainland China, 8 in Singapore and 1 in Malaysia, including dedicated and multi-brand watch boutiques and self-branded stores “Emperor Jewellery”. (Emperor Watch & Jewellery Limited, 2021)

In order to promote the brand, the company has collaborated with well-known jewellery and watch brands including Piaget, Cartier, Breguet, Panerai, etc. for numerous commercial events. With the outcome of these collaborations and promoting of the brand, the company has laid its foundation and gained trust from numerous international brands, including Rolex and Patek Philippe, etc. for partnered exclusive shop.

The company has been opening new stores from first-tier to third-tier cities including Beijing, Guangzhou, Shanghai, Shenzhen, Shenyang, etc. to higher the penetration to these markets. (Edigest HK , 2022)

### **1.2 Operating Business Overview**

The company has always maintain the strategy of having its sales network cover in prime shopping areas in order to reach their target customers and market positioning. Also to couple on brand exposure apart from Greater China, the business development blueprint has

stretched to Singapore and Malaysia as well, therefore to solidify their leading position in the watch and jewellery industry, also to enhance their jewellery business,

While the first half of 2021, overall external economic environment has been reviving after the start of Covid-19 pandemic, public has started to resume to their normal lives and the relaxation of the travel policy and restriction have led to the situation that it is favorable for retail industry as consumption sentiment has further recovered. Even though, in the second half of the year, various policies announced by the Chinese government has impacted the economy; the company total revenue has still increased by 49.5% in 2021 (3,926.6 million HKD) comparing to 2020 (2,626.6 million HKD).

### **1.3 Current business environment**

In terms of global business perspective, economic growth has rebounded strongly in 2021 to about 6% globally. (Brilliant, 2021) Covid-19 outburst and recovery of the world has reshaped the global economy, nevertheless economy of the Greater China. Social distancing and quarantine policies have changed the customers spending behaviors and patterns, luxury retailers have forced to face that enhancing and innovative customer experiences ie. Omni-Channel, E-commerce will be indeed the focus of their business development.

The luxury market has started to recover, yet Omicron emerged has limited the full recovery of Greater China – Mainland, Hong Kong and Macau, due to the social distancing and restrictions. With the background of fluctuation of stock and property markets, luxury products with value retention have been the choices for some of the investors, this can favor the enlarging group of middle-income group, especially in China.

### **1.4 Company Structure**

Apart from the board of directors and company secretary, there are 5 committees for

supervision of operations of the company, they are executive committee, audit committee, remuneration committee, nomination committee and corporate governance committee respectively, with 678 frontline staffs and 179 staffs at back office.

## 1.5 Research comparison company information

This study has included comparison of 3 different companies, Stelux Holdings (0084.HK), Oriental Watch Holdings (0398.HK) and core research of this report – Emperor Watch & Jewellery Limited (0887.HK). The market value of these 3 companies with same business nature varied from 58.6 million to 942.3 million to the highest 2,164 million. Market value is one of the most effective evaluation of the business prospects that it shown whether or not investors are confident to invest in a company. (Chen & Scott, 2021) While PE ratio of Emperor Watch & Jewellery Ltd. and Oriental Watch Holdings are 4.63 and 6 respectively, Stelux Holdings did not have any indication.

| Company Name         | Stelux Holdings             | Emperor Watch & Jewellery Ltd | Oriental Watch Holdings |
|----------------------|-----------------------------|-------------------------------|-------------------------|
| (Stock number)       | 0084                        | 0887                          | 0398                    |
| Business Nature      | Watch & Jewellery Retailing |                               |                         |
| Market value*1 (HKD) | 58.602M                     | 942.345M                      | 2,164M                  |
| PE*1                 | N/A                         | 4.63                          | 6                       |
| Market area          | In HK                       | In HK                         | In HK                   |
| Number of Stores*2   | 34                          | 30                            | 11                      |

## 2. Financial analysis

To perform financial analysis of the company's based on official figures, including bankruptcy index, financial structure, paying debt ability, capacities for operation and growth, etc., in order to identify areas for business development and therefore to determine the best possible strategy and directions for the company.

## 2.1 Listed company bankruptcy index Z-score analysis

|                   | Emperor Watch & Jewellery Ltd. |           |           | Stelux Holdings | Oriental Watch Holdings |
|-------------------|--------------------------------|-----------|-----------|-----------------|-------------------------|
| YEAR              | 2019                           | 2020      | 2021      | 2021            | 2021                    |
|                   | HKD '000                       | HKD '000  | HKD '000  | HKD '000        | HKD '000                |
| NET CA            | 2,880,115                      | 2,558,080 | 2,900,267 | (226,362)       | 1,549,334               |
| TOTAL ASSETS      | 6,086,602                      | 5,773,431 | 5,350,255 | 1,182,030       | 2,879,275               |
| RETAIN EARNING    | 1,423,602                      | 1,457,595 | 1,614,834 | 273,499         | 1,986,271               |
| EBIT              | 163,128                        | 110,033   | 287,080   | (71,562)        | 565,833                 |
| STOCK VALUE       | 0.16                           | 0.11      | 0.21      | 0.06            | 0.28                    |
| TOTAL EQUITY      | 4,473,027                      | 4,549,118 | 4,720,790 | 384,748         | 2,036,167               |
| NO. OF SHARES     | 677,945                        | 677,945   | 677,945   | 1,046,474       | 487,358                 |
| TOTAL LIABILITIES | 1,613,575                      | 1,224,313 | 629,465   | 797,282         | 843,108                 |
| SALES             | 4,110,117                      | 2,626,609 | 3,926,608 | 692,507         | 3,639,774               |

The result of a credit-strength test that used to determine the possibility and tendency of bankruptcy for listed companies is called the Z-score. Companies with ratings above 3 are less likely to file for bankruptcy than those with scores below 1.8, which indicates the likelihood of bankruptcy. While a Z score is closer to 0 has indicated financial trouble of a company and with the score over 3 or above indicates the company is unlikely to go bankrupt (Kenton & James, 2022)

|                | Emperor Watch & Jewellery Ltd. |             |             | Stelux Holdings | Oriental Watch Holdings |
|----------------|--------------------------------|-------------|-------------|-----------------|-------------------------|
| YEAR           | 2019                           | 2020        | 2021        | 2021            | 2021                    |
| A              | 0.47                           | 0.44        | 0.54        | (0.19)          | 0.54                    |
| B              | 0.23                           | 0.25        | 0.30        | 0.23            | 0.69                    |
| C              | 0.03                           | 0.02        | 0.05        | (0.06)          | 0.20                    |
| D              | 0.07                           | 0.06        | 0.22        | 0.08            | 0.16                    |
| E              | 0.68                           | 0.45        | 0.73        | 0.59            | 1.26                    |
| <b>Z SCORE</b> | <b>1.70</b>                    | <b>1.44</b> | <b>2.12</b> | <b>0.53</b>     | <b>3.62</b>             |

$$Z\text{-Score} = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E$$

To compare the Z scores of these 3 companies:

- Emperor Watch & Jewellery Ltd. had a higher possibility to bankrupt in 2019 (scored 1.70) and 2020 (scored 1.44). While in 2021, they have minimized the possible and the Z score has raised to 2.12, which has greatly improved.
- Stelux Holdings's Z score has indicated the company might be experience financial trouble as it scored 0.53.
- Oriental Watch Holdings has the highest Z score among all 3 of the companies, the company has scored 3.62, which indicates that it has a low possibility of going bankrupt.

## 2.2 Financial structure

|                                                 | <b>Emperor Watch &amp; Jewellery Ltd.</b> |             |             | <b>Stelux Holdings</b> |             |             | <b>Oriental Watch Holdings</b> |             |             |
|-------------------------------------------------|-------------------------------------------|-------------|-------------|------------------------|-------------|-------------|--------------------------------|-------------|-------------|
| <b>YEAR</b>                                     | <b>2019</b>                               | <b>2020</b> | <b>2021</b> | <b>2019</b>            | <b>2020</b> | <b>2021</b> | <b>2019</b>                    | <b>2020</b> | <b>2021</b> |
| <b>FIXED ASSET TO LONG TERM LIABILITY RATIO</b> | 0.38                                      | 0.36        | 0.34        | 7.19                   | 9.78        | 15.62       | 0.24                           | 0.27        | 0.32        |
| <b>CURRENT LIABILITIES TO NET ASSET RATIO</b>   | 0.23                                      | 0.40        | 0.18        | (3.40)                 | (4.12)      | (3.25)      | 0.13                           | 0.29        | 0.31        |
| <b>CURRENT LIABILITIES TO STOCK RATIO</b>       | 0.21                                      | 0.34        | 0.20        | 2.73                   | 2.86        | 2.82        | 0.26                           | 0.73        | 1.01        |

### **FIXED ASSET TO LONG TERM LIABILITY RATIO**

This ratio is an evaluation of the company's ability to cover its debt, it has shown the extent to which a company's tangible fixed assets can satisfy its long-term liabilities. And to interpret the figures, the higher the ratio's value, the higher the ability of the company to cover its debt. (Eanaliza, 2021) Emperor Watch & Jewellery Ltd. and Oriental Watch Holdings's ratios were

consider very stable in the past 3 years, the ratios were maintained consistently; within the range of 0.34 – 0.38 and 0.24 – 0.32 respectively. In contrast, Stelux Holdings's ratios were comparatively fluctuated with a range of 7.19 – 15.62.

#### **CURRENT LIABILITIES TO NET ASSET RATIO**

This ratio has demonstrates a reliance on equity to pay its debt. It is one of the indicators of a company's Solvency and; as a general rule, the ratio should not be exceeding 60% as larger percentages indicate substantial strain on future cash flows. Both Emperor Watch & Jewellery Ltd. and Oriental Watch Holdings's ratios were relatively stable, yet Stelux Holdings has continuous negative ratios, which indicated the company's liabilities exceed its assets. This would often be regarded as a warning indicator of high risk and a clear sign to seek bankruptcy protection. (Fernando & Mansa, 2022)

#### **CURRENT LIABILITIES TO STOCK RATIO**

This ratio calculates a company's liabilities that has taken on based on the value of its assets, and that a high current liabilities to stock ratio indicates that a company relies heavily on debt funding and is frequently linked to high investment risk. In comparison to these 3 companies, Stelux Holdings has the highest ratio among, with over 2.7 continuously from 2019 – 2021. This indicates Stelux Holdings has depended on funding and might incur investment risk. (Fernando & Rathburn, 2022)

#### **FINANCIAL STRUCTURE**

Emperor Watch & Jewellery Ltd. and Oriental Watch Holdings's ratios indicated a more stable development comparing to Stelux Holdings, which the company has constantly shown investment risk.

## 2.3 Paying debt ability

|                               | Emperor Watch & Jewellery Ltd. |       |       | Stelux Holdings |        |        | Oriental Watch Holdings |       |       |
|-------------------------------|--------------------------------|-------|-------|-----------------|--------|--------|-------------------------|-------|-------|
| YEAR                          | 2019                           | 2020  | 2021  | 2019            | 2020   | 2021   | 2019                    | 2020  | 2021  |
| CURRENT RATIO                 | 5.37                           | 3.49  | 6.42  | 0.71            | 0.76   | 0.69   | 8.92                    | 4.42  | 4.19  |
| QUICK RATIO                   | 0.59                           | 0.54  | 1.35  | 0.34            | 0.41   | 0.34   | 5.13                    | 3.04  | 3.19  |
| CASH RATIO                    | 0.36                           | 0.39  | 1.04  | 0.12            | 0.22   | 0.15   | 4.48                    | 2.36  | 2.65  |
| TOTAL DEBT RATIO              | 0.27                           | 0.21  | 0.12  | 0.69            | 0.64   | 0.67   | 0.17                    | 0.27  | 0.29  |
| DEBT/ EQUITY RATIO            | 0.36                           | 0.27  | 0.13  | 2.18            | 1.75   | 2.07   | 0.21                    | 0.37  | 0.41  |
| LONG-TERM DEBT RATIO          | 0.07                           | 0.04  | 0.02  | 0.22            | 0.14   | 0.09   | 0.10                    | 0.13  | 0.16  |
| EQUITY MULTIPLIER             | 1.36                           | 1.27  | 1.13  | 3.18            | 2.75   | 3.07   | 1.21                    | 1.37  | 1.41  |
| TOTAL DEBT/ FIXED ASSET RATIO | 0.67                           | 0.59  | 0.35  | 1.38            | 1.26   | 1.43   | 0.86                    | 1.36  | 1.28  |
| TIME INTEREST COVER RATIO     | 2.87                           | 3.32  | 17.53 | (8.54)          | (0.95) | (3.71) | 7.07                    | 41.92 | 47.02 |
| CASH COVERAGE                 | 11.57                          | 16.80 | 44.94 | (6.55)          | 7.66   | 3.36   | 23.34                   | 73.21 | 70.77 |

### CURRENT RATIO

Current ratio is figures that indicates or measure the ability of a company to fulfil its short-term obligations. A current ratio of 1.0 interprets that the company's current assets will be able to cover the cost of its liabilities, whereby over 1.0 has indicates that a company has a high possibility of financially solvent for a given year and typically this ratio will be ranging between 1.0 and 3.0 even the ratio might varies industry to industry. (MasterClass, 2021)

By comparing 3 companies, Emperor Watch & Jewellery Ltd and Oriental Watch Holdings are relatively stable, ratios ranged at 3.49 – 8.92, which indicates they are highly capable of covering their short-term obligations. As for Stelux, the ratios have been continuously below 1.0 from 2019 – 2021. Indicated that the company is not in a position that can cover its short-term liabilities.

## CASH RATIO

This ratio has specifically calculated the company's total cash and cash equivalents to its current liabilities, which can indicate the company's capability of paying its short-term debt with cash or cash equivalent resources. This figure will be critical for creditors to understand the company's capacity, therefore to determine if they will loan to this company or not.

(Kenton & Kvilhaug, 2022)

By comparing the 3 companies, Oriental Watch Holdings's cash ratio has been over 3.0 continuously for 3 years, which is the most financially stable among all. Emperor Watch & Jewellery Ltd. has been improving throughout these years, from below 1.0 to 1.04 in 2021. It can indicate that the company has sufficient cash to pay off debts. Lastly, Stelux Holdings has been always below 1.0, which has implied that the company might not have enough cash to support their debts.

## EQUITY AND DEBT RATIO

The debt to equity ratio is that the shareholder equity of the company divided by its total liabilities, it can measure if a company is operating its business with debt rather than its own resources which a high debt to equity ratio is associated with high investment risk, implied that the company is financing on their debts.

Stelux Holdings has a relatively high debt to equity ratio comparing to the other 2 companies, which ranged 1.75 – 2.18, while Emperor Watch & Jewellery Ltd. and Oriental Watch Holdings have both ranged below 1.0, which is a good sign that the company is safe, whereas values of close to 2 or higher has considered risky.

## TOTAL DEBT/ FIXED ASSET RATIO

A debt to assets ratio is a type of leverage ratio that putting a company's debt obligations and company's total assets in comparison. To have a ratio over 1.0, indicates that the business has

lesser assets than debt and below will be the other way around. The higher the ratio is, the more the company is lack of finance flexibility as their assets have outweighed their debts. (MasterClass, 2021) Emperor Watch & Jewellery Ltd has the lowest debt to assets among the 3 companies, it has implied that the company has a relatively higher flexibility on their financial situation, while both Stelux and Oriental Watch Holdings have ratios over 1.0.

#### TIME INTEREST COVER RATIO

Time interest cover ratio is to define a company's ability to meet its debt obligations, the ratio can indicate how many times a company would be able to cover its interest charges with its pretax earnings. As earnings are much higher than annual interest commitments, a high ratio indicates that a business can pay its debts but at the same time, a high ratio might also indicate that a business unfavorably little leverage or pays down debt too soon with money that could potentially invest with higher rates of return. (Dan, 2013)

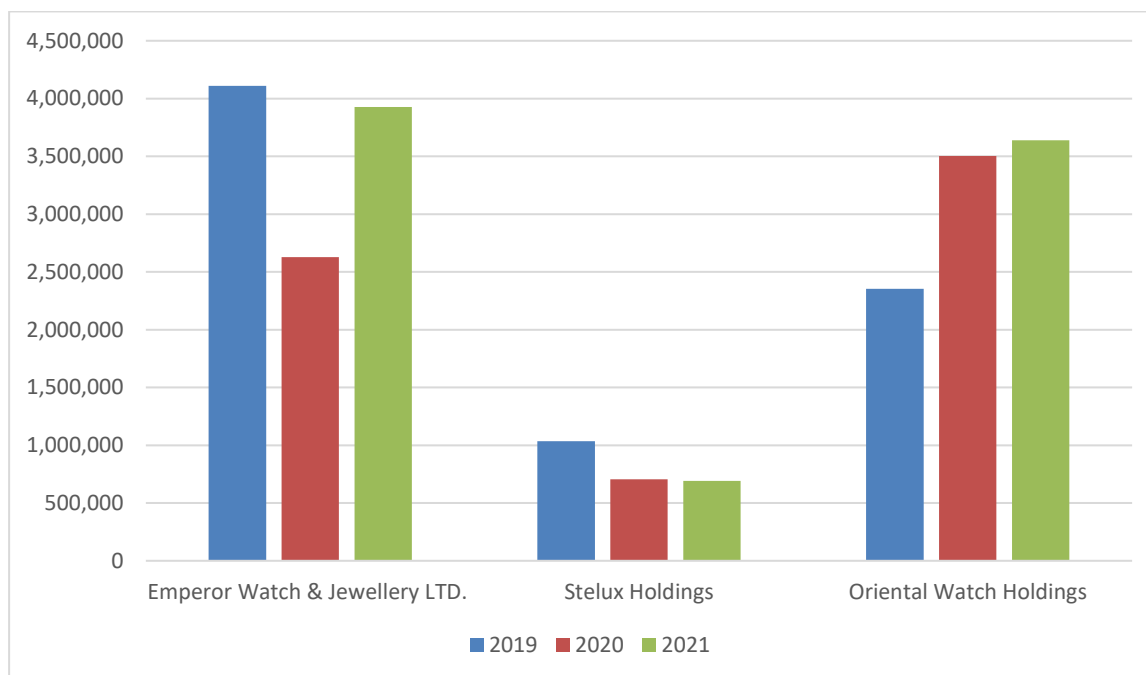
Continue with the above debt to assets ratio for Oriental Watch Holdings, we can observe that their debts are outweighed their assets and therefore, the time interest cover ratio of the company is relatively high (47.02) due to its liabilities is high. As for Stelux Holdings, it has appeared their ratios are with negative values, it has implied the company's current revenues are inadequate to cover its existing debt. While Emperor Watch & Jewellery Ltd. has maintained a stable ratios.

For overall paying debt abilities, Emperor Watch & Jewellery is outstanding in terms of its capacity and it has clearly indicated in the figures that the company has finance flexibility. It would be able to fulfil its long-term and short-term obligations. While Stelux Holdings has shown that the company is lack of finance flexibility and with high investment risk.

## 2.4 Operating capacity

Emperor Watch & Jewellery Ltd.'s revenue has increased from 2,627 million to 3,927 million, with a total growth of 49.5%, it has the highest growth rate comparing to the 2 other companies. Stelux Holdings's has a negative growth rate of -2% and Oriental Watch Holdings has positive growth rate at 4%.

SALES (HKD '000) (Source: the enterprise Annual Reports 2019 – 2021)



## SALES GROWTH RATE



Due to the outbreak of Covid-19 and other political turmoil, the external economic environment has caused the fluctuation of the sales and sale growth rate throughout the past 3 years.

## 2.5 Profitability

|                       | Emperor Watch & Jewellery Ltd. |      |      | Stelux Holdings |        |        | Oriental Watch Holdings |      |      |
|-----------------------|--------------------------------|------|------|-----------------|--------|--------|-------------------------|------|------|
| YEAR                  | 2019                           | 2020 | 2021 | 2019            | 2020   | 2021   | 2019                    | 2020 | 2021 |
| TOTAL ASSETS TURNOVER | 68%                            | 45%  | 73%  | 61%             | 52%    | 59%    | 94%                     | 128% | 126% |
| GROSS PROFIT MARGIN   | 0.31                           | 0.32 | 0.31 | 0.49            | 0.46   | 0.47   | 0.27                    | 0.27 | 0.32 |
| NET PROFIT MARGIN     | 0.02                           | 0.01 | 0.05 | (0.39)          | (0.12) | (0.15) | 0.02                    | 0.08 | 0.11 |
| ROA AFTER TAX         | 0.01                           | 0.01 | 0.04 | (0.24)          | (0.06) | (0.09) | 0.02                    | 0.11 | 0.14 |
| ROE AFTER TAX         | 0.02                           | 0.01 | 0.04 | (0.75)          | (0.17) | (0.28) | 0.03                    | 0.15 | 0.20 |

### TOTAL ASSETS TURNOVER

Total assets turnover ratio can indicate the efficiency of whether or not a company is using its asset to generate sales, this figure is to measure the value of a company's revenues to the value of its assets. The higher of this ratio, the more it is competent of generating revenue from the company's assets. Emperor Watch & Jewellery Ltd. and Stelux Holdings have shown stable efficiency of the companies to generate sales by their assets, average at 59.6%, while Oriental Watch Holdings has outstanding ratios, average at 116%. (Hayes & Perez, 2022)

### GROSS PROFIT MARGIN

Gross profit margin can be used to analyze the financial health of a company, after subtracting the cost of goods sold and calculate the amount leftover from product sales. If a company's gross profit margin has a tendency of being highly fluctuates, it is a signal of inconsistent

management or/ and inferior products. Yet, it will not be an alarm unless the company has changes to its operational business model and this fluctuation will only appeared within a given period of time. All 3 of the research companies have stable gross profit margins with differences no more than 0.04 per year.

## NET PROFIT MARGIN

Net profit margin is the measure of the net income or profit that generated within the revenue as percentage. By observing the increases and decreases of the net profit margin, a company can analyze whether the current practices are efficient and based on revenues to forecast profits. Emperor Watch & Jewellery Ltd. and Oriental Watch Holdings have stable profit margin; while Stelux Holdings has negative net profit margin for 3 years continuously. It has indicated that the company is spending more money than they are making and their business model is not sustainable due to unexpected expenses or other external factors.

## 2.6 Growth capacity

|                                     | <b>Emperor Watch &amp; Jewellery Ltd.</b> |             |             | <b>Stelux Holdings</b> |             |             | <b>Oriental Watch Holdings</b> |             |             |
|-------------------------------------|-------------------------------------------|-------------|-------------|------------------------|-------------|-------------|--------------------------------|-------------|-------------|
| <b>YEAR</b>                         | <b>2019</b>                               | <b>2020</b> | <b>2021</b> | <b>2019</b>            | <b>2020</b> | <b>2021</b> | <b>2019</b>                    | <b>2020</b> | <b>2021</b> |
| <b>ROE</b>                          | 13%                                       | 5%          | 30%         | -38%                   | -8%         | -10%        | 41%                            | 54%         | 83%         |
| <b>SELF-SUSTAINABLE GROWTH RATE</b> | 22%                                       | 23%         | 26%         | 41%                    | 37%         | 26%         | 97%                            | 98%         | 98%         |

## RETURN ON EQUITY

It is a very useful metric to understand if the company's management has made right decisions on capital allocation and also the efficiency of a company to use its money to generate post-investment income. It is a measure based on every dollar of equity investment from shareholders and the company net profits generated. Therefore, the higher the ROE metric, the more the company is able to earn in post-investment net profits. Steadily increased

ROE is also a good signal of the company's management is capable to create more positive value for its shareholders. For Emperor Watch & Jewellery Ltd. and Oriental Watch Holdings, both of them had increased with around/ over 30% from 2020 -2021, key factor will be the rebound of economy after the outbreak of Covid-19 and both companies are picking up the gaps. For Stelux Holdings's case, they have a negative ROE, it has indicated that their shareholders are losing value and investors have a tendency to avoid investing their money in this company.

## SELF-SUSTAINABLE GROWTH RATE

Self-sustainable growth (SGR) is the maximum rate of finance growth sustained by a company without additional equity or debt, whereby it means the company can be growing with its internal resources without loaning any debts externally. (Murphy & James, 2022)

By comparing 3 companies, Emperor Watch & Jewellery Ltd. and Stelux Holdings have steady SGR within 20% - 40% each year and Oriental Watch Holdings has over 90% SGR. High SGR has indicated they have strong strategies of focusing on high-margin products, sales efforts and outstanding management of their inventory, accounts payable and receivable.

## 2.7 Stock Market prospects analysis

|          | Emperor Watch & Jewellery Ltd. |      |      | Stelux Holdings |       |       | Oriental Watch Holdings |      |      |
|----------|--------------------------------|------|------|-----------------|-------|-------|-------------------------|------|------|
| YEAR     | 2019                           | 2020 | 2021 | 2019            | 2020  | 2021  | 2019                    | 2020 | 2021 |
| PE RATIO | 1.18                           | 2.27 | 0.68 | -0.22           | -1.13 | -0.60 | 0.43                    | 0.52 | 0.34 |

The price-to-earnings ratio is a metric that measure the current share price relative to the earnings per share. It is a good tool for investors and analysts to put a company's current business situation against own historical record. A high PE ratio has indicated that its stock is overvalued, while Emperor Watch & Jewellery has stretched its business blueprint to most of the top-tier/ second-tier prime locations in China and some other stores have planned to be

opening, the PE ratio is over 1.0 which this figures has sent a message and made investors expect high growth rates in the potential future.

### 3. Corporate Governance assessment

Emperor Watch & Jewellery Ltd. has committed to have a high level of corporate governance for the company. “Accountability, Responsibility and Transparency” are the core values that the company would honor throughout the corporate governance assessment. Regular committee board meetings will be held at every quarterly intervals. While ROA is the ratio that can indicate profitability of a company with relations to its total assets. As for ROE is the ratio to identify how efficient a company’s profitability generates profits. And these ratios indicate how is the operations roll out of a company under the corporate governance assessment.

|                        | <b>Emperor Watch &amp; Jewellery Ltd.</b> |             |             | <b>Stelux Holdings</b> |             |             | <b>Oriental Watch Holdings</b> |             |             |
|------------------------|-------------------------------------------|-------------|-------------|------------------------|-------------|-------------|--------------------------------|-------------|-------------|
| <b>YEAR</b>            | <b>2019</b>                               | <b>2020</b> | <b>2021</b> | <b>2019</b>            | <b>2020</b> | <b>2021</b> | <b>2019</b>                    | <b>2020</b> | <b>2021</b> |
| <b>ROA (AFTER TAX)</b> | 0.01                                      | 0.01        | 0.04        | (0.24)                 | (0.06)      | (0.09)      | 0.02                           | 0.11        | 0.14        |
| <b>ROE (AFTER TAX)</b> | 0.02                                      | 0.01        | 0.04        | (0.75)                 | (0.17)      | (0.28)      | 0.03                           | 0.15        | 0.20        |

#### 3.1 Importance of corporate governance and business

To effectively roll out company business objective and strategies, a Corporate Governance Assessment will be an important procedure to ensure the company’s compliance, integrity are all well communicated with stakeholders including investors, creditors, business partners, etc. to make them maintain the level of trust to our company. Also, the assessment can minimize potential risk.

### 3.2 Relationships between a business and corporate governance

A mission state is another relationship between corporate governance and the business ethics.

To repay shareholders or company's stakeholders on a social aspect of operations instead of a profit; therefore to convince current or potential creditors, investors, business partners, etc. to have the desire to be part of the success of the company. (Vitez, 2022)

### 4. Investment Project Appraisal

#### PROJECT INFO

| Project Costs               |     | Remarks                               |
|-----------------------------|-----|---------------------------------------|
| Total Cost                  | 196 |                                       |
| Building depreciation years | 50  |                                       |
| Decoration period           | 5   |                                       |
| Sales growth rate           | 11% |                                       |
| Ultimate growth rate        | 2%  |                                       |
| EBITDA (%)                  | 19% | (Emperor Watch & Jewellery LTD. 2021) |
| Operating period            | 382 |                                       |

#### CASHFLOW CALCULATION

| Items                       | 1 YR  | 2 YR  | 3 YR  | 4 YR  | 5 YR  |
|-----------------------------|-------|-------|-------|-------|-------|
| EBITDA                      | 73.6  | 81.7  | 90.7  | 100.6 | 111.7 |
| Expenditure 1 – cash period | -0.9  | -1.0  | -1.1  | -1.3  | -1.4  |
| Expenditure 2 - Deco        | -8.0  | -8.0  | -8.0  | -8.0  | -8.0  |
| Tax                         | -14.7 | -16.7 | -19.0 | -21.5 | -24.2 |

|                 |      |      |      |      |      |
|-----------------|------|------|------|------|------|
| <b>Cashflow</b> | 50.0 | 55.9 | 62.6 | 69.9 | 78.1 |
|-----------------|------|------|------|------|------|

## ARR AND NPV CALCULATION

| Year         | Cashflow in/(out) | PV of cashflow | CUM Cashflow |       | Profit | ROA         | 4.0% |
|--------------|-------------------|----------------|--------------|-------|--------|-------------|------|
| 0            | (196.0)           | (196)          | (196)        |       |        | Growth rate | 11%  |
| 1            | 20.9              | 20             | (175)        |       | 15.0   |             |      |
| 2            | 23.9              | 22             | (151)        |       | 18.2   |             |      |
| 3            | 27.3              | 24             | (124)        |       | 21.7   |             |      |
| 4            | 31.1              | 27             | (93)         |       | 25.6   |             |      |
| 5            | 35.3              | 29             | (58)         |       | 30.0   |             |      |
| Method 1 NPV | 980.50            | 980.50         |              |       |        |             |      |
| Method 2 PBP | 11 YEARS          |                | (50)         | MONTH |        |             |      |
| Method 3 IRR | 17.5%             |                |              |       |        |             |      |
| Method 4 PI  | 6.00              |                |              |       |        |             |      |
| Method 5 ARR | 336.5%            |                |              |       |        |             |      |

### 4.1 Investment appraisal

From data analysis indicated the results of the new proposed project. The payback period is 15 years and 2 months and net value is positive. Therefore, the project is worth to invest.

**IRR** – the internal rate of return, the rate can indicate the estimated profitability of potential investments. (Fernando & Khartit, 2022) 17.5% which consider a low rate of return but yet it is not absolute. A low IRR can potentially have a result of large net present value.

**ARR** – the accounting rate of return is a metric that can help to determine the annual percentage rate of return of a potential project 336.5% has in indicated an extremely high return on this project and worth to invest.

## 5. Conclusion and Recommendations

The core research and comparison performed in this report has shown that the past 3 years have been extremely fluctuated in terms of economic environment due to the Covid-19

outbreak that we can observe over 49% of sales growth rate year to year even without any special investment or projects happening.

For luxury retail, many companies have started to shift their focus to South East Asia markets due to the straight travel policies in China, some of the international enterprises have been moving their headquarters to Singapore or out of China so they would be able to avoid travelling in and out of China. Apart from previous proposed project, to stretch the business blueprint to Thailand and Vietnam would also be recommended; in pace with western countries, Thailand has basically cancelled all travel restrictions and they retail business has bloomed as many people has travelling to the market and treat that as a transition hub. As for Vietnam, due to the import and export restrictions in China, some of the factories have moved to Vietnam and the market is starting to bloom in terms of business.

The pandemic has accelerated numerous changes in these few years, the vanishing of inbound tourism has caused Hong Kong retail industry is forced to reshape and consider other strategies as before the pandemic, there were 30% of income came from inbound tourism.

Emperor Watch & Jewellery has considered very successful as their growth rate per year has been picked up with 49%; which their strategies of finding prime positions to engage with their target audience and also trying to stretch their business blueprint to 3<sup>rd</sup>-tier cities to engage with potential customers have been successfully rolled out during the past 3 years.

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