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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)

**MEMORANDUM OF UNDERSTANDING IN RESPECT OF
BUSINESS COOPERATION;
PURCHASE OF THE EXISTING CONVERTIBLE BOND
AND
ISSUE OF NEW CONVERTIBLE BOND AND WARRANTS**

Memorandum of Understanding

The Board of the Company wishes to announce that on 26 August 2010, the Company entered into a memorandum of understanding with L Capital Advisors setting out the framework for their future cooperation. Pursuant to the memorandum, L Capital Advisors will become a strategic partner of the Company and will offer professional advice to the Group in sales expansion, brand building, advertising, marketing, retail operation, human resources, distribution and costs management of the Group.

The memorandum of understanding shall become effective upon the issuance of the Warrants and the L Capital CB to L Capital.

Purchase of the Existing Convertible Bonds

Reference is made to the announcement dated 4 March 2010 and the circular dated 9 April 2010 in respect of the issue of the Existing Convertible Bonds.

On 25 August 2010 (after trading hours), Winner Sea (Issuer), the Company (the guarantor) and the Existing CB Subscribers entered into the Purchase Agreement pursuant to which the Existing CB Subscribers have agreed to sell and the Issuer has agreed to purchase the Existing Convertible Bonds in cash from the Existing CB Subscribers. The purchased Existing Convertible Bonds will be cancelled on 21 September 2010.

Issue of new Convertible Bonds

L Capital CB

On 26 August 2010, L Capital entered into the L Capital CB Subscription Agreement with Winner Sea as Issuer and the Company as guarantor pursuant to which Winner Sea will issue and L Capital will subscribe for the L Capital CB in the aggregate principal amount of HK\$140 million.

The L Capital CB is convertible into L Capital Conversion Shares at the initial Conversion Price of HK\$0.54 per L Capital Conversion Shares and on the terms detailed below in this announcement. Upon full exercise of the conversion rights attached to the L Capital CB based on the initial Conversion Price, a total of 259,259,259 L Capital Conversion Shares will be allotted and issued. The 259,259,259 L Capital Conversion Shares represent approximately 4.97% of the issued capital of the Company as at the date of this announcement and approximately 4.74% of the issued share capital of the Company as enlarged by the issue of the L Capital Conversion Shares.

D. E. Shaw group CB

On 26 August 2010, D. E. Shaw Valence entered into the D. E. Shaw group CB Subscription Agreement with Winner Sea as Issuer and the Company as guarantor pursuant to which Winner Sea will issue and D.E. Shaw Valence will subscribe for the D. E. Shaw group CB in the aggregate principal amount of HK\$240 million.

The D. E. Shaw group CB is convertible into D. E. Shaw group Conversion Shares at the initial Conversion Price of HK\$0.54 per D. E. Shaw group Conversion Share and on the terms detailed below in this announcement. Upon the full exercise of the conversion rights attached to the D. E. Shaw group CB, a total of 444,444,444 D. E. Shaw group Conversion Shares will be allotted and issued. The 444,444,444 D. E. Shaw group Conversion Shares represent approximately 8.52% of the issued capital of the Company as at the date of this announcement and approximately 7.85% of the issued share capital of the Company as enlarged by the issue of the D. E. Shaw group Conversion Shares.

Issue of Warrants

On 26 August 2010, the Company executed the Warrant Instrument in favour of L Capital pursuant to which the Company will issue to L Capital the Warrants conferring rights to subscribe up to HK\$100 million in cash for the Warrant Shares.

Assuming the subscription rights attaching to the Warrants are exercised in full at the initial Warrant Exercise Price of HK\$0.62 per Share, the Company will receive an aggregate of HK\$100 million and issue 161,290,322 Warrant Shares. The 161,290,322 Warrant Shares represent approximately 3.09% of the issued capital of the Company as at the date of this announcement and approximately 3.00% of the issued capital of the Company as enlarged by the issue of such Warrant Shares (on the assumption that no other new Shares are issued by the Company). If L Capital exercises the L Capital CB and the Warrants in full, a total of 420,549,581 Shares will be allotted and issued. The 420,549,581 Shares represent approximately 7.46% of the issued capital of the Company as enlarged by the issue of such L Capital Convertible Shares and Warrant Shares

Shareholders and potential investors should note that completion of the memorandum of understanding, the D. E. Shaw group CB Subscription Agreement, the L Capital CB Subscription Agreement and the Warrant Instrument is subject to fulfillment of certain conditions. As the transactions may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

Use of Proceeds

Assuming the Convertible Bonds are issued in full to D. E. Shaw Valence and L Capital respectively, gross proceeds will be HK\$380 million and the net proceeds will be approximately HK\$378.7 million after deducting all related expenses (including professional advisors fees and printing costs).

The Company intends to apply the net proceeds from the subscription of the Convertible Bonds as (i) general working capital of the Group including the expansion of the Group's retail network including opening new outlets and (ii) to settle the interest and principal of the Existing Convertible Bond pursuant to the Purchase Agreement.

Assuming the exercise in full of the subscription rights attaching to the Warrants, the net proceeds from the Warrant Shares are expected to be HK\$99.8 million, which are intended to be used as the general working capital of the Group.

GENERAL

An EGM will be convened on or around 21st September 2010 by the Company to seek the approval of the Shareholders to ratify the extension of the Option Period.

A circular containing the notice of the EGM will be despatched to the Shareholders as soon as practicable in compliance with the Listing Rules.

(1) THE MEMORANDUM OF UNDERSTANDING DATED 26 AUGUST 2010

The Board of the Company wishes to announce that on 26 August 2010, the Company entered into a memorandum of understanding with L Capital Advisors pursuant to which L Capital Advisors shall become a strategic partner of the Company and to establish cooperative and mutually beneficial relationship. L Capital Advisors shall offer professional advice to the Group in sales expansion, brand building, advertising, marketing, retail operation, human resources, distribution and costs management of the Group, and in particular:

- (i) L Capital Advisors assisting the Group in establishing retail outlets in the PRC;
- (ii) L Capital Advisors assisting the Company in expanding its watch & jewellery portfolio;
- (iii) joint promotions and marketing events with leading LVMH brands; and
- (iv) the Group can enjoy diamond supply stability and price benefit under the support of leading LVMH brands.

The memorandum of understanding shall become effective upon the issuance of the Warrants and the L Capital CB.

The entering into of the memorandum is conducted in the ordinary and usual course of business of the Company and does not constitute notifiable transactions for the Company under Chapter 14 of the Listing Rules. If and when appropriate, the Company will comply with the reporting, disclosure and/or shareholders' approval requirements under the Listing Rules should there be any notifiable transaction proceeded under the memorandum.

(2) PURCHASE OF THE EXISTING CONVERTIBLE BONDS

Reference is made to the announcement dated 4 March 2010 and the circular dated 9 April 2010 in relation to, inter alia, the issue of the Existing Convertible Bonds and the Existing CB Options. Pursuant to the Existing CB Subscription Agreement, Winner Sea will issue and the Existing CB Subscribers will subscribe for the Existing Convertible Bonds in the aggregate principal amount of up to HK\$380 million in two tranches.

Pursuant to a supplemental agreement dated 23 July 2010, the parties to the Existing CB Subscription Agreement agreed to extend the period in which the Existing CB Options may be exercised for a further two months from the day immediately following the original expiry date of the Options Period, such new expiry date being 25 September 2010. Details of the extension are set out in the announcement of the Company dated 23 July 2010.

As at the date of this announcement, Existing Convertible Bonds in the aggregate principal amount of HK\$100 million are in issue and outstanding. No Existing Convertible Bonds have been redeemed or converted or cancelled pursuant to the conditions and terms of the Existing Convertible Bonds.

On 25 August 2010 (after trading hours) Winner Sea (Issuer), the Company (guarantor) and the Existing CB Subscribers entered into the Purchase Agreement pursuant to which the Existing CB Subscribers have agreed to sell and the Issuer has agreed to purchase the Existing Convertible Bonds in cash from the Existing CB Subscribers. The purchased Existing Convertible Bonds will be cancelled by the Issuer.

Parties

Issuer: Winner Sea

Subscribers: (a) D. E. Shaw Valence
(b) Shikumen
(c) Main Wealth

Guarantor: The Company

Consideration

The Issuer will purchase the Existing Convertible Bonds in the following manner:

Existing CB Subscribers	Principal amount of Existing CB owned and to be purchased	Cash Consideration
D. E. Shaw Valence	HK\$ 80,000,000	HK\$80,529,315.07 being the principal and interest payable to D. E. Shaw group
Shikumen	HK\$10,000,000	HK\$10,066,164.38 being the principal and interest payable to Shikumen
Main Wealth	HK\$10,000,000	HK\$10,066,164.38 being the principal and interest payable to Main Wealth

The Existing Convertible Bonds will be cancelled upon completion of the purchase pursuant to the Purchase Agreement. The Board believes that the terms of the Purchase Agreement are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Completion

The completion of the Purchase Agreement shall take place on 21 September 2010 or such later date as the parties may agree.

(3) ISSUE OF THE NEW CONVERTIBLE BONDS

ISSUE OF THE L CAPITAL CB

Date: 26 August 2010

Parties

Issuer: Winner Sea

Subscriber: L Capital

Guarantor for the Issuer: The Company

The Company shall guarantee the payment of all sums expressed to be payable by Winner Sea in relation to the L Capital CB and the issue of the L Capital Conversion Shares.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, L Capital and its ultimate beneficial owners are independent third parties who are not connected parties of the Company and its subsidiaries.

Principal amount

L Capital has agreed to subscribe for the CB in the principal amounts of HK\$140 million.

Conditions

The issue of the L Capital CB is conditional upon the fulfillment of certain conditions precedent including, but not limited to, the followings:

- (i) the execution of an agency agreement with an agent in respect of the payments, conversions and transfer made pursuant to the terms of the L Capital CB;
- (ii) the issue of the D. E. Shaw group CB to D. E. Shaw group
- (iii) the issue of the Warrants;
- (iv) there having been delivered to L Capital opinions, in form and substance reasonably satisfactory to L Capital, of (i) legal advisors to Winner Sea as to the British Virgin Islands laws and (ii) legal advisors to Winner Sea and Company as to Hong Kong laws relating to the issue of the L Capital CB and Warrants.

- (v) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the L Capital Conversion Shares and the Warrant Shares.

Completion

Subject to satisfaction of the condition precedents for the L Capital CB, completion of the issue of the L Capital CB shall take place on 22 September 2010 (or such later date as may be agreed in writing between the Issuer and L Capital).

ISSUE OF THE D. E. SHAW GROUP CB

Date: 26 August 2010

Parties

Issuer: Winner Sea

Subscriber: D. E. Shaw Valence

Guarantor for the Issuer: The Company

The Company shall guarantee the payment of all sums expressed to be payable by Winner Sea under the D. E. Shaw group CB.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, D. E. Shaw Valence and its ultimate beneficial owners are independent third parties who are not connected parties of the Company and its subsidiaries.

Principal amount

D. E. Shaw Valence has agreed to subscribe for the D. E. Shaw group CB in the principal amount of HK\$240 million:

Conditions

The issue of the D. E. Shaw group CB is conditional upon the fulfillment of certain conditions precedent including, but not limited to, the followings:

- (i) the execution of an agency agreement with an agent in respect of the payments, conversions and transfer made pursuant to the terms of the D. E. Shaw group CB;
- (ii) the issue of the L Capital CB;
- (iii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the D. E. Shaw group Conversion Shares; and

- (iv) there having been delivered to D. E. Shaw group opinions, in form and substance reasonably satisfactory to D. E. Shaw group, of (i) legal advisors to Winner Sea as to the British Virgin Islands laws and (ii) legal advisors to Winner Sea and Company as to Hong Kong laws relating to the issue of the D. E. Shaw group.

Completion

Subject to satisfaction of the condition precedents for the D. E. Shaw group CB, completion of the issue of the D. E. Shaw group CB is expected to take place on 22 September 2010 (or such later date as may be agreed in writing between the Issuer and D. E. Shaw Valence).

Shareholders and potential investors should note that completion of the D. E. Shaw group CB Subscription Agreement and the L Capital CB Subscription Agreement are subject to fulfillment of conditions. As the subscription of the Convertible Bonds may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

Principal amount	:	D. E. Shaw group HK\$240,000,000 L Capital HK\$140,000,000
Denomination	:	HK\$10 million each
Ranking of the Convertible Bonds	:	The Convertible Bonds will rank as direct, unsubordinated, unconditional and unsecured obligation of the Issuer and will rank pari passu with the other unsecured debts of the Company
Issue price	:	100% of the principal amount of the Convertible Bonds
Maturity date	:	12 April 2013
Interest	:	The Convertible Bonds will bear interest on the outstanding principal amount thereof from the date of issue at a rate equal to 1.5% per annum, calculated on an actual/365 day count basis and payable semi-annually

Conversion rights : Each Bondholder will have the right, at any time prior to the close of business on that date falling 14 days prior to the Maturity Date, to convert the whole (but not in part) of the principal amount outstanding of such Bondholder's Convertible Bonds into Conversion Shares at the Conversion Price

Conversion Price : The initial Conversion Price will be HK\$0.54 per Conversion Share, subject to customary adjustment provisions such as subdivision or consolidation of Shares, bonus issues, rights issues, issue of securities below market price and other usual dilutive events

Specifically, the Conversion Price will also be subject to adjustment in respect of distribution of dividends by the Company in excess of 3% ("Adjustment Percentage") of the then market price of the Shares and accumulated on an annual basis. The Adjustment Percentage shall be rounded down to an integral percentage for adjustment purpose, but all Adjustment Percentages unaccounted for previously shall be aggregated and be carried forward and taken into account any subsequent adjustment

No adjustment is required in respect of the issue of the Conversion Shares and Warrant Shares

Redemption on Maturity Date : Unless previously converted or purchased or redeemed, the Issuer will redeem each Convertible Bond (together with unpaid accrued interest) at 106% of the outstanding principal amount of the Convertible Bonds on Maturity Date.

Bondholders' redemption option : In relation to L Capital CB:

Bondholders has the right to require the Issuer to redeem all or any part of such Bondholder's Convertible Bonds on 13 April 2012 at a redemption price per Convertible Bond equal to 106% of its principal amount together with accrued and unpaid interest thereon.

In relation to D. E. Shaw group CB:

Bondholders has the right to request the Issuer to redeem all or any part of the D. E. Shaw group CB on 13 April 2011 and 13 April 2012 at a redemption price per D. E. Shaw group CB equal to at a yield rate of 2.293% per annum calculated in the below formulae together with accrued and unpaid interest thereon on the redemption date or 106% of its principal amount of the D. E. Shaw group CB whichever is lower

Redemption price = $100 \times (1 + R/2)^{(2 \times Y/365)}$
where R is 2.293% and where Y is the number of days from the date of issue up to the redemption date.

Issuer's redemption option : In relation to L Capital CB:

At any time after 13 April 2011 and prior to the Maturity Date, the Issuer may redeem all of the L Capital group CB in issue in whole but not in part (together with accrued interest) at 103% of the outstanding principal amount of the L Capital CB

No such redemption may be made unless the arithmetic mean of volume weighted average closing price of the Shares for each of the 30 consecutive trading days is at least 175% of the Conversion Price then in effect

In relation to D. E. Shaw group CB:

At any time after 13 April 2011 and prior to the Maturity Date, the Issuer may redeem all of the D. E. Shaw group CB in issue in whole but not in part (together with accrued interest) at a redemption price per D. E. Shaw group CB its principal amount plus an amount equivalent to 1.16% p.a. (calculated from the date of issue to the day immediately preceding the redemption date) of its principal amount

		No such redemption may be made unless the volume weighted average closing price of the Shares for each of the 30 consecutive trading days is at least 175% of the Conversion Price
Early redemption upon early redemption event	:	Each Bondholder has the right to require the Issuer to redeem such Bondholder's Convertible Bonds in whole or in part at a price that redemption event represents a yield of 7% per annum (calculated on semi-annual basis), upon (i) suspension of trading of the Shares for more than 30 consecutive days, (ii) the Shares ceasing to be listed or admitted for trading on the Stock Exchange, (iii) the occurrence of an Event of Default (as defined below), or (iv) the occurrence of change of control with respect to the Company
Events of Default	:	The Convertible Bonds will contain customary events of default provisions which provide that on the occurrence of certain events of default specified in the terms and conditions of the Convertible Bonds, each of the Bondholders shall be entitled to require the Issuer to redeem such Bondholder's Convertible Bonds in accordance with the "Early redemption upon early redemption event" above
Dividends	:	No dividend entitlement for Bondholders before conversion
Ranking of Conversion Shares	:	Conversion Shares will be fully paid and non-assessable and will rank pari passu in all respects with the Shares in issue on the conversion date, including with regard to trading and settlement
Transferability	:	The Convertible Bonds are not transferable by the Subscribers except in certain circumstances, including (i) transfer by any Subscriber to its associate(s) or to any of the Subscribers (or any associate(s) of such Subscriber) or (ii) transfer or encumbrance for the purpose of financing

Listing : No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other exchange. The Company will apply to the Stock Exchange for the listing of and permission to deal in the Conversion Shares

Conversion Price and number of Conversion Shares

The Conversion Price of HK\$0.54 represents (i) a discount of approximately 12.90% to the closing price of HK\$0.62 per Share as quoted on the Stock Exchange on 25 August 2010, being the last trading day before the date of this announcement; and (ii) a discount of approximately 12.90% to the average closing price of approximately HK\$0.62 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 25 August 2010.

The Conversion Price was determined with reference to the prevailing market price of the Shares and the terms and conditions (including the redemption options) of the Convertible Bonds and was negotiated on an arm's length basis between the Issuer, the Company and each of the Subscribers.

The Directors consider that the Conversion Price is fair and reasonable based on the current market conditions and in the interests of the Company and the Shareholders as a whole.

Assuming the conversion rights attaching to the D. E. Shaw group CB are exercised in full at the Conversion Price, up to 444,444,444 D. E. Shaw group Conversion Shares will fall to be issued to D. E. Shaw group, representing approximately 8.52% of the issued capital of the Company as at the date of this announcement and approximately 7.85% of the issued share capital of the Company as enlarged by the issue of the D. E. Shaw group Conversion Shares. The net price to be raised per Share from the subscription of the D. E. Shaw group CB will be approximately HK\$0.538 per Share

Assuming the conversion rights attaching to the L Capital CB are exercised in full at the Conversion Price, up to 259,259,259 L Capital Conversion Shares will fall to be issued to L Capital, representing approximately 4.97% of the issued capital of the Company as at the date of this announcement and approximately 4.74% of the issued share capital of the Company as enlarged by the issue of the L Capital Conversion Shares. The net price to be raised per Share from the subscription of the L Capital CB will be approximately HK\$0.538 per Share.

The Conversion Shares will rank pari passu in all respects with the Shares in issue as at the date of conversion.

Mandate for issue of the Conversion Shares

The L Capital Conversion Shares and the D. E. Shaw group Conversion shares (with an aggregate nominal value of HK\$7,037,037) to be issued upon conversion of the Convertible Bonds will be allotted and issued pursuant to the General Mandate. As at the date of this announcement, the General Mandate has not been utilized.

(4) THE WARRANT INSTRUMENT DATED 26 AUGUST 2010 ISSUE OF THE WARRANTS

Parties

Issuer: The Company

Subscriber: L Capital

Subscription Amount

Assuming exercise in full the subscription rights attaching to the Warrants, an aggregate sum of HK\$100,000,000 will be paid to the Company by L Capital.

Conditions

The issue of the Warrants is conditional upon the fulfillment of the following conditions on the date of the issue of the L Capital CB;

- (i) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Warrants Shares; and
- (ii) simultaneous completion of the L Capital CB Subscription Agreement with the issue of the Warrants.

Number of Warrant Shares

Upon exercise of the subscription rights attaching to the Warrants in full, a maximum of 161,290,322 Warrant Shares (with an aggregate nominal value of HK\$1,621,903 of the Warrant Shares), will be issued and allotted, representing approximately 3.09% of the existing issued share capital of the Company and approximately 3.00% of the issued share capital of the Company as enlarged by the issue and allotment of the Warrant Shares. The net price to be raised per Warrant Share will be approximately HK\$0.619 per Share

Subscription period

From the closing date of the issue of the L Capital CB up to 12 April 2013.

Exercise price

The Warrant Exercise Price per Warrant Share will be HK\$0.62

- (a) is equivalent to the closing price of HK\$0.62 per Share as quoted on the Stock Exchange on 25 August 2010, being the last trading day prior to the date of this announcement; and
- (b) is equivalent to the average of the closing prices of approximately HK\$0.62 per Share for the five trading days of the Shares up to and including 25 August 2010;

The Warrant Exercise Price is subject to adjustment subject to customary adjustment provisions such as issue of securities below market price, capitalization, distribution of dividends, subdivision or consolidation of Shares, bonus issues, rights issues, and other usual dilutive events. The Company will publish an announcement upon any adjustment to the Warrant Exercise Price.

The Warrant Exercise Price was determined after arm's length negotiations between the Company and L Capital, after considering (i) the Group's existing financial position, (ii) the terms of the Warrants and (iii) the Company's recent share price performance. The Directors consider that the Warrant Exercise Price is fair and reasonable based on the current market conditions and in the interests of the Company and the Shareholders as a whole.

Transferability

The Warrants are only transferable by L Capital to its Affiliates.

Ranking of the New Shares

The Warrant Shares, when issued and allotted, will rank pari passu with the fully paid Shares in issue on the date of allotment and issue of such Warrant Shares.

Voting

The Warranholders will not be entitled to attend or vote at any general meetings of the Company by reason only of it being a Warranholder.

Mandate to issue the Warrant Shares

The 161,290,322 Warrant Shares to be issued upon the full exercise of the subscription rights attaching to the Warrants will be allotted and issued pursuant to the General Mandate. The Warrant Shares will rank pari passu in all respects with the Shares in issue as at the date of conversion.

USE OF PROCEEDS

Assuming the Convertible Bonds are issued in full to D. E. Shaw Valence and L Capital respectively, the amount of gross proceeds will be HK\$380 million and the net proceeds will be approximately HK\$378.7 million after deducting all related expenses (including professional advisors fees and printing costs).

The Company intends to apply the net proceeds from the subscription of the Convertible Bonds as (i) general working capital of the Group including the expansion of the Group's retail network including opening new outlets and (ii) to settle the interest and principal of the Existing Convertible Bond pursuant to the Purchase Agreement in the amount of approximately HK\$100,661,643.83.

Assuming the exercise in full of the subscription rights attaching to the Warrants, the amount of net proceeds from the issue of the Warrant Shares is expected to be approximately HK\$99.8 million, which is intended to be used as the general working capital of the Group.

REASON FOR THE MEMORANDUM OF UNDERSTANDING, PURCHASE AGREEMENT, THE SUBSCRIPTION AGREEMENTS AND THE WARRANT INSTRUMENT

The Group principally engages in the sales of luxurious branded watches, and the design and sales of jewellery products in Hong Kong, Macau and the PRC.

After its listing in July 2008, the Group has been actively seeking investment funding and strategic investors so as to strengthening its financial and market position. With the new money raised, the Group has been expanding its business by opening new outlets in various prime locations in Hong Kong and at the same time establishing its market presence in the PRC. The performance of the Group's expansion strategy has been proven successful in view of its financial results for the 6 months ended 30 June 2010.

On 13 April 2010, the Company issued the Existing Convertible Bonds and D. E. Shaw group has become an investor of the Company. The Board continues to seek for new investment funding and new investors who can provide synergy to the Group's business. Recently, the Board has been introduced to L Capital and the Company is pleased to invite L Capital as its strategic investor. L Capital is a Cayman investment holding company owned by L Capital Asia, L.L.C., a private equity fund advised by L Capital Advisors and sponsored by LVMH. L Capital Asia, L.L.C. is focused in investing into the consumer sector in emerging markets of Asia particularly China and India. LVMH is a world leader in luxury, possesses a unique portfolio of over 60 prestigious brands including wines & spirits, fashion & leather goods, perfumes & cosmetics and watches & jewelry.

In light of introducing a new investor to the Group by issuing the L Capital CB but at the same time the Company wishes to maintain the total amount of convertible bonds at HK\$380 million (which is the same as the aggregate amount under the Existing Convertible Bonds and under Existing Options if exercised), the Company proposes to restructure the Existing Convertible Bonds by cancelling it. At the same time, Shikumen and Main Wealth accept the purchase and cancellation of their Existing Convertible Bonds by the Group and therefore the parties thereto entered into the Purchase Agreement and the Issuer and the Company enters into the D. E. Shaw group CB Subscription Agreement with D. E. Shaw group.

The aforementioned memorandum of understanding entered into between the Company and L Capital Advisors provides the framework of the future cooperation arrangement between LVMH group and the Group. The Directors consider that the cooperation allows the Company to strengthen its branding, expand its watch & jewellery portfolio, promote and market its brands with LVMH brands and establish its retail network in the PRC with the assistance of the L Capital Advisor's expertise and experience in the luxury market in the PRC.

The Directors are of the view that having invited L Capital Advisors as its strategic business partner and with L Capital and D. E. Shaw group as investors, the Group's business can benefit in both the long term and short term. The L Capital CB Subscription Agreement and Warrant Instrument enable the Group to broaden the investor base and enhance the international acknowledgement of the Group for future business development.

Further, the Convertible Bonds and the Warrants will provide additional working capital for the Group and therefore improve the liquidity and strengthen the financial position of the Company. The Board considers that the terms of the Subscription Agreements and the terms of the Convertible Bonds and the Warrants are fair and reasonable and they are in the interests of the Company and its Shareholders as a whole.

EFFECT ON SHAREHOLDING

Set out below is the effect on the shareholding structure of the Company showing the effect of the conversion of the Convertible Bonds at the initial Conversion Price and the exercise of the subscription rights attaching to the Warrants:

	Before the completion of the Purchase Agreement				After the completion of the Purchase Agreement							
	As at the date of this announcement		The Existing CB Subscribers exercise in full under the Existing Convertible Bonds		Immediately upon the conversion of L Capital CB but before the conversion of D.E. Shaw group CB and the full exercise of the subscription right of Warrants		Immediately upon the conversion of D.E. Shaw group CB but before the conversion of L Capital CB and the full exercise of the subscription right of Warrants		Immediately upon the full exercise of the subscription right of Warrants but before the conversion of L Capital CB and D.E. Shaw group CB		Immediately after full conversion of the L Capital CB, D.E. Shaw group CB and the full exercise of the subscription right of Warrants	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Allmighty Group Limited (Note 1)	3,386,480,000	64.94	3,386,480,000	62.71	3,386,480,000	61.86	3,386,480,000	59.84	3,386,480,000	62.99	3,386,480,000	55.70
D.E. Shaw group	-	-	148,148,148	2.74	-	-	444,444,444	7.85	-	-	444,444,444	7.31
Shikumen (Note 2)	88,810,000	1.70	107,328,518	1.99	88,810,000	1.62	88,810,000	1.57	88,810,000	1.65	88,810,000	1.46
Main Wealth	-	-	18,518,518	0.34	-	-	-	-	-	-	-	-
L Capital	-	-	-	-	259,259,259	4.74	-	-	161,290,322	3.00	420,549,581	6.92
Other public Shareholders	1,739,520,000	33.36	1,739,520,000	32.21	1,739,520,000	31.78	1,739,520,000	30.74	1,739,520,000	32.36	1,739,520,000	28.61
Total	5,214,810,000	100	5,399,995,184	100	5,474,069,259	100	5,659,254,444	100	5,376,100,322	100	6,079,804,025	100

Note:

- (1) Allmighty Group Limited, a company indirectly owned by the Albert Yeung Discretionary Trust, the founder of which is Dr. Yeung Sau Shing, Albert
- (2) Shikumen is a third party independent of substantial shareholder, directors and chief executive of the Company and is considered as the public float of the Company

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company has not conducted any fund raising activities in the past twelve months immediately preceding the date of this announcement.

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds up to the date of this announcement
4 March 2010 and 8 April 2010	Issue of the Existing Convertible Bonds	Approximately HK\$100 million	To be used for general working capital of the Group including the expansion of the Company's business in the PRC	remain unused and placed with bank as short-term deposit
4 March 2010	Top-up placing of 264,810,000 Shares	Approximately HK\$142.5 million	To be used for general working capital (including the expansion of the Company's business in the PRC)	partly utilized as intended and remained placed with bank as short-term deposit
13 January 2010	Placing of 450,000,000 Shares	Approximately HK\$227.1 million	To be used mainly for expansion of its retail outlets in Hong Kong, Macau and the PRC	partly utilized as intended and remained placed with bank as short-term deposit

APPLICATION FOR LISTING

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares and the Warrant Shares which may fall to be allotted and issued upon exercise of the subscription rights attaching to the Warrants. No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges.

GENERAL

On 23 July 2010, the Company announced the supplemental agreement dated 23 July 2010, pursuant to which the parties to the Existing CB Subscription Agreement agreed to extend the Options Period, subject to the approval of the Shareholders, for a further two months from the day immediately following the original expiry date of the Options Period, i.e. from 25 July 2010 to 25 September 2010. If the parties to the Existing CB Subscription Agreements do not exercise the Existing CB Options, the Existing CB Options will automatically lapse on 25 September 2010. As set out in the announcement dated 23 July 2010, the Company now seeks the approval of the Shareholders for the extension of the Options Period at the EGM. Pursuant to the Purchase Agreement, D. E. Shaw Valence, Shikumen and Main Wealth have undertaken not to exercise the Existing CB Options conditional upon completion of the Purchase Agreement.

A circular containing the notice of the EGM will be despatched to the Shareholders as soon as practicable in compliance with the Listing Rules.

DEFINITIONS

The following terms have the following meanings in this announcement unless the context otherwise requires:

“Affiliate”	in relation to any specified person, any person that directly or indirectly controls the specified person or is directly or indirectly controlled by the specified person, or any person that is under direct or indirect common control with the specified person.
“associates”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	holder(s) of the Convertible Bonds
“Company”	Emperor Watch & Jewellery Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
“Conversion Price”	HK\$0.54 per Conversion Share (subject to adjustment)
“Conversion Shares”	L Capital Conversion Shares and/or D. E. Shaw group Conversion Shares
“Convertible Bonds”	L Capital CB and/or D. E. Shaw group CB
“connected person(s)”	has the meaning ascribed to it in the Listing Rules

“D. E. Shaw Composite”	D. E. Shaw Composite Portfolios, L.L.C., is a member of the D. E. Shaw group
“D. E. Shaw group”	D. E. Shaw group is a global investment and technology development firm
“D. E. Shaw group CB”	the convertible bonds in an aggregate principal amount of HK\$240 million to be issued by Winner Sea to the D. E. Shaw group
“D. E. Shaw group Conversion Shares”	means those Shares to be issued by the Company upon conversion of the D. E. Shaw group CB in full, namely, the 444,444,444 Shares falling to be issued at the initial Conversion Price and pursuant to the terms and conditions of the D. E. Shaw group CB
“D. E. Shaw group CB Subscription Agreement”	the subscription agreement dated 26 August 2010 in relation to the issue by Winner Sea of the D. E. Shaw group CB with an aggregate amount of HK\$240 million
“D. E. Shaw Valence”	D. E. Shaw Valence Portfolios, L.L.C., a affiliate of D. E. Shaw Composite
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened on or around 21st September 2010 to approve the extension of the Options Period
“Existing CB Subscribers”	D. E. Shaw group, Shikumen and Main Wealth
“Existing Convertible Bond”	the convertible bonds in principal amount of HK\$100 million, issued by Winner Sea to the Existing CB Subscribers under the Existing CB Subscription Agreement
“Existing CB Subscription Agreement”	the subscription agreement dated 7 April 2010 entered into between Winner Sea, the Company and the Existing CB Subscribers in relation to the issue of the Existing Convertible Bonds
“Existing CB Options”	the option granted to each of the Existing CB Subscribers to subscribe for the additional convertible bonds in an aggregate amount of HK\$280 million pursuant to the Existing CB Subscription Agreement

“General Mandate”	the general mandate which was granted to the Directors pursuant to an ordinary resolution passed at the annual general meeting of the Company on 18 May 2010 to issue and allot up to 1,042,962,000 new Shares, representing 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the annual general meeting
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Issuer”	Winner Sea, the issuer of the Convertible Bonds
“L Capital”	L Capital EWJ Cayman Limited, the subscriber of the L Capital CB and Warrants
“L Capital Advisors”	L Capital Asia Advisors
“L Capital CB”	the convertible bonds in an aggregate principal amount of HK\$140 million to be issued by Winner Sea to L Capital
“L Capital Conversion Shares”	means those Shares to be issued by the Company upon conversion of the L Capital CB in full, namely, the 259,259,259 Shares falling to be issued at the initial Conversion Price and pursuant to the terms and conditions of the L Capital CB
“L Capital CB Subscription Agreement”	the subscription agreement dated 26 August 2010 in relation to the issue by Winner Sea of the L Capital CB with an aggregate amount of HK\$140 million
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LVMH”	LVMH Moët Hennessy Louis Vuitton S.A.
“Main Wealth”	Main Wealth Enterprises Limited, one of the Existing CB Subscribers. It is a wholly-owned subsidiary of China Fortune Group Limited (a company listed on the Main Board of Stock Exchange engaging in, inter alia, securities and futures trading and insurance brokerage, margin financing)

“Maturity Date”	12 April 2013
“Options Period”	the period in which the Existing CB Options may be exercised
“PRC”	The People’s Republic of China
“Purchase Agreement”	the agreement dated 25 August 2010 entered into between Winner Sea, the Company and the Existing CB Subscribers in relation to the repurchase of the Existing Convertible Bonds by Winner Sea
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholders”	holders of the Shares
“Shikumen”	Shikumen Special Situations Fund, being one of the Existing CB Subscribers, is an investment fund incorporated in the Cayman Islands
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber(s)”	D. E. Shaw group and L Capital
“Subscription Agreements”	D. E. Shaw group CB Subscription Agreement and L Capital CB Subscription Agreement
“Warrant(s)”	warrant(s) to be issued by the Company pursuant to the Warrant Instrument conferring rights entitling the Warrantholder(s) thereof to subscribe for up to HK\$100 million in aggregate in cash for the Warrant Shares to be issued by the Company
“Warrant Instrument”	the agreement dated 26 August 2010 executed by the Company in favour of L Capital in relation to the Warrant Subscription
“Warrant Share(s)”	the new Shares to be issued by the Company upon the exercise of the subscription rights attaching to the Warrants by the Warrantholders
“Warrant Subscription”	the subscription by L Capital of the Warrants in an aggregate amount of HK\$100 million

“Warrant Exercise Price”	HK\$0.62 per Warrant Share (subject to adjustment)
“Warrantholder(s)”	holder(s) of the Warrant(s)
“Winner Sea”	Winner Sea Enterprises Limited, a company incorporated in British Virgin Islands and is a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	Percent

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

Hong Kong, 26 August 2010

As at the date hereof, the board of directors of the Company comprised:

Executive Directors:

Ms. Cindy Yeung
Mr. Chan Hung Ming
Mr. Wong Chi Fai
Ms Fan Man Seung, Vanessa

Non-executive Director:

Mr. Hanji Huang

Independent Non-executive Directors:

Mr. Chan Hon Piu
Ms. Yip Kam Man
Ms. Lai Ka Fung, May

* *for identification purposes only*