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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 887)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

SNAPSHOTS

- Revenue decreased to HK$3,641.8 million (1H2015: HK$2,419.6 million; FY2015: HK$4,430.8 million; 1H2016: HK$1,674.9 million), primarily due to weakened consumption sentiment in Hong Kong resulting from a strong local currency and falling Mainland China visitor arrivals; however, the situation gradually improved during the second half of 2016;
- Gross profit margin was resilient and stayed intact at 25.0% (1H2015: 24.5%; FY2015: 25.0%; 1H2016: 24.9%);
- Rental expenses continued to be well-managed, in tandem with negative rental reversion and optimisation of the Hong Kong retail network;
- Due to gradual improvement of sales momentum and ongoing rental savings, a turnaround in net profit was achieved in the second half of 2016. As a result, net loss for the Year narrowed to HK$64.8 million (1H2015: HK$54.1 million; FY2015: HK$120.1 million; 1H2016: HK$68.6 million); and
- As a result of the streamlined Hong Kong retail network and optimised product portfolio, the overall inventory level was further reduced to HK$2,646.7 million (30 June 2015: HK$3,531.0 million; 31 December 2015: HK$3,219.2 million; 30 June 2016: HK$2,935.2 million).

The board of directors (the "Board" or "Directors") of Emperor Watch & Jewellery Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016 (the "Year") together with the comparative figures for the year 2015 as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** **HK$'000**	2015 *HK$'000*
Revenue	*3*	**3,641,845**	4,430,846
Cost of sales		**(2,732,872)**	(3,324,757)
Gross profit		**908,973**	1,106,089
Other income		**6,100**	6,408
Selling and distribution expenses		**(812,396)**	(1,053,264)
Administrative and other expenses		**(162,520)**	(175,842)
Loss before taxation	*4*	**(59,843)**	(116,609)
Taxation	*5*	**(4,978)**	(3,473)
Loss for the year		**(64,821)**	(120,082)
Other comprehensive expense for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(36,265)**	(48,734)
Total comprehensive expense for the year and attributable to owners of the Company		**(101,086)**	(168,816)
Loss per share	*6*	**HK(0.9) cent**	HK(1.7) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**75,632**	101,063
Deferred tax asset		**10,862**	13,731
Rental deposits		**142,934**	168,192
Deposit paid for acquisition of property, plant and equipment		**1,786**	–
		231,214	282,986
Current assets			
Inventories		**2,646,702**	3,219,196
Receivables, deposits and prepayments	*8*	**176,707**	124,547
Taxation recoverable		**28,990**	30,147
Bank balances and cash		**1,324,419**	809,516
		4,176,818	4,183,406
Current liabilities			
Payables, deposits received and accrued charges	*9*	**221,994**	180,480
Amounts due to related companies		**3,678**	4,036
Taxation payable		**8,207**	5,824
		233,879	190,340
Net current assets		**3,942,939**	3,993,066
Non-current liability			
Deferred tax liability		**43**	856
Net assets		**4,174,110**	4,275,196
Capital and reserves			
Share capital		**3,484,152**	3,484,152
Reserves		**689,958**	791,044
Total equity		**4,174,110**	4,275,196

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The financial information relating to the years ended 31 December 2016 and 2015 included in this preliminary announcement of annual results 2016 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the CO is as follows:

(a) The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to the CO and will deliver the financial statements for the year ended 31 December 2016 in due course.

(b) The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports and did not contain a statement under sections 406(2), 407(2) or (3) of the CO.

Notes:

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The application of these amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017

HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Notes:

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

HKFRS 9 ***Financial Instruments*** *(Continued)*

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at 'fair value through other comprehensive income' (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test have been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

Notes:

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Directors of the Company performs a detailed review.

In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

Notes:

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset in initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and cash flows respectively.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$618,249,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors of the Company complete a detailed review.

Except as described above, the Directors of the Company do not anticipate that the application of the remaining new and revised HKFRSs will have a material effect on the amounts recognized in the Group's consolidated financial statements.

Notes:

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold less returns and net of trade discounts.

Information reported to the chief operating decision maker ("CODM") of the Group, for the purposes of resource allocation and assessment of segment performance focuses on the locations of the operations. This is also the basis upon which the Group is arranged and organised. The Group's operating segments under HKFRS 8 *Operating Segments* are operations located in Hong Kong, Macau and other regions in Asia Pacific. The revenue generated by each of the operating segments is mainly derived from sales of watch and jewellery. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

The following is an analysis of the Group's revenue and results by reportable and operating segment:

For the year ended 31 December 2016

	Hong Kong *HK$'000*	Macau *HK$'000*	Other regions in Asia Pacific *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
Revenue					
External sales	**2,796,602**	**211,021**	**634,222**	**–**	**3,641,845**
Inter-segment sales*	**52,221**	**15,000**	**–**	**(67,221)**	**–**
	2,848,823	**226,021**	**634,222**	**(67,221)**	**3,641,845**

* Inter-segment sales are charged at cost

Segment profit (loss)	**106,171**	**7,989**	**(17,583)**	**–**	**96,577**
Unallocated other income					**6,100**
Unallocated administrative and other expenses					**(162,520)**
Loss before taxation					**(59,843)**

Notes:

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2015

	Hong Kong *HK$'000*	Macau *HK$'000*	Other regions in Asia Pacific *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
Revenue					
External sales	3,456,262	286,930	687,654	–	4,430,846
Inter-segment sales*	71,422	15,905	–	(87,327)	–
	3,527,684	302,835	687,654	(87,327)	4,430,846

* Inter-segment sales are charged at cost

Segment profit	13,723	29,855	9,247	–	52,825
Unallocated other income					6,408
Unallocated administrative and other expenses					(175,842)
Loss before taxation					(116,609)

The accounting policies of the reportable segments are the same as the Group's accounting policies stated in the consolidated financial statements. Segment profit (loss) represents the gross profit generated from each segment including gross profit directly attributable to each segment, net of selling and distribution expenses. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

No assets and liabilities are included in the measures of the Group's segment reporting that are regularly reviewed by the CODM. Accordingly, no segment assets and liabilities are presented.

Notes:

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

Amounts included in the measure of segment profit (loss):

For the year ended 31 December 2016

	Hong Kong	**Macau**	**Other regions in Asia Pacific**	**Unallocated**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Operating lease payments	**377,583**	**12,735**	**78,894**	**8,638**	**477,850**

For the year ended 31 December 2015

	Hong Kong	Macau	Other regions in Asia Pacific	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating lease payments	572,699	14,243	86,893	8,746	682,581

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2016	2015
	HK$'000	*HK$'000*
Watch	**2,856,719**	3,541,065
Jewellery	**785,126**	889,781
	3,641,845	4,430,846

Notes:

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

Information about the Group's non-current assets, excluding deferred tax asset, presented based on the geographical location of assets are detailed below:

As at 31 December 2016

	Hong Kong	**Macau**	**Other regions in Asia Pacific**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Non-current assets	**170,756**	**13,001**	**36,595**	**220,352**

As at 31 December 2015

	Hong Kong	Macau	Other regions in Asia Pacific	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	218,112	7,609	43,534	269,255

4. LOSS BEFORE TAXATION

	2016	2015
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging:		
Auditor's remuneration	**3,285**	3,265
Cost of inventories included in cost of sales (included allowance for inventories of HK$32,985,000 (2015: HK$4,706,000))	**2,718,875**	3,311,681
Depreciation of property, plant and equipment	**51,319**	59,776
Impairment loss recognised in respect of property, plant and equipment	**6,707**	3,694
Loss on disposal of property, plant and equipment	**2,344**	1,397
Net exchange loss	**1,457**	6,266
Operating lease payments in respect of rented premises		
– minimum lease payments	**450,303**	650,574
– contingent rent	**27,547**	32,007
Staff costs, including Directors' remuneration		
– salaries and other benefits costs	**211,870**	224,212
– retirement benefits scheme contributions	**19,854**	20,971

Notes:

5. TAXATION

	2016	2015
	HK$'000	*HK$'000*
The tax (credit) charge for the year comprises:		
Profits Tax:		
Hong Kong	**(20)**	1,479
Macau	**1,966**	5,215
Singapore	**951**	322
	2,897	7,016
Deferred taxation	**2,081**	(3,543)
	4,978	3,473

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended 31 December 2015 while no provision for taxation in Hong Kong has been made as no assessable profits for the year ended 31 December 2016.

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Company's subsidiaries in the PRC is 25% for both years.

The Macau Complementary Income Tax is calculated at 12% of the estimated assessable profits for both years.

Singapore Income Tax is calculated at 17% of the estimated assessable profits for both years.

Notes:

6. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	2016	2015
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic loss per share	**(64,821)**	(120,082)

	2016	2015
Number of shares		
Number of ordinary shares for the purpose of basic loss per share	**6,882,448,129**	6,882,448,129

No diluted loss per share in both years was calculated as there were no potential dilutive ordinary shares in issue during both years.

7. DIVIDENDS

No dividend was paid or recommended for payment during the year ended 31 December 2016. During the year ended 31 December 2015, a final dividend in respect of the year ended 31 December 2014 of HK0.2 cent per share, in an aggregate amount of HK$13,765,000 was paid.

Notes:

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**75,334**	55,336
Other receivables, deposits and prepayments	**93,803**	63,584
Other PRC tax recoverable	**5,166**	4,763
Other Singapore tax recoverable	**2,404**	864
	176,707	124,547

Retails sales are normally settled in cash or by credit card with the settlement from the corresponding banks or other financial institutions within seven days. Receivables from retail sales in department stores are normally collected within one month.

The following is an ageing analysis of trade receivables presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**60,577**	48,099
31– 60 days	**10,368**	3,471
61– 90 days	**896**	7
Over 90 days	**3,493**	3,759
	75,334	55,336

Receivables that are neither past due nor impaired relate to receivables from credit card sales and department stores sales for whom there were no history of default.

Included in the trade receivables balance are receivables from certain department stores with aggregate carrying amount of HK$5,426,000 (2015: HK$4,712,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over nor charge any interest on these balances.

Notes:

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Ageing of trade receivables which are past due but not impaired:

	2016	2015
	HK$'000	*HK$'000*
Overdue 1 – 30 day(s)	**949**	1,394
Overdue 31 – 60 days	**2,541**	449
Overdue 61 – 90 days	**329**	–
Overdue more than 90 days	**1,607**	2,869
	5,426	4,712

Receivables that were past due but not impaired relate to department stores sales that have continuous settlements subsequent to reporting date. The Directors are of opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

9. PAYABLES, DEPOSITS RECEIVED AND ACCRUED CHARGES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**93,553**	63,990
Other payables, deposits received and accrued charges	**114,595**	108,125
Other PRC tax payables	**13,846**	8,365
	221,994	180,480

The ageing analysis of trade payables presented based on the invoice date at the end of the reporting period are as follows:

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**86,362**	60,634
31– 60 days	**6,385**	3,195
61– 90 days	**806**	115
Over 90 days	**–**	46
	93,553	63,990

The Group normally receives credit terms of 30 to 60 days.

MANAGEMENT DISCUSSION AND ANALYSIS

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***". The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited in July 2008.

The Group has extensive retail networks comprising nearly 100 retail stores in Hong Kong, Macau, Mainland China and Singapore, as well as an online shopping platform, with over 1,000 staff. With a history of over 70 years, we carry 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 maintaining its position as the leading watch and jewellery retailing group in Greater China, coupled with an eye on expansion beyond the region.

Market Review

Luxury consumption as a whole in Greater China continued to be soft, with luxury retail sentiment impacted by volatility in the capital market together with the country's moderated gross domestic product growth. The situation was further affected by the changes to lifestyles and consumption patterns of Chinese consumers resulting from the ongoing austerity initiatives in the PRC.

Hong Kong's retail market has been generally under pressure in recent years. The strong local currency has undermined Hong Kong's competitive advantage, making it difficult to attract tourists for shopping, whilst stimulating local outbound travel. Accordingly, given the weak macroeconomic situation, local customers are relatively cautious and conservative in their consumption patterns.

However, despite the general retail market of Hong Kong being somewhat challenging during the first half of 2016, a gradual rebound of the watch consumption market has been evident since the second half of 2016 – primarily due to: (1) Narrowing of regional discrepancies in watch prices as a result of the bounce back of the Japanese Yen; and (2) Improving consumer traffic in Hong Kong as terrorism incidents occurred in Europe, driving the return of Chinese visitors. There are indications of a slow recovery in watch consumption sentiment.

Hong Kong retail spaces continued to rank as the world's most expensive ones, although rents started moderating over the past two years. Coupled with factors outlined above, Hong Kong retailers are set to face an even worse situation at the operating level.

Financial Review

Overall Review

Against the backdrop of various macro headwinds and volatile consumption sentiment, the Group's total revenue decreased by 17.8% to HK$3,641.8 million (2015: HK$4,430.8 million) during the Year. Despite the signs of a slow recovery in watch consumption sentiment in the latter half of the Year, revenue from the watch segment inevitably decreased by 19.3% to HK$2,856.7 million (2015: HK$3,541.0 million). Even so, the watch segment remained a key revenue contributor, accounting for 78.4% (2015: 79.9%) of the Group's revenue. Revenue from the jewellery segment decreased by 11.8% to HK$785.1 million (2015: HK$889.8 million). 76.8% (2015: 78.0%) of the Group's total revenue was contributed by the Hong Kong market.

Gross profit decreased by 17.8% to HK$909.0 million (2015: HK$1,106.1 million). The gross profit margin was resilient and stayed intact at 25.0% (2015: 25.0%).

The Group recorded LBITDA of HK$1.8 million (2015: HK$53.1 million). Due to a gradual improvement in sales momentum and ongoing rental savings, a turnaround in net profit was achieved in the second half of 2016. As a result, net loss for the Year narrowed to HK$64.8 million (2015: HK$120.1 million).

Capital Structure, Liquidity and Financial Resources

During the Year, there was no change in the capital structure of the Group. Bank balances and cash on hand of the Group as at 31 December 2016 amounted to HK$1,324.4 million (2015: HK$809.5 million), which were mainly denominated in Hong Kong dollars and Renminbi ("RMB"). As at 31 December 2016, the Group had no bank borrowings (2015: Nil) and its gearing ratio (calculated on the basis of the total borrowings over total equity) was nil (2015: Nil). The Group also had available unutilised banking facilities of approximately HK$844.1 million. The strong liquidity with debt-free position and considerable unutilised banking facilities enable the Group to retain high flexibility for future development.

As at 31 December 2016, the Group's current assets and current liabilities were approximately HK$4,176.8 million (2015: HK$4,183.4 million) and HK$233.9 million (2015: HK$190.3 million), respectively. Current ratio and quick ratio of the Group were 17.9 (2015: 22.0) and 6.5 (2015: 5.1), respectively.

In view of the Group's financial position as at 31 December 2016, the Board considered that the Group had sufficient working capital for its operations and future development plans.

Business Review

Presence in Prime Retail Locations

As at 31 December 2016, the Group had 97 stores (2015: 100) in Hong Kong, Macau, Mainland China and Singapore. The distribution is as follows:

	Number of stores
Hong Kong	22
Macau	7
Mainland China	62
Singapore	6
Total	**97**

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. 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. During the Year, the Group successfully enjoyed rental cuts in several retail spaces. These, coupled with the earlier optimisation of the Hong Kong retail network, are expected to ease the overall rental pressure.

Solidifying Leading Position in Hong Kong

The Group continued to enjoy solid long-term relationships with major Swiss watch brand suppliers, and continued holding comprehensive watch dealerships with full collections in Greater China. Coupled with its excellent customer service and the strongest presence in prime retail locations in Hong Kong, the Group continued to foster its leading position in Hong Kong.

Enhancing Jewellery Business

i) Expanding its Product Range

The Group continued to offer premium quality "***Emperor Jewellery***" products to customers. With the key focus on quality gem settings and fine jadeites among the comprehensive product range and commitment to high service standards, the Group enriched the design features to satisfy diverse customer tastes and enhanced the charisma of signature "***Emperor Jewellery***" collections to raise brand loyalty. During the Year, the Group rolled out the "Crown Your Life 12+1" collection, featuring 12 cartoons of Chinese zodiac animals and an iconic cat. Incorporating Chinese tradition into trendy design, the "Crown Your Life 12+1" gold pieces serve as ideal amulets for young people, with blessings of prosperity and good fortune. To enhance exposure of the "Crown Your Life 12+1" collection, the Group launched a marketing campaign that integrated social and print media, as well as outdoor advertisements. The Group had earlier introduced an exclusive "Baby" collection line, featuring a charming range of gold jewellery items, making delightful gifts for infant birthdays and other special occasions. With China's nationwide two-child policy in place since January 2016, the "Baby" collection is poised to receive a booming response.

ii) Optimising "Emperor Jewellery" Sales Coverage

In order to capitalise on the massive potential of the mobile user market, during the Year "***Emperor Jewellery***" products were made available on WeChat Mall, one of the most popular mobile sales platforms among Mainland Chinese. This marks a significant milestone for the Group in expanding its sales coverage beyond the traditional physical stores. During the Year, the Group optimised coverage of "***Emperor Jewellery***" stores in Mainland China with more emphasis on Tier II and III cities, which have been experiencing higher economic growth and rapid expansion in jewellery markets. Meanwhile, the Group took the opportunity to expand the coverage of jewellery stores in Hong Kong from traditional tourist shopping areas to emerging shopping areas with resilient foot traffic, which helped with promoting brand exposure and seizing market opportunities of emerging shoppers in domestic areas.

Leveraging Group Synergies

The Group enjoys unique advantages by leveraging synergies with other companies within Emperor Group. For example, Emperor International Holdings Limited – another listed company under Emperor Group – owns many premium retail properties in renowned shopping areas. By leasing prime retail locations from it on an "arm's length basis", the Group can enjoy guarantee foot traffic. Another synergy arises through Emperor Entertainment Group and Emperor Motion Pictures, two private arms under Emperor Group. The Group invited VIP guests to its movie premieres and sponsored jewellery for the artistes. Such exposure opportunities, with pop artistes, movie stars and high profile celebrities, serve as an important tool for enhancing the reputation of the "***Emperor***" brand, particularly in Chinese-speaking communities.

Prospects

Despite the recent upturn in consumption, the Group expects the Hong Kong market will continue to face a number of challenges and uncertainties. The strong local currency and potential further devaluation of the RMB will therefore make the Hong Kong consumption market remain under stress in the near term. However, taking into account the stable fundamentals, China's retail market as a whole will be stimulated by ongoing urbanisation, the ever-growing middle-class, and the continuing increase in disposable income.

Chinese customers remain the Group's major customer group. The Group will continue optimising business operations in Greater China, in order to further solidify its leading position in the region. The Group continues to eye further expansion opportunities beyond Greater China and tap the growth potential arising from Mainland China robust outbound tourism.

The increase in disposable income, in particular among Chinese women, and the rising women's job market participation rate, are the strong forces behind gem set consumption. The Group aims to lead branding and marketing activities in an effective and efficient manner, to maximise the exposure of "***Emperor Jewellery***". Accordingly, the Group will offer more fashionable and affordable jewellery products suitable for wearing in the workplace, to cater to the trend towards popularisation of jewellery consumption and to attract middle-class customers. In light of the ever-changing market, the Group will continue seeking to operate e-commerce through online shopping platforms, to capitalise on the immense potential of internet and mobile users.

Following the revival in market momentum, the Group aims to respond to forthcoming market opportunities with flexibility and decisiveness, and to expand according to a strategy that is both disciplined and forward thinking. The Group is cautious on the short-term outlook but optimistic about long-term sustainable growth and business development. The Group plans not only to optimise its jewellery store network with more emphasis on Tier II and III cities, but also expand the coverage of watch stores in Tier I cities and reap the market potential.

FOREIGN EXCHANGE EXPOSURE

The Group's transactions are mainly denominated in HKD, Macau Pataca, RMB, United States dollars and Singapore dollars. During the Year, the Group did not have any material foreign exchange exposure.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group has 784 salespersons (2015: 925) and 186 office staff (2015: 206). Total staff costs (including directors' remuneration) were HK$231.7 million (2015: HK$245.2 million) for the Year. Employees' remuneration was determined in accordance with individual's responsibility, competence & skills, experience and performance as well as market pay level. Staff benefits include medical and life insurance, provident funds and other competitive fringe benefits. To provide incentive or rewards to staff, the Company has adopted a share option scheme, particulars of which will be set out in the section headed "Share Options" of the annual report of the Company.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the Year (2015: Nil).

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR

The Audit Committee of the Company, which comprises the three independent non-executive directors of the Company, had reviewed the audited consolidated financial statements for the year ended 31 December 2016 in conjunction with the Group's auditors, Messrs. Deloitte Touche Tohmatsu. Based on this review and discussion with the management of the Company, the Audit Committee was satisfied that the audited consolidated financial statements were prepared in accordance with applicable accounting standards and fairly presented the Group's financial position as at 31 December 2016 and annual results for the Year.

CORPORATE GOVERNANCE

Corporate Governance Code

During the Year, the Company had complied with all the code provisions of the Corporate Governance Code under Appendix 14 of the Listing Rules, except with the deviation from code provision A.2.1 which requires the roles of chairman and chief executive officer should be separate and not be performed by the same individual. Ms. Cindy Yeung, also being the Chief Executive Officer of the Group, has been appointed as the Chairperson of the Board who provides the Board with strong and consistent leadership, and at the same time drives the strategic growth of the businesses of the Group. She will ensure that all the Board members keep abreast of the conduct, business activities and development of the Group and adequate, complete and reliable information is provided to Directors on issues at Board meetings. In addition, the three Independent Non-executive Directors provide independent and impartial opinion on issues to be considered by the Board. The Board considers that the current Board structure functions effectively and does not intend to make any change thereof.

Model Code for Securities Transactions

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry to the Directors, all of them confirmed that they had complied with the required standard of dealings as set out in the Model Code throughout the Year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

PUBLICATION OF THE AUDITED ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.emperorwatchjewellery.com). The annual report will be dispatched to the shareholders of the Company and will be available on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 16 March 2017

As at the date hereof, the Board comprises:

Executive Directors:	Ms. Cindy Yeung Mr. Chan Hung Ming Mr. Wong Chi Fai Ms. Fan Man Seung, Vanessa
Independent Non-Executive Directors:	Ms. Yip Kam Man Ms. Lai Ka Fung, May Ms. Chan Sim Ling, Irene