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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)

ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

<i>HK\$'million</i>	2011	2011 Excluding the net loss on derivative financial instruments ¹	2012	Changes
	Per Reported		Per Reported	
Revenue	5,862	5,862	6,531	+11.4%
Gross Profit	1,686	1,686	1,697	+0.7%
Gross Profit Margin	28.8%	28.8%	26.0%	-2.8% pts
EBITDA ²	825	834	572	-31.4%
EBITDA Margin	14.1%	14.2%	8.8%	-5.4% pts
Profit for the Year	627	636	404	-36.5%
Net Profit Margin	10.7%	10.8%	6.2%	-4.6% pts
Basic Earnings per Share	HK9.7 cents	HK9.9 cents	HK6.0 cents	-39.4%
Dividend per Share	HK2.8 cents	HK2.8 cents	HK1.78 cents	-36.4%

¹ *Net loss on derivative financial instruments is a non-cash item recognised in consolidated statement of comprehensive income which was in relation to fair value loss on initial recognition and fair value change of derivative financial instruments at year end.*

² *EBITDA represents earnings before interest, taxation, depreciation and amortisation of the Group.*

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 2012 (the “Year”) together with the comparative figures for the year 2011 as set out below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	<i>Notes</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> (Restated)
Revenue	3	6,531,474	5,862,377
Cost of sales		(4,834,734)	(4,176,689)
Gross profit		1,696,740	1,685,688
Other income		5,050	11,277
Selling and distribution expenses		(992,072)	(739,266)
Administrative expenses		(210,177)	(189,759)
Net loss on derivative financial instruments		–	(9,300)
Finance costs		(4,315)	(1,746)
Profit before taxation	4	495,226	756,894
Taxation	5	(90,899)	(129,842)
Profit for the year		404,327	627,052
Other comprehensive income for the year:			
Exchange differences arising from translation of foreign operations		11,134	27,521
Total comprehensive income for the year		415,461	654,573
Profit for the year attributable to:			
Owners of the Company		404,327	627,084
Non-controlling interests		–	(32)
		404,327	627,052
Total comprehensive income attributable to:			
Owners of the Company		415,461	654,499
Non-controlling interests		–	74
		415,461	654,573
Earnings per share	6		
Basic		HK6.0 cents	HK9.7 cents
Diluted		HK6.0 cents	HK9.6 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	<i>Notes</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		102,020	96,667
Deferred tax asset		7,483	5,927
Rental deposits		177,347	154,624
Deposits paid for acquisition of property, plant and equipment		–	2,571
		<u>286,850</u>	<u>259,789</u>
Current assets			
Inventories		3,521,660	3,404,176
Receivables, deposits and prepayments	8	196,319	199,439
Taxation receivable		8,005	–
Bank balances and cash		454,768	803,777
		<u>4,180,752</u>	<u>4,407,392</u>
Current liabilities			
Payables, deposits received and accrued charges	9	353,878	396,426
Amounts due to related companies		4,849	4,040
Taxation payable		7,258	67,967
Bank borrowings	10	950	340,205
		<u>366,935</u>	<u>808,638</u>
Net current assets		<u>3,813,817</u>	<u>3,598,754</u>
Net assets		<u>4,100,667</u>	<u>3,858,543</u>
Capital and reserves			
Share capital		67,185	67,185
Reserves		4,033,482	3,791,358
Total equity		<u>4,100,667</u>	<u>3,858,543</u>

Notes:

1. SIGNIFICANT ACCOUNTING POLICIES

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.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the Year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group’s equity therein.

2. APPLICATION OF NEW AND REVISED HKFRSs

In the Year, the Group has applied the following amendments to HKFRSs issued by the HKICPA.

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

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

Notes:

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle, except for the amendments HKAS 1 ¹
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ²
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangement ¹
HKFRS 12	Disclosure of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
HKAS 19 (as revised in 2011)	Employee Benefits ¹
HKAS 27 (as revised in 2011)	Separate Financial Statements ¹
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁴
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ²
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after 1 January 2013

² Effective for annual periods beginning on or after 1 January 2014

³ Effective for annual periods beginning on or after 1 January 2015

⁴ Effective for annual periods beginning on or after 1 July 2012

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are 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. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting 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.

Notes:

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

HKFRS 9 Financial Instruments (Continued)

- 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 of financial liabilities attributable to changes in the financial liabilities' 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 was presented in profit or loss. HKFRS 9 is effective for annual period beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future is not expected to have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on the analysis of the Group's financial instrument as at 31 December 2012. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statements" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The application of other new and revised HKFRSs will have no material impact on the results and financial position of the Company.

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 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 and reportable segments under HKFRS 8 are operations located in Hong Kong, Macau and other regions in the People's Republic of China (the "PRC"). The revenue generated by each of the operating segments is mainly derived from sales of watch and jewellery. No operating segments identified by the chief operating decision maker 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 2012

	Hong Kong	Macau	Other regions in the PRC	Elimination	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue					
External sales	5,519,856	353,745	657,873	–	6,531,474
Inter-segment sales*	77,249	41,565	–	(118,814)	–
	<u>5,597,105</u>	<u>395,310</u>	<u>657,873</u>	<u>(118,814)</u>	<u>6,531,474</u>
Segment profit	<u>626,715</u>	<u>62,642</u>	<u>16,002</u>	<u>–</u>	705,359
Unallocated administrative expenses					(207,386)
Interest income					1,568
Finance costs					(4,315)
Profit before taxation					<u>495,226</u>

* Inter-segment sales are charged at cost

Notes:

3. REVENUE AND SEGMENT INFORMATION (Continued)

For the year ended 31 December 2011 (Restated)

	Hong Kong HK\$'000	Macau HK\$'000	Other regions in the PRC HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Revenue					
External sales	4,862,943	377,361	622,073	–	5,862,377
Inter-segment sales*	196,863	39,898	–	(236,761)	–
	<u>5,059,806</u>	<u>417,259</u>	<u>622,073</u>	<u>(236,761)</u>	<u>5,862,377</u>
* Inter-segment sales are charged at cost					
Segment profit	<u>837,654</u>	<u>82,444</u>	<u>26,411</u>	<u>–</u>	946,509
Unallocated administrative expenses					(182,078)
Interest income					3,509
Net loss on derivative financial instruments					(9,300)
Finance costs					<u>(1,746)</u>
Profit before taxation					<u>756,894</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies used in the consolidated financial statements. Segment profit 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 chief operating decision maker for the purposes of resource allocation and performance assessment.

In order to conform with current year's presentation, expenses relating to the retail shops included in administrative expenses have been reclassified to selling and distribution expenses. Accordingly, the comparative figures of consolidated segment profit and unallocated administrative expenses have been restated by HK\$27,810,000.

Notes:

3. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

Amounts included in the measure of segment profit or loss:

For the year ended 31 December 2012

	Hong Kong	Macau	Other regions in the PRC	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating lease payments	<u>486,022</u>	<u>9,755</u>	<u>111,797</u>	<u>7,279</u>	<u>614,853</u>

For the year ended 31 December 2011

	Hong Kong	Macau	Other regions in the PRC	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating lease payments	<u>289,365</u>	<u>6,306</u>	<u>102,899</u>	<u>6,995</u>	<u>405,565</u>

Revenue from major products

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

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Watch	5,319,978	4,831,945
Jewellery	1,211,496	1,030,324
Others	—	108
	<u>6,531,474</u>	<u>5,862,377</u>

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 2012

	Hong Kong <i>HK\$'000</i>	Macau <i>HK\$'000</i>	Other regions in the PRC <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Non-current assets	<u>224,865</u>	<u>13,449</u>	<u>41,053</u>	<u>279,367</u>

As at 31 December 2011

	Hong Kong <i>HK\$'000</i>	Macau <i>HK\$'000</i>	Other regions in the PRC <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Non-current assets	<u>184,084</u>	<u>7,537</u>	<u>62,241</u>	<u>253,862</u>

Segment assets and liabilities

No assets and liabilities are included in the measures of the Group's segment reporting that are used by the chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

4. PROFIT BEFORE TAXATION

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Allowance for inventories	3,090	17,841
Auditor's remuneration	3,386	3,849
Cost of inventories included in cost of sales	4,811,497	4,140,871
Depreciation of property, plant and equipment	72,805	66,310
Loss on disposal of property, plant and equipment	4,885	718
Net exchange (gain) loss	(2,330)	5,620
Operating lease payments in respect of rented premises		
– minimum lease payments	529,104	331,170
– contingent rent	85,749	74,395
Write down of inventories	2,106	1,645
Staff costs, including Directors' remuneration		
– salaries and other benefits costs	225,343	213,358
– retirement benefits scheme contributions	<u>17,554</u>	<u>13,374</u>

Notes:

5. TAXATION

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Current year:		
Hong Kong	83,598	121,288
PRC	313	1,675
Macau	7,149	9,529
	<u>91,060</u>	<u>132,492</u>
Underprovision (overprovision) in prior years:		
Hong Kong	238	(396)
Macau	564	(138)
PRC	593	–
	<u>1,395</u>	<u>(534)</u>
Deferred taxation	<u>(1,556)</u>	<u>(2,116)</u>
	<u>90,899</u>	<u>129,842</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of 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% from 1 January 2008 onwards.

The Macau Complimentary Income Tax is calculated progressively at rates ranging from 3% to 12% of the estimated assessable profit for the year.

Notes:

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the consolidated profit or loss based on the following data:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Earnings		
Earnings for the purposes of basic and diluted earnings per share	404,327	627,084
Number of shares	2012	2011
Weighted average number of ordinary shares for the purpose of basic earnings per share	6,718,513,703	6,437,986,052
Effect of dilutive potential ordinary shares:		
Warrants	51,950,902	81,557,158
Convertible bond	–	26,991,375
Weighted average number of ordinary shares for the purpose of diluted earnings per share	6,770,464,605	6,546,534,585

7. DIVIDENDS

A final dividend for the year ended 31 December 2012 of HK0.8 cent (2011: HK1.60 cents) per share has been proposed by the Directors and is subject to approval by the shareholders in forthcoming annual general meeting.

During the year ended 31 December 2012, a final dividend of HK1.60 cents per share for the year ended 31 December 2011 amounting to approximately HK\$107,496,000 was paid in June 2012 and an interim dividend of HK0.98 cent per share in respect of the year ended 31 December 2012 amounting to approximately HK\$65,841,000 was paid in September 2012.

During the year ended 31 December 2011, a final dividend of HK1.02 cents per share for the year ended 31 December 2010 amounting to approximately HK\$68,529,000 was paid in June 2011 and an interim dividend of HK1.20 cents per share in respect of the year ended 31 December 2011 amounting to approximately HK\$80,622,000 was paid in September 2011.

Notes:

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Trade receivables	89,465	88,819
Other PRC tax recoverable	43,432	47,828
Other receivables, deposits and prepayments	63,422	62,792
	<hr/> 196,319 <hr/>	<hr/> 199,439 <hr/>

Retails sales are normally settled in cash or by credit card with the settlement from the corresponding banks or other financial institutions within 7 days. Receivables from retail sales in department stores are collected within one month.

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Within 30 days	82,020	77,845
31 – 60 days	6,995	6,920
61 – 90 days	450	4,054
	<hr/> 89,465 <hr/>	<hr/> 88,819 <hr/>

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 Group's trade receivables balance are receivables from department stores with aggregate carrying amount of HK\$7,445,000 (2011: HK\$3,009,000) 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

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Overdue 1 – 30 days	5,663	2,648
Overdue 31 – 60 days	1,782	361
	<hr/> 7,445 <hr/>	<hr/> 3,009 <hr/>

Receivables that were past due but not impaired relate to department stores sales that have continuous settlements subsequent to reporting date. The Directors of the Group 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

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	229,114	310,574
Other PRC tax payables	1,506	–
Other payables, deposits received and accrued charges	123,258	85,852
	<hr/> 353,878 <hr/>	<hr/> 396,426 <hr/>

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

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	227,080	284,189
31 – 60 days	1,226	9,752
61 – 90 days	623	15,221
Over 90 days	185	1,412
	<hr/> 229,114 <hr/>	<hr/> 310,574 <hr/>

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

Notes:

10. BANK BORROWINGS

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Unsecured bank loans, repayable within one year	950	340,205

The weighted effective interest rate on the Group's borrowings is 1.48% (2011: ranges from 1.54% to 8.97%) per annum. The bank borrowings are summarised as follows:

Denominated in	Interest rate	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
HKD	Hong Kong Interbank Offered Rates ("HIBOR") plus 1.25% (2011: HIBOR plus 1.25%)	950	5,150
HKD	HIBOR plus 2%	–	180,000
HKD	HIBOR plus 2.25%	–	125,327
HKD	HIBOR plus 2.5%	–	29,728
		950	340,205

Notes:

11. WARRANTS

Warrants were issued on 22 September 2010 by way of bonus to the subscriber, a then substantial shareholder of the Company, for subscribing the HK\$140M Bond. 161,290,322 units of warrants were issued and they are exercisable for one ordinary share of the Company per unit of warrant at an exercise price of HK\$0.62 per share, subject to anti-dilution adjustments, at any time from the issue date to 12 April 2013.

Pursuant to the terms and conditions of Warrant Instrument dated 26 August 2010, the exercise price of warrants issued by the Group has been adjusted from HK\$0.62 per share to HK\$0.61 per share and the number of shares falling to be issued upon full exercise of warrants increased from 161,290,322 shares to 163,934,426 shares as a result of the issuance of 800,000,000 ordinary shares on 27 April 2011.

The fair value of the warrants at the issue date was HK\$53,100,000. This fair value was calculated using the Binomial Model and determined by Vigers Appraisal & Consulting Limited, an independent valuer not connected with the Group.

12. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, 163,934,426 units of warrants with an aggregate subscription value of approximately HK\$100,000,000 were fully exercised at a subscription price of HK\$0.61 per share and, accordingly, an addition 163,934,426 ordinary shares of HK\$0.01 each were subsequently issued and allotted.

13. COMPARATIVE FIGURES

In order to conform with current year's presentation, expenses relating to the retail shops of HK\$34,415,000 for the year ended 31 December 2011 included in administrative expenses have been reclassified to selling and distribution expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading retailer of European-made luxurious and internationally branded watches, together with self-designed fine jewellery products under its own brand, “*Emperor*”. The Group has extensive retail networks in Hong Kong, Macau, the PRC and Singapore. The target customers range from middle to high income groups in the world. With a long history of over 70 years since its establishment, the Company is carrying a balanced and comprehensive watches’ dealership list.

MARKET REVIEW

For the Year, the global economy remained volatile with full of challenges, which caused consumers to become more cautious on spending. Having said that, the appetite of mainland consumers towards luxury watch items was relative resilience with gradual and continuous growth throughout the Year.

According to the statistics revealed by the Hong Kong Tourism Board, the total number of mainland visitor arrivals to Hong Kong amounted to 34.9 million for the Year with an increase of 24.2% when compared with 2011. Hong Kong is still a popular shopping destination of mainland visitors, in particular for high-net wealth population. The latest Hong Kong retail sales data showed that luxury goods sector has driven the overall retail sales up-tick, indicating a continuous growth momentum on luxury consumption supported by the pent-up demand and better consumption atmosphere starting from the second half of 2012.

FINANCIAL REVIEW

Despite the unfavourable conditions and an extraordinary high base comparison from last year, the Group was still able to achieve a revenue growth of 11.4% to approximately HK\$6,531.5 million (2011: HK\$5,862.4 million). The Hong Kong market continued to be the key revenue contributor, with its revenue increased by 13.5% to HK\$5,519.9 million (2011: HK\$4,862.9 million), accounting for 84.5% (2011: 83.0%) of the Group’s total revenue. During the Year, 81.5% (2011: 82.4%) of the Group’s total revenue was generated from watch segment. Gross profit amounted to HK\$1,696.7 million (2011: HK\$1,685.7 million). Gross profit margin was 26.0% (2011: 28.8%).

The Group faced a high base when compared with 2011. This was driven by two factors, namely (1) revenue boosted in Hong Kong market in 2011 triggered by a shift of luxury shopping destination from Tokyo to other Asian regions (including Hong Kong) following the Great East Japan Earthquake in March 2011; and (2) gross profit margin was relatively high in last year due to the substantial and frequent price hikes implemented by watch suppliers as a result of Swiss Franc’s appreciation and rising raw material costs.

EBITDA and net profit were HK\$572.3 million and HK\$404.3 million respectively, as compared to HK\$834.3 million and HK\$636.4 million respectively in 2011 excluding the net loss on derivative financial instruments. The decrease of EBITDA and net profit were owing to the decrease in gross profit margin and rising rental expenses. Basic earnings per share were HK6.0 cents (2011: HK9.9 cents, excluding the net loss on derivative financial instruments). The Board of the Company recommends the payment of a final dividend of HK0.8 cent (2011: HK1.6 cents) per share. Together with the interim dividend of HK0.98 cent per share, the total dividend per share for the Year was HK1.78 cents (2011: HK2.8 cents).

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

During the Year, there was no change in the capital structure of the Group. The Group was able to maintain its strong and healthy financial position in the market. Bank balances and cash on hand of the Group as at 31 December 2012 amounted to HK\$454.8 million (2011: HK\$803.8 million), which were mainly denominated in Hong Kong dollars and Renminbi. As at 31 December 2012, the Group had total bank borrowings of approximately HK\$1.0 million (2011: HK\$340.2 million). Due to the decrease of bank borrowings and strong cash position, the gearing ratio of the Group (calculated on the basis of the total borrowings over total equity) as at 31 December 2012 decreased to 0.02% (2011: 8.8%). The Group also had available unutilised banking facilities of approximately HK\$772.2 million.

As at 31 December 2012, the Group's current assets and current liabilities were approximately HK\$4,180.8 million (2011: HK\$4,407.4 million) and HK\$366.9 million (2011: HK\$808.6 million) respectively. Current ratio and quick ratio of the Group were 11.4 (2011: 5.5) and 1.8 (2011: 1.2) respectively.

In view of the Group's financial position as at 31 December 2012, the Board considered that the Group had sufficient working capital for its operations and future development plans.

BUSINESS REVIEW

Optimising Retail Network

The Group has an extensive network of retail outlets at prime locations in Hong Kong, Macau and the PRC. These include jewellery shops, multi-brand watch shops (with or without jewellery counters) as well as specialty outlets for specific watch brands.

During the Year, a total of 6 new stores were opened in Hong Kong and the PRC. As at 31 December 2012, the Group had 80 stores in Hong Kong, Macau and the PRC. Details of which are listed below:

	Number of stores
Hong Kong	21
Macau	5
The PRC	54
	<hr/>
Total	80
	<hr/> <hr/>

The Group's retail stores in Hong Kong are strategically located at the major high-end shopping places, including Russell Street in Causeway Bay, Canton Road in Tsim Sha Tsui and Queen's Road Central in Central. In terms of shop rental rate per square feet during the Year, these three shopping streets were ranked as world-class top five most valuable shopping streets. Russell Street was even well recognized as the most valuable shopping street in the world. The Group enjoys a high penetration rate amongst the mainland visitors and brand enhancement through its presence in these extremely prime areas. With the lead of iconic flagship store located in 1881 Heritage, Canton Road, Tsim Sha Tsui, the Group is able to capture local shoppers as well as mainland visitors.

Solidifying Brand Image

The Group continued to effectively market and promote the brand through a range of joint promotions, sponsorships and exhibitions during the Year, all of which received positive results. To sustain its decades-old relationship with watch suppliers, the Group separately ran co-op advertising campaigns and organised joint promotion events with world-class watch suppliers to further foster the relationship and enhance the brand reputation for both leading watch brands and "*Emperor*".

In the context of concurrent expansion of demand for luxury goods, the Group implemented various specified marketing and public relation campaigns to strengthen its advertising and marketing efforts on high income group. During the Year, the Group fully utilised the spacious area in *Emperor Jewellery Flagship Store* in 1881 Heritage and continuously hosted joint promotion events with investment banks, insurance companies, charity organisations and academic institutions in order to widen the customer base and strengthen a sense of signature on the flagship store.

Enjoying Group Synergies

The ability to (1) leverage other businesses and (2) enjoy the synergies effect with companies within Emperor Group are two of the advantages for the Group. Emperor International Holdings Limited, a separate listed company under Emperor Group, owns many premium retail properties at renowned shopping districts. By leasing the prime retail locations from it, the Group is able to generate higher sales productivity. As one of the synergies brought by Emperor Entertainment Group, the Group also invited VIP guests to its movie premiere and sponsored jewellery for the artistes. Such exposure opportunities, with pop artists and high profile celebrities, serve as an important tool to enhance the reputation of the brand of "*Emperor*", particularly in the Chinese-speaking communities.

Originated from a watch boutique in 1942, the Group has devoted to create values through enhancing customers' experience. To celebrate the 70th anniversary of Emperor Group during the Year, companies within Emperor Group had initiated a series of promotional campaigns. Benefiting from the enhanced "*Emperor*" brand exposure, the Group had enjoyed extensive media coverage and strengthened brand image in cost-effective manner.

PROSPECTS

Supported by the rising spending power and expansion of middle income group in the PRC, luxury consumption market in the region remains optimistic. Being a prominent retailer offering luxury watches and self-designed fine jewellery, the Group will seek to achieve a desired product and geographic mix in order to achieve a sustainable profit.

Hong Kong, as one of the hot-pick destinations for luxury goods consumption in the region, should be one of the most leveraged places against recovery in consumer sentiment. In addition to the significant regional price differential set by the watch brands, authenticity assurance, better assortments and absence of sales tax on luxury goods, Hong Kong is able to have a faster pace of recovery. The Group stays positive to capture the opportunities from the recovery, as more than 80% of its sales are originated from Hong Kong. The Group also believes that a better recovery sign will be revealed in 2013.

The Group believes that Southeast Asia will become a new revenue contributor. In early 2013, the Group has successfully expanded the coverage from Greater China to Southeast Asia by initiating a presence in Singapore. The Group will continue to look for other expansion opportunities in Southeast Asia in order to fully capture the luxury consumption growth momentum.

FOREIGN EXCHANGE EXPOSURE

The Group's transactions are mainly denominated in HKD, MOP, RMB and USD. During the Year, the Group did not have any material foreign exchange exposure.

CAPITAL EXPENDITURES

As at 31 December 2012, the Group has capital commitments in respect of acquisition of property, plant and equipment of approximately HK\$6.8 million (2011: HK\$20.7 million) and operating lease commitment of approximately HK\$1,132 million (2011: HK\$1,260.8 million).

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, the Group has 870 salespersons (2011: 985) and 209 office staff (2011: 224). Total staff costs (including directors' remuneration) were HK\$242.9 million (2011: HK\$226.7 million) for the Year. Employees' remuneration was determined in accordance with individual's responsibility, performance and experience. Staff benefits include contributions to retirement benefit scheme, medical allowance and other fringe benefits.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK0.8 cent (2011: HK1.6 cents) per share (“Final Dividend”) for the Year, amounting to approximately HK\$55.1 million (2011: HK\$107.5 million). The Final Dividend, if being approved at the forthcoming annual general meeting of the Company (“AGM”), will be paid on 7 June 2013 (Friday) to shareholders whose names appear on the register of members of the Company on 15 May 2013 (Wednesday).

CLOSURE OF REGISTER OF MEMBERS

For ascertaining shareholders’ right to attend and vote at AGM

Latest time to lodge transfers	4:30 p.m. on 6 May 2013 (Monday)
Book close date	7 May 2013 (Tuesday)
Record date	7 May 2013 (Tuesday)
AGM	8 May 2013 (Wednesday)

For ascertaining shareholders’ entitlement to the proposed Final Dividend

Latest time to lodge transfers	4:30 p.m. on 13 May 2013 (Monday)
Book close dates	14 -15 May 2013 (Tuesday – Wednesday)
Record date	15 May 2013 (Wednesday)
Final Dividend payment date	7 June 2013 (Friday)

In order to qualify for the right to attend and vote at the AGM and for the proposed Final Dividend, all relevant share certificates and properly completed transfer forms must be lodged with the Company’s Share Registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong for registration before the above latest time to lodge transfers.

REVIEW OF ANNUAL RESULTS

The annual results for the Year have been reviewed by the audit committee of the Company, which comprises the three Independent Non-Executive Directors of the Company.

CORPORATE GOVERNANCE

Corporate Governance Code

During the Year, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012) 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 be separate and not be performed by the same individual. Taking up the role of Chairperson and being leader of the Board, Ms. Cindy Yeung provides the Group with strong and consistent leadership, and at the same time, drives the strategic growth of the Group. As the Board members are keeping abreast

of the conduct, business activities and development of the Group and as the day-to-day business operations of the Group are properly delegated to the management team of the Company as formalized 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 have 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.hkex.com.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, 18 March 2013

As at the date hereof, the Board comprised:

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
Mr. Chan Hon Piu
Ms. Lai Ka Fung, May