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 2010

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Revenue by segments:		
Hong Kong	**3,366,291**	2,229,496
Macau	**266,523**	178,548
PRC	**462,496**	278,419
	4,095,310	2,686,463
Revenue by products:		
Watch	**3,461,439**	2,320,164
Jewellery	**632,837**	366,299
Other	**1,034**	–
	4,095,310	2,686,463
Profit before net loss on derivative financial instruments attributable to owners of the Company	**331,647**	194,505
Comprehensive income attributable to owners of the Company	**132,637**	194,505
Earnings per share		
Basic	**HK2.4 cents**	HK4.3 cents
Diluted	**HK2.4 cents**	N/A

The board of directors (the "Board" or "Directors") of Emperor Watch & Jewellery Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010 (the "Year") together with the comparative figures for the year 2009 as set out below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	3	**4,095,310**	2,686,463
Cost of sales		**(3,047,738)**	(1,992,871)
Gross profit		**1,047,572**	693,592
Other income		**12,230**	5,016
Selling and distribution expenses		**(472,268)**	(337,771)
Administrative expenses		**(173,045)**	(115,544)
Net loss on derivative financial instruments		**(199,010)**	–
Finance costs		**(11,195)**	(2,061)
Profit before taxation	4	**204,284**	243,232
Taxation	5	**(70,423)**	(43,046)
Profit for the year		**133,861**	200,186
Other comprehensive income (expense) for the year:			
Exchange differences arising from translation of foreign operations		**7,149**	(1,052)
Total comprehensive income for the year		**141,010**	199,134
Profit for the year attributable to:			
Owners of the Company		**125,641**	195,588
Non-controlling interests		**8,220**	4,598
		133,861	200,186
Total comprehensive income attributable to:			
Owners of the Company		**132,637**	194,505
Non-controlling interests		**8,373**	4,629
		141,010	199,134
Basic and diluted earnings per share	7	**HK2.4 cents**	HK4.3 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	**2010** *HK$'000*	2009 *HK$'000*
Non-current assets			
Property, plant and equipment		**85,360**	74,584
Deferred tax asset		**3,811**	–
		89,171	74,584
Current assets			
Inventories		**2,152,007**	1,307,703
Receivables, deposits and prepayments	8	**272,969**	204,627
Tax recoverable		**–**	6,618
Bank balances and cash		**601,484**	252,211
		3,026,460	1,771,159
Current liabilities			
Payables, deposits received and accrued charges	9	**404,661**	263,846
Amounts due to related companies		**3,598**	2,752
Amount due to a former non-controlling shareholder		**45,471**	–
Taxation payable		**34,556**	6,213
Obligation under a finance lease – due within one year		**–**	119
Bank borrowings – due within one year	10	**67,241**	4,200
		555,527	277,130
Net current assets		**2,470,933**	1,494,029
Total assets less current liabilities		**2,560,104**	1,568,613
Non-current liabilities			
Obligation under a finance lease – due after one year		**–**	317
Derivative financial instruments	11	**180,320**	–
Liability component of convertible bond	11	**109,541**	–
Bank borrowings – due after one year	10	**–**	9,000
Deferred taxation		**–**	379
		289,861	9,696
Net assets		**2,270,243**	1,558,917
Capital and reserves			
Share capital		**56,593**	45,000
Reserves		**2,211,053**	1,504,406
Equity attributable to owners of the Company		**2,267,646**	1,549,406
Non-controlling interests		**2,597**	9,511
Total equity		**2,270,243**	1,558,917

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 Rule") 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 except for certain financial instruments that are measured at fair values. 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.

The results of subsidiaries acquired or disposed 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.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Notes:

2. APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Group has applied the following new and revised Standards and Interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except the application of HKAS 27 (as revised in 2008) as described below, the application of the new and revised standard and interpretation in current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

HKFRS 3 (as revised in 2008) *Business Combination*

The Group applies HKFRS 3 (as revised in 2008) prospectively to business combinations for which the acquisition date is on or after 1 January 2010.

As there was no transaction during the current year in which HKFRS 3 (as revised in 2008) is applicable, the application of HKFRS 3 (as revised in 2008) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting years. Results of the Group in future years may be affected by future transactions for which HKFRS 3 (as revised in 2008) and the consequential amendments to the other HKFRSs are applicable.

HKAS 27 (as revised in 2008) *Consolidated and Separate Financial Statements*

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group. Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-conrtolling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

Notes:

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

The change in policy has resulted in the excess of the consideration paid for acquisition of additional interest in a subsidiary from a non-controlling shareholder over the carrying amount of non-controlling interest of HK$927,000 being recognised directly in equity, instead of in goodwill. In addition, the change in policy has also resulted in the shortfall of the consideration paid for acquisition of additional interest in a subsidiary from a non-controlling interest of HK$4,063,000 being recognised directly in equity, instead of in profit or loss. Therefore, the change in accounting policy has resulted in a decrease in profit for the year of HK$4,063,000.

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[2]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial Instrument[7]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either 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 accounting periods.

Notes:

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 presentation 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. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard will not have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

The Directors anticipate that the application of the other new and revised standards or Interpretations will have no material impact on the consolidated financial statements.

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.

Notes:

3. REVENUE AND SEGMENT INFORMATION (Continued)

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

For the year ended 31 December 2010

	Hong Kong	Macau	Other regions in the PRC	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	3,366,291	266,523	462,496	–	4,095,310
Inter-segment sales*	204,071	113,434	–	(317,505)	–
	3,570,362	379,957	462,496	(317,505)	4,095,310

* Inter-segment sales are charged at cost

	Hong Kong	Macau	Other regions in the PRC	Elimination	Consolidated
Segment profit	460,459	51,846	24,642	–	536,947
Unallocated administrative expenses					(124,257)
Interest income					1,799
Net loss on derivative financial instruments					(199,010)
Finance costs					(11,195)
Profit before taxation					204,284

For the year ended 31 December 2009

	Hong Kong	Macau	Other regions in the PRC	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	2,229,496	178,548	278,419	–	2,686,463
Inter-segment sales*	130,223	56,452	–	(186,675)	–
	2,359,719	235,000	278,419	(186,675)	2,686,463

* Inter-segment sales are charged at cost

	Hong Kong	Macau	Other regions in the PRC	Elimination	Consolidated
Segment profit	274,302	32,914	10,638	–	317,854
Unallocated administrative expenses					(72,725)
Interest income					164
Finance costs					(2,061)
Profit before taxation					243,232

Notes:

3. REVENUE AND SEGMENT INFORMATION (Continued)

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 other income directly attributable to each segment and net of selling and distribution expenses and administrative expenses directly attributable to each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Other segment information

Amounts included in the measure of segment profit or loss:

For the year ended 31 December 2010

	Hong Kong	Macau	Other regions in the PRC	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation	28,558	685	9,114	38,357
Operating lease payments	193,170	3,940	70,096	267,206

For the year ended 31 December 2009

	Hong Kong	Macau	Other regions in the PRC	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation	16,536	939	2,784	20,259
Operating lease payments	164,080	3,996	42,582	210,658

The below is a reconciliation from the total of the reportable segments' amounts for other segment information to the corresponding amount for the Group:

For the year ended 31 December 2010

	Reportable segment totals	Unallocated	Group's total
	HK$'000	*HK$'000*	*HK$'000*
Depreciation	38,357	3,147	41,504
Operating lease payments	267,206	5,494	272,700

Notes:

3. **REVENUE AND SEGMENT INFORMATION** (Continued)

For the year ended 31 December 2009

	Reportable segment totals	**Unallocated**	**Group's total**
	HK$'000	*HK$'000*	*HK$'000*
Depreciation	20,259	2,125	22,384
Operating lease payments	210,658	4,501	215,159

Revenue from major products

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

	2010	2009
	HK$'000	*HK$'000*
Watch	**3,461,439**	2,320,164
Jewellery	**632,837**	366,299
Others	**1,034**	–
	4,095,310	2,686,463

Geographical information

The property, plant and equipment by geographical location of assets are detailed below:

As at 31 December 2010

	Hong Kong	**Macau**	**Other regions in the PRC**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	59,011	1,339	25,010	85,360

As at 31 December 2009

	Hong Kong	**Macau**	**Other regions in the PRC**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	55,444	1,396	17,744	74,584

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.

Notes:

4. PROFIT BEFORE TAXATION

	2010	2009
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Allowance for inventories	**1,750**	534
Auditor's remuneration	**2,536**	1,995
Cost of inventories included in cost of sales	**3,037,435**	1,983,267
Depreciation of property, plant and equipment	**41,504**	22,384
Loss on disposal/write off of property, plant and equipment	**5,610**	37
Net exchange loss	**2,294**	–
Operating lease payments in respect of rented premises		
– minimum lease payments	**239,226**	213,965
– contingent rent	**33,474**	1,194
Write off of inventories	**450**	2,157
Staff costs, including Directors' remuneration		
– salaries and other benefits costs	**148,229**	110,696
– retirement benefits scheme contributions	**7,507**	5,091

5. TAXATION

	2010	2009
	HK$'000	*HK$'000*
The charge comprises:		
Current year:		
Hong Kong	**65,490**	37,148
PRC	**6,355**	2,811
Macau	**5,412**	3,838
	77,257	43,797
(Over) underprovision in prior years:		
Hong Kong	**(2,647)**	(260)
Macau	**3**	2
	(2,644)	(258)
Deferred taxation	**(4,190)**	(493)
	70,423	43,046

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. DIVIDENDS

A final dividend for the year ended 31 December 2010 of HK1.02 cents (2009: HK0.85 cent) 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 2010, a final dividend of HK0.85 cent per share for the year ended 31 December 2009 amounting to HK$44,325,000 was paid in June 2010 and an interim dividend of HK0.75 cent per share in respect of the year ended 31 December 2010 amounting to HK$39,111,000 was paid in September 2010.

During the year ended 31 December 2009, a final dividend of HK0.6 cent per share for the year ended 31 December 2008 amounting to HK$27,000,000 was paid in June 2009 and an interim dividend of HK0.35 cent per share in respect of the year ended 31 December 2009 amounting to HK$15,750,000 was paid in September 2009.

7. EARNINGS PER SHARE

The calculation of basic earnings and diluted per share is based on the profit for the year of HK$125,641,000 (2009: HK$195,588,000) attributable to owners of the Company and on the weighted average number of 5,200,188,904 ordinary shares (2009: 4,500,000,000) in issue during the year.

The computation of diluted earnings per share for the year ended 31 December 2010 does not assume the conversion of the subsidiary's outstanding convertible bonds and the exercise of the Company's outstanding warrants since the assumed conversion of the subsidiary's convertible bonds would result in an increase in earning per share and the exercise price of the Company' warrants was higher than the average market price for shares for the year ended 31 December 2010.

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**62,828**	57,413
Rental deposits	**101,959**	72,996
Other receivables, deposits and prepayments	**108,182**	74,218
	272,969	204,627

Retails sales are normally settled in cash or by credit card with the settlement from the corresponding financial institutions within 7 days. Receivables from retail sales in department stores are collected within one month. The Group granted an average credit periods from 7 days to 90 days to the wholesale customers.

Notes:

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

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

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**47,471**	31,205
31 – 60 days	**5,876**	4,816
61 – 90 days	**9,481**	16,826
91 –120 days	**–**	4,566
	62,828	57,413

Before accepting any new customer, the Group would assess the potential wholesale customer's credit quality and defines credit limits by wholesale customer.

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

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$2,006,000 (2009: HK$4,572,000) 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.

Ageing of trade receivables which are past due but not impaired

	2010	2009
	HK$'000	*HK$'000*
Overdue 1 – 30 days	**684**	4,572
Overdue 31 – 60 days	**1,322**	–
	2,006	4,572

Receivables that were past due but not impaired relate to department stores sales and wholesale customers 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 balance are still considered fully receivable.

The Group's trade receivables that are not denominated in the functional currencies of the respective group entities are as follows:

	2010	2009
	HK$'000	*HK$'000*
Macau Pataca ("MOP")	**433**	537

Notes:

9. PAYABLES, DEPOSITS RECEIVED AND ACCRUED CHARGES

	2010	2009
	HK$'000	*HK$'000*
Trade payables	**309,115**	165,051
Other payables, deposits received and accrued charges	**95,546**	98,795
	404,661	263,846

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

	2010	2009
	HK$'000	*HK$'000*
0 – 30 days	**238,874**	72,958
31 – 60 days	**32,864**	27,849
61 – 90 days	**4,593**	31,142
Over 90 days	**32,784**	33,102
	309,115	165,051

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

The Group's trade payables that are not denominated in the functional currencies of the respective group entities are as follows:

	2010	2009
	HK$'000	*HK$'000*
United States Dollars ("USD")	**36,232**	10,948

Notes:

10. BANK BORROWINGS

	2010	2009
	HK$'000	*HK$'000*
Bank loans	**67,241**	13,200
Carrying amount repayable:		
Within one year	**67,241**	4,200
In more than one year but not more than two years	**–**	9,000
	67,241	13,200
Less: Amount due within one year shown under current liabilities	**(67,241)**	(4,200)
Amount due after one year	**–**	9,000

The ranges of weighted effective interest rates on the Group's borrowings are ranged from 1.43% to 4.49% (2009:2.44%). The bank borrowings are summarised as follows:

Denominated in	**Interest rate**	**2010**	2009
		HK$'000	*HK$'000*
HKD	Hong Kong Interbank Offered Rates ("HIBOR") plus 1.25% (2009: HIBOR plus 1.6%)	**9,000**	13,200
RMB	95% of People's Bank of China Prescribed Interest Rate ("PBOCR")(2009: nil)	**58,241**	–
		67,241	13,200

11. DERIVATIVE FINANCIAL INSTRUMENTS AND LIABILITY COMPONENT OF CONVERTIBLE BOND

As at 31 December 2010, the convertible bond outstanding comprises the carrying amounts of the liability component of convertible bond with principal of HK$140,000,000 ("HK$140M Bond") carried at amortised cost and the derivatives component of HK$140M Bond carried at fair value. The derivative financial instruments represent the conversion and early redemption options embedded in the HK$140M Bond. The fair value was determined by using Binomial model.

The 140M Bond was issued by a wholly-owned subsidiary of the Company to an independent third party on 22 September 2010. The 140M Bond carries interest at 1.5% per annum and matures on 12 April 2013. The Company agreed to guarantee the payment of all sums payable by that wholly-owned subsidiary under the convertible bond.

Notes:

11. DERIVATIVE FINANCIAL INSTRUMENTS AND LIABILITY COMPONENT OF CONVERTIBLE BOND (Continued)

The principal terms of the HK$140M Bond are as follows:

(i) Conversion features

HK$140M Bond is convertible, at the option of the bondholder, into ordinary shares of the Company at an initial conversion price of HK$0.54 per share, subject to anti-dilutive adjustments, at any time after 22 September 2010 up to 14 days prior to the maturity date.

(ii) Redemption features

– *Redemption at maturity*

Unless previously converted or purchased or redeemed, the HK$140M Bond will be redeemed at 106% of the outstanding principal amounts on the maturity date.

– *Redemption at the option of the bondholder*

The bondholder of HK$140M Bond has the option to redeem all or any part of the outstanding principal amounts of the HK$140M Bond at 106% of such outstanding principal amounts together with accrued and unpaid interest on 13 April 2012.

– *Redemption at the option of issuer*

The issuer of the HK$140M Bond has the option to redeem all but not only some of the outstanding principal amounts of HK$140M Bond at a redemption price per Bond equal to its outstanding principal amounts plus an amount equivalent to 3% per annum of its outstanding principal amounts together with accrued and unpaid interest at any time after 13 April 2011 and prior to maturity date.

However, no such redemption by issuer may be made unless the arithmetic mean of the weighted average price of the share for each of the 30 consecutive trading days, ending on the trading day immediately prior to the date upon which notice of such redemption is given, is at least 175% of the conversion price.

The HK$140M Bond contains two components, a liability element of HK$105,590,000 at initial recognition and embedded derivative element attributable to the conversion option, bondholder's early redemption and the issuer's early redemption options of HK$112,190,000, which together with the fair value on initial recognition of the warrants issued to the bondholder of HK$53,100,000 resulted in a fair value loss of HK$130,880,000 on initial recognition. The liability element, which is stated at amortised cost at an effective interest rate of 16.1% per annum, is classified under non-current. The various options embedded in the instrument are presented as derivative financial instruments in the consolidated statement of financial position and are measured at fair value subsequent to initial recognition with changes in fair value recognised in profit or loss. The fair value loss recognised in the consolidated profit or loss as a result of the changes in fair value amounted to HK$68,130,000.

Notes:

11. DERIVATIVE FINANCIAL INSTRUMENTS AND LIABILITY COMPONENT OF CONVERTIBLE BOND (Continued)

(ii) Redemption features (Continued)

– *Redemption at the option of issuer (Continued)*

The fair values of the embedded derivatives components of HK$140M Bond as at the issue date and 31 December 2010 were determined based on the Binomial Model, carried out by Vigers Appraisal and Consulting Limited, an independent valuer not connected with the Group. The major inputs into the models were as follows:

	At the issue date	At 31 December 2010
Share price:	HK$0.84	HK$1.12
Conversion price:	HK$0.54	HK$0.54
Expected volatility:	48%	46%
Remaining life:	2.6 years	2.3 years
Risk free rate:	0.58%	0.69%
Expected dividend yield:	2.6%	2.581%

In addition, the wholly-owned subsidiary of the Company issued a 1.5% p.a. convertible bond with principal amount of HK$100,000,000 ("HK$100M Bond") to three independent parties on 13 April 2010. The HK$100M Bond was repurchased at original issue price on 21 September 2010, hence no gain or loss resulted from this convertible bond.

12. WARRANTS

Warrants with exercise price of HK$0.62 per share were issued by way of bonus to the subscriber 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 any time from the issue date to 12 April 2013.

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.

The inputs into the model for warrants were as follows:

	At the issue date
Share price:	HK$0.84
Exercise Price:	HK$0.62
Expected volatility:	48%
Remaining life:	2.6 years
Risk free rate:	0.58%
Expected dividend yield:	2.581%

Expected volatility was determined by using the historical volatility of share price of comparable companies in similar industry.

Notes:

13. EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to the end of the reporting period, the HK$140M Bond was fully converted into 259,259,259 ordinary shares of HK$0.01 each at the conversion price of HK$0.54 per share. The new shares issued rank pari passu with the existing shares in issue of the Company. Upon the conversion of HK$140M Bond, the fair value of the derivative financial instruments and the amortised cost of the liability component of convertible bond will be credited to share capital and share premium. As at 31 December 2010, the derivative financial instruments and the liability component of convertible bond amounting to HK$180,320,000 and HK$109,541,000 respectively. The Group is in the progress of assessing the fair value of the derivative financial instruments on derivative financial instruments on the date of conversion.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK1.02 cents per share ("Final Dividend") for the year ended 31 December 2010, amounting to approximately HK$60,368,840. The Final Dividend, if being approved at the forthcoming annual general meeting of the Company, will be paid on 15 June 2011 (Wednesday) to shareholders whose names appear on the register of members of the Company on 18 May 2011 (Wednesday).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed, from 17 May 2011 (Tuesday) to 18 May 2011 (Wednesday) (both days inclusive), during which period no share transfer will be effected. In order to qualify 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, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 16 May 2011 (Monday).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading retailer principally engaged in the sale of European–made luxurious and international branded watches, and self-designed fine jewellery products under its own brand, "***Emperor***", with long establishment history of nearly 70 years. Through its extensive retail networks in Hong Kong, Macau and PRC, comprehensive watch dealership and unique marketing campaigns, the Group established a strong brand image amongst its target customers range from middle to high income group from all over the world.

MARKET REVIEW

According to the statistics revealed by the Hong Kong Tourism Board, the total number of mainland visitors amounted to 22.7 million for the Year, increased 26.3% over last year. Hong Kong is still a popular shopping destination as it offers a broader selection of products and competitive prices due to the absence of luxury goods tax. With reference to the study conducted by Bain and Company, mainlanders bought over half of their luxury goods from overseas last year. The strong Renminbi against Hong Kong dollar increases mainlanders' purchasing power. With the continued relaxation of personal travel to Hong Kong by the Chinese governments, it is expected that the increasing trend of mainland visitors would be continued in the foreseeable future.

FINANCIAL REVIEW

Riding on the market growth of demand for luxury goods, the Group achieved a satisfactory result for the Year.

During the Year, the Group reported revenue of approximately HK$4,095.3 million (2009: HK$2,686.5 million) representing a significant increase of 52.4%. The robust revenue growth was mainly contributed by the strong purchasing powers of mainland tourists in Hong Kong and Macau as well as the expansion of the retail networks in the PRC.

After adding back the net loss adjustment arising from the derivative financial instruments, the net profit for the year was HK$331.6 million (2009: HK$194.5 million), representing a decent growth of 70.5%. Earnings per share was HK2.4 cents.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group was able to maintain its strong and healthy financial position. Bank balances and cash on hand of the Group as at 31 December 2010 amounted to HK$601.5 million (2009: HK$252.2 million), which were mainly denominated in Hong Kong dollars and Renminbi. As at 31 December 2010, the Group had total bank borrowings of approximately HK$67.2 million (2009: HK$13.2 million). HK$9 million of the bank borrowings were denominated in Hong Kong dollar, interest bearing, repayable with fixed terms and secured by corporate guarantees of the Company. The remaining HK$58.2 million of the bank borrowing were denominated in Renminbi, interest bearing and repayable with fixed terms.

Due to the increase in bank borrowings and insurance of convertible bonds and warrants during the Year, the gearing ratio of the Group (calculated on the basis of the total borrowings over total assets) as at 31 December 2010 was 5.7% (2009: 0.7%). The Group also had available unutilised banking facilities of approximately HK$215.5 million.

As at 31 December 2010, the Group's current assets and current liabilities were approximately HK$3,026.5 million and HK$555.5 million respectively. Current ratio and quick ratio of the Group were 5.4 and 1.6 respectively.

In view of the Group's financial position as at 31 December 2010, the Board considered that the Group had sufficient working capital for its operations and future development plans.

BUSINESS REVIEW

Expansion and Optimization of Retail Network

The Group has an extensive network of retail outlets at prime locations in Hong Kong, Macau and PRC. These include jewellery shops, multi-brand watch shops as well as specialty watch outlets for specific brands, which enabled the Group to reap synergies with international watch brand suppliers, as well as acknowledge the loyalties among customers who are attracted to the specific watch brands and "***Emperor***" jewellery over the years.

As at 31 December 2010, the Group had 61 stores in Hong Kong, Macau and PRC. Details of which is listed below:

	Number of stores
Hong Kong	17
Macau	4
PRC	40

The Group's retail stores in Hong Kong are strategically located at the major high-end shopping places, namely, Canton Road and Nathan Road in Tsim Sha Tsui, and Russell Street in Causeway Bay. Russell Street is now recognised as the world's top shopping area ranking the second highest in terms of shop rental rate, showing the outstanding traffic flow in the area. With the lead of iconic flagship store in 1881 Heritage, the Group can capture the local shoppers as well as mainland visitors.

As the Group focused its resources on the store rollouts in PRC during the Year, the number of Mainland China stores had grown from 24 as at 31 December 2009 to 40 as at 31 December 2010, covering the first-tier and second-tier cities including Beijing, Guangzhou, Shanghai, Chongqing, Kuming, Chengdu, Tianjin, Shenyang, Suzhou Hengyang, Changzhou and Wuxi.

Brand Recognition and Effective Marketing Programme

During the Year, the Group launched a series of advertising campaigns, stretching from print ads, web banners, billboards, poster display at MTR station, to TV commercials for enhancement of brand value and recognition.

To sustain its decades-old relationship with watch suppliers, the Group separately ran co-op advertising campaigns with *Patek Philippe*, *Cartier* and *Jaeger-LeCoultre*. Meanwhile, the Group pro-actively organised joint promotion events with various watch suppliers throughout the Year including *Piaget*, *Cartier*, *Breguet*, *Panerai*, *Patek Philippe* to further foster its relationship with watch suppliers and enhance the brand reputation of both watch brands and "***Emperor***".

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

Promoting its jewellery brand and focusing on the PRC market, the Group rolled out the first jewellery show in Beijing in October 2010 with the participation with LVMH representatives. Meanwhile, the Group hosted 2 jewellery shows in Hong Kong and Macau respectively during the Year. All events were attended by celebrities and secured substantial press coverage.

Strategic Partner with International Giant Enterprise

During the Year, the Group has signed a memorandum of understanding with L Capital Asia Advisors, an affiliate of LVMH Group, a world-renowned giant enterprise in luxury sector, for setting out the framework of the dynamic and strategic cooperation in the ways of retail expansion, brand building, advertising, marketing, retail operation, human resources and distribution. Thanks for such strategic cooperation, L Capital Asia Advisors became a passive investor as well as strategic partner of the Group which established cooperative and mutually beneficial relationship. On the other hand, the Group can further strengthen its brand recognition by direct association with prestigious enterprise.

Enjoying Group Synergies

The ability to leverage other businesses and enjoy the synergies effect with intra-group companies within the Emperor Group are two of the advantages of the Group. Some of the store outlets in Hong Kong and all store outlets in Macau are leased from the Emperor Group's property and hotel arm respectively. Meanwhile, the Group enjoyed strong celebrity participation and media coverage for its promotional campaigns due to the Emperor Group's entertainment business. During the Year, the Group sponsored "Triple Tap" and co-sponsored "Detective Dee and the Mystery of the Phantom Flam" with *Audemars Piguet*, both are productions of Emperor Motion Pictures. The Group also invited VIP guests to its movie premiere and sponsored jewellery for all artists from Emperor Entertainment Group. Such advantages can further enhance "***Emperor***" reputation, particularly in the PRC market.

PROSPECTS

PRC is the second largest luxury goods consumption market in the world, accounting for about 20% of the total sales of global luxury goods. The prospects of the luxurious watches and jewellery retail markets in the PRC is very positive, harbouring the greatest demand for quality living style, and will continue to capture the increasing purchasing powers of mainlanders. Hong Kong will continue to perform as a strategic base of the Group. With high retail credibility and tax exemption for international brand products, the Group's Hong Kong outlets are anticipated to continue to be patronized by enthusiastic shoppers from the PRC in the coming years.

Being a prime representative of luxury watches and jewellery during the decades since its inception, the Group has been committed to building more mega stores in the long-run. Led by the successful signature flagship store in "1881 Heritage", the Group planned to open other flagship stores in Macau and the PRC in the next few years.

Meanwhile, the Group will capitalize the growth potential in the PRC by further expanding its retail networks, both to raise its market share in developed cities and to seize first or early mover advantage in lower-tier cities. The Group intended to set up 10-20 stores in the PRC in 2011, focusing first-, second- as well as third-tier cities to accelerate the penetration of market coverage.

The Group will continue to enhance jewellery business for a better outcome in its dual business models and better marginal performances. Because of the increase of personal income of Chinese people, jewellery will be the next popular consumer item chose by the mainlanders after apartments and automobiles. However, jewellery consumption is still limited to first- and second-tier cities, despite the fact that the potential markets of these regions are very huge. In the long run, lower-tier cities will be the drive for next round of growth.

CAPITAL STRUCTURE

New Share Placing

On 25 January 2010, 450,000,000 new ordinary shares of HK$0.01 each were issued by way of placing to independent third parties at a price of HK$0.51 per share. The new shares issued rank pari passu with the existing shares in issue of the Company.

Top-up Placing of New Shares

On 3 March 2010, Allmighty Group Limited, the controlling shareholder of the Company, agreed to place 264,810,000 shares of the Company ("Placing") to independent investors at a price of HK$0.54 per share, and also agreed to subscribe for 264,810,000 new shares of the Company (the "Top-Up Shares") at the price of HK$0.54 per share ("Top-Up Subscription") conditional upon the completion of the Pricing. The Top-Up Shares rank pari passu with the existing shares in issue of the Company, when fully paid. The Placing and Top-Up Subscription were completed on 9 March 2010 and 12 March 2010 respectively.

Convertibe Bonds and Warrants

On 13 April 2010, Winner Sea Enterprises Limited ("Winner Sea"), a wholly owned subsidiary of the Company, issued convertible bonds to three independent third parties in the aggregate principal amount of HK$100 million. Each of the bondholders has an option to convert the bonds into ordinary shares of the Company at HK$0.54 per share at any time between 23 April 2010 and 14 days prior to 13 April 2013. However, under a purchase agreement dated 25 August 2010, Winner Sea purchased back all the bonds in cash and the bonds were cancelled on 21 September 2010.

On 26 August 2010, Winner Sea entered into another separate subscription agreement with two independent third parties for the subscription of convertible bonds in the principal amount of HK$240 million ("HK$240M Bond") and HK$140 million ("HK$140M Bond") respectively. Each of the bondholders has an option to convert the whole sum of the respective principal amount into ordinary shares of the Company at HK$0.54 per share at any time between 22 September 2010 and 14 days prior to 12 April 2013 ("Maturity Date") or to get full redemption at 106% of the outstanding principal amount on the Maturity Date.

On 22 September 2010, in recognition of a strategic partnership memorandum signed on 26 August 2010, warrants of HK$100 million were issued to one of the bondholders by the Company. The warrants carry a right but not an obligation to subscribe for the ordinary shares of the Company at an exercise price of HK$0.62 per share from the date of issue to 12 April 2013.

On 8 November 2010, the HK$240M Bond was converted into 444,444,444 ordinary shares of the Company at the option of the bondholder. Subsequent to the financial year end, on 11 February 2011, the HK$140M Bond was converted into 259,259,259 ordinary shares of the Company at the option of the bondholder.

As a result of the aforesaid placements and the conversion of the HK$240M Bond, the share capital and share premium of the Company were totally increased by approximately HK$11.6 million and HK$601.2 million respectively.

FOREIGN EXCHANGE EXPOSURE

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

CAPITAL EXPENDITURES

As at 31 December 2010, the Group has capital commitments in respect of acquisition of property, plant and equipment of HK$1.5 million and operating lease commitment of HK$359.1 million.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any material contingent liabilities.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2010, the Group has 742 salespersons (2009: 544) and 190 office staff (2009: 154). Total staff costs (including directors' remuneration) were HK$155.7 million (2009: HK$115.8 million). 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 benefit.

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 and the Non-Executive Director of the Company.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

The Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year under review.

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 Stock Exchange's website (http://www.hkex.com.hk) and the Company's website (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
Managing Director

Hong Kong, 22 March 2011

As at the date hereof, the Board comprised:

Executive Directors:	Ms. Cindy Yeung *(Managing Director)* Mr. Chan Hung Ming Mr. Wong Chi Fai Ms. Fan Man Seung, Vanessa
Non-Executive Director:	Mr. Hanji Huang
Independent Non-Executive Directors:	Ms. Yip Kam Man Mr. Chan Hon Piu Ms. Lai Ka Fung, May