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 2011

FINANCIAL HIGHLIGHTS

HK$'million	**2011**	**2011**	**2010**	**Changes**
	Per Reported	**Excluding the net loss on derivative financial instruments[1]**		
Revenue	5,862	**5,862**	**4,095**	**43.1%**
Gross Profit	1,686	**1,686**	**1,048**	**60.9%**
Gross Profit Margin	28.8%	**28.8%**	**25.6%**	**3.2% pts**
EBITDA[2]	825	**834**	**456**	**82.9%**
EBITDA Margin	14.1%	**14.2%**	**11.1%**	**3.1% pts**
Profit for the Year	627	**636**	**332**	**91.6%**
Net Profit Margin	10.7%	**10.8%**	**8.1%**	**2.7% pts**
Basic earnings per share	HK9.7 cents	**HK9.9 cents**	**HK6.2 cents**	**59.7%**
Dividend per share	HK2.8 cents	**HK2.8 cents**	**HK1.77 cents**	**58.2%**

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

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") 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 2011 (the "Year") together with the comparative figures for the year 2010 as set out below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	3	**5,862,377**	4,095,310
Cost of sales		**(4,176,689)**	(3,047,738)
Gross profit		**1,685,688**	1,047,572
Other income		**11,277**	12,230
Selling and distribution expenses		**(704,851)**	(472,268)
Administrative expenses		**(224,174)**	(173,045)
Net loss on derivative financial instruments		**(9,300)**	(199,010)
Finance costs		**(1,746)**	(11,195)
Profit before taxation	4	**756,894**	204,284
Taxation	5	**(129,842)**	(70,423)
Profit for the year		**627,052**	133,861
Other comprehensive income for the year:			
Exchange differences arising from translation of foreign operations		**27,521**	7,149
Total comprehensive income for the year		**654,573**	141,010
Profit (loss) for the year attributable to:			
Owners of the Company		**627,084**	125,641
Non-controlling interests		**(32)**	8,220
		627,052	133,861
Total comprehensive income attributable to:			
Owners of the Company		**654,499**	132,637
Non-controlling interests		**74**	8,373
		654,573	141,010
Earnings per share	6		
Basic		**HK9.7 cents**	HK2.4 cents
Diluted		**HK9.6 cents**	HK2.4 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 *HK$'000*	2010 *HK$'000*
Non-current assets			
Property, plant and equipment		**96,667**	85,360
Deferred tax asset		**5,927**	3,811
Rental Deposit		**154,624**	101,959
Deposits paid for acquisition of property, plant and equipment		**2,571**	–
		259,789	191,130
Current assets			
Inventories		**3,404,176**	2,152,007
Receivables, deposits and prepayments	*8*	**199,439**	171,010
Bank balances and cash		**803,777**	601,484
		4,407,392	2,924,501
Current liabilities			
Payables, deposits received and accrued charges	*9*	**396,426**	404,661
Amounts due to related companies		**4,040**	3,598
Amount due to a former non-controlling shareholder		–	45,471
Taxation payable		**67,967**	34,556
Bank borrowings	*10*	**340,205**	67,241
		808,638	555,527
Net current assets		**3,598,754**	2,368,974
Total assets less current liabilities		**3,858,543**	2,560,104
Non-current liabilities			
Derivative financial instruments	*11*	–	180,320
Liability component of convertible bond	*11*	–	109,541
		–	289,861
Net assets		**3,858,543**	2,270,243
Capital and reserves			
Share capital		**67,185**	56,593
Reserves		**3,791,358**	2,211,053
Equity attributable to owners of the Company		**3,858,543**	2,267,646
Non-controlling interests		–	2,597
Total equity		**3,858,543**	2,270,243

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.

2. APPLICATION OF NEW AND REVISED HKFRSs

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK (IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised 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 HKFRS7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKFRS7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS9	Financial Instruments[3]
Amendments to HKFRS9 and HKFRS7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measuremet[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 January 2012
[5] Effective for annual periods beginning on or after 1 July 2012
[6] Effective for annual periods beginning on or after 1 January 2014

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 financia11iabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* 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. 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)

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. 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 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. 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.

The directors anticipate that the adoption of HKFRS 9 in the future will not have a 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 2011.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

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 additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are 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 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 the future accounting periods.

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

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.

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

For the year ended 31 December 2011

	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)	–
	5,059,806	417,259	622,073	(236,761)	5,862,377
* Inter-segment sales are charged at cost					
Segment profit	819,076	82,897	16,726	–	918,699
Unallocated administrative expenses					(154,268)
Interest income					3,509
Net loss on derivative financial instruments					(9,300)
Finance costs					(1,746)
Profit before taxation					756,894

Notes:

3. REVENUE AND SEGMENT INFORMATION (Continued)

For the year ended 31 December 2010

	Hong Kong *HK$'000*	Macau *HK$'000*	Other regions in the PRC *HK$'000*	Elimination *HK$'000*	Consolidated *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

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

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.

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 2011

	Hong Kong	**Macau**	**Other regions in the PRC**	**Unallocated**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Depreciation	**42,974**	**1,290**	**17,873**	**4,173**	**66,310**
Operating lease payments	**289,365**	**6,306**	**102,899**	**6,995**	**405,565**

For the year ended 31 December 2010

	Hong Kong	**Macau**	**Other regions in the PRC**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation	28,558	685	9,114	3,147	41,504
Operating lease payments	193,170	3,940	70,096	5,494	272,700

Notes:

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

Revenue from major products

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

	2011	2010
	HK$'000	*HK$'000*
Watch	**4,831,945**	3,461,439
Jewellery	**1,030,324**	632,837
Others	**108**	1,034
	5,862,377	4,095,310

Geographical information

Information about the Group's non-current assets is presented based on the geographical location of assets are detailed below:

As at 31 December 2011

	Hong Kong	**Macau**	**Other regions in the PRC**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Non-current assets	**184,084**	**7,537**	**62,241**	**253,862**

As at 31 December 2010

	Hong Kong	**Macau**	**Other regions in the PRC**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	142,673	2,394	42,252	187,319

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

	2011	2010
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Allowance for inventories	**17,841**	1,750
Auditor's remuneration	**3,849**	2,536
Cost of inventories included in cost of sales	**4,140,871**	3,037,435
Depreciation of property, plant and equipment	**66,310**	41,504
Loss on disposal/write off of property, plant and equipment	**718**	5,610
Net exchange loss	**5,620**	2,294
Operating lease payments in respect of rented premises		
– minimum lease payments	**331,170**	239,226
– contingent rent	**74,395**	33,474
Write down of inventories	**1,645**	450
Staff costs, including Directors' remuneration		
– salaries and other benefits costs	**213,358**	148,229
– retirement benefits scheme contributions	**13,374**	7,507

5. TAXATION

	2011	2010
	HK$'000	*HK$'000*
The charge comprises:		
Current year:		
Hong Kong	**121,288**	65,490
PRC	**1,675**	6,355
Macau	**9,529**	5,412
	132,492	77,257
(Over) underprovision in prior years:		
Hong Kong	**(396)**	(2,647)
Macau	**(138)**	3
	(534)	(2,644)
Deferred taxation	**(2,116)**	(4,190)
	129,842	70,423

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 and loss based on the following data:

	Year ended 31/12/2011 *HK$'000*	Year ended 31/12/2010 *HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**627,084**	125,641

Number of shares	**Year ended 31/12/2011**	Year ended 31/12/2010
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,437,986,052**	5,200,188,904
Effect of dilutive potential ordinary shares:		
Warrants	**81,557,158**	
Convertible bond	**26,991,375**	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,546,534,585**	

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 Company's warrants since the assumed conversion of the subsidiary's convertible bonds would result in an increase in earnings per share for the year ended 31 December 2010 and the exercise price of the Company's warrants was higher than the average market price for shares for the year ended 31 December 2010.

7. DIVIDENDS

A final dividend for the year ended 31 December 2011 of HK1.6 cents (2010: HK1.02 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 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 for the year ended 31 December 2011 amounting to approximately HK$80,622,000 was paid in September 2011.

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 approximately HK$44,325,000 was paid in June 2010 and an interim dividend of HK0.75 cent per share for the year ended 31 December 2010 amounting to approximately HK$39,111,000 was paid in September 2010.

Notes:

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**88,819**	62,828
Other PRC tax recoverable	**47,828**	51,096
Other receivables, deposits and prepayments	**62,792**	57,086
	199,439	171,010

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. Wholesale customers are granted an average credit periods from 7 days to 90 days.

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

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**77,845**	47,471
31 – 60 days	**6,920**	5,876
61 – 90 days	**4,054**	9,481
	88,819	62,828

Before accepting any new customer, the Group would assess the potential wholesale customer's credit quality and defines credit limit for each wholesale customer.

Receivables that are neither past due nor impaired relate to receivables from credit card sales, 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$3,009,000 (2010: HK$2,006,000) 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

	2011	2010
	HK$'000	*HK$'000*
Overdue 1 – 30 days	**2,648**	684
Overdue 31 – 60 days	**361**	1,322
	3,009	2,006

Notes:

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

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:

	2011	2010
	HK$'000	*HK$'000*
Macau Pataca ("MOP")	**1,100**	433

9. PAYABLES, DEPOSITS RECEIVED AND ACCRUED CHARGES

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**310,574**	309,115
Other payables, deposits received and accrued charges	**85,852**	95,546
	396,426	404,661

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

	2011	2010
	HK$'000	*HK$'000*
0 – 30 days	**284,189**	238,874
31 – 60 days	**9,752**	32,864
61 – 90 days	**15,221**	4,593
Over 90 days	**1,412**	32,784
	310,574	309,115

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:

	2011	2010
	HK$'000	*HK$'000*
United States Dollars ("USD")	**11,608**	36,232

Notes:

10. BANK BORROWINGS

	2011	2010
	HK$'000	*HK$'000*
Unsecured bank loans, repayable within one year	**340,205**	67,241

The ranges of weighted effective interest rates on the Group's borrowings are ranged from 1.54% to 8.97% (2010: 1.43% to 4.49%) per annum. The bank borrowings are summarised as follows:

Denominated in	Interest rate	2011	2010
		HK$'000	*HK$'000*
HKD	Hong Kong Interbank Offered Rates ("HIBOR") plus 1.25% (2010: HIBOR plus 1.25%)	**5,150**	9,000
HKD	HIBOR plus 2% (2010: Nil)	**180,000**	–
HKD	HIBOR plus 2.25% (2010: Nil)	**125,327**	–
HKD	HIBOR plus 2.5% (2010: Nil)	**29,728**	–
RMB	95% of People's Bank of China Prescribed Interest Rate	**–**	58,241
		340,205	67,241

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 at an effective interest rate of 16.1% per annum and the derivatives component of HK$140M Bond carried at fair value.

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

During the year ended 31 December 2011, the HK$140M Bond was fully converted into 259,259,259 ordinary shares of HK$0.01 each at conversion price of HK$0.54 per share. The fair value loss as a result of the changes in the fair value of embedded derivative component from 1 January 2011 to the date of conversion, amounting to HK$9,300,000 was recognised in the profit or loss.

Net loss on derivative financial instruments recognised in profit or loss in prior year represented the fair value loss of HK$130,880,000 on initial recognition of the HK$140M Bond and warrants and its changes in fair value during the year ended 31 December 2010 of HK$68,130,000.

Notes:

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

The fair value of the embedded derivatives components of HK$140M Bond as at the conversion date 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:

	Conversion date	**At 31 December 2010**
Share price	HK$1.16	HK$1.12
Conversion price	HK$0.54	HK$0.54
Expected volatility	45%	46%
Remaining life	2.2 years	2.3 years
Risk free rate	0.64%	0.69%
Expected dividend yield	2.6%	2.581%

12. WARRANTS

Warrants were issued by way of bonus to the subscriber for subscribing the HK$140M Bond. 161,290,322 units of warrants were issued and 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.

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.

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***", through its extensive retail networks in Hong Kong, Macau and the PRC. The target customers range from middle to high income group from all over the world. With a long history of 70 years since its establishment, the Company owns a balanced and comprehensive watches' dealership list.

Dedicated to the continuous efforts of the Group on the growth of business performance and enhancement of investor communication, the Group is awarded by Asia Money Magazine as 2011 Hong Kong Best Managed Companies Award (Small-Cap).

MARKET REVIEW

With reference to the review conducted by the World Luxury Association, the PRC became the largest luxury goods consumption market in 2011 by taking up 28% of global consumption of luxury goods. Among the consumers for luxury goods in the PRC, 45% were aged from 18 to 34. It shows that the young generation and middle income group are transitioning from a saving culture to a spending culture. With the rising awareness of the quality for life, the wealthy middle age group and emerging middle income group are demanding more on life-style enhancement and personal image, which are the underlying forces for fine-quality and well-branded items.

According to the statistics revealed by the Hong Kong Tourism Board, the total number of mainland visitors amounted to 42 million for the Year with an increase of 16.4% when compared to last year. Hong Kong therefore is still a popular shopping destination from the perspectives of mainland visitors, as Hong Kong offers a broader selection of products and competitive prices due to the absence of luxury goods tax and appreciation of Renminbi against Hong Kong dollars.

FINANCIAL REVIEW

Thanks for the expansion of market demand for luxury goods and substantial increase of purchasing powers of mainland visitors, the general performance for the Year was encouraging.

During the Year, the Group reported revenue of approximately HK$5,862.4 million (2010: HK$4,095.3 million), representing an increase of 43.1%. The Hong Kong market continued to be the key revenue contributor, taking up 83.0% (2010: 82.2%) of the Group's total revenue. During the Year, the revenue contribution from the jewellery sector further increased to 17.6% (2010: 15.4%). Due to the continuous contribution of jewellery business as well as the increase of retail price of watch and diamond during the Year, the overall gross profit margin performance further increased to 28.8% (2010: 25.6%).

Excluding the net loss on derivative financial instruments, EBITDA increased substantially by 82.9% to HK$834 million (2010: HK$456 million) and the profit for the Year surged by 91.6% to HK$636.4 million (2010: HK$331.6 million). Basic earnings per share were HK9.9 cents (2010: HK6.2 cents).

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, 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 2011 amounted to HK$803.8 million (2010: HK$601.5 million), which were mainly denominated in Hong Kong dollars and Renminbi. As at 31 December 2011, the Group had total bank borrowings of approximately HK$340.2 million (2010: HK$67.2 million). These bank borrowings were denominated in Hong Kong dollar, interest bearing, repayable with fixed terms and secured by corporate guarantees of the Company.

The convertible bonds have been converted into equity shares during the Year, nevertheless, due to the temporarily utilization of subsisting banking facilities at the year end, the gearing ratio of the Group (calculated on the basis of the total borrowings over total assets) as at 31 December 2011 increased to 7.3% (2010: 5.7%) incidentally. The Group also had available unutilised banking facilities of approximately HK$375.5 million.

As at 31 December 2011, the Group's current assets and current liabilities were approximately HK$4,407.4 million (2010: HK$2,924.5 million) and HK$808.6 million (2010: HK$555.5 million) respectively. Current ratio and quick ratio of the Group were 5.5 (2010: 5.3) and 1.2 (2010: 1.4) respectively.

In view of the Group's financial position as at 31 December 2011, 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 the PRC. These include jewellery shops, multi-brand shops as well as specialty outlets for specific watch 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 2011, the Group had 80 stores (2010: 61 stores) in Hong Kong, Macau and the PRC. Details of which is listed below:

	Number of stores
Hong Kong	18
Macau	5
The PRC	57

The Group's retail stores in Hong Kong are strategically located at the major high-end shopping places, namely, Russell Street in Causeway Bay, Canton Road and Nathan Road in Tsim Sha Tsui. Russell Street is now recognized as one of the most expensive shopping area in the world, in terms of shop rental rate per square feet. With the lead of iconic flagship store located in 1881 Heritage, Canton Road, Tsim Sha Tsui, the Group can capture the local shoppers as well as mainland visitors.

As the Group focused its resources on the store roll-outs in the PRC during the Year, the number of mainland stores had increased to 57 as at 31 December 2011, covering the first-tier and second-tier cities including Beijing, Guangzhou, Shanghai and Chongqing so as to seize the potential growth opportunities and enhance the Group's market penetration in those regions.

Brand Recognition and Effective Marketing Programme

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 organized 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 utilized the spacious area in ***Emperor Jewellery Flagship Store*** in 1881 Heritage and continuously hosted joint promotion events with investment banks, insurance companies, charity funds 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 leverage other businesses and enjoy the synergies effect with intra-group companies within the Emperor Group are two of the advantages for 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 its hotel arm respectively. During the Year, the Group enjoyed strong celebrity participation and media coverage for its promotional campaigns riding on the Emperor Group's entertainment businesses. The Group also invited VIP guests to its movie premiere and sponsored jewellery for all artistes from Emperor Entertainment Group. Such advantages can further enhance the reputation of the "***Emperor***", particularly in the PRC market.

PROSPECTS

Consumption growth will remain rapid in the years to come with the support of sustained economic growth, wealth expansion, dynamic and changing demographics and customer psychology. Luxury watch and fine jewellery market are no doubt the most appealing product segment as they account for the largest share of the PRC's luxury expenditure and register the most prominent growth of the various luxury products.

With reference to The Chinese Millionaire Wealth Report 2011 issued by Hurun Fortune, 145 million people whose annual income ranged from RMB60,000 to RMB500,000 was regarded as middle income group, which accounted for 11.3% of the total population of the PRC. The Group strongly believes that the middle income group will continue to expand in future and such segment therefore cannot be neglected.

Being a prominent watch retailer in Hong Kong with a growing presence in the PRC, it is inevitable that the Group is the best position to capture such market opportunities. With high retail credibility and tax exemption for international branded products, the Group's Hong Kong outlets are anticipated to continue to be patronized by enthusiastic shoppers from the PRC in the coming years.

In view of the increasing number of the mainland visitors to Hong Kong and Macau, the Group is confident to have a further solid growth in Hong Kong and Macau's operations and therefore the Group is determined to enhance the presence in the main tourist areas in these regions. The Group will capitalize the growth potential in the PRC by further expanding its retail networks by both raising its market coverage in first-tier cities and seizing first or earlier advantages in lower-tier cities. Meanwhile, the Group will continue to enhance jewellery business for a better outcome in its dual business models and better marginal performance.

CAPITAL STRUCTURE

a. Issue of Shares on Conversion of HK$140M Bond

During the Year, the Company issued 259,259,259 ordinary shares upon full conversion of the HK$140M Bond on 7 February 2011 which was issued pursuant to a subscription agreement entered into on 26 August 2010. The new shares rank pari passu with the existing share in all respects.

b. Top-up Placing of New Shares

On 19 April 2011, Allmighty Group Limited, the controlling shareholder of the Company, agreed to place 800,000,000 ordinary shares of the Company ("Placing") to independent investors at HK$1.00 per share, and also agreed to subscribe for 800,000,000 new ordinary shares of the Company (the "Top-up Shares") at the price of HK$1.00 per share ("Top-up Subscription") conditional upon the completion of the Placing. 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 21 April 2011 and 27 April 2011 respectively.

c. Unexercised warrant

As a result of Placing and Top-up Subscription above, the exercise price of the warrants, which have not yet been exercised, was adjusted from HK$0.62 to HK$0.61 per share with the underlying shares being adjusted from 161,290,322 shares to 163,934,426 shares of the Company.

As a result of the Placing and Top-up Subscription, the share capital and share premium of the Company increased totally by HK$10,592,000 and HK$1,075,594,000 respectively.

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 2011, the Group has capital commitments in respect of acquisition of property, plant and equipment of approximately HK$20.7 million (2010: approximately HK$1.5 million) and operating lease commitment of approximately HK$1,260.8 million (2010: approximately HK$0.4 million).

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any material contingent liabilities.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2011, the Group has 985 salespersons (2010: 742) and 224 office staff (2010: 190). Total staff costs (including directors' remuneration) were HK$226.6 million (2010: HK$155.7 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 recommended the payment of a final dividend of HK1.6 cents (2010: HK1.02 cents) per share ("Final Dividend") for the year ended 31 December 2011, amounting to approximately HK$107.4 million (2010: HK$68.5 million). The Final Dividend, if being approved at the forthcoming annual general meeting of the Company ("AGM"), will be paid on 8 June 2012 (Friday) to shareholders whose names appear on the register of members of the Company on 18 May 2012 (Friday).

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 8 May 2012 (Tuesday)
Book close date	9 May 2012 (Wednesday)
Record date	9 May 2012 (Wednesday)
AGM	10 May 2012 (Thursday)

For ascertaining shareholders' entitlement to the proposed Final Dividend

Latest time to lodge transfers	4:30 p.m. on 16 May 2012 (Wednesday)
Book close dates	17 to 18 May 2012 (Thursday – Friday)
Record date	18 May 2012 (Friday)
Final Dividend payment date	8 June 2012 (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, Wanchai, 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 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.

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
Chairperson & Managing Director

Hong Kong, 19 March 2012

As at the date hereof, the Board comprised:

Executive Directors:	Ms. Cindy Yeung *(Chairperson & 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