



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

Incorporated in Hong Kong with limited liability (Stock Code: 887)



ELEGANT BLOOMS

Annual Report 2013



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# CORPORATE INFORMATION AND KEY DATES

## DIRECTORS

Cindy Yeung (*Chairperson*)  
Chan Hung Ming  
Wong Chi Fai  
Fan Man Seung, Vanessa  
Yip Kam Man \*  
Chan Hon Piu \*  
Lai Ka Fung, May \*

\* Independent Non-executive Directors

## COMPANY SECRETARY

Chung Ho Ying, Frina

## AUDIT COMMITTEE

Yip Kam Man (*Chairperson*)  
Chan Hon Piu  
Lai Ka Fung, May

## REMUNERATION COMMITTEE

Lai Ka Fung, May (*Chairperson*)  
Wong Chi Fai  
Yip Kam Man

## NOMINATION COMMITTEE

Chan Hon Pui (*Chairman*)  
Fan Man Seung, Vanessa  
Lai Ka Fung, May

## CORPORATE GOVERNANCE COMMITTEE

Fan Man Seung, Vanessa (*Chairperson*)  
Yip Kam Man  
Chan Hon Piu

a representative from company secretarial function  
a representative from finance and accounts function

## AUDITOR

Deloitte Touche Tohmatsu

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

25th Floor  
Emperor Group Centre  
288 Hennessy Road  
Wanchai  
Hong Kong

## SHARE REGISTRAR

Tricor Secretaries Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited  
The Bank of East Asia, Limited  
Chong Hing Bank Limited  
Hang Seng Bank Limited

## INVESTOR RELATIONS CONTACT

Luk Man Ching, Anna  
Email: [ir@emperorgroup.com](mailto:ir@emperorgroup.com)

## WEBSITE

<http://www.emperorwatchjewellery.com>

## STOCK CODE

Hong Kong Stock Exchange: 887

## KEY DATES

Annual Results Announcement	19 March 2014
Book Close Dates	
– For AGM	7 May 2014
– For Final Dividend	14 and 15 May 2014
Record Dates	
– For AGM	7 May 2014
– For Final Dividend	15 May 2014
Annual General Meeting	8 May 2014
Payment of Final Dividend	6 June 2014 (HK0.58 cent per share)

## CORPORATE COMMUNICATIONS

This Annual Report (in both English and Chinese versions) is available to any shareholder in printed form and on the websites of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) and the Company. In order to protect the environment, the Company highly recommends shareholders to elect to receive electronic copy of this Annual Report. Upon written request, a free printed version of Corporate Communication will be sent to shareholders who have elected to receive electronic copies but for any reason have difficulty in receiving or gaining access to any Corporate Communication through the Company's website. Shareholders may have the right to change their choice of receipt of our future Corporate Communications at any time by reasonable notice in writing to the Company or the Company's Share Registrar, Tricor Secretaries Limited, by post or by email at [is-enquiries@hk.tricorglobal.com](mailto:is-enquiries@hk.tricorglobal.com).



# FINANCIAL HIGHLIGHTS

- ◆ Despite the slowdown in high-end luxury consumption, the Group managed to deliver a slight growth in revenue to HK\$6,624 million (2012: HK\$6,531 million).
- ◆ As a result of proactive optimisation of jewellery portfolio, its revenue increased by 22.2% to HK\$1,481 million (2012: HK\$1,211 million), with enhanced mix from 18.5% to 22.4% of total sales.
- ◆ In response to relatively keen price competition on watch business, the Group implemented sales promotion and hence moved down the gross profit margin to 24.1% (2012: 26.0%).
- ◆ Backed by the surge of self-driven consumption of middle income group, the Hong Kong market showed resilience with revenue staying flat at HK\$5,545 million (2012: HK\$5,520 million) and continued to be the key contributor (83.7%) of the Group's revenue.
- ◆ Net profit was HK\$290 million (2012: HK\$404 million).
- ◆ Riding on its effective inventory control, the overall inventory turnover days maintained at 265 days (2012: 267 days).
- ◆ Achieved a strong cash position with debt-free as at 31 December 2013. Bank balances and cash on hand amounted to HK\$657 million (2012: HK\$455 million).
- ◆ Expanded the coverage to Southeast Asia by initiating a presence in Singapore, one of the most popular tourist spots in the region.

# ACHIEVEMENTS



◆ **Hong Kong Service Awards 2013**  
Watch Retailer Category  
*East Week, March 2013*

◆ **The Outstanding Brand Awards 2013**  
*Economic Digest, May 2013*



◆ **Outstanding QTS Merchant Service Staff 2013**  
Gold Award in Jewellery & Watches Category  
*Hong Kong Quality Tourism Services Association, October 2013*

◆ **Yahoo! Big Idea Chair Awards 2013**  
Best Integrated Campaign Merit Award  
*Yahoo!, November 2013*



◆ **Standard Chartered Bank Women on Boards Hong Kong 2014**  
Ranked 1<sup>st</sup> on the Hang Seng Composite Index (HSCI), in terms of Board Gender Diversity  
*Community Business, March 2014*

# MANAGEMENT DISCUSSION AND ANALYSIS

Emperor Watch & Jewellery Limited (the “Company”) and its subsidiaries (collectively referred to as 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 People’s Republic of China (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

In the year ended 31 December 2013 (the “Year”), luxury consumption in the PRC had been cooled off by the relative low economic growth and austerity initiatives. With the exit of the demand for high-ticket items and the manner of irrational purchases, the consumers have been tending to be more rational and looking for luxury items within an affordable range. The market therefore has started to show signs of returning to a normalised development pace since late of the Year.

Despite the slowdown in high-end luxury consumption, China was still the largest luxury market in the world. According to a study conveyed by Bain & Co., luxury purchases by Chinese consumers accounted for 29% of the global market in the Year, an increase of 4 percentage points compared to the last year. Given the long-standing tax-free shopping environment, Hong Kong remains a popular destination for the mainland visitors. During the Year, the number of mainland visitors arrivals to Hong Kong reached 40.7 million (2012: 34.9 million), representing a year-on-year growth of 16.7%. Underpinned by sustained growth of tourist spending and the expansion of the middle class, the retail sales in Hong Kong had continued to grow healthy, with the value of total retail sales increased by 11.0% to HK\$494.5 billion during the Year.



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Overall Review

During the Year, the Group achieved a revenue growth of 1.4% to approximately HK\$6,624.4 million (2012: HK\$6,531.5 million). The Hong Kong market continued to be the key revenue contributor, with its revenue maintained at a flat growth as HK\$5,545.2 million (2012: HK\$5,519.9 million), accounting for 83.7% (2012: 84.5%) of the Group's total revenue. Despite the sluggish demand on high-ticket items, the Hong Kong market is relatively resilient in response to the surge of self-driven demand of middle income group due to the regional watch price difference between Hong Kong and the PRC. During the Year, 77.6% (2012: 81.5%) of the Group's total revenue was generated from watch segment. The Group has taken a pro-active approach for enhancing jewellery business since January 2013, which boosted its segmental revenue by 22.2% to HK\$1,480.7 million (2012: HK\$1,211.5 million).

Gross profit amounted to HK\$1,600.0 million (2012: HK\$1,696.7 million). Gross profit margin was 24.1% (2012: 26.0%). During the Year, due to the relatively keen price competition of watches across all the ticket sizes, the Group implemented sales promotion and hence moving down the general gross profit margin. However, such pricing environment has been stabilised since the second half of the Year.

EBITDA and net profit were HK\$414.7 million (2012: HK\$572.3 million) and HK\$290.3 million (2012: HK\$404.3 million) respectively. The decrease of EBITDA and net profit were owing to the decrease in gross profit margin and mild increase in rental expenses. Basic earnings per share was HK4.20 cents (2012: HK6.00 cents). The board of directors of the Company (the "Board" or "Directors") recommends the payment of a final dividend of HK0.58 cent (2012: HK0.80 cent) per share. Together with the interim dividend of HK0.68 cent per share, the total dividend per share for the Year was HK1.26 cents (2012: HK1.78 cents).



## Liquidity and Financial Resources

Bank balances and cash on hand of the Group as at 31 December 2013 amounted to HK\$657.1 million (2012: HK\$454.8 million), which were mainly denominated in Hong Kong dollars (“HKD”) and Renminbi (“RMB”). As at 31 December 2013, the Group had no bank borrowings (2012: HK\$1.0 million) and its gearing ratio (calculated on the basis of the total borrowings over total equity) was nil (2012: 0.02%). The Group also had available unutilised banking facilities of approximately HK\$704.6 million. The strong liquidity with debt-free position and considerable unutilised banking facilities enables the Group to retain high flexibility for future development.

As at 31 December 2013, the Group’s current assets and current liabilities were approximately HK\$4,481.4 million (2012: HK\$4,180.8 million) and HK\$388.6 million (2012: HK\$366.9 million) respectively. Current ratio and quick ratio of the Group were 11.5 (2012: 11.4) and 2.1 (2012: 1.8) respectively.

In view of the Group’s financial position as at 31 December 2013, the Board considered that the Group had sufficient working capital for its operations and future development plans.

## Capital Structure

During the Year, 163,934,426 units of warrants with an aggregate subscription value of approximately HK\$100.0 million were 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.



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Expanding Retail Coverage to Southeast Asia

During the Year, the Group has successfully expanded the coverage from Greater China to Southeast Asia by initiating a presence in Singapore, enabling the Group to tap into the growing wealth of Southeast Asia and Singapore's status as a tourist hub. Together with the extensive network in Hong Kong, Macau and the PRC, the Group had 74 stores as at 31 December 2013. Details of which are listed below:

	Number of stores
Hong Kong	22
Macau	6
The PRC	42
Singapore	4
<b>Total</b>	<b>74</b>

These stores include standalone jewellery shops, multi-brand watch shops (with or without jewellery counters) as well as specialty outlets for specific watch brands.

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. According to a survey conducted by CBRE Global Research and Consulting, Hong Kong remained the world's most expensive prime retail locations in Q4 2013. In terms of retail rental rate per square feet during the Year, these three shopping streets were labelled as world-class top-ranked most valuable shopping streets. Having a solid presence in these extreme prime locations is of paramount importance for the leading retailer of luxury watches. The Group enjoys a high penetration rate amongst the mainland visitors and brand enhancement through its presence in these extreme prime areas.

In October 2013, a duplex multi-watch shop with jewellery section was officially opened. With the help of another symbolic flagship store located in Canton Road, Tsim Sha Tsui, the Group is able to capture local shoppers as well as mainland visitors.

In June 2013, a Patek Philippe independent corner was opened in Nathan Road, Tsim Sha Tsui, where it offers elegant and fine timepiece collections. Such collaboration demonstrates management's dedication to foster solid relationships with leading watch brand suppliers, thereby achieving win-win situations where both leading watch brands and the Group enjoys brand enhancement through its presence in extreme prime areas.



EMPEROR  
英皇珠寶

# MANAGEMENT DISCUSSION AND ANALYSIS

## Solidifying Leading Position in Hong Kong

Significant regional watch price difference, authenticity assurance and full assortments provide strong incentives for mainland visitors to purchase luxury watches in Hong Kong. The Group continued to enjoy solid and long-term relationship with major Swiss watch brand suppliers and hold comprehensive watch dealership with full collections in Greater China. Dedicated to its full range of timepieces and excellent customer services, the Group was ranked as the Gold Award in “Outstanding QTS merchant Services Staff 2013 (Jewellery & Watches Category)” by Hong Kong Quality Tourism Services Association, which is the leading award among the watch and jewellery merchants in Hong Kong. Together with the strongest presence in the retail prime locations in Hong Kong, the Group continued to enjoy the best pedestrian flow and foster its leading position in Hong Kong.

## Enriching Jewellery Product Portfolio

During the Year, the Group continued to offer quality with design on premium “**Emperor Jewellery**” products to the customers. With key focus on quality gem-sets and fine jadeites among the comprehensive product range and commitment to high service standards, the Group enriched design features to satisfy diversified customers’ taste and enhanced charisma of signature “**Emperor Jewellery**” collections to raise brand loyalty. Stylish and prestigious gem-sets, bridal collections and fine jadeites continued to be popular items. Meanwhile, new collections with unique themed design were launched regularly at different price points for further fostering the customer loyalty of sophisticated customers and penetrating new shoppers in different income group. After continuous implementation of effective optimisation of jewellery product portfolio during the Year, the Group was able to enhance the jewellery segment among the total revenue mix and the overall capital efficiency successfully.





## Enhancing Brand Image

The Group continued to promote various watch brands effectively 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**”.

During the Year, the Group specially utilised numerous celebrity endorsements, print advertisements and social media to promote its jewellery products and build brand equity. The Group hosted various jewellery shows for consolidating VIP customers and widening new customer base. By capturing an ever-expanding opportunities over online and social media, the Group also strengthened the marketing efforts and enhanced brand awareness of “**Emperor Jewellery**” by various cost-effective advertising programs. During the Year, the Group has successfully launched “**Emperor Jewellery Bridal Campaign**” by collaborating a series of marketing plan covering promotional events, social media, advertisements as well as the establishment of bridal corners in the **Emperor Jewellery** stores. Such campaign was awarded by “Yahoo! Big Idea Chair Awards 2013” as the “Best Integrated Campaign Merit Award” in November 2013.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Enjoying Group Synergies

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

## PROSPECTS

Nowadays, the luxury market exhibits a greater degree of sophistication as consumers put greater emphasis on brands' heritage, the intrinsic value of products, lifestyle enhancement and self-recognition. To cater for the needs of increasingly sophisticated customers, the Group strives to constantly optimise and enrich its watch portfolio to capture the market window in the dynamic luxury landscape.

The growing economic independency and westernised lifestyle of working female in Greater China will drive an intensified demand for jewellery goods consumption. Taking advantage on the fast-growing jewellery market, the Group is planning ahead to further develop jewellery business to improve overall margin performance and profitability in the long-run. The Group will step up its efforts to further strengthen the brand equity of "**Emperor Jewellery**" with the launch of a series of dynamic marketing and brand-building campaign. The Group will also introduce signature collections that are designed to appeal to more refined consumers who focus on quality and craftsmanship.



Meanwhile, the Group believes that Southeast Asia will become a new revenue contributor. The Group will continue to look for other expansion opportunities in Southeast Asia in order to fully capture the luxury consumption growth momentum.

Driven by an expanding Chinese middle class, their growing wealth and an increasing demand for branded items, luxury market will remain an upbeat, despite a gradual one. This presents abundant opportunities for the Group to further establish its presence across Greater China and beyond. Riding on the Group's foothold on prime retail locations, coupled with its comprehensive product offerings, and the well-recognition of the "**Emperor**" brand, the Group is optimistic to tap the market potential and reinforce its position as a leading luxury watch retailer in the Chinese speaking communities.

## **FOREIGN EXCHANGE EXPOSURE**

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

## **CONTINGENT LIABILITIES**

As at 31 December 2013, the Group did not have any material contingent liabilities.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31 December 2013, the Group has 938 salespersons (2012: 870) and 211 office staff (2012: 209). Total staff costs (including directors' remuneration) were HK\$274.8 million (2012: HK\$250.1 million) for the Year. Employees' remuneration was determined in accordance with individual's responsibility, competence & skills, experience and performance. Staff benefits include medical insurance and other competitive fringe benefits.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CORPORATE SOCIAL RESPONSIBILITIES

As always, the Group has reached out to the community to fulfill its corporate social responsibilities all over the Year.

Staff volunteers joined hands with others from the subsidiaries under Emperor Group and made home visits, with Dragon Boat Festival rice dumplings, to more than 70 elderlies from the service network of St. James' Settlement in June 2013. With no family support, all these elderlies live on their own and are participants of a service scheme that will handle their future funeral arrangements according to their wishes.

The Group's staff once again participated in the yearly outbound volunteering activity organized by Emperor Foundation and went on a 50-people tour to Haerbin, Heilungjiang Province, where they celebrated Mid-Autumn Festival with empty-nested elderly people in a community centre.

It has also supported PLAN International Hong Kong's "Because I am a Girl (BIAAG)" campaign for the fourth year as the main sponsor, with special endorsement to "BIAAG – Donate a Pencil Campaign", a movement calling for donation of new pencils. It aims to draw public attention to the underprivileged girls deprived of education in China and Ghana.

## FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK0.58 cent (2012: HK0.80 cent) per share ("Final Dividend") for the Year, amounting to approximately HK\$39.9 million (2012: HK\$55.1 million). The Final Dividend, if being approved at the forthcoming annual general meeting of the Company ("AGM"), will be paid on 6 June 2014 (Friday) to shareholders whose names appear on the register of members of the Company on 15 May 2014 (Thursday).



## 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 5 May 2014 (Monday)
Book close date	7 May 2014 (Wednesday)
Record date	7 May 2014 (Wednesday)
AGM	8 May 2014 (Thursday)

For ascertaining shareholders' entitlement to the proposed Final Dividend

Latest time to lodge transfers	4:30 p.m. on 13 May 2014 (Tuesday)
Book close dates	14 and 15 May 2014 (Wednesday and Thursday)
Record date	15 May 2014 (Thursday)
Final Dividend payment date	6 June 2014 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration before the above latest time to lodge transfers.



# BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

## CINDY YEUNG

*Chairperson*

Foothold in Hong Kong for over 70 years, we are now a prominent luxury watches and jewellery retailer with footprints spread over the PRC, Macau and Singapore. Looking ahead, the Group will fully utilise its core competencies and seek to achieve a desired product and geographic mix in order to maintain a sustainable profit.



### EXECUTIVE DIRECTOR (CHAIRPERSON)

**CINDY YEUNG**, aged 49, the Chairperson and Managing Director of the Company as well as a director of certain subsidiaries of the Company. Ms. Yeung joined the Group in September 1990. She is responsible for the Group's strategic planning, business growth and development and overseeing different operations within the Group. She became a director of Emperor Watch & Jewellery (HK) Company Limited, an operating arm of the retail outlets of the Group in Hong Kong, in April 1999. The Group has been under her management since then. She is also the ambassador of "Because I am a Girl" organized by a charity body, PLAN International Hong Kong. Ms. Yeung has over 20 years of experience in watch and jewellery industry. Prior to joining the Group in 1990, she joined the sales department of Anju Jewelry Ltd., a US based company engaging in trading of jewellery products. She has obtained the qualification of the Graduate Gemologist of Gemological Institute of America (GIA) and subsequently graduated from University of San Francisco with a Bachelor's Degree of Science in Business Administration majoring in Management, with emphasis on International Business. Ms. Yeung is the daughter of Dr. Yeung Sau Shing, Albert who is a deemed substantial shareholder of the Company.



## HENRY CHAN

*Executive Director*

In early 2013, we have successfully extended the coverage from Greater China to Southeast Asia by initiating a presence in Singapore. We will actively seek for opportunities to grow our presence in Southeast Asia in order to fully capture the luxury consumption growth momentum in Chinese-speaking communities.

## EXECUTIVE DIRECTOR

**CHAN HUNG MING**, aged 65, an Executive Director of the Company and a director of various subsidiaries of the Company. Mr. Chan joined the Group in July 2005. He is responsible for overseeing the retail outlet operations in Macau and Hong Kong. Mr. Chan is one of the Governing Council members under the “Retailer” category of the Quality Tourism Services Association. He has over 30 years of experience in watch and jewellery industry. Prior to joining the Group, he acted as general manager in charge of the retail and watch boutique outlets in Hong Kong and the PRC in Dickson Watch & Jewellery division under Dickson Concepts (International) Limited, a listed company in Hong Kong, for over 20 years.

# BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

## EXECUTIVE DIRECTOR

**WONG CHI FAI**, aged 58, an Executive Director of the Company and a director of certain subsidiaries of the Company. Mr. Wong has been involved in the management of the Group since November 1998. He is a member of the Remuneration Committee of the Company. He is also a director of three listed companies in Hong Kong, namely Emperor International Holdings Limited (Stock Code: 163) (“Emperor International”), Emperor Entertainment Hotel Limited (Stock Code: 296) (“Emperor E Hotel”) and New Media Group Holdings Limited (Stock Code: 708) (“New Media Group”), all being associated companies of the Company. Having over 20 years of finance and management experience, Mr. Wong has diversified experience in different businesses ranging from watch & jewellery retailing to manufacturing, property investment and development, hotel and hospitality, financial and securities services, entertainment as well as media. Mr. Wong is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

## EXECUTIVE DIRECTOR

**FAN MAN SEUNG, VANESSA**, aged 51, an Executive Director of the Company and a director of certain subsidiaries of the Company. Ms. Fan has been involved in the management of the Group since November 1998. She is also the Chairperson of the Corporate Governance Committee and a member of the Nomination Committee of the Company. Ms. Fan is also a director of three listed companies in Hong Kong, namely Emperor International, Emperor E Hotel and New Media Group, all being associated companies of the Company. Having over 24 years of corporate management experience, Ms. Fan possesses diversified experience in different businesses ranging from watch & jewellery retailing, property investment and development, hotel and hospitality, financial and securities services, entertainment as well as media. Ms. Fan is a lawyer by profession in Hong Kong and a qualified accountant, and holds a Master’s Degree in Business Administration.

## INDEPENDENT NON-EXECUTIVE DIRECTOR

**YIP KAM MAN**, aged 47, was appointed as Independent Non-executive Director of the Company in June 2008. She is the Chairperson of the Audit Committee as well as a member of the Remuneration Committee and the Corporate Governance Committee of the Company. Ms. Yip is a Certified Public Accountant and has been engaged in the audit field (including internal audit for various listed companies in Hong Kong) for more than 20 years. She is currently running an audit firm. Ms. Yip is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. She graduated from The University of Nottingham in the United Kingdom with a Bachelor's Degree in Arts (Hons).

## INDEPENDENT NON-EXECUTIVE DIRECTOR

**CHAN HON PIU**, aged 53, was appointed as Independent Non-executive Director of the Company in June 2008. He is the Chairman of the Nomination Committee as well as a member of the Audit Committee and the Corporate Governance Committee of the Company. Mr. Chan has been admitted as a solicitor in Hong Kong since 1991 and is now a partner of a law firm in Hong Kong. Mr. Chan graduated from The University of Hong Kong with a Bachelor's Degree in Social Sciences. He also obtained the Certificate of Education and a Master's Degree in Laws from The University of Hong Kong.

## INDEPENDENT NON-EXECUTIVE DIRECTOR

**LAI KA FUNG, MAY**, aged 48, was appointed as Independent Non-executive Director of the Company in June 2008. She is the Chairperson of the Remuneration Committee as well as a member of the Audit Committee and the Nomination Committee of the Company. Ms. Lai is a Certified Public Accountant and has been engaged in the audit field for more than 20 years. She is a Principal Partner of May K.F. Lai & Co. & H.H. Liu & Co., Certified Public Accountants. She is also an independent non-executive director of another Hong Kong listed company, Chinlink International Holdings Limited (Stock Code: 997). Ms. Lai is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. She obtained a Master's Degree of Arts in International Accounting from City University of Hong Kong.

# DIRECTORS' REPORT

The Board present their annual report and the audited consolidated financial statements for the Year.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 33 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 43. The dividend paid during the Year and proposed to be paid for the Year are set out in note 11 to the consolidated financial statements.

An interim dividend of HK0.68 cent (2012: HK0.98 cent) per share for the Year, amounting to approximately HK\$46,799,000 (2012: HK\$65,841,000), was paid to the shareholders of the Company ("Shareholders") during the Year.

The Directors recommended the payment of a final dividend of HK0.58 cent (2012: HK0.80 cent) per share for the Year, amounting to approximately HK\$39,918,000 (2012: HK\$55,060,000) to those Shareholders whose names appear on the register of members on 15 May 2014 (Thursday), subject to the approval of the Shareholders at the forthcoming AGM to be held on 8 May 2014 (Thursday).

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Year are set out in note 13 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 23 to the consolidated financial statements.

## RESERVES

Details of movements in the reserves of the Group during the Year are set out on page 46.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to Shareholders as at 31 December 2013, calculated in accordance with the Companies Ordinance, amounted to HK\$332,515,000 (2012: HK\$226,623,000).

# DIRECTORS' REPORT

## DIRECTORS

The Directors during the Year and up to the date of this report were:

### Executive Directors

Ms. Cindy Yeung (*Chairperson*)

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

Subject to the respective service contract/letter of appointment hereinafter mentioned, the term of office of each Director, including the Independent Non-executive Directors, is the period up to his/her retirement by rotation in accordance with the Articles of Association of the Company.

In accordance with Article 83(1) and (3) of the Company's Articles of Association, Ms. Cindy Yeung, Ms. Fan Man Seung, Vanessa ("Ms. Vanessa Fan") and Mr. Chan Hon Piu shall retire by rotation at the AGM and, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

Each of Ms. Cindy Yeung, Mr. Chan Hung Ming, Mr. Wong Chi Fai ("Mr. Bryan Wong") and Ms. Vanessa Fan entered into a service agreement with the Company for a term of three years commencing from 21 July 2008, renewable automatically for successive terms of one year each commencing from the date next after the expiry of the then current term, subject to termination by either party with written notice.

Pursuant to the appointment letters given by the Company, each of the Independent Non-executive Directors of the Company was appointed for an initial term of two years commencing from 21 July 2008 and shall continue thereafter on a yearly basis subject to termination by either party with written notice.

None of the Directors proposed for re-election at the AGM has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' REPORT

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2013, the interests and short positions of the Directors and the chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

#### (a) Long position interests in the Company

*Ordinary shares of the Company ("Shares")*

Name of Director	Capacity/ Nature of interests	Number of issued Shares held	Approximate percentage holding
Ms. Cindy Yeung	Beneficiary of a trust	3,617,860,000	52.57%

*Note:* The above shares were held by Emperor Watch & Jewellery Group Holdings Limited ("Emperor W&J Holdings"), a wholly-owned subsidiary of Albert Yeung Holdings Limited ("AY Holdings"). AY Holdings was held by STC International Limited ("STC International") being the trustee of The Albert Yeung Discretionary Trust ("AY Trust"), a discretionary trust under which Ms. Cindy Yeung is one of the eligible beneficiaries.

#### (b) Long position interests in associated corporations of the Company

(i) *Ordinary Shares*

Name of Director	Name of associated corporations	Capacity/ Nature of interests	Number of shares held	Approximate percentage holding
Ms. Cindy Yeung	Emperor International (Note)	Beneficiary of a trust	2,747,610,489	74.83%
	Emperor E Hotel (Note)	Beneficiary of a trust	812,632,845	62.42%
	Emperor Capital Group Limited ("Emperor Capital Group") (Note)	Beneficiary of a trust	1,773,516,907	68.28%
	New Media Group (Note)	Beneficiary of a trust	647,950,000	74.99%
Ms. Vanessa Fan	Emperor International	Beneficial Owner	5,000,000	0.14%
	Emperor E Hotel	Beneficial Owner	25,000	0.002%

*Note:* Emperor International, Emperor E Hotel, Emperor Capital Group and New Media Group are companies with their shares listed in Hong Kong. These respective shares were ultimately owned by AY Holdings which was in turn held by STC International, the trustee of the AY Trust. Ms. Cindy Yeung, by virtue of being one of the eligible beneficiaries of the AY Trust, had deemed interests in these shares.

# DIRECTORS' REPORT

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES – *Continued*

### (b) Long position interests in associated corporations of the Company – *Continued*

#### (ii) Share options

Name of Directors	Name of associated corporations	Capacity/ Nature of interests	Number of underlying shares held	Approximate percentage holding
Mr. Bryan Wong	Emperor International	Beneficial Owner	10,769,475 <i>(adjusted)</i>	0.29%
Ms. Vanessa Fan	Emperor International	Beneficial Owner	5,769,475 <i>(adjusted)</i>	0.15%
	Emperor E Hotel	Beneficial Owner	750,000	0.06%

*Note:* These were share options granted to Mr. Bryan Wong and Ms. Vanessa Fan, both being directors of Emperor International and Emperor E Hotel, under the respective share option schemes of Emperor International and Emperor E Hotel.

Save as disclosed above, as at 31 December 2013, none of the Directors nor chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

## SHARE OPTIONS

The Company has adopted a share option scheme (the "Scheme") on 19 June 2008. Particulars of the Scheme are set out in note 30 to the consolidated financial statements.

No option was granted under the Scheme since its adoption.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the Year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2013, none of the Directors nor their respective associates was interested in any business which is considered to compete or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

# DIRECTORS' REPORT

## OTHER PERSONS' INTERESTS AND SHORT POSITIONS

As at 31 December 2013, so far as is known to the Directors or chief executive of the Company, the following persons or corporations (other than a Director or chief executive of the Company) had, or were deemed or taken to have an interest and short position in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO ("SFO Register") or as otherwise notified to the Company were as follows:

### *Long Position in the Shares*

<b>Name</b>	<b>Capacity/ Nature of interests</b>	<b>Number of issued Shares interested in or deemed to be interested</b>	<b>Approximate percentage holding</b>
Emperor W&J Holdings	Beneficial owner	3,617,860,000 <i>(Note)</i>	52.57%
AY Holdings	Interest in a controlled corporation	3,617,860,000 <i>(Note)</i>	52.57%
STC International	Trustee	3,617,860,000 <i>(Note)</i>	52.57%
Dr. Yeung Sau Shing, Albert ("Dr. Albert Yeung")	Founder of a discretionary trust	3,617,860,000 <i>(Note)</i>	52.57%
Ms. Luk Siu Man, Semon	Interest of spouse	3,617,860,000 <i>(Note)</i>	52.57%
Mondrian Investment Partners Limited	Investment manager	415,910,000	6.04%

*Note:* These Shares were the same Shares as those set out under the section (a) of "Directors' and Chief Executive's Interests and Short Positions in Securities" above.

All interests stated above represent long positions. As at 31 December 2013, no short positions were recorded in the SFO Register of the Company.

Save as disclosed above, as at 31 December 2013, the Directors or chief executive of the Company were not aware of any person or corporation (other than the Directors and chief executive of the Company) who had, or were deemed or taken to have, any interests or short positions in any Shares or underlying Shares as recorded in the SFO Register of the Company or as otherwise notified to the Company.

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group had the following transactions with connected persons (as defined in the Listing Rules) of the Company in relation to the tenancy/sub-license agreements for operation of the Group's business in Hong Kong and Macau.

	Name of counterparty	Date of agreement	Location	Terms	Amount for the Year (HK\$'000)
<b><u>Harilela Mansion, 81 Nathan Road</u></b>					
(1)	Great Future Hong Kong Limited ( <i>Note 1</i> )	31 March 2011	Shops A, D2 and E2, G/F, Harilela Mansion, 81 Nathan Road, Hong Kong	1 April 2011 – 31 March 2014	12,600
<b><u>Emperor Group Centre, 288 Hennessy Road</u></b>					
(2)	Very Sound Investments Limited ("Very Sound") ( <i>Note 1</i> )	16 November 2012	Shops G01-02, G/F, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	17 November 2012 – 16 November 2014	1,265
(3a)	Very Sound ( <i>Note 1</i> )	30 March 2010	Shops G03-05, G/F, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	1 April 2010 – 31 March 2013	1,260
(3b)	Very Sound ( <i>Note 1</i> )	28 March 2013	– same as above –	1 April 2013 – 31 March 2016	4,950
(4a)	Headwise Investment Limited ("Headwise") ( <i>Note 1</i> )	16 December 2011	Unit 1505, 15/F, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	1 January 2012 – 31 December 2013	299
(4b)	Headwise	31 December 2013	– same as above –	1 January 2014 – 31 March 2016	0
(5)	Very Sound ( <i>Note 1</i> )	30 March 2010	Units 2501-5, 25/F, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	1 April 2010 – 31 March 2013	547
(6)	Very Sound ( <i>Note 1</i> )	14 September 2010	Unit 2507, 25/F, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	13 September 2010 – 31 March 2013	159

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONTINUING CONNECTED TRANSACTIONS – *Continued*

	Name of counterparty	Date of agreement	Location	Terms	Amount for the Year (HK\$'000)
(7)	Very Sound (Note 1)	28 March 2013	The whole of 25/F & Car Parking Space No. 27, B2/F, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	1 April 2013 – 31 March 2016	2,610
	<b><u>Russell Street</u></b>				
(8)	Planwing Limited ("Planwing") (Note 1)	29 November 2011	Shops 1 & 2, G/F, 8 Russell Street, Causeway Bay, Hong Kong (together with a right to use three outdoor advertising signs and signage space A on 1/F)	1 December 2011 – 30 November 2014	23,836
(9)	Planwing (Note 1)	29 November 2011	The signage space B at the external wall on 1/F, 8 Russell Street, Causeway Bay, Hong Kong	30 November 2011 – 29 November 2014	3,000
(10)	Planwing (Note 1)	25 May 2011	Shops 3 & 5, G/F, 8 Russell Street, Causeway Bay, Hong Kong	30 November 2011 – 29 November 2014	24,200
(11)	Richorse Limited ("Richorse") (Note 1)	25 May 2011	Ground Floor (Shop A including the yard) and Office A (50 Russell Street) on 1/F, Tak Fat Building, 50-52 Russell Street, Causeway Bay, Hong Kong	1 July 2011 – 30 June 2014	15,767
(12)	Richorse (Note 1)	25 May 2011	G/F, M/F and Flat A and Flat B on 1/F including the Flat Roof, 54 & 56 Russell Street together with the right to use a LED display on external wall from 1/F – 5/F facing Russell Street and an advertising signboard facing Russell Street and Tang Lung Street, Causeway Bay, Hong Kong	23 October 2011 – 22 October 2014	49,134

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONTINUING CONNECTED TRANSACTIONS – *Continued*

	Name of counterparty	Date of agreement	Location	Terms	Amount for the Year (HK\$'000)
(13)	Richorse (Note 1)	25 May 2011	G/F (Shop B including the yard), Office B and the Balcony adjacent thereto on 1/F and Office B and the Balcony adjacent thereto on 2/F, Tak Fat Building, 50-52 Russell Street, Causeway Bay, Hong Kong	23 October 2011 – 22 October 2014	16,867
(14)	Century Creations Limited (“Century Creations”) (Notes 1 & 3)	30 June 2011	G/F and 1/F, 24 Russell Street, Causeway Bay, Hong Kong	19 October 2011 – 9 July 2014 (Early termination on 15 May 2013)	7,873
(15)	Century Creations (Notes 1 & 4)	29 November 2011	The signboard on external wall, 22-24 Russell Street, Causeway Bay, Hong Kong	1 December 2011 – 30 November 2013 (Early termination on 15 May 2013)	314
<b><u>Canton Road</u></b>					
(16)	Gold Pleasure Investment Limited (“Gold Pleasure”), Happy Rain Limited, Total Treasure Investment Limited Gold Cheer Corporation Limited (Note 1)	15 December 2011	G/F and 1/F, Tenement A & B on 3/F, Portion A of Tenement A on 4/F and roof, 4-8 Canton Road, Kowloon, Hong Kong together with a right to use four outdoor advertising signs on the external walls to the building	4 January 2012 – 3 January 2015	63,445
(17)	Gold Pleasure (Note 1)	30 January 2013	Projected signage of 4-8 Canton Road, Kowloon	February, August, October and December 2013	2,160

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONTINUING CONNECTED TRANSACTIONS – *Continued*

	Name of counterparty	Date of agreement	Location	Terms	Amount for the Year (HK\$'000)
<b>Macau</b>					
(18)	Pacific Strong Bases (Holding) Company Limited ("Pacific Strong") (now known as Grand Emperor Entertainment & Hotel (Macau) Limited) (Note 2)	28 March 2012	Shops 1-4, G/F, Grand Emperor Hotel, 251-292D Avenida Commercial De Macau, Macau	1 April 2012 – 31 March 2015	4,128
(19)	Pacific Strong (Note 2)	28 June 2011	Shop 5, G/F, Grand Emperor Hotel, 251-292D Avenida Commercial De Macau, Macau	1 July 2011 – 30 June 2014	1,768
(20)	I Soi Limitada ("I Soi") (Note 2)	30 June 2011	EM Macau, Avenida De Infante D., Henrique NoS 67-69, Res-Do-Chao B & EM Macau Rua Dr., Pedro Jose Lobo No5, Res-Do-Chao C2, Macau	1 July 2011 – 30 June 2014	4,131
(21)	I Soi (Note 2)	30 June 2011	EM Macau, Avenida De Infante D., Henrique No65-A, lo Andar B, Macau	1 August 2011 – 30 June 2014	85
Total:					240,398

*Remark: The above monthly rental payments are exclusive of rates, management fee and other outgoings.*

**Notes:**

- These companies were indirect wholly-owned subsidiaries of Emperor International. As at 31 December 2013, Emperor International was indirectly owned as to approximately 74.83% by the AY Trust, a discretionary trust set up by Dr. Albert Yeung, a deemed substantial shareholder of the Company. Ms. Cindy Yeung is one of the eligible beneficiaries of the AY Trust. As such, Ms. Cindy Yeung has deemed interest in the agreements.
- These companies were indirect wholly-owned subsidiaries of Emperor E Hotel. Emperor E Hotel was indirectly owned as to 62.42% by Emperor International as at 31 December 2013. Ms. Cindy Yeung is one of the eligible beneficiaries of the AY Trust. As such, Ms. Cindy Yeung has deemed interest in the agreements.
- Century Creations had issued a termination notice to Beauty Royal on 16 November 2012 to early terminate the tenancy agreement on 15 May 2013.
- Century Creations had issued a termination notice to Beauty Royal on 16 November 2012 to early terminate the sub-license agreement on 15 May 2013.

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONTINUING CONNECTED TRANSACTIONS – *Continued*

### Compliance with Disclosure Requirements

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the above transactions. Save as “rental” in the amount of HK\$240,398,000 as incorporated in item 2 in note 32 on “Related Party Transactions” to the consolidated financial statements, all other transactions as shown in such note are connected transactions exempted from reporting, announcement, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

### Auditor’s Letter on Disclosed Continuing Connected Transactions

The Company’s auditor was engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants.

The auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group (“Disclosed CCTs”) on page 25 to 28 of this annual report in accordance with Main Board Listing Rule 14A.38. A copy of the auditor’s letter has been provided by the Company to the Stock Exchange.

### Confirmation of Independent Non-executive Directors

Pursuant to Rule 14A.37 of the Listing Rules, the Independent Non-executive Directors of the Company have reviewed the Disclosed CCTs and the aforesaid auditor’s letter and have confirmed that these transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Saved as disclosed above, there was no contract of significance to which the Company, or any of its subsidiaries, holding companies and fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

## MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the aggregate sales to the Group’s five largest customers accounted for approximately 1.8% of the total turnover of the Group. The Group’s five largest suppliers contributed to approximately 70% of the purchases of the Group during the Year.

None of the Directors, their associates or any Shareholders which, to the knowledge of the Directors, owns more than 5% of the Company’s issued share capital, had any beneficial interest in the share capital of any of the above major customers and suppliers of the Group.

## MANAGEMENT CONTRACTS

No contracts for the management and administration of the whole or any substantial part of the business of the Group were entered or subsisted during the Year.

# DIRECTORS' REPORT

## CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of the independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

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

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

## EMOLUMENT POLICY

The emolument policy of the Group to reward its employees and executive directors is based on their performance, qualifications, competence displayed, market comparables and the performance of the Group. Remuneration packages typically comprises basic salary, Director's fee, housing allowances, discretionary bonus and other competitive fringe benefits. Details of the emoluments of the Directors and the five highest paid individuals in the Group are set out in note 9 to the consolidated financial statements.

To provide incentive to the relevant participants, including the Directors and eligible employees, the Company has adopted a Share Option Scheme, details of which are set out in note 30 to the consolidated financial statements.

## CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 31 to 41.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company maintained the prescribed public float under the Listing Rules.

## DONATIONS

During the Year, the Group made charitable donation amounting to HK\$625,000.

## AUDITOR

A resolution will be submitted to the AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Cindy Yeung**

*Chairperson*

Hong Kong, 19 March 2014

# CORPORATE GOVERNANCE REPORT

The Board has adopted various policies to ensure compliance with the code provisions of the Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Listing Rules. For the Year, the Company has complied with all code provisions of the Code except with a 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 as explained below.

## THE BOARD

### Board Composition

As at 31 December 2013, the Board comprised seven Directors, with four Executive Directors, namely Ms. Cindy Yeung (Chairperson and Managing Director), Mr. Chan Hung Ming, Mr. Wong Chi Fai and Ms. Fan Man Seung, Vanessa and three Independent Non-executive Directors, namely Ms. Yip Kam Man, Mr. Chan Hon Piu and Ms. Lai Ka Fung, May. The Board considers that this composition ensures a strong independent element with a balance of power and influence between individuals on the Board. The biographies of the Directors are set out on pages 16 to 19 of this annual report under the “Biographies of Directors and Senior Executives” section.

### Chairperson and Chief Executive Officer

Code provision A.2.1 requires that 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 Managing Director, 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 (the “Management”) as formalized by the Board, the Board considers that the current Board structure functions effectively and does not intend to make any change thereof.

### Independent Non-executive Directors

The Independent Non-executive Directors are all professionals with well recognized experience and expertise in legal and/or accounting aspects who provide valuable advice to the Board, including advice on corporate governance related matters without any undue influence. They are appointed for an initial term of two years and shall continue thereafter from year to year subject to early termination by either party with written notice and retirement by rotation and re-election provision under the Articles of Association of the Company.

The Company has received a confirmation of independence from each of the Independent Non-executive Directors. The Board considers each of them to be independent by reference to the factors as set out in the Listing Rules. The Independent Non-executive Directors have been expressly identified as such in all corporate communications of the Company that disclose the names of Directors.

### Roles and Responsibilities of the Board

The Board is responsible for the leadership and control of the business operations of the Group. Decisions made are driven for the best interests of the Shareholders by maximizing shareholders’ wealth. The Directors formulate strategic directions, oversee the operations and monitor the financial and management performance of the Group as a whole.

# CORPORATE GOVERNANCE REPORT

## THE BOARD – *Continued*

### Delegation to the Management

The Management is led by the Executive Directors of the Board and has delegated powers and authorities to carry out the day-to-day management and operation of the Group, formulate business policies, make decision on key business issues and exercise power and authority delegated by the Board from time to time. The Management assumes full accountability to the Board for the operation of the Group.

There is a formal schedule of matters specifically reserved to and delegated by the Board. The Board had given clear directions to the Management that certain matters (including the following) must be reserved to the Board:

- Publication of final and interim results of the Company
- Dividend distribution or other distributions
- Major issues of treasury policy, accounting policy and remuneration policy
- Review on internal control system and risk management
- Changes to major group corporate structure or Board composition requiring notification by announcement
- Publication of the announcement for notifiable transaction and non-exempted connected transaction/ continuing connected transaction
- Non-exempted connected transaction/continuing connected transaction
- Proposed transaction requiring Shareholders' approval
- Capital restructuring and issue of new securities of the Company
- Financial assistance to Directors

### Relationship between the Board Members

None of the members of the Board has any relationship (including financial, business, family or other material/ relevant relations) between each other.

### Directors' Insurance

The Company has arranged appropriate insurance cover in respect of legal action against the Directors.

### Induction, Support and Professional Development of Directors

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. There is a procedure agreed by the Board to ensure Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

# CORPORATE GOVERNANCE REPORT

## THE BOARD – Continued

### Induction, Support and Professional Development of Directors – Continued

The Directors confirmed that they have complied with the Code Provision A.6.5 of the Code on Directors' training. During the Year, each Director has participated in continuous professional development by attending seminars/workshops and reading materials on the following topics to develop and refresh their knowledge and skills and provided a record of training to the Company.

Name of Directors	Topics on training covered <i>(Note)</i>
Ms. Cindy Yeung	(a), (b) & (d)
Mr. Chan Hung Ming	(a), (b) & (d)
Mr. Wong Chi Fai	(a), (b), (c) & (d)
Ms. Fan Man Seung, Vanessa	(a), (b) & (c)
Ms. Yip Kam Man	(a), (b) & (c)
Mr. Chan Hon Piu	(a), (b) & (c)
Ms. Lai Ka Fung, May	(a), (b) & (c)

*Note:*

- (a) corporate governance
- (b) regulatory
- (c) finance
- (d) industry-specific

### Directors' Attendance and Time Commitment

The attendance of the Directors at the meetings during the Year is set out below:

Name of Directors	Meetings attended/held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	Annual General Meeting
<b>Executive Directors</b>						
Ms. Cindy Yeung <i>(Note 1)</i>	4/4	3/3	N/A	N/A	N/A	1/1
Mr. Chan Hung Ming	4/4	N/A	N/A	N/A	N/A	1/1
Mr. Wong Chi Fai	4/4	N/A	1/1	N/A	N/A	1/1
Ms. Fan Man Seung, Vanessa <i>(Note 2)</i>	4/4	N/A	N/A	1/1	1/1	1/1
<b>Independent Non-executive Directors</b>						
Ms. Yip Kam Man <i>(Note 3)</i>	4/4	3/3	1/1	N/A	1/1	1/1
Mr. Chan Hon Piu <i>(Note 4)</i>	4/4	3/3	N/A	1/1	1/1	1/1
Ms. Lai Ka Fung, May <i>(Note 5)</i>	4/4	3/3	1/1	1/1	N/A	1/1
<b>Total number of meetings held:</b>	4	3	1	1	1	1

# CORPORATE GOVERNANCE REPORT

## THE BOARD – *Continued*

### Directors' Attendance and Time Commitment – *Continued*

Notes:

1. Ms. Cindy Yeung was invited to sit-in the Audit Committee meeting as representative of the Management
2. Chairperson of Corporate Governance Committee
3. Chairperson of Audit Committee
4. Chairman of Nomination Committee
5. Chairperson of Remuneration Committee

Upon reviewing (i) the annual confirmation of the time commitment given by each Director; (ii) the directorships and major commitments of each Director; and (iii) the attendance rate of each Director on full Board and the respective Board committee meetings, the Board is satisfied that all Directors have spent sufficient time in performing their responsibilities during the Year.

### Board Meetings and Proceedings

Regular Board meetings were held at approximately quarterly intervals. The Directors have access to the advice and services of the Company Secretary and key officers of the company secretarial team for ensuring that the Board procedures, and all applicable rules and regulations, are followed.

With the assistance of the Company Secretary, the meeting agenda is set by the Chairperson of the Board in consultation with other Board members. Board meeting notice was sent to the Directors at least 14 days prior to each regular Board meeting. Board papers together with all appropriate, complete and reliable information are generally sent to all Directors at least 3 days before each Board meeting and Board Committee meeting to enable the Directors to make informed decisions.

Draft and final versions of the minutes of Board meetings and Board committee meetings, drafted in sufficient details by the secretary of the meetings, were circulated to the Directors for their comment and record respectively. Originals of such minutes, being kept by the Company Secretary, are open for inspection at any reasonable time on reasonable notice by any Director.

If any Director has conflict of interest in a matter to be considered by the Board which the Board has determined to be material, that Director will abstain from voting on the relevant Board resolution in which he/she or any of his/her associates have a material interest and he/she shall not be counted in the quorum present at the Board meeting.

### Board Committees

To assist the Board in execution of its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee.

The majority of the members of the Audit Committee, Remuneration Committee and Nomination Committee are Independent Non-executive Directors. Clear written terms of reference of all the Board Committees are given to the respective members of these Committees. Details of the Board Committees are set out below:

# CORPORATE GOVERNANCE REPORT

## THE BOARD – Continued

### 1. Audit Committee (set up on 19 June 2008)

The Audit Committee consists of three Independent Non-executive Directors, namely Ms. Yip Kam Man (Chairperson of the Committee), Mr. Chan Hon Piu, Ms. Lai Ka Fung, May.

The specific written terms of reference of the Audit Committee is available on the Company's website. The Audit Committee is primarily responsible for (a) making recommendations to the Board on the appointment, reappointment and removal of the external auditor; (b) approving the remuneration and terms of engagement of external auditor; and (c) reviewing financial information and overseeing the financial reporting system and internal control procedures. The Audit Committee held three meetings during the Year.

A summary of work performed by the Audit Committee during the Year is set out as follows:

- i. reviewed with the Management and finance-in-charge and/or the external auditor the effectiveness of the audit process and the accounting principles and practices adopted by the Group, the accuracy and fairness of the annual financial statements for the year ended 31 December 2012 as well as the interim financial statements for the six months ended 30 June 2013;
- ii. reviewed with the Management and finance-in-charge the effectiveness of the internal control system of the Group;
- iii. reviewed the non-exempt continuing connected transactions of the Group for the year ended 31 December 2012;
- iv. approved the audit plan for the Year, reviewed the external auditor's independence and approved the engagement of external auditor; and
- v. recommended the Board on the re-appointment of external auditor.

### 2. Remuneration Committee (set up on 19 June 2008)

The Remuneration Committee consists of three members, namely Ms. Lai Ka Fung, May (Chairperson of the Committee) and Ms. Yip Kam Man, both being Independent Non-executive Directors, and Mr. Wong Chi Fai, the Executive Director.

The specific written terms of reference of the Remuneration Committee is available on the Company's website. The Remuneration Committee is primarily responsible for making recommendation to the Board on (a) the Company's policies and structure for the remuneration of Directors and senior management; (b) the remuneration of non-executive directors; and (c) the specific remuneration packages of individual executive directors and senior management. Details of the remuneration of each of the Directors for the Year are set out in note 9 to the consolidated financial statements. The Remuneration Committee held one meeting during the Year.

A summary of work performed by the Remuneration Committee during the Year is set out as follows:

- i. reviewed and recommended the Board to approve the Directors' fee; and
- ii. reviewed the current remuneration structure/package of the Executive Directors and senior management and recommended the Board to approve their specific packages.

# CORPORATE GOVERNANCE REPORT

## THE BOARD – *Continued*

### 3. **Nomination Committee** (*set up on 19 March 2012*)

The Nomination Committee consists of three members, namely Mr. Chan Hon Piu (Chairman of the Committee) and Ms. Lai Ka Fung, May, both being Independent Non-executive Directors, and Ms. Fan Man Seung, Vanessa, the Executive Director.

In March 2013, on the recommendation of the Nomination Committee, the Board re-adopted the specific written terms of reference of the Nomination Committee in light of the amendments of the Listing Rules, and the same is available on the Company's website. The Board also approved the adoption of the Board Diversity Policy. Such policy aims to achieve diversity on Board in the broadest sense in order to have a balance of skills, experience and diversity of perspectives appropriate to the business nature of the Company. Selection of candidates on the Board is based on a range of diversity perspectives, including gender, age, length of service, professional qualification and experience. The Nomination Committee will also assess the merits and contribution of any Director proposed for re-election or any candidate nominated to be appointed as Director and against the objective criteria, with due regard for the benefits of diversity on the Board that would complement the existing Board.

The primary duties of the Nomination Committee are (a) reviewing the structure, size and diversity of the Board; (b) determining the policy for the nomination of Directors and identifying potential candidates for directorship; (c) assessing the independence of Independent Non-executive Directors; (d) reviewing the time commitment of each Director; (e) reviewing the Board Diversity Policy; and (f) making recommendations to the Board on any proposed changes to the Board or selection of individual nominated for directorships or on the appointment, re-appointment or re-election of Directors. The Nomination Committee held one meeting during the Year.

A summary of the work performed by the Nomination Committee during the Year is set out as follows:

- i. reviewed the structure, size and diversity of the Board;
- ii. recommended the Board to adopt the Board Diversity Policy and the revised terms of reference of the Nomination Committee;
- iii. reviewed the independence of the Independent Non-executive Directors; and
- iv. recommended the Board on nomination of Directors for re-election at the annual general meeting held on 8 May 2013.

# CORPORATE GOVERNANCE REPORT

## THE BOARD – *Continued*

### 4. Corporate Governance Committee (set up on 19 March 2012)

The Corporate Governance Committee consists of five members, namely Ms. Fan Man Seung, Vanessa (Chairperson of the Committee), the Executive Director, Ms. Yip Kam Man and Mr. Chan Hon Piu, both being Independent Non-executive Directors, a representative from company secretarial function and a representative from finance and accounts function. The specific written terms of reference of the Corporate Governance Committee is available on the Company's website. The primary duties of the Corporate Governance Committee are (a) reviewing and monitoring the policies and practices on corporate governance and compliance with legal and regulatory requirements of the Company; (b) reviewing and monitoring the training and continuous professional development of Directors and senior management; (c) reviewing and monitoring the code of conduct of Directors and relevant employees on dealings with the Company's securities; and (d) reviewing the Company's compliance with the Code and disclosure in this Report. The Corporate Governance Committee held one meeting during the Year.

A summary of the work performed by the Corporate Governance Committee during the Year is set out as follows:

- i. reviewed the Corporate Governance Policy;
- ii. reviewed the training and continuous professional development of Directors;
- iii. reviewed the policies and practices on compliance with legal and regulatory requirements;
- iv. reviewed the code of conduct applicable to Directors and relevant employees of the Group; and
- v. reviewed the Company's compliance with the Corporate Governance Code and disclosure in Corporate Governance Report.

## SECURITIES TRANSACTION OF DIRECTORS

The Company has adopted the 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 all Directors, all of them confirmed that they have complied with the required standard of dealings and the code of conduct throughout the Year.

## ACCOUNTABILITY AND AUDIT

The Directors acknowledge that it is their responsibilities to prepare the consolidated financial statements of the Group that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the Hong Kong Companies Ordinance and the Listing Rules. The Management has provided such explanation and information to the Board to enable it to make an informed assessment of the financial and other information put before it for approval. The Directors believe that they have adopted HKFRSs, selected suitable accounting policies and applied them consistently, made judgment and estimates that are prudent and reasonable and ensured the financial statements are prepared on a "going concern" basis. The auditor of the Company has made a statement about their reporting responsibilities in the Independent Auditor's Report.

The Management has provided all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Directors to discharge their duties under the Listing Rules.

# CORPORATE GOVERNANCE REPORT

## INTERNAL CONTROLS

The Board acknowledges its responsibility for maintaining and reviewing the effectiveness of the Group's internal control system. The internal control system is implemented to minimize the risks to which the Group is exposed and used as a management tool for the day-to-day operation of business. The system can only provide reasonable but not absolute assurance against misstatements or losses.

The Management is primarily responsible for the design, implementation and maintenance of the internal control system to safeguard the Shareholders' investment and assets of the Group. Annual budget and quarterly forecast on all capital and revenue items are prepared and approved by the Management before being adopted. The Management monitors the business activities closely and reviews monthly financial results of operations against budgets/forecast.

Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of financial statements are carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws, rules and regulations.

The internal audit department is assigned with the task to carry out risk assessment on selected audit areas and will report audit review findings and irregularities, if any, to the Management and advise on the implement of necessary steps for future control. The result of internal audit reviews and agreed action plans are reported to the Audit Committee and the Board.

During the Year, the Management had analyzed the control environment and risk assessment, identified the various control implemented. The approach of the review includes conducting interviews with relevant Management and staff members, reviewing relevant documentation of the internal control system and evaluating findings on any deficiencies in the design of the internal controls, developing recommendations for improvement and assessing the effectiveness of such implementation, where appropriate. The scope and findings of the review had been reported to and reviewed by the Audit Committee.

The following key control measures are also in place to monitor and control the effectiveness of the internal control system:

- i. Safeguard assets under risk management: insurance coverage on inventory is periodically reviewed by the Management for sufficiency, and to ensure compliance with the terms and conditions of the insurance policies. To safeguard shops' assets, security systems are installed in each shop, are daily tested and are properly maintained in good condition;
- ii. Quality control: Diamonds are either sent to authoritative(s) and reliable organizations for checking and certification or are tested internally with our own professional equipment to assure the quality fulfills good standard;
- iii. Proper authorization on sales discounts: Discount policies are properly maintained and compliance are continuously monitored. Discount authorities and pricing strategy are jointly reviewed from time to time;
- iv. Cash flow management: Daily available fund report is reviewed to monitor the cash flows against budgets/forecast;
- v. Financial reporting management: Monthly updates on internal financial statements are provided to the Board which give a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail and ensure the Board can review monthly financial results of operations against budgets/forecast;

# CORPORATE GOVERNANCE REPORT

## INTERNAL CONTROLS – *Continued*

- vi. the Systems and Procedures on Disclosure of Inside Information to ensure, with the assistance of an internal work team (if required), that any material information which comes to the knowledge of any one or more officers should be promptly identified, assessed and escalated for the attention of the Board;
- vii. the policies and practices on compliance with legal and regulatory requirements which shall be reviewed and monitored by the Corporate Governance Committee;
- viii. the establishment of a CCT Compliance Committee to monitor, control and review internally connected transactions and continuing connected transactions of the Company and ensure proper compliance with all relevant laws, rules and regulations and the Listing Rules; and
- ix. a whistle-blowing policy for employees of the Group to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters. Such arrangement will be reviewed by the Audit Committee which ensures that proper arrangement is in place for fair and independent investigation of such matters and for appropriate follow-up action(s).

The Board and the Audit Committee had conducted a review on the effectiveness of internal control system of the Group (including financial, operational, compliance controls, risk management functions) and the adequacy of resources, qualifications and experience of staff, training programmes and budget of the Company's accounting and financial reporting function for the Year. The Board considered that its internal control system is effective and adequate and the Company had complied with the code provisions on internal control of the Code in this respect in general.

## COMMUNICATION WITH SHAREHOLDERS

The Company had established a shareholders' communication policy and the Board shall review it on a regular basis to ensure its effectiveness. The Company communicates with the Shareholders mainly in the following ways: (i) the holding of annual general meeting ("AGM") and extraordinary general meetings ("EGM"), if any, which may be convened for specific purpose and can provide opportunities for the Shareholders to communicate directly to the Board; (ii) the publication of announcements, annual reports, interim reports, circulars as required under the Listing Rules; (iii) the publication of press releases of the Company providing updated information of the Group; (iv) the holding of investor/analyst briefings and media conference from time to time; (v) meeting with investors and analysts on a regular basis and participating in investor road shows and sector conferences; and (vi) the availability of the latest information of the Group in the Company's website at [www.emperorwatchjewellery.com](http://www.emperorwatchjewellery.com).

There is regular dialogue with institutional shareholders and general presentations are usually made when financial results are announced. Shareholders and investors are welcome to visit the Company's website to raise enquiries through our Investor Relations Department whose contact details are available on the website and page 2 of this annual report.

In order to protect the environment and save costs for the benefit of Shareholders, the Company has introduced electronic means for receiving corporate communication by Shareholders. Shareholders may elect to receive printed or electronic copies of corporate communication. However, Shareholders are encouraged to access corporate communication from the Company through the Company's website.

Separate resolutions are proposed at the general meetings for substantial issues, including re-election of retiring Directors. The Company's notice to Shareholders for the 2013 AGM was sent to Shareholders at least 20 clear business days before such meeting and notices of EGM will be sent to Shareholders at least 10 clear business days before such meetings.

# CORPORATE GOVERNANCE REPORT

## COMMUNICATION WITH SHAREHOLDERS – *Continued*

The chairperson of the Board, the chairperson/chairman of the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee and the external auditor were available at the last AGM held on 8 May 2013 to answer questions from the Shareholders. The Chairperson of the meeting had explained the procedures for conducting a poll during the meeting.

The forthcoming annual general meeting will be held on 8 May 2014 which will be conducted by way of poll.

## SHAREHOLDERS' RIGHTS

Set out below is a summary of certain rights of the Shareholders as required to be disclosed pursuant to the Code.

### Convening an EGM on Requisition by Shareholders

Pursuant to Sections 566 to 568 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Directors are required to call a general meeting if the Company has received requests to do so from members of the company representing at least 5% of the total voting rights of all the members having a right to vote at general meetings.

Such request (i) must state the general nature of the business to be dealt with at the meeting; and (ii) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The written request must be signed by the shareholder(s) concerned and sent to the registered office of Company in hard copy form for the attention of the Company Secretary of the Company. The requisition may consist of several documents in like form, each signed by one or more of the shareholders concerned.

Such requisitions will be verified with the Company's share registrar and upon its confirmation that the requisition is proper and in order, the Company Secretary of the Company will ask the Board to convene an EGM. The Company will send notice of the meeting, including notice of the resolution in case when the Company identifies a resolution that may properly be moved and is intended to be moved at the meeting, to all Shareholders. If the resolution is to be proposed as a special resolution, the Directors will send the notice of the meeting including the text of the resolution and specify the intention to propose the resolution as a special resolution. On the contrary, if the requisition has been verified as not in order, the members will be advised of this outcome and accordingly, the EGM will not be convened as requested.

If the Directors do not within 21 days after the date on which the written requisition is received by the Company proceed duly to convene an EGM for a day not more than 28 days after the date on which notice convening the EGM is given, the shareholder(s) concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, provided that the EGM so convened shall not be held after the expiration of 3 months after the date of the original requisition. The EGM convened by the shareholders shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS – Continued

### Procedures for Putting Forward Proposals at General Meetings by Shareholders

Pursuant to Sections 615 and 616 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), Shareholder(s) can submit a written requisition to put forward a resolution which may properly be moved at an AGM. The requirements and procedures are set out below:

- (i) Any number of shareholder representing at least 2.5% of the total voting rights of all Shareholders having a right to vote on the resolution at an AGM to which the requisition relates, or at least 50 Shareholders having a right to vote on the resolution at an AGM to which the requisition relates.
- (ii) Shareholders give notice to the Company of the proposed resolution or to circulate a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or other business to be dealt with at the meeting and that a copy of the requisition specifying the resolution of which notice is to be given and signed by the shareholder concerned (or 2 or more copies which between them contain the signatures of all the shareholders concerned) is deposited at the registered office of the Company for the attention of the Company Secretary of the Company in hard copy form not later than 6 weeks before an AGM to which the requisition relates; or if later, the time at which notice is given of that AGM.

Pursuant to Article 80 of the Articles of Association of the Company, no person (other than a retiring Director) shall, unless recommended by the Board for election, be eligible for election to the office of director at any general meeting and that a shareholder shall have given to the Company a notice in writing of his intention to propose a resolution for the election of that person as director and also a notice executed by that nominated person of his willingness to be elected during a period of not less than 7 days commencing no earlier than the day after the dispatch of the notice of the meeting and ending no later than 7 days prior to the date of such meeting, provided that the minimum length of such notice shall be at least 7 days. The written notice must state the biographical details of the nominated person as required under Rule 13.51(2) of the Listing Rules.

### Enquires from Shareholders

Shareholders should direct their enquiries about their shareholdings to the Company's share registrar, Tricor Secretaries Limited. Other Shareholders' enquiries can be directed to the Investor Relations Department of the Company whose contact details are shown on page 2 of this Annual Report.

## CONSTITUTIONAL DOCUMENTS

There are no significant changes in the Company's constitutional documents during the Year.

## AUDITOR'S INDEPENDENCE AND REMUNERATION

The Audit Committee is mandated to review and monitor the independence of the auditor to ensure objectivity and the effectiveness of the audit process of the financial statements in accordance with applicable standard. Members of the Committee were of the view that the Company's auditor, Messrs. Deloitte Touche Tomatsu is independent and has recommended the Board to re-appoint it as the Company's auditor at the forthcoming AGM.

During the Year, Messrs. Deloitte Touche Tohmatsu has rendered audit services and certain non-audit services to the Company and the remuneration paid/payable to it by the Company is set out as follows:

Service rendered	Fees paid/payable HK\$'000
Audit services	3,208
Non-audit services:	
– Agreed-upon procedures for connected transactions	20
– Review of preliminary announcement	10
– Transfer pricing documentation service	90

# Deloitte.

# 德勤

## TO THE MEMBERS OF EMPEROR WATCH & JEWELLERY LIMITED

*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Emperor Watch & Jewellery Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 91, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong, 19 March 2014

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
Revenue	5	<b>6,624,372</b>	6,531,474
Cost of sales		<b>(5,024,681)</b>	(4,834,734)
Gross profit		<b>1,599,691</b>	1,696,740
Other income	6	<b>9,913</b>	5,050
Selling and distribution expenses		<b>(1,072,464)</b>	(992,072)
Administrative expenses		<b>(181,308)</b>	(210,177)
Finance costs	7	<b>(2)</b>	(4,315)
Profit before taxation	8	<b>355,830</b>	495,226
Taxation	10	<b>(65,513)</b>	(90,899)
Profit for the year		<b>290,317</b>	404,327
Other comprehensive income for the year			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operations		<b>18,286</b>	11,134
Total comprehensive income for the year and attributable to owners of the Company		<b>308,603</b>	415,461
Earnings per share	12		
Basic		<b>HK4.2 cents</b>	HK6.0 cents
Diluted		<b>HK4.2 cents</b>	HK6.0 cents

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	107,744	102,020
Deferred tax asset	22	8,268	7,483
Rental deposits		194,893	177,347
Deposit paid for acquisition of property, plant and equipment		3,675	–
		<b>314,580</b>	286,850
<b>Current assets</b>			
Inventories	14	3,649,813	3,521,660
Receivables, deposits and prepayments	16	172,903	196,319
Taxation recoverable		1,582	8,005
Bank balances and cash	18	657,099	454,768
		<b>4,481,397</b>	4,180,752
<b>Current liabilities</b>			
Payables, deposits received and accrued charges	19	378,349	353,878
Amounts due to related companies	20	3,899	4,849
Taxation payable		6,319	7,258
Bank borrowings	21	–	950
		<b>388,567</b>	366,935
<b>Net current assets</b>		<b>4,092,830</b>	3,813,817
<b>Net assets</b>		<b>4,407,410</b>	4,100,667
<b>Capital and reserves</b>			
Share capital	23	68,824	67,185
Reserves	24	4,338,586	4,033,482
<b>Total equity</b>		<b>4,407,410</b>	4,100,667

The consolidated financial statements on pages 43 to 91 were approved and authorised for issue by the Board of Directors on 19 March 2014 and are signed on its behalf by:

**CINDY YEUNG**  
DIRECTOR

**CHAN HUNG MING**  
DIRECTOR



# STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	15	1,583,094	1,544,485
Amounts due from a subsidiary	17	2,232,978	2,065,692
		<b>3,816,072</b>	3,610,177
<b>Current assets</b>			
Amounts due from a subsidiary	17	4	4
Deposits and prepayments		617	617
Taxation recoverable		–	42
Bank balances and cash	18	309	270
		<b>930</b>	933
<b>Current liabilities</b>			
Other payables and accrued charges		300	300
Amount due to a related company	20	35	35
		<b>335</b>	335
<b>Net current assets</b>		<b>595</b>	598
<b>Net assets</b>		<b>3,816,667</b>	3,610,775
<b>Capital and reserves</b>			
Share capital	23	68,824	67,185
Reserves	24	3,747,843	3,543,590
<b>Total equity</b>		<b>3,816,667</b>	3,610,775

**CINDY YEUNG**  
DIRECTOR

**CHAN HUNG MING**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000 (note 24(a))	Other reserve HK\$'000 (note 24(b))	Capital reserve HK\$'000 (note 24(c))	Translation reserve HK\$'000	Warrants equity reserve HK\$'000 (note 25)	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2012	67,185	3,263,867	(373,003)	(26,162)	2,529	33,798	53,100	837,229	3,858,543
Exchange differences arising on translation of foreign operations	-	-	-	-	-	11,134	-	-	11,134
Profit for the year	-	-	-	-	-	-	-	404,327	404,327
Total comprehensive income for the year	-	-	-	-	-	11,134	-	404,327	415,461
Final dividend paid for 2011	-	-	-	-	-	-	-	(107,496)	(107,496)
Interim dividend paid for 2012	-	-	-	-	-	-	-	(65,841)	(65,841)
At 31 December 2012	67,185	3,263,867	(373,003)	(26,162)	2,529	44,932	53,100	1,068,219	4,100,667
Exchange differences arising on translation of foreign operations	-	-	-	-	-	18,286	-	-	18,286
Profit for the year	-	-	-	-	-	-	-	290,317	290,317
Total comprehensive income for the year	-	-	-	-	-	18,286	-	290,317	308,603
Issue of shares upon exercise of warrants	1,639	151,461	-	-	-	-	(53,100)	-	100,000
Final dividend paid for 2012	-	-	-	-	-	-	-	(55,061)	(55,061)
Interim dividend paid for 2013	-	-	-	-	-	-	-	(46,799)	(46,799)
<b>At 31 December 2013</b>	<b>68,824</b>	<b>3,415,328</b>	<b>(373,003)</b>	<b>(26,162)</b>	<b>2,529</b>	<b>63,218</b>	<b>-</b>	<b>1,256,676</b>	<b>4,407,410</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 HK\$'000	2012 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	355,830	495,226
Adjustments for:		
Allowance for inventories	19,294	3,090
Depreciation of property, plant and equipment	58,874	72,805
Loss on disposal of property, plant and equipment	2,322	4,885
Interest expenses	2	4,315
Interest income	(4,907)	(1,568)
Write down of inventories	–	2,106
Operating cash flows before movements in working capital	431,415	580,859
Increase in inventories	(132,854)	(113,567)
Decrease (increase) in receivables, deposits and prepayments	5,870	(19,603)
Increase (decrease) in payables, deposits received and accrued charges	24,471	(42,548)
(Decrease) increase in amounts due to related companies	(950)	809
Net cash from operations	327,952	405,950
Income taxes paid	(60,814)	(161,169)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>267,138</b>	<b>244,781</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal of property, plant and equipment	507	–
Interest received	4,907	1,568
Purchase of property, plant and equipment	(66,889)	(79,814)
Deposits paid for acquisition of property, plant and equipment	(3,675)	–
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(65,150)</b>	<b>(78,246)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of shares upon exercise of warrants	100,000	–
Dividends paid	(101,860)	(173,337)
Interest paid	(2)	(4,315)
New bank loans raised	–	552,516
Repayments of bank loans	(950)	(891,771)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(2,812)</b>	<b>(516,907)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>199,176</b>	<b>(350,372)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>454,768</b>	<b>803,777</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>3,155</b>	<b>1,363</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH</b>	<b>657,099</b>	<b>454,768</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its immediate holding company is Emperor Watch & Jewellery Group Holdings Limited (“Emperor W&J Holdings”) which was incorporated in the British Virgin Islands (“BVI”) with limited liability. The directors of the Company (the “Directors”) consider that its ultimate holding company is Albert Yeung Holdings Limited, a company incorporated in the BVI with limited liability which is in turn held by STC International Limited (“STC International”), being the trustee of The Albert Yeung Discretionary Trust (“AY Trust”), the settlor and founder of which is Dr. Yeung Sau Shing, Albert (“Dr. Albert Yeung”). The address of the registered office and principal place of business of the Company is 25/F, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 33.

The consolidated financial statements are presented in Hong Kong dollars (“HKD”), which is also the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – *Continued*

Except as described below, the application of the new and revised HKFRSs in the current 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.

#### **New and revised standards on consolidation, joint arrangements, associates and disclosure**

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 *Consolidated Financial Statements*, HKFRS 11 *Joint Arrangements*, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as revised in 2011) *Separate Financial Statements* and HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance. HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

#### **Impact of the application of HKFRS 10**

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) – Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The Directors consider that the application of HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011), together with amendments relating to the transitional guidance on the application of these HKFRSs has no impact on the amounts reported in the consolidated financial statements.

#### **Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income**

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, the Group’s “statement of comprehensive income” is renamed as the “statement of profit or loss and other comprehensive income”. Furthermore, 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 do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) – *Continued*

#### ***New and revised HKFRSs in issue but not yet effective***

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

#### **HKFRSs**

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities <sup>1</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>2</sup>
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets <sup>1</sup>
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle <sup>4</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle <sup>2</sup>
HK(IFRIC) – Int 21	Levies <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>3</sup> Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

The Directors anticipate that the application of the new and revised HKFRSs will have no material impact on the consolidated financial statements of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

The principal accounting policies are set out below.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns and trade discounts.

Revenue from sales of goods is recognised when the goods are delivered and titles have passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### **Property, plant and equipment**

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are calculated using weighted average basis for gold and specific identification basis for watches and other jewellery items depending on the nature of the inventory. Net realisable value represents the estimated selling price for inventories less all estimated cost of completion and costs necessary to make the sale.

#### **Investment in subsidiaries**

Investment in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

#### **Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

#### **Financial assets**

The Group's financial assets are all classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bank balances and cash and amount due from a subsidiary) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

#### **Financial instruments** – *Continued*

##### **Financial assets** – *Continued*

###### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

#### **Financial instruments – *Continued***

##### ***Financial liabilities and equity instruments***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are classified as equity instruments.

##### *Financial liabilities*

Financial liabilities (including trade and other payables, amounts due to related companies and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

##### *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

#### **Financial instruments** – *Continued*

##### ***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

##### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

##### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

#### **Taxation – *Continued***

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current deferred tax are also recognised in other comprehensive income or directly in equity respectively.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sales, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### **Retirement benefit costs**

Payments to defined contribution retirement benefit plans, the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes, are recognised as an expense when employees have rendered service entitling them to the contributions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

#### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HKD) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

#### **Share-based payment transactions**

The fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

#### **Impairment on assets**

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### 4. KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### **Income taxes**

As at 31 December 2013, no deferred tax asset has been recognised on the tax losses of HK\$179,632,000 (2012: HK\$135,593,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. If the future profit streams become predictable in the future, a deferred tax asset will be recognised to the extent that future taxable profits will be available in the future.

#### **Allowance for inventories**

The management of the Company estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of the reporting period and makes allowance on obsolete and slow moving items to write off or write down inventories to their net realisable values. Where the subsequent estimated net realisable value of inventories is less than the original estimate, a material impairment loss may arise. As at 31 December 2013, the carrying amount of inventories is HK\$3,649,813,000 (net of allowance for inventories of HK\$53,425,000) (2012: carrying amount of HK\$3,521,660,000, net of allowance for inventories of HK\$34,089,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 5. 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 segments under HKFRS 8 are operations located in Hong Kong, Macau, other regions in Asia Pacific. The revenue generated by each of the operating segments is mainly derived from sales of watch and jewellery. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reporting 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 2013

	Hong Kong HK\$'000	Macau HK\$'000	Other regions in Asia Pacific HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Revenue					
External sales	5,545,186	404,120	675,066	-	6,624,372
Inter-segment sales*	153,504	18,238	-	(171,742)	-
	5,698,690	422,358	675,066	(171,742)	6,624,372
*Inter-segment sales are charged at cost					
Segment profit (loss)	485,234	53,810	(11,709)	-	527,335
Unallocated administrative expenses					(176,410)
Interest income					4,907
Finance costs					(2)
Profit before taxation					355,830

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 5. REVENUE AND SEGMENT INFORMATION – Continued

For the year ended 31 December 2012

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit or loss represents the gross profit generated from each segment including gross profit directly attributable to each segment, net of selling and distribution expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 5. REVENUE AND SEGMENT INFORMATION – *Continued*

#### Other segment information

Amounts included in the measure of segment profit or loss:

#### For the year ended 31 December 2013

	Hong Kong HK\$'000	Macau HK\$'000	Other regions in Asia Pacific HK\$'000	Unallocated HK\$'000	Total HK\$'000
Operating lease payments	540,749	10,542	107,297	7,472	666,060

For the year ended 31 December 2012

	Hong Kong HK\$'000	Macau HK\$'000	Other regions in Asia Pacific HK\$'000	Unallocated HK\$'000	Total HK\$'000
Operating lease payments	486,022	9,755	111,797	7,279	614,853

#### Revenue from major products

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

	2013 HK\$'000	2012 HK\$'000
Watch	5,143,745	5,319,978
Jewellery	1,480,627	1,211,496
	<b>6,624,372</b>	6,531,474

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 5. 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 the assets are detailed below:

#### As at 31 December 2013

	Hong Kong HK\$'000	Macau HK\$'000	Other regions in Asia Pacific HK\$'000	Consolidated HK\$'000
Non-current assets	256,061	14,055	36,196	306,312

#### As at 31 December 2012

	Hong Kong HK\$'000	Macau HK\$'000	Other regions in Asia Pacific HK\$'000	Consolidated HK\$'000
Non-current assets	224,865	13,449	41,053	279,367

#### 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.

### 6. OTHER INCOME

	2013 HK\$'000	2012 HK\$'000
Interest income from bank deposits	4,907	1,568
Others	5,006	3,482
	9,913	5,050

### 7. FINANCE COSTS

	2013 HK\$'000	2012 HK\$'000
Interest expenses on bank loans wholly repayable within five years	2	4,315

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 8. PROFIT BEFORE TAXATION

	2013 HK\$'000	2012 HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Allowance for inventories	19,294	3,090
Auditor's remuneration	3,361	3,386
Cost of inventories included in cost of sales	4,993,270	4,811,497
Depreciation of property, plant and equipment	58,874	72,805
Loss on disposal of property, plant and equipment	2,322	4,885
Net exchange gain	(2,423)	(2,330)
Operating lease payments in respect of rented premises		
– minimum lease payments	615,915	529,104
– contingent rent	50,145	85,749
Write down of inventories	–	2,106
Staff costs, including Directors' remuneration		
– salaries and other benefits costs	255,309	232,586
– retirement benefits scheme contributions	19,485	17,554

### 9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

#### (a) Directors

Details of the emoluments paid and payable to the Directors and Chief Executive for the year ended 31 December 2013 and 2012 are as follows:

#### For the year ended 31 December 2013

	Fees HK\$'000	Salaries and allowance HK\$'000	Performance related incentive payment HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Ms. Cindy Yeung (Chief Executive)	150	2,798	2,000	15	4,963
Mr. Chan Hung Ming	150	1,680	1,000	11	2,841
Mr. Wong Chi Fai	150	–	–	–	150
Ms. Fan Man Seung, Vanessa	150	–	–	–	150
Ms. Yip Kam Man	200	–	–	–	200
Mr. Chan Hou Piu	200	–	–	–	200
Ms. Lai Ka Fung, May	200	–	–	–	200
	1,200	4,478	3,000	26	8,704

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – *Continued*

#### (a) Directors – *Continued*

For the year ended 31 December 2012

	Fees HK\$'000	Salaries and allowance HK\$'000	Performance related incentive payment HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Ms. Cindy Yeung (Chief Executive)	138	2,683	3,000	14	5,835
Mr. Chan Hung Ming	138	1,560	1,200	14	2,912
Mr. Wong Chi Fai	138	–	–	–	138
Ms. Fan Man Seung, Vanessa	138	–	–	–	138
Ms. Yip Kam Man	188	–	–	–	188
Mr. Chan Hou Piu	188	–	–	–	188
Ms. Lai Ka Fung, May	188	–	–	–	188
Mr. Hanji Huang (resigned on 31 December 2012)	138	–	–	–	138
	1,254	4,243	4,200	28	9,725

#### (b) Employees

Of the five individuals with the highest emoluments in the Group, two (2012: two) were Directors and Chief Executive whose emoluments are included in note 9(a) above. The emoluments of the remaining three (2012: three) individuals were as follows:

	2013 HK\$'000	2012 HK\$'000
Salaries and allowance	4,126	4,079
Performance related incentive payment	587	543
Retirement benefits scheme contributions	45	41
	4,758	4,663

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 9. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – *Continued*

#### (b) Employees – *Continued*

Their emoluments were within the following bands:

	Number of employees	
	2013	2012
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$1,500,001 to HK\$2,000,000	1	1

Notes:

- (i) The performance related incentive payment is a discretionary bonus determined based on the financial performance of the Group.
- (ii) No Directors waived any emoluments in the years ended 31 December 2013 and 31 December 2012.

### 10. TAXATION

	2013 HK\$'000	2012 HK\$'000
The charge comprises:		
Current year:		
Hong Kong	60,785	83,598
PRC	–	313
Macau	5,779	7,149
	<b>66,564</b>	<b>91,060</b>
(Over) underprovision in prior years:		
Hong Kong	(291)	238
Macau	25	564
PRC	–	593
	<b>(266)</b>	<b>1,395</b>
Deferred taxation (note 22)	<b>(785)</b>	<b>(1,556)</b>
	<b>65,513</b>	<b>90,899</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 10. TAXATION – Continued

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 Complementary Income Tax is calculated progressively at rates ranging from 3% to 12% of the estimated assessable profit for both years.

Details of deferred taxation are set out in note 22.

Tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013 HK\$'000	2012 HK\$'000
Profit before taxation	355,830	495,226
Tax charge at Hong Kong Profits Tax rate of 16.5%	58,712	81,712
Tax effect of expenses not deductible for tax purpose	2,150	1,684
Tax effect of income not taxable for tax purpose	(557)	(673)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,210)	(2,257)
Tax effect of tax losses not recognised	8,177	8,638
Utilisation of tax losses previously not recognised	(322)	–
(Over) underprovision in respect of prior years	(266)	1,395
Others	(171)	400
Income tax expenses for the year	65,513	90,899

The Hong Kong Profits Tax rate used in the above reconciliation is the domestic tax rate in the jurisdiction where the operation of the Group is substantially based.

### 11. DIVIDENDS

	2013 HK\$'000	2012 HK\$'000
Dividends recognised as distribution during the year:		
2012 Final: HK0.80 cent (2012: 2011 final dividend HK1.60 cents) per share	55,061	107,496
2013 Interim: HK0.68 cent (2012: 2011 interim dividend HK0.98 cent) per share	46,799	65,841
	101,860	173,337

A final dividend for the year ended 31 December 2013 of HK0.58 cent (2012: HK0.80 cent) per share has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 12. 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:

	2013 HK\$'000	2012 HK\$'000
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share	<b>290,317</b>	404,327

  

	2013	2012
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>6,875,711,098</b>	6,718,513,703
Effect of dilutive potential ordinary shares: Warrants	<b>2,545,831</b>	51,950,902
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>6,878,256,929</b>	6,770,464,605

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 13. PROPERTY, PLANT AND EQUIPMENT

#### THE GROUP

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>COST</b>				
At 1 January 2012	209,529	39,914	1,362	250,805
Exchange realignment	1,040	99	–	1,139
Additions	74,300	8,085	–	82,385
Disposals	(34,124)	(2,456)	–	(36,580)
<b>At 31 December 2012</b>	<b>250,745</b>	<b>45,642</b>	<b>1,362</b>	<b>297,749</b>
Exchange realignment	1,336	185	4	1,525
Additions	61,879	5,010	–	66,889
Disposals	(49,768)	(884)	(716)	(51,368)
<b>At 31 December 2013</b>	<b>264,192</b>	<b>49,953</b>	<b>650</b>	<b>314,795</b>
<b>DEPRECIATION</b>				
At 1 January 2012	135,390	18,018	730	154,138
Exchange realignment	458	23	–	481
Provided for the year	65,098	7,435	272	72,805
Eliminated on disposals	(29,820)	(1,875)	–	(31,695)
<b>At 31 December 2012</b>	<b>171,126</b>	<b>23,601</b>	<b>1,002</b>	<b>195,729</b>
Exchange realignment	912	75	–	987
Provided for the year	51,247	7,442	185	58,874
Eliminated on disposals	(47,240)	(702)	(597)	(48,539)
<b>At 31 December 2013</b>	<b>176,045</b>	<b>30,416</b>	<b>590</b>	<b>207,051</b>
<b>CARRYING VALUES</b>				
<b>At 31 December 2013</b>	<b>88,147</b>	<b>19,537</b>	<b>60</b>	<b>107,744</b>
At 31 December 2012	79,619	22,041	360	102,020

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 13. PROPERTY, PLANT AND EQUIPMENT – *Continued*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the unexpired lease term or three years, whichever is shorter
Furniture, fixtures and equipment	9% – 33.3%
Motor vehicles	18% – 20%

### 14. INVENTORIES

	THE GROUP	
	2013 HK\$'000	2012 HK\$'000
Raw materials	18,334	24,567
Goods held for resale	3,631,479	3,497,093
	<b>3,649,813</b>	3,521,660

### 15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2013 HK\$'000	2012 HK\$'000
Unlisted shares	373,006	373,006
Deemed capital contribution (note 17)	1,210,088	1,171,479
	<b>1,583,094</b>	1,544,485

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 16. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	THE GROUP	
	2013 HK\$'000	2012 HK\$'000
Trade receivables	78,645	89,465
Other receivables, deposits and prepayments	76,462	63,422
Other PRC tax recoverable	16,521	43,432
Other Singapore tax recoverable	1,275	–
	<b>172,903</b>	196,319

Retail 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.

	THE GROUP	
	2013 HK\$'000	2012 HK\$'000
Within 30 days	61,412	82,020
31 – 60 days	6,556	6,995
61 – 90 days	5,187	450
Over 90 days	5,490	–
	<b>78,645</b>	89,465

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\$17,233,000 (2012: HK\$7,445,000) 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 TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 16. RECEIVABLES, DEPOSITS AND PREPAYMENTS – *Continued*

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

	2013 HK\$'000	2012 HK\$'000
Overdue 1 – 30 days	6,556	5,663
Overdue 31 – 60 days	5,187	1,782
Overdue 61 days	5,490	–
	<b>17,233</b>	<b>7,445</b>

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

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

	2013 HK\$'000	2012 HK\$'000
Macau Pataca ("MOP")	960	865

### 17. AMOUNTS DUE FROM A SUBSIDIARY

The amounts due from a subsidiary is unsecured, interest-free and repayable on demand. Amounts due from a subsidiary with principal amounts of HK\$1,249,829,000, HK\$608,311,000, HK\$1,086,179,000 and HK\$100,000,000 (2012: HK\$1,249,829,000, HK\$608,311,000 and HK\$1,086,179,000 respectively) are expected to be settled by 31 December 2018, 31 December 2020, 31 December 2021 and 31 December 2023 respectively. On application of HKAS 39 "Financial Instruments: Recognition and Measurement", the fair value of those amounts on initial recognition is determined based on effective interest rate of 5% per annum. The difference between the principal amount of the advance and its fair value, determined on initial recognition amounting to HK\$1,210,088,000 (2012: HK\$1,171,479,000), has been included in the investment cost in a subsidiary as deemed contribution to the subsidiary (note 15).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 18. BANK BALANCES AND CASH

#### THE GROUP/THE COMPANY

Bank balances carry interest at market rates which range from 0.00960% to 3.60% (2012: 0.00941% to 1.31%) per annum.

The Group's bank balances and cash that are not denominated in the functional currencies of the respective group entities are as follow:

	<b>2013</b>	<b>2012</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
HKD	<b>1,025</b>	2,294
MOP	<b>8,795</b>	13,398
United States dollars ("USD")	<b>1,949</b>	5,715
Renminbi ("RMB")	<b>143,995</b>	855
Swiss Franc ("CHF")	<b>-</b>	431

The Company's bank balances and cash are denominated in HKD, which is the same functional currency of the Company.

### 19. PAYABLES, DEPOSITS RECEIVED AND ACCRUED CHARGES

	<b>2013</b>	<b>2012</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade payables	<b>245,982</b>	229,114
Other payables, deposits received and accrued charges	<b>131,962</b>	123,258
Other PRC tax payables	<b>405</b>	1,506
	<b>378,349</b>	353,878

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 19. PAYABLES, DEPOSITS RECEIVED AND ACCRUED CHARGES –

*Continued*

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

	2013 HK\$'000	2012 HK\$'000
Within 30 days	242,936	227,080
31 – 60 days	2,129	1,226
61 – 90 days	917	623
Over 90 days	–	185
	<b>245,982</b>	229,114

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:

	2013 HK\$'000	2012 HK\$'000
USD	20,892	15,497
MOP	9,733	8,919

### 20. AMOUNTS DUE TO RELATED COMPANIES

#### THE GROUP

The amounts due to related companies mainly represent the rental, electricity and air-conditioning expenses payable and service charge payable to related companies. These amounts are unsecured, interest-free and repayable on demand. The related companies represent companies controlled by the AY Trust of which STC International is the trustee.

#### THE COMPANY

The amount due to a related company is unsecured, interest-free and repayable on demand. The related company represents a company controlled by the AY Trust of which STC International is the trustee.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 21. BANK BORROWINGS

	THE GROUP	
	2013 HK\$'000	2012 HK\$'000
Unsecured bank loans, repayable within one year	–	950

The interest rate for the bank borrowings denominated in HKD for the year ended 31 December 2012 was at Hong Kong Interbank Offered Rates plus 1.25% and weighted effective interest rate of bank borrowing of the Group was 1.48% per annum.

### 22. DEFERRED TAXATION

The following are the deferred tax asset recognised by the Group and the movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$'000
At 1 January 2012	(5,927)
Credited to consolidated statement of profit or loss and other comprehensive income	(1,556)
At 31 December 2012	(7,483)
Credited to consolidated statement of profit or loss and other comprehensive income	(785)
<b>At 31 December 2013</b>	<b>(8,268)</b>

At the end of the reporting period, the Group has unused tax losses of approximately HK\$179,632,000 (2012: HK\$135,593,000) available for offset against future profits. No deferred taxation asset has been recognised in respect of tax losses due to unpredictability of future profit streams. Included in unrecognised tax losses are losses incurred by subsidiaries in other jurisdictions of HK\$167,637,000 (2012: HK\$129,574,000) that will expire in the coming years (please see the table below). Other losses may be carried forward indefinitely. Tax losses of HK\$3,569,000 have been expired during the year. Due to the deregistration of subsidiaries, tax losses amounting to HK\$1,736,000 was forfeited in prior year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 22. DEFERRED TAXATION – Continued

The unused tax losses available for offset against future profits are analysed as follows:

	THE GROUP	
	2013 HK\$'000	2012 HK\$'000
Will expire on:		
31 December 2013	–	3,569
31 December 2014	19,751	19,751
31 December 2015	29,326	29,326
31 December 2016	25,772	25,772
31 December 2017	51,156	51,156
31 December 2018	41,632	–
	167,637	129,574
Unrecognised tax losses that will not expire	11,995	6,019
	179,632	135,593

### 23. SHARE CAPITAL

The movements in the Company's authorised and issued share capital during the year ended 31 December 2012 and 31 December 2013 are as follows:

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2012, 31 December 2012 and 31 December 2013	100,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2012 and 31 December 2012	6,718,513,703	67,185
Shares issued upon exercise of warrants (note 25)	163,934,426	1,639
<b>At 31 December 2013</b>	<b>6,882,448,129</b>	<b>68,824</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 24. RESERVES

#### THE GROUP

- (a) Merger reserve arose from the group reorganisation scheme (the “Group Reorganisation”) undertaken by the Company to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Stock Exchange in 2008.
- (b) Other reserve represented the aggregate amount of:
  - (i) the difference between the nominal value of share capital and the amount due to Emperor W&J Holdings capitalised for issue of 344 ordinary shares of US\$1 each in a subsidiary of HK\$343,997,000 prior to the Group Reorganisation;
  - (ii) the capital contribution of HK\$6,000 by Emperor W&J Holdings in Emperor Watch and Jewellery Company Limited (subsequently renamed as Prime Sharp Limited, a then fellow subsidiary of the Company) (“EWJCL”) prior to the Group Reorganisation;
  - (iii) promissory notes in aggregate of HK\$373,006,000 issued in exchange for shares in the subsidiaries as a part of Group Reorganisation;
  - (iv) 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 during the year ended 31 December 2010;
  - (v) the shortfall of the consideration paid for acquisition of additional interest in a subsidiary from a non-controlling interest of HK\$4,063,000 during the year ended 31 December 2010; and
  - (vi) the reversal of reserve of HK\$295,000 arising from the deregistration of a non-wholly owned subsidiary during the year ended 31 December 2011.
- (c) Capital reserve represented the excess of the value of net assets acquired over purchase consideration paid to EWJCL by Emperor Watch & Jewellery (HK) Company Limited in 1987.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 24. RESERVES – *Continued*

#### THE COMPANY

	Share premium HK\$'000	Accumulated profits HK\$'000	Warrants equity reserve HK\$'000	Total HK\$'000
At 1 January 2012	3,263,867	128,504	53,100	3,445,471
Profit and total comprehensive income for the year	–	271,456	–	271,456
Final dividend paid for 2011	–	(107,496)	–	(107,496)
Interim dividend paid for 2012	–	(65,841)	–	(65,841)
At 31 December 2012	3,263,867	226,623	53,100	3,543,590
Profit and total comprehensive income for the year	–	207,752	–	207,752
Issue of shares upon exercise of warrants	151,461	–	(53,100)	98,361
Final dividend paid for 2012	–	(55,061)	–	(55,061)
Interim dividend paid for 2013	–	(46,799)	–	(46,799)
<b>At 31 December 2013</b>	<b>3,415,328</b>	<b>332,515</b>	<b>–</b>	<b>3,747,843</b>

### 25. WARRANTS

On 16 January 2013, 163,934,426 units of warrants with an aggregate subscription value of approximately HK\$100,000,000 were 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 26. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes borrowings disclosed in note 21, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Directors review the capital structure periodically. As part of this review, the Group considers the cost of capital and risks associated with the capital, and will balance its overall capital structure through new share issues of the Company as well as raising of bank borrowings.

### 27. FINANCIAL INSTRUMENTS

#### (a) Categories of financial instruments

	THE GROUP		THE COMPANY	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
<i>Financial assets</i>				
Loans and receivables (including cash and cash equivalent)	<b>779,237</b>	574,742	<b>2,233,291</b>	2,065,966
<i>Financial liabilities</i>				
At amortised cost	<b>313,046</b>	282,898	<b>335</b>	335

#### (b) Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, bank balances and cash, trade and other payables, amounts due to related companies and bank borrowings. The Company's financial instruments include amounts due from a subsidiary and bank balances and cash, other payables and amount due to a related company. Details of these financial instruments are disclosed in their respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 27. FINANCIAL INSTRUMENTS – *Continued*

#### (b) Financial risk management objectives and policies – *Continued*

##### **Market risk**

The Group's activities are exposed primarily to the financial risks of changes in interest rates and foreign currency exchange rates (see below).

##### (i) *Interest rate risk*

The Group has exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances and variable-rate bank borrowings (see note 21 to details of these borrowings). The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management of the Company will consider hedging significant interest rate exposure should the need arise.

##### Sensitivity analysis

In the opinion of the Directors, no sensitivity analysis is prepared for the interest rate risk for variable-rate bank balances since the interest rates did not fluctuate significantly during the year and the impact on the Group's results for the year is not significant.

The sensitivity analysis below was determined based on the exposure to interest rates from the Group's variable-rate bank borrowings at the end of the preceding period. The analysis was prepared assuming the bank borrowings outstanding as of 31 December 2012 was outstanding for the whole year. A 200 basis points increase or decrease was used, which represented management's assessment of the reasonably possible change in interest rates.

If interest rates had been 200 basis points higher and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2012 would decrease by HK\$16,000. An equal and opposite impact on the Group's post-tax profits for the year would result if the interest rates had been 200 basis points lower.

##### (ii) *Foreign currency risk*

##### **THE GROUP**

The Group undertakes certain sales and purchases transactions denominated in MOP, USD, RMB, SGD and CHF which are the currencies other than the functional currencies of respective group entities. As the foreign exchange rate of HKD is closed to MOP and HKD is pegged with USD, the Directors consider the Group's exposure to foreign currency risk of these currencies is minimal. The Group is mainly exposed to foreign currency fluctuation of HKD and SGD, as these groups entities, whose functional currencies are RMB and HKD hold certain bank balance and inter-group balances denominated in HKD and SGD respectively. The Group manages its foreign currency risk by closely monitoring the movements of the foreign currency rates. The Directors conduct periodical review of foreign currency exposure and will consider hedging significant foreign exchange exposure should the need arise.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 27. FINANCIAL INSTRUMENTS – *Continued*

#### (b) Financial risk management objectives and policies – *Continued*

##### *Market risk – Continued*

##### (ii) *Foreign currency risk – Continued*

##### **THE GROUP** – *Continued*

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities and the foreign currency denominated inter-group balances at the respective reporting dates are as follows:

	2013 HK\$'000	2012 HK\$'000
<b>Assets</b>		
<i>Third parties</i>		
HKD	1,025	2,625
MOP	9,755	14,263
USD	1,949	5,715
RMB	143,995	855
CHF	–	431
<i>Inter-group balances</i>		
SGD	101,079	76,200
<b>Liabilities</b>		
<i>Third parties</i>		
MOP	9,733	8,919
USD	20,892	15,497
<i>Inter-group balances</i>		
HKD	858,394	853,351

##### Sensitivity analysis

The sensitivity analysis below details the Group's sensitivity to a 2% (2012: 2%) increase in the functional currencies of the relevant group entities, RMB and HKD, relative to respective foreign currencies, HKD, RMB and SGD. The sensitivity analysis of the Group also includes foreign currency exposure on inter-group balances. 2% (2012: 2%) is the sensitivity rate used in the management's assessment of the reasonably possible change in foreign currency rates. The sensitivity analysis includes only foreign currencies denominated money items and adjusts their translation at the end of the reporting period for a 2% (2012: 2%) change in the foreign currency rates. If the functional currencies of the relevant group entities strengthen/weaken 2% against respective foreign currencies:

Translation reserve would increase/decrease by HK\$15,146,000 (2012: HK\$15,543,000) as a result of change in foreign currency rates of inter-group balances, as the inter-group balances form part of the Group's net investments in subsidiaries.

Post-tax profit for the year would decrease/increase by HK\$2,422,000 (2012: HK\$44,000) as a result of change in foreign currency rates of third parties' assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 27. FINANCIAL INSTRUMENTS – *Continued*

#### (b) Financial risk management objectives and policies – *Continued*

##### *Market risk – Continued*

##### (ii) *Foreign currency risk – Continued*

#### **THE COMPANY**

The Company is not exposed to foreign currency risk as all monetary assets and liabilities held by the Company are denominated in HKD, which is the same as the functional currency of the Company.

##### **Credit risk**

#### **THE GROUP**

As at 31 December 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group has delegated a team responsible for the determination of credit limits and credit approvals. The Group manages the process for each individual debtor from execution until collection and overdue debts, based on the assessment of credit quality of customer. In addition, the management of the Group reviews the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the Directors consider that the credit risk of the Group is significantly reduced.

The Group has concentration of credit risk as 23% (2012: 10%) of total trade receivables was due from the Group's largest trade debtor. The Group's largest trade debtor is a department store located in the PRC with good repayment history.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties. Retail sales are settled in either cash or via credit cards issued by banks or other financial institutions. The credit risk on liquid funds and credit card sales are limited because the counterparties are either banks or other financial institutions with high credit rankings assigned by credit-rating agencies, or state-owned banks. The credit risk on receivables from department stores are limited because all department stores have good repayment record.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 27. FINANCIAL INSTRUMENTS – *Continued*

#### (b) Financial risk management objectives and policies – *Continued*

##### *Credit risk – Continued*

###### **THE COMPANY**

The Company's credit risk is primarily attributable to amount due from a subsidiary. In order to minimise the credit risk, the Directors are responsible to exercise control on the financial and operating activities of the subsidiary to ensure the subsidiary maintains a favourable financial position. In this regard, the Directors consider that the Company's credit risk is significantly reduced.

The Company has provided financial guarantees to its subsidiaries. The management considers the Company's exposure to credit risk is limited as those subsidiaries have sufficient net assets to repay their borrowings to the bank and the possibility of the default payment by the subsidiaries to the bank is low.

##### *Liquidity risk*

###### **THE GROUP**

The Group's liquidity position is monitored closely by the management of the Company. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Company monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 27. FINANCIAL INSTRUMENTS – Continued

#### (b) Financial risk management objectives and policies – Continued

##### Liquidity risk – Continued

##### THE GROUP – Continued

	Weighted average effective interest rate %	On demand or less than 3 months HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at the end of the reporting period HK\$'000
<b>At 31 December 2013</b>				
Payables	–	309,147	309,147	309,147
Amounts due to related companies	–	3,899	3,899	3,899
		<b>313,046</b>	<b>313,046</b>	<b>313,046</b>
<b>At 31 December 2012</b>				
Payables	–	277,099	277,099	277,099
Amounts due to related companies	–	4,849	4,849	4,849
Bank borrowings (note)	1.52	950	950	950
		<b>282,898</b>	<b>282,898</b>	<b>282,898</b>

Note: The amounts included above for variable interest rate bank borrowings are subject to change if changes in variable interest rates differ from the estimates of interest rates determined at the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 27. FINANCIAL INSTRUMENTS – *Continued*

#### (b) Financial risk management objectives and policies – *Continued*

##### *Liquidity risk – Continued*

##### THE COMPANY

As at 31 December 2013, the Company provided corporate guarantees of HK\$834,093,000 (2012: HK\$773,106,000) to banks in respect of credit facilities granted to its subsidiaries. No facilities have been utilised by the subsidiaries at the end of reporting period (2012: HK\$950,000). The maximum amount the Company could be required to settle the financial guarantee contracts under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee is HK\$834,093,000 (2012: HK\$773,106,000). Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee, which is a function of the likelihood that the counterparty guaranteed suffer credit losses.

The following table details the Company's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows for financial liabilities based on the earliest date on which the Company can be required to pay.

	Weighted average effective interest rate %	Less than 3 months HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at the end of the reporting period HK\$'000
<b>At 31 December 2013</b>				
Other payables	–	300	300	300
Amount due to a related company	–	35	35	35
Financial guarantee contract	–	834,093	834,093	–
		<b>834,428</b>	<b>834,428</b>	<b>335</b>
<b>At 31 December 2012</b>				
Other payables	–	300	300	300
Amount due to a related company	–	35	35	35
Financial guarantee contract	–	773,106	773,106	–
		773,441	773,441	335

The Company had no other contractual liability as at 31 December 2013 and 31 December 2012.

#### (c) Fair value measurements of financial assets and liabilities

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 28. OPERATING LEASE ARRANGEMENTS

#### The Group as lessee

At the end of the reporting period, the Group had commitments for the future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2013 HK\$'000	2012 HK\$'000
Within one year	631,973	516,232
In the second to fifth year inclusive	562,919	615,794
	<b>1,194,892</b>	1,132,026

Operating lease payments represent rentals payable by the Group for its offices and shops. Leases are negotiated for terms ranging from one month to five years with fixed monthly rentals and certain operating leases are subject to contingent rents based on a fixed percentage of the monthly gross turnover in excess of the monthly minimum lease payments.

Included in the above is future lease payments with related companies of approximately HK\$238,050,000 (2012: HK\$460,414,000) which fall due as follows:

	2013 HK\$'000	2012 HK\$'000
Within one year	222,627	240,900
In the second to fifth year inclusive	15,423	219,514
	<b>238,050</b>	460,414

The related companies are companies controlled by the AY Trust of which STC International is the trustee.

### 29. CAPITAL COMMITMENTS

	THE GROUP	
	2013 HK\$'000	2012 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	964	6,752

The Company had no capital commitment at the end of the reporting periods.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 30. SHARE OPTION SCHEME

Pursuant to the written resolutions passed by the then sole shareholder of the Company on 19 June 2008, the Company adopted a share option scheme (the “Share Option Scheme”). The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. Under the Share Option Scheme, the Directors may, at their absolute discretion, invite any employee (whether full-time or part time, including any executive director but excluding any non-executive director), any non-executive director (including independent non-executive directors), any supplier of goods or services, any customer, any person or entity that provides research, development or other technological support, any shareholder, any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or its investee companies to take up options to subscribe for shares in the Company representing up to a maximum 10% of the shares in issue as at the date of commencement of listing of shares of the Company on the Stock Exchange and any renewal of the limit is subject to shareholders’ approval.

The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the Company’s issued share capital, without prior approval from the Company’s shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company’s shares in issue and with a value in excess of HK\$5,000,000 must be approved by the Company’s shareholders. Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per each grant of options. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price is determined by the Directors and will not be less than the highest of the closing price of the Company’s shares on the date of grant, the average closing prices of the Company’s shares for the five business days immediately preceding the date of grant and the nominal value of the Company’s shares.

No option was granted by the Company under the Share Option Scheme since its adoption and up to 31 December 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 31. RETIREMENT BENEFITS SCHEMES

The Group participates in defined contribution schemes which are registered under the Hong Kong Occupational Retirement Scheme Ordinance (the “ORSO” Scheme) and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Hong Kong Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of independent trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The retirement benefit cost charged to the consolidated statement of comprehensive income represents contributions payable to the funds by the Group at rates specified in the rules of the schemes. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee. The maximum amount of contribution is limited to HK\$1,250 (2012: HK\$1,250) per each employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee’s basic salary.

The eligible employees of the Company’s subsidiaries in the PRC, Macau, Singapore are members of pension schemes operated respective local governments. The subsidiaries in the PRC are required to contribute a certain percentage ranging from 38% to 44% of the relevant cost of the payroll of these employees to the pension schemes to fund the benefits. The subsidiary in Macau is required to contribute MOP30 for every employee per month while the subsidiary in Singapore is required to contribute 16% of the employee’s monthly gross salary. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contribution under the schemes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 32. RELATED PARTY TRANSACTIONS

The terms and balances with related companies at the end of the reporting periods are set out in statement of financial position and note 20.

During the year, the Group had the following transactions with related parties:

	2013 HK\$'000	2012 HK\$'000
(1) Sales of goods to Directors and their close family members	7,307	2,930
(2) Rental, electricity and air-conditioning expenses paid and payable to related companies (Notes a and b)	242,905	250,216
(3) Service charge in respect of information system and administrative work paid and payable to related companies (Note b)	18,563	24,050
(4) Advertising expenses paid and payable to related companies (Note b)	2,186	5,199
(5) Financial advisory fee paid and payable to a related company (Note b)	420	385

As at 31 December 2013, rental deposits paid to related companies, which are companies controlled by the AY Trust of which STC International is the trustee amounting to HK\$70,186,000 (2012: HK\$73,069,000) were included in rental deposits under non-current assets.

The Company provided corporate guarantees of approximately HK\$834,093,000 (2012: HK\$773,106,000) to banks in respect of credit facilities granted to its subsidiaries. No facilities have been utilised by the subsidiaries at the end of the reporting period (2012: HK\$950,000).

Notes:

- (a) The expenses paid are in relation to the tenancy agreements entered into with the related companies of the Company. Details of the transactions are disclosed under "Directors' Interests in Contracts of Significance and Continuing Connected Transactions" section in the Directors' Report.
- (b) The related companies are companies controlled by Directors of the Company or their associates or the AY Trust of which STC International is the trustee.

The compensation to the Directors and key management personnel of the Group are disclosed in note 9.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 33. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2013 and 2012 are as follows:

Name of subsidiary	Place of incorporation/ registration/ operation	Paid up issued/ registered ordinary share capital	Attributable equity interest held by the Company		Principal activities
			2013	2012	
<b>Direct subsidiaries</b>					
Emperor Watch & Jewellery (China) Holdings Limited (formerly known as Emperor Watch & Jewellery (China) Company Limited)	Hong Kong ("HK")	HK\$1	100%	100%	Investment holding
Emperor Watch & Jewellery (China) Holdings Limited	BVI	US\$1	100%	100%	Investment holding
Emperor Watch & Jewellery Overseas Holdings Limited	HK	HK\$1	100%	100%	Investment holding
Emperor Watch & Jewellery (HK & Macau) Holdings Limited (formerly known as Emperor Watch & Jewellery (HK) Holdings Limited)	BVI	US\$1	100%	100%	Investment holding
<b>Indirect subsidiaries</b>					
Beauty Royal Limited	HK	HK\$2	100%	100%	Provision of group tenancy agent services
Charter Loyal Limited	HK	HK\$2	100%	100%	Provision of group tenancy agent services
Crescent Gold Limited	HK	HK\$1	100%	100%	Investment holding
Emperor Watch & Jewellery (HK) Company Limited	HK	HK\$100	100%	100%	Sales of watches & jewellery
Emperor Watch & Jewellery Management Limited	BVI	US\$1	100%	100%	Holding trademarks, logo and domain names of the Group
Emperor Watch & Jewellery (Singapore) Pte. Ltd.	Singapore	SGD300,000	100%	100%	Sales of watches & jewellery
EWJ Watch and Jewellery (Macau) Company Limited (formerly known as EWJ Watch & Jewellery Company Limited)	Macau	MOP25,000	100%	100%	Sales of watches & jewellery
Foremost Resources Limited	HK	HK\$1	100%	100%	Provision of group tenancy agent services

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 33. PARTICULARS OF PRINCIPAL SUBSIDIARIES – Continued

Name of subsidiary	Place of incorporation/ registration/ operation	Paid up issued/ registered ordinary share capital	Attributable equity interest held by the Company		Principal activities
			2013	2012	
<b>Indirect subsidiaries - continued</b>					
Glory Wish Limited	HK	HK\$2	100%	100%	Provision of group tenancy agent services
Gold Gatherable Limited	HK	HK\$1	100%	100%	Investment holding
Mount Win Limited	HK	HK\$1,000,000	100%	100%	Provision of group tenancy agent services
Shine Air Limited	HK	HK\$1	100%	100%	Investment holding
Success Wealthy Limited	HK	HK\$1	100%	100%	Provision of group tenancy agent services
Trillion Winner Limited	HK	HK\$1	100%	100%	Provision of group tenancy agent services
Uni-Champ Limited	HK	HK\$1	100%	100%	Investment holding
Up Success Limited	HK	HK\$300,000	100%	100%	Provision of group tenancy agent services
Wealthy Able Limited	HK	HK\$1	100%	100%	Provision of group tenancy agent services
Zeal Team Limited	HK	HK\$1	100%	100%	Provision of group tenancy agent services
英皇鐘錶珠寶(北京)有限公司*	PRC	HK\$160,000,000	100%	100%	Sales of watches & jewellery
英皇鐘錶珠寶(深圳)有限公司*	PRC	HK\$100,500,000	100%	100%	Sales of watches & jewellery
北京富嘉佳美鐘錶貿易有限公司*	PRC	HK\$73,000,000	100%	100%	Sales of watches & jewellery

\* The subsidiaries are wholly foreign owned enterprises.

None of the subsidiaries had issued any debt securities at the end of the year.

The Directors are of the opinion that a complete list of the particulars of all subsidiaries of the Group will be of excessive length and therefore the above list contains only the particulars of subsidiaries which principally affect the results or assets of the Group.

## FINANCIAL SUMMARY

	For the year ended 31 December				
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
<b>RESULT</b>					
Revenue	2,686,463	4,095,310	5,862,377	6,531,474	<b>6,624,372</b>
Profit before taxation	243,232	204,284	756,894	495,226	<b>355,830</b>
Taxation	(43,046)	(70,423)	(129,842)	(90,899)	<b>(65,513)</b>
Profit for the year	200,186	133,861	627,052	404,327	<b>290,317</b>
Profit for the year attributable to:					
Owners of the Company	195,588	125,641	627,084	404,327	<b>290,317</b>
Non-controlling interests	4,598	8,220	(32)	–	<b>–</b>
	200,186	133,861	627,052	404,327	<b>290,317</b>

	As at 31 December				
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	1,845,743	3,115,631	4,667,181	4,467,602	<b>4,795,977</b>
Total liabilities	(286,826)	(845,388)	(808,638)	(366,935)	<b>(388,567)</b>
Net Assets	1,558,917	2,270,243	3,858,543	4,100,667	<b>4,407,410</b>
Equity attributable to owners					
of the Company	1,549,406	2,267,646	3,858,543	4,100,667	<b>4,407,410</b>
Non-controlling interests	9,511	2,597	–	–	<b>–</b>
Total equity	1,558,917	2,270,243	3,858,543	4,100,667	<b>4,407,410</b>