英皇鐘錶珠寶有限公司

EMPEROR WATCH & JEWELLERY LIMITED

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

Eternal Elegance

Interim Report 2011

Contents

▲ Harbour City, Tsim Sha Tsui

▲ iSQUARE, Tsim Sha Tsui

Inside the 1881 Heritage Flagship Store ▼

▲ Russell Street, Causeway Bay

Nathan Road, Tsim Sha Tsui ▼

Russell Street, Causeway Bay ▶

▲ 1881 Heritage, Tsim Sha Tsui

Eternal Elegance

FINANCIAL HIGHLIGHTS (Unaudited)

HK$'million	1H2011 Per Reported	1H2011 Excluding the net loss on derivative financial instruments[1]	1H2010	Changes (increase)
Revenue	2,629.1	**2,629.1**	**1,773.3**	**48.3%**
Gross Profit	752.0	**752.0**	**431.0**	**74.5%**
Gross Profit Margin	28.6%	**28.6%**	**24.3%**	**4.3%pts**
EBITDA[2]	345.1	**354.4**	**185.0**	**91.6%**
EBITDA Margin	13.1%	**13.5%**	**10.4%**	**3.1%pts**
Profit for the period attributable to owners of the Company	255.3	**264.6**	**128.5**	**105.9%**
Net Profit Margin	9.7%	**10.1%**	**7.2%**	**2.9%pts**
Basic earnings per share	HK4.2 cents	**HK4.3 cents**	**HK2.5 cents**	**72.0%**
Dividend per share	HK1.2 cents	**HK1.2 cents**	**HK0.75 cent**	**60.0%**

1 *Net loss on derivative financial instruments is a non-cash item going through profit and loss which is in relation to the issuance of convertible bonds.*

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

MANAGEMENT DISCUSSION AND ANALYSIS

Emperor Watch & Jewellery Limited (the "Company") together with its subsidiaries (collectively referred to as the "Group") is a leading retailer principally engaged in the sale of European–made luxurious and international branded watches, and self-designed and sale of fine jewellery products under its own brand, "***Emperor***" through its extensive retail networks in Hong Kong, Macau and the People's Republic of China (the "PRC") for nearly 70 years. With balanced and comprehensive watches' dealership list and unique marketing, its target customers range from middle to high income group from all over the world.

Financial Review

Attributable to the expansion of market demand for luxury goods, appreciation of Renminbi and substantial increase of purchasing power of mainland tourists, the general performance for the six months ended 30 June 2011 (the "Period") was very satisfactory.

During the Period, the Group reported revenue of approximately HK$2,629.1 million, representing a significant surge of 48.3% (2010: HK$1,773.3 million). The Hong Kong market continued to be the key revenue contributor, taking up 81.7% of the Group's total revenue. The Group achieved encouraging performance on revenue in the PRC with a significant increase of 42.0% to HK$295.7 million (2010: HK$208.3 million) The revenue contribution from the jewellery sector further increased to 17.5% (2010: 13.8%) during the Period. Due to the enhanced mix between watch and jewellery business, the overall gross profit margin performance further increased to 28.6% (2010: 24.3%). Basic earnings per share was HK4.2 cents (2010: HK1.9 cents).

Excluding the net loss on derivative financial instruments, EBITDA of the Group increased substantially by 91.6% to HK$354.4 million and the profit for the Period attributable to the owners of the Company was doubled to HK$264.6 million.

Liquidity and Financial Resources

During the Period, the Group was able to maintain its strong and healthy financial position in the market. Bank balances and cash on hand of the Group as at 30 June 2011 amounted to HK$850.8 million (2010: HK$601.5 million), which were mainly denominated in Hong Kong dollars and Renminbi. As at 30 June 2011, the Group had total bank borrowings of approximately HK$7.2 million (2010: HK$67.2 million). These bank borrowings were denominated in Hong Kong dollar, interest bearing, repayable with fixed terms and secured by corporate guarantees of the Company.

Due to the conversion of the convertible bond with principal amount of HK$140,000,000 (the "HK$140M Bond") during the Period, the gearing ratio of the Group (calculated on the basis of the total borrowings over total assets) as at 30 June 2011 significantly decreased to 0.2% (2010: 5.7%). The Group also had available unutilised banking facilities of approximately HK$335.7 million.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liquidity and Financial Resources (Continued)

As at 30 June 2011, the Group's current assets and current liabilities were approximately HK$3,790.2 million and HK$321.8 million respectively. Current ratio and quick ratio of the Group were 11.8 and 3.5 respectively.

In view of the Group's financial position as at 30 June 2011, the board of directors (the "Board" or "Directors") considered that the Group had strong working capital for its operations and future development plans.

Business Review

Expansion and Optimization of Retail Network

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

As at 30 June 2011, the Group had 73 stores (2010: 44 stores) in Hong Kong, Macau and the PRC. Details of which is listed below:

	Number of stores
Hong Kong	17
Macau	4
PRC	52

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

As the Group focused its resources on the store rollouts in the PRC during the Period, the number of stores in the PRC had increased to 52 as at 30 June 2011, covering the first-tier and second-tier cities including Beijing, Guangzhou, Shanghai and Chongqing so as to seize the potential growth opportunities and enhance the Group's market penetration in the region.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

Brand Recognition and Effective Marketing Programme

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

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

Enjoying Group Synergies

The ability to leverage other businesses and enjoy the synergy effects with intra-group companies within the Emperor Group are two of the advantages of the Group. Some of the store outlets in Hong Kong and all store outlets in Macau are leased from the Emperor Group's property and hotel arm respectively. During the Period, the Group enjoyed strong celebrity participation and media coverage for its promotional campaigns due to the Emperor Group's entertainment business. The Group also invited VIP guests to its movie premiere and sponsored jewellery for all artistes from Emperor Entertainment Group. Such advantages can further enhance "***Emperor***" reputation, particularly in the PRC market.

Prospects

The PRC luxury consumption remains a secular growth offering a CAGR of 20% over the next five years. Watch and jewellery market is the most appealing product segment as it attracts the greatest share of the PRC's luxury spending and has the fastest growth of the various luxury products. Luxury retailers with exposure to both the domestic retail market and overseas purchase demand (particularly from the Hong Kong retail market) are also important given that the mainland consumers make more than 55% of their luxury goods purchased from overseas. Being a prominent watch retailer in Hong Kong with a growing presence in the PRC and an expanding jewellery mix for margin improvement, the Group is definitely the best player to capture the market opportunities. With high retail credibility and tax exemption for international brand products, the Group's Hong Kong outlets are anticipated to continue to be patronized by enthusiastic shoppers from the PRC in the coming years.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects (Continued)

Meanwhile, the Group will capitalize the growth potential in the PRC by further expanding its retail networks, both to raise its market share in first-tier cities and to seize first or earlier advantage in those lower-tier cities. The Group intends to open 10-20 stores in the PRC in 2011, focusing first-, second- as well as third-tier cities to facilitate the penetration of market coverage all over the PRC.

In view of the increasing number of the mainland tourists to Hong Kong and Macau, the Group is confident to have a further solid growth in Hong Kong and Macau operations and therefore is determined to enhance the presence in the main tourist spots. Looking ahead, the Group will soon launch a series of marketing campaigns and other supporting marketing collaterals to further sustain the Group's brand recognition.

Capital Structure

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

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

b. Top-up Placing of New Shares

On 19 April 2011, Allmighty Group Limited ("Allmighty Group"), the controlling shareholder of the Company, agreed to place 800,000,000 ordinary shares of the Company ("Placing") to independent investors at HK$1.00 per share, and also agreed to subscribe for 800,000,000 new ordinary shares of the Company (the "Top-up Shares") at the price of HK$1.00 per share ("Top-up Subscription") conditional upon the completion of the Placing. The Top-up Shares rank pari passu with the existing shares in issue of the Company in all respects, when fully paid. The Placing and Top-up Subscription were completed on 21 April 2011 and 27 April 2011 respectively.

As a result of the above conversion and placement, the share capital and share premium of the Company increased by HK$10,592,000 and HK$1,075,594,000 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Foreign Exchange Exposure

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

Contingent Liabilities

As at 30 June 2011, the Group did not have any material contingent liabilities.

Employee and Remuneration Policy

As at 30 June 2011, the Group has 825 salespersons (2010: 590) and 206 office staff (2010: 164). Total staff costs (including Directors' remuneration) were HK$101.6 million (2010: HK$67.3 million). Employees' remuneration was determined in accordance with individual's responsibility, performance and experience. Staff benefits include contributions to retirement benefit scheme, medical allowance and other fringe benefit.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK1.2 cents per share ("Dividend") for the financial year ending 31 December 2011 (2010: HK0.75 cent), amounting to approximately HK$80,622,000 (2010: HK$39,111,000). The Dividend will be payable on 23 September 2011 (Friday) to shareholders whose names appear on the register of members of the Company at the close of business on 16 September 2011 (Friday).

The register of members of the Company will be closed, for the purpose of determining shareholders' entitlement to the Dividend, from 15 September 2011 (Thursday) to 16 September 2011 (Friday), during which period no share transfer will be effected.

In order to qualify for the Dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 14 September 2011 (Wednesday).

The Board is pleased to announce the unaudited condensed consolidated results of the Group for the Period together with the comparative figures for the corresponding period 2010 as set out below.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Notes	**Six months ended 30 June** **2011** **(unaudited)** **HK$'000**	2010 (unaudited) HK$'000
Revenue	3	**2,629,114**	1,773,277
Cost of sales		**(1,877,102)**	(1,342,260)
Gross profit		**752,012**	431,017
Other income		**3,499**	4,334
Selling and distribution expenses		**(315,710)**	(188,888)
Administrative expenses		**(115,686)**	(80,403)
Net loss on derivative financial instruments		**(9,300)**	(30,185)
Finance costs		**(559)**	(3,417)
Profit before taxation	4	**314,256**	132,458
Taxation	5	**(59,021)**	(30,515)
Profit for the period		**255,235**	101,943
Other comprehensive income (expense) for the period:			
Exchange differences arising from translation of foreign operations		**16,798**	(368)
Total comprehensive income for the period		**272,033**	101,575
Profit (loss) for the period attributable to:			
Owners of the Company		**255,261**	98,273
Non-controlling interests		**(26)**	3,670
		255,235	101,943
Total comprehensive income (expense) attributable to:			
Owners of the Company		**272,312**	97,905
Non-controlling interests		**(279)**	3,670
		272,033	101,575
Basic and diluted earnings per share	6	**HK4.2 cents**	HK1.9 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	Notes	As at 30 June 2011 (unaudited) HK$'000	As at 31 December 2010 (audited) HK$'000
Non-current assets			
Property, plant and equipment		**87,595**	85,360
Deferred tax asset		**3,843**	3,811
		91,438	89,171
Current assets			
Inventories		**2,650,998**	2,152,007
Receivables, deposits and prepayments	8	**288,448**	272,969
Bank balances and cash		**850,812**	601,484
		3,790,258	3,026,460
Current liabilities			
Payables, deposits received and accrued charges	9	**224,069**	404,661
Amounts due to related companies		**230**	3,598
Amount due to a former non-controlling shareholder		**–**	45,471
Taxation payable		**90,214**	34,556
Bank borrowings – due within one year	10	**7,250**	67,241
		321,763	555,527
Net current assets		**3,468,495**	2,470,933
Total assets less current liabilities		**3,559,933**	2,560,104
Non-current liabilities			
Derivative financial instruments	11	**–**	180,320
Liability component of convertible bond	11	**–**	109,541
		–	289,861
Net assets		**3,559,933**	2,270,243
Capital and reserves			
Share capital		**67,185**	56,593
Reserves		**3,490,430**	2,211,053
Equity attributable to owners of the Company		**3,557,615**	2,267,646
Non-controlling interests		**2,318**	2,597
Total equity		**3,559,933**	2,270,243

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Meger reserve HK$'000	Other reserve HK$'000	Capital reserve HK$'000	Translation reserve HK$'000	Warrants equity reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling Interests HK$'000	Total HK$'000
As at 1 January 2010 (audited)	45,000	1,587,063	(373,003)	(29,003)	2,529	(271)	–	317,091	1,549,406	9,511	1,558,917
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(368)	–	–	(368)	–	(368)
Profit (loss) for the period	–	–	–	–	–	–	–	98,273	98,273	3,670	101,943
Total comprehensive income for the period	–	–	–	–	–	(368)	–	98,273	97,905	3,670	101,575
Issue of shares (net of expenses)	7,148	362,538	–	–	–	–	–	–	369,686	–	369,686
Capital contribution arising from fair value adjustment on amount due to minority shareholder of a subsidiary	–	–	–	817	–	–	–	–	817	–	817
Payment of final dividend for 2009	–	–	–	–	–	–	–	(44,325)	(44,325)	–	(44,325)
As at 30 June 2010 (unaudited)	52,148	1,949,601	(373,003)	(28,186)	2,529	(639)	–	371,039	1,973,489	13,181	1,986,670
As at 1 January 2011 (audited)	**56,593**	**2,188,273**	**(373,003)**	**(25,867)**	**2,529**	**6,725**	**53,100**	**359,296**	**2,267,646**	**2,597**	**2,270,243**
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**17,051**	**–**	**–**	**17,051**	**(253)**	**16,798**
Profit (loss) for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**255,261**	**255,261**	**(26)**	**255,235**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**17,051**	**–**	**255,261**	**272,312**	**(279)**	**272,033**
Share issued	**8,000**	**792,000**	**–**	**–**	**–**	**–**	**–**	**–**	**800,000**	**–**	**800,000**
Expenses incurred in connected with issue of new shares	**–**	**(12,973)**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,973)**	**–**	**(12,973)**
Share issued upon conversion of a convertible bond	**2,592**	**296,567**	**–**	**–**	**–**	**–**	**–**	**–**	**299,159**	**–**	**299,159**
Payment of final dividend for 2010	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(68,529)**	**(68,529)**	**–**	**(68,529)**
As at 30 June 2011 (unaudited)	**67,185**	**3,263,867**	**(373,003)**	**(25,867)**	**2,529**	**23,776**	**53,100**	**546,028**	**3,557,615**	**2,318**	**3,559,933**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash used in operating activities	**(335,988)**	(276,323)
Net cash used in investing activities	**(30,662)**	(27,479)
Net cash from financing activities	**612,477**	481,375
Net increase in cash and cash equivalents	**245,827**	177,573
Cash and cash equivalents at the beginning of the period	**601,482**	252,211
Effect of foreign exchange rate changes	**3,503**	(444)
Cash and cash equivalents at the end of the period	**850,812**	429,340
Analysis of balance of cash and cash equivalents		
Bank balances and cash	**850,812**	429,340
Bank overdrafts	**–**	–
	850,812	429,340

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited the ("Stock Exchange").

These unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The accounting policies and basis of presentation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2010, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) effective from 1 January 2011, as below.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the above new and revised HKFRSs has had no significant financial impact on these unaudited condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Revised) (Amendments)	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]

[1] Effective for annual periods beginning on or after 1 July 2011

[2] Effective for annual periods beginning on or after 1 January 2012

[3] Effective for annual periods beginning on or after 1 July 2012

[4] Effective for annual periods beginning on or after 1 January 2013

The Directors anticipate that the application of the new and revised HKFRSs are unlikely to have a material impact on the results and the financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2011

3. REVENUE AND SEGMENT INFORMATION

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

Information reported to the chief operating decision maker of the Group, for the purposes of resource allocation and assessment of segment performance focuses on the locations of the operations. This is also the basis upon which the Group is arranged and organised. The Group's operating and reportable segments under HKFRS 8 are operations located in Hong Kong, Macau and the PRC. The revenue generated by each of the operating segments is mainly derived from sales of watch and jewellery.

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

For the six months ended 30 June 2011

	Hong Kong (unaudited) HK$'000	Macau (unaudited) HK$'000	Other regions in the PRC (unaudited) HK$'000	Elimination (unaudited) HK$'000	Consolidated (unaudited) HK$'000
Revenue					
External sales	**2,150,423**	**182,943**	**295,748**	**–**	**2,629,114**
Inter-segment sales*	**119,840**	**72,459**	**–**	**(192,299)**	**–**
	2,270,263	**255,402**	**295,748**	**(192,299)**	**2,629,114**

* Inter-segment sales are charged at cost

	Hong Kong	Macau	Other regions in the PRC	Elimination	Consolidated
Segment profit	**374,172**	**42,111**	**21,777**	**–**	**438,060**
Unallocated administrative expenses					**(115,734)**
Interest income					**1,789**
Net loss on derivative financial instruments					**(9,300)**
Finance costs					**(559)**
Profit before taxation					**314,256**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2011

3. REVENUE AND SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2010

	Hong Kong (unaudited) HK$'000	Macau (unaudited) HK$'000	Other regions in the PRC (unaudited) HK$'000	Elimination (unaudited) HK$'000	Consolidated (unaudited) HK$'000
Revenue					
External sales	1,438,317	126,685	208,275	–	1,773,277
Inter-segment sales*	36,069	5,386	45,736	(87,191)	–
	1,474,386	132,071	254,011	(87,191)	1,773,277

* Inter-segment sales are charged at cost

	Hong Kong (unaudited) HK$'000	Macau (unaudited) HK$'000	Other regions in the PRC (unaudited) HK$'000	Elimination (unaudited) HK$'000	Consolidated (unaudited) HK$'000
Segment profit	176,265	24,057	11,373	–	211,695
Unallocated administrative expenses					(46,238)
Interest income					603
Net loss on derivative financial instruments					(30,185)
Finance costs					(3,417)
Profit before taxation					132,458

The accounting policies of the reportable segments are the same as the Group's accounting policies used in the condensed consolidated financial statements. Segment profit represents the gross profit generated from each segment including other income directly attributable to each segment and net of selling and distribution expenses and administrative expenses directly attributable to each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2011

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging:		
Allowance for inventories	**7,223**	64
Cost of inventories included in cost of sales	**1,864,512**	1,321,371
Depreciation of property, plant and equipment	**30,301**	18,913
Loss on disposal of property, plant and equipment	**693**	5,399
Net exchange loss	**3,387**	96
Operating lease payments in respect of rented premises		
– minimum lease payments	**140,940**	115,771
– contingent rent	**37,198**	12,500
Write off of inventories	**1,244**	393
Staff costs, including Directors' remuneration		
– salaries and other benefits costs	**95,598**	64,512
– retirement benefits scheme contributions	**6,027**	2,760

5. TAXATION

	Six months ended 30 June	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	HK$'000
The charge comprises:		
Current period:		
Hong Kong	**52,614**	25,770
PRC	**1,651**	2,669
Macau	**4,788**	2,795
	59,053	31,234
Deferred taxation	**(32)**	(719)
	59,021	30,515

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Company's subsidiaries in the PRC is 25% from 1 January 2008 onwards.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2011

6. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the six months ended 30 June 2011 is based on the profit for the period attributable to owners of the Company of approximately HK$255,261,000 (2010: HK$98,273,000) and on the weighted average number of 6,147,079,285 ordinary shares (2010: 5,057,117,900) in issue during the period.

No diluted earnings per share is presented for the six months ended 30 June 2010 as the impact of the Convertible Bonds outstanding during the period had an anti-diluted effect on the basic earnings per share.

7. DIVIDEND

	Six months ended 30 June	
	2011 (unaudited) HK$'000	2010 (unaudited) HK$'000
Final dividend of HK1.02 cents per share for the year ended 31 December 2010 paid during the interim period (year ended 31 December 2009: HK0.85 cent per share)	**68,529**	44,325

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at	
	30 June 2011 (unaudited) HK$'000	31 December 2010 (audited) HK$'000
Trade receivables	**74,205**	62,828
Rental deposits	**125,807**	101,959
Other receivables, deposits and prepayments	**88,436**	108,182
	288,448	272,969

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2011

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

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

	As at	
	30 June 2011 (unaudited) HK$'000	31 December 2010 (audited) HK$'000
Within 30 days	**73,802**	47,471
31 – 60 days	**–**	5,876
61 – 90 days	**361**	9,481
91 –120 days	**42**	–
	74,205	62,828

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

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

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$403,000 (2010: HK$2,006,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over nor charge any interest on these balances.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2011

9. PAYABLES, DEPOSITS RECEIVED AND ACCRUED CHARGES

	As at	
	30 June 2011 (unaudited) HK$'000	31 December 2010 (audited) HK$'000
Trade payables	**128,074**	309,115
Other payables, deposits received and accrued charges	**95,995**	95,546
	224,069	404,661

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

	As at	
	30 June 2011 (unaudited) HK$'000	31 December 2010 (audited) HK$'000
0 – 30 days	**111,877**	238,874
31 – 60 days	**862**	32,864
61 – 90 days	**114**	4,593
Over 90 days	**15,221**	32,784
	128,074	309,115

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

10. BANK BORROWINGS

	As at	
	30 June 2011 (unaudited) HK$'000	31 December 2010 (audited) HK$'000
Unsecured bank loans – due within one year	**7,250**	67,241

The effective interest rates on the Group's borrowings are ranged from 1.39% to 5.28% (2010: 1.43% to 4.49%).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2011

11. DERIVATIVE FINANCIAL INSTRUMENTS AND LIABILITY COMPONENT OF CONVERTIBLE BONDS

On 7 February 2011, the HK$140M Bond was fully converted into 259,259,259 ordinary shares of HK$0.01 each at conversion price of HK$0.54 per share. The new shares issued rank pari passu with the existing shares in all respects. The various options embedded in the HK$140M Bond are presented as derivative financial instruments in the consolidated statement of financial position and are measured at fair value subsequent to initial recognition with changes in fair value recognised in profit or loss. Upon the conversion of HK$140M Bond, the fair value loss on derivative financial instruments recognised in the profit or loss amounted to HK$9,300,000.

The fair value of the derivative financial instruments was calculated using the Binomial Model and determined by Vigers Appraisal & Consulting Limited, an independent valuer not connected with the Group.

As at 31 December 2010, the carrying amounts of the derivative financial instruments and the liability component of convertible bond amounted to HK$180,320,000 and HK$109,541,000 respectively.

12. CAPITAL COMMITMENTS

	As at	
	30 June 2011 (Unaudited) HK$'000	31 December 2010 (audited) HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**6,507**	1,536

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2011

13. OPERATING LEASE ARRANGEMENTS

The Group as lessee

As at 30 June 2011, the future lease payments under non-cancellable operating leases in respect of rented premises which fall due are as follows:

	As at	
	30 June 2011 (Unaudited) HK$'000	31 December 2010 (audited) HK$'000
Within one year	**328,184**	235,802
In the second to fifth year inclusive	**539,546**	123,334
	867,730	359,136

Operating lease payments represent rentals payable by the Group for its offices and shops. Leases are negotiated for terms ranging from one month to three 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.

14. RELATED PARTY TRANSACTIONS

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

		Six months ended 30 June	
		2011 (unaudited) HK$'000	2010 (unaudited) HK$'000
(i)	Service charges paid to related companies	**16,518**	9,860
(ii)	Advertising expenses paid to related companies	**743**	160
(iii)	Sales of goods to Directors and their close family member	**2,597**	2,306
(iv)	Rental, electricity and air-conditioning expenses paid to related companies	**55,857**	42,559
(v)	Advisory fee paid to a related company	**180**	180
(vi)	Commission fee paid to a related company	**12,000**	2,295
		87,895	57,360

Note: The related companies represent companies controlled by a substantial shareholder of the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2011

14. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

The remuneration of members of key management of the Group during the period as follows:

	Six months ended 30 June	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Salaries and other short-term employee benefit	**5,021**	4,105
Retirement benefits costs	**12**	12
	5,033	4,117

The remuneration of Directors and senior management is determined by the remuneration committee having regard to the performance of individuals and market trend.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 June 2011, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("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 Listing Rules were as follows:

(a) Long Position Interests in the Company

Ordinary shares of HK$0.01 each of the Company

Name of Director	Capacity/ Nature of interests	Number of issued ordinary shares held	Approximate percentage holding
Ms. Cindy Yeung	Beneficiary of a trust	3,516,770,000	52.34%

Note: The above shares were held by Allmighty Group, a wholly-owned subsidiary of Million Way Holdings Limited ("Million Way"). Million Way was held by STC International Limited ("STC International") acting as trustee of The Albert Yeung Discretionary Trust ("AY Trust"), the founder of which was Dr. Yeung Sau Shing, Albert ("Dr. Albert Yeung"). Ms. Cindy Yeung had deemed interests in the same shares held by Allmighty Group by virtue of being one of the eligible beneficiaries of the AY Trust.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SECURITIES (Continued)

(b) Long position interests in associated corporations

(i) Ordinary shares

Name of Director	Name of associated corporations	Capacity/ Nature of interests	Number of issued ordinary share(s) held	Approximate Percentage holding
Ms. Cindy Yeung	Million Way *(Note 1)*	Beneficiary of AY Trust	1	100%
Ms. Cindy Yeung	Emperor International Holdings Limited ("EIHL") *(Note 1)*	Beneficiary of AY Trust	2,583,643,824	70.46%
Ms. Cindy Yeung	Emperor Entertainment Hotel Limited ("EEH") *(Note 1)*	Beneficiary of AY Trust	760,897,845	58.87%
Ms. Cindy Yeung	Velba Limited ("Velba") *(Note 2)*	Beneficiary of AY Trust	1	100%
Ms. Cindy Yeung	New Media Group Holdings Limited ("NMG") *(Note 2)*	Beneficiary of AY Trust	450,000,000	62.50%

Notes:

1. EIHL is a company with its shares listed in Hong Kong; 2,583,643,824 shares in EIHL were held by Charron Holdings Limited ("Charron") which was the holding company of Eternally Smart Limited. 760,897,845 shares in EEH (a company with its shares listed in Hong Kong) were held by Worthly Strong Investment Limited, being an indirect wholly-owned subsidiary of EIHL. EIHL is the holding company of EEH. The entire issued share capital of Charron was held by Million Way which was wholly-owned by STC International, the trustee of the AY Trust. By virtue of being one of the eligible beneficiaries of the AY Trust, Ms. Cindy Yeung had deemed interests in the same shares in EIHL and EEH.

2. NMG is a company with its shares listed in Hong Kong; 450,000,000 shares were held by Velba. The entire issued share capital of Velba was held by Million Way which was in turn wholly-owned by STC International, being the trustee of the AY Trust. By virtue of being one of the eligible beneficiaries of the AY Trust, Ms. Cindy Yeung had deemed interests in the same shares in NMG.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SECURITIES (Continued)

(b) Long position interests in associated corporations (Continued)

(ii) Share options

Name of Directors	Name of associated corporations	Capacity/ Nature of interests	Number of underlying share(s) held	Approximate percentage holding
Mr. Wong Chi Fai	EIHL	Beneficial owner	16,154,212	0.44%
	EEH	Beneficial owner	5,000,000	0.39%
Ms. Fan Man Seung, Vanessa	EIHL	Beneficial owner	16,154,212	0.44%
	EEH	Beneficial owner	5,000,000	0.39%

Note: These were share options granted to the directors of EIHL and EEH (also as Directors of the Company) under the respective share option scheme of EIHL and EEH.

Save as disclosed above, as at 30 June 2011, none of the Directors, chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations.

SHARE OPTIONS

The Company has adopted a share option scheme ("Scheme") on 19 June 2008 (the "Adoption Date") to provide incentives to the relevant participants including the Directors and eligible employees of the Group, and to enable the Company to recruit high-calibre employees and attract human resources that are valuable to the Group.

Under the Scheme, the Directors are authorised, at any time within ten years after the Adoption Date, to grant options to any participant to subscribe for shares in the Company at a price not less than the highest of (i) the closing price of the Company's shares on the date of grant which must be a business day; (ii) the average closing prices of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. A nominal consideration of HK$1 is payable on acceptance of the grant of options.

During the Period, no option was granted, lapsed, exercised or cancelled under the Scheme.

OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 June 2011, so far as is known to any Director or chief executive of the Company, the following persons or corporations (other than a Director or chief executive of the Company) who had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company were as follows:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name of shareholders	Capacity/ Nature of interests	Number of ordinary shares interested or deemed to be interested	Approximate percentage holding
Allmighty Group	Legal/beneficial owner	3,516,770,000	52.34%
Million Way	Interest in controlled corporation	3,516,770,000	52.34%
STC International	Trustee	3,516,770,000	52.34%
Dr. Albert Yeung	Founder of the AY Trust	3,516,770,000	52.34%
Ms. Luk Siu Man, Semon	Interest of spouse	3,516,770,000	52.34%

Note: The entire issued share capital of Allmighty Group was held by Million Way which in turn was wholly-owned by STC International. STC International and Dr. Albert Yeung were the trustee and founder of the AY Trust respectively. By virtue of the SFO, each of STC International and Dr. Albert Yeung had deemed interests in the same shares held by Allmighty Group. By virtue of being the spouse of Dr. Albert Yeung, Ms. Luk Siu Man, Semon also had deemed interests in the same shares. The said shares were the same shares as set out under the section (a) headed "Long Position Interests in the Company" under "Directors' and Chief Executives' Interests and Short Positions in Securities" above.

As at 30 June 2011, no short positions were recorded in the SFO Register of the Company.

Save as disclosed above, as at 30 June 2011, the Directors of the Company were not aware of any person or corporation (other than the Directors and chief executives of the Company) who had any interests or short positions in any shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

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

Model Code for Securities Transactions

The Company had 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 the Directors, all of them confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the Period.

REVIEW OF INTERIM REPORT

The condensed consolidated interim financial statements of the Group have not been audited nor reviewed by the Company's auditor, Deloitte Touche Tohmatsu, but have been reviewed by the audit committee of the Company, which comprises the three Independent Non-Executive Directors and the Non-Executive Director of the Company.

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

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

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

Hong Kong, 24 August 2011

As at the date of this Report, the Board comprised:

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

This Interim Report (in both English and Chinese versions) is available to any shareholder either in printed form or on the Company's website (http://www.emperorwatchjewellery.com). In order to protect the environment, the Company highly recommends shareholders to elect to receive electronic copy of our Corporate Communications. Upon written request, free printed version of this Report will be sent to shareholders who have elected to receive electronic copies but for any reason have difficulty in receiving or gaining access to this Report through the Company's website. Shareholders may have the right to change their choice of receipt of all 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 at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong or by email at is_enquiries@hk.tricorglobal.com.