英皇鐘錶珠寶有限公司

EMPEROR WATCH & JEWELLERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 887)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

RESULTS SUMMARY

HK$' million (unaudited)	For the six months ended 30 June		Changes
	2018	**2019**	
Revenue	2,454	**2,403**	**-2.1%**
Gross profit	677	**758**	**+12.0%**
Gross profit margin	*27.6%*	***31.5%***	***+3.9pp***
Net profit			
– Per Reported	157	**118**	**-24.8%**
– Adjusted*	157	**163**	**+3.8%**
Net profit margin			
– Per Reported	*6.4%*	***4.9%***	***-1.5pp***
*– Adjusted**	*6.4%*	***6.8%***	***+0.4pp***
Basic earnings per share	HK2.29 cents	**HK1.73 cents**	**-24.5%**

* Excluding a depreciation charge of HK$45.7 million (1H 2018: Nil) on a self-owned store at Nos. 4-8 Canton Road, Tsim Sha Tsui, Kowloon, one of the Group's flagship stores in Hong Kong.

The board of directors (the "Board" or "Directors") of Emperor Watch & Jewellery Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2019 (the "Period") together with the comparative figures for the corresponding period 2018 as set out below:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	3	**2,402,664**	2,453,978
Cost of sales		**(1,644,718)**	(1,776,708)
Gross profit		**757,946**	677,270
Other income		**2,323**	5,829
Selling and distribution expenses		**(439,307)**	(417,589)
Administrative and other expenses		**(143,931)**	(80,351)
Finance costs		**(29,689)**	–
Profit before taxation	4	**147,342**	185,159
Taxation	5	**(29,756)**	(27,975)
Profit for the period		**117,586**	157,184
Other comprehensive expense for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(2,975)**	(2,311)
Total comprehensive income for the period attributable to owners of the Company		**114,611**	154,873
Earnings per share – Basic	7	**HK1.73 cents**	HK2.29 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	As at **30 June 2019 (unaudited)** *HK$'000*	31 December 2018 (audited) *HK$'000*
Non-current assets			
Property, plant and equipment		**1,897,158**	1,923,019
Right-of-use assets		**739,961**	–
Deferred tax assets		**5,478**	5,161
Rental deposits		**119,457**	126,037
Deposits paid for acquisition of property, plant and equipment		**5,573**	18,435
		2,767,627	2,072,652
Current assets			
Inventories		**3,197,090**	3,096,504
Right to returned goods asset		**2,462**	2,462
Receivables, deposits and prepayments	8	**138,393**	165,564
Amount due from a related company		**695**	5,034
Bank balances and cash		**623,135**	627,256
		3,961,775	3,896,820
Current liabilities			
Payables, deposits received and accrued charges	9	**213,412**	292,720
Lease liabilities		**337,366**	–
Contract liabilities		**15,890**	10,293
Refund liabilities		**3,415**	3,415
Amounts due to related companies		**4,582**	4,072
Taxation payable		**60,580**	36,350
Bank borrowings	10	**487,795**	561,822
		1,123,040	908,672
Net current assets		**2,838,735**	2,988,148

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

At 30 June 2019

	Notes	As at 30 June 2019 (unaudited) HK$'000	As at 31 December 2018 (audited) HK$'000
Non-current liabilities			
Deferred tax liabilities		**1,098**	1,107
Lease liabilities		**431,565**	–
Bank borrowings	10	**639,232**	594,673
		1,071,895	595,780
Net assets		**4,534,467**	4,465,020
Capital and reserves			
Share capital	11	**3,484,152**	3,484,152
Reserves		**1,050,315**	980,868
Total equity		**4,534,467**	4,465,020

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosures required under Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Companies Ordinance ("CO").

The unaudited condensed 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 and services.

These unaudited condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018.

The financial information relating to the year ended 31 December 2018 that is included in this preliminary announcement of interim results 2019 does not constitute the Company's statutory annual consolidated financial statements for 2019 but is derived from those consolidated financial statements. Further information relating to these statutory annual consolidated financial statements required to be disclosed in accordance with section 436 of the CO is as follows:

(a) The Company has delivered the consolidated financial statements for the year ended 31 December 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to the CO.

(b) The Company's auditor has reported on the consolidated financial statements of the Group for the year ended 31 December 2018. The auditor's report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report and did not contain a statement under sections 406(2), 407(2) or (3) of the CO.

2. SIGNIFICANT ACCOUNTING POLICIES

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group has applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee *(Continued)*

Lease modifications

The Group accounts for a lease modification as a separate lease if:

– the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

– the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For the contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee *(Continued)*

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK$462,174,000 and right-of-use assets of HK$442,974,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 3%.

	At 1 January 2019
	HK$'000
Operating lease commitments disclosed as at 31 December 2018	558,897
Lease liabilities discounted at relevant incremental borrowing rates	542,362
Add: Extension options reasonably certain to be exercised	28,050
Less: Recognition exemption – short-term leases	(74,004)
Less: Adjustment to lease liabilities	(3,835)
Less: Payment not classified as lease liabilities	(30,399)
Lease liabilities as at 1 January 2019	462,174

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee *(Continued)*

	HK$'000 (unaudited)
Assets	
Increase in right-of-use assets	442,974
Decrease in rental deposits	(4,737)
Liabilities	
Increase in lease liabilities	(462,174)
Decrease in payables, deposits received and accrued charges	16,060
	(7,877)
Equity	
Decrease in retained profits	(7,877)

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

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The Directors are in process of assessing the potential impact of the new and revised HKFRSs, and at this stage have not yet anticipated or determined the effect of the application of these new and revised HKFRSs on the financial performance and financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold less returns and net of trade discounts and commission income from services provided.

Information reported to the chief operating decision maker ("CODM"), the Executive Director and Chief Executive 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 Operating Segments are operations located in Hong Kong, Macau and 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 CODM have been aggregated in arriving at the reportable segments of the Group.

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

For the six months ended 30 June 2019

	Hong Kong (unaudited) *HK$'000*	Macau (unaudited) *HK$'000*	Other regions in Asia Pacific (unaudited) *HK$'000*	Elimination (unaudited) *HK$'000*	Consolidated (unaudited) *HK$'000*
Revenue					
External sales	**1,749,892**	**147,726**	**503,838**	**–**	**2,401,456**
Inter-segment sales*	**20,564**	**5,331**	**2,965**	**(28,860)**	**–**
Commission income	**1,172**	**36**	**–**	**–**	**1,208**
	1,771,628	**153,093**	**506,803**	**(28,860)**	**2,402,664**

* Inter-segment sales are charged at cost

Segment profit	**253,807**	**15,885**	**48,947**	**–**	**318,639**
Unallocated other income					**2,323**
Unallocated administrative and other expenses					**(143,931)**
Unallocated finance costs					**(29,689)**
Profit before taxation					**147,342**

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

For the six months ended 30 June 2018

	Hong Kong (unaudited) *HK$'000*	Macau (unaudited) *HK$'000*	Other regions in Asia Pacific (unaudited) *HK$'000*	Elimination (unaudited) *HK$'000*	Consolidated (unaudited) *HK$'000*
Revenue					
External sales	1,908,423	149,039	396,516	–	2,453,978
Inter-segment sales*	83,907	11,465	–	(95,372)	–
	1,992,330	160,504	396,516	(95,372)	2,453,978

* Inter-segment sales are charged at cost

Segment profit	215,691	12,283	31,707	–	259,681
Unallocated other income					5,829
Unallocated administrative and other expenses					(80,351)
Profit before taxation					185,159

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

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Cost of inventories included in cost of sales (included reversal of allowance for inventories of HK$262,000) (2018 interim: reversal of allowance for inventories of HK$14,719,000)	**1,644,332**	1,770,629
Allowances for doubtful debts	**686**	–
Depreciation of property, plant and equipment		
– retail shops	**62,018**	9,901
– offices	**3,374**	2,929
Depreciation of right-of-use assets	**143,773**	–
Loss on disposal/write-off of property, plant and equipment	**1,205**	1,505
Impairment loss recognised in respect of property, plant and equipment (included in administrative and other expenses)	**1,510**	–
Net exchange loss	**1,933**	2,814
Staff costs, including Directors' remuneration		
– salaries and other benefits costs	**165,283**	139,614
– retirement benefits scheme contributions	**13,164**	11,061

5. TAXATION

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
The tax charge (credit) comprises:		
Profits tax:		
Hong Kong	**25,928**	22,903
Macau	**–**	(172)
Singapore	**4,145**	2,771
	30,073	25,502
Deferred taxation	**(317)**	2,473
	29,756	27,975

The Inland Revenue (Amendment) (No. 7) Bill 2017 which introduces the two-tiered profits tax rates regime was passed by the Hong Kong Legislative Council on 28 March 2018 and gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

5. TAXATION *(Continued)*

The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the condensed consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods.

The Macau Complementary Income Tax is calculated at 12% of the estimated assessable profits for both periods.

Singapore Income Tax is calculated at 17% of the estimated assessable profits for both periods.

Under the Law of the Peoples' Republic of China (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% for both periods.

Malaysia Income Tax is calculated at 24% of the estimated assessable profits for the period ended 30 June 2019.

6. DIVIDENDS

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interim dividend declared of HK0.35 cent per share (2018: HK0.70 cent per share)	**23,728**	47,456
2018 final dividend paid of HK0.55 cent per share (2017: HK0.58)	**37,287**	39,864

The Board has declared an interim dividend of HK0.35 cent per share for the financial year ending 31 December 2019 (2018: HK0.70 cent per share), amounting to HK$23,728,000 (2018: HK$47,456,000).

7. EARNINGS PER SHARE – BASIC

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Earnings		
Earnings for the period attributable to owners of the Company for the purpose of basic earnings per share	**117,586**	157,184

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,779,458,129**	6,870,944,869

No diluted earnings per share in both periods was calculated as there were no potential dilutive ordinary shares in issue during both periods.

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at	
	30 June	31 December
	2019	2018
	(unaudited)	(audited)
	HK$'000	*HK$'000*
Trade receivables from contracts with customers	**64,205**	65,855
Less: Allowance for credit losses	**(5,193)**	(4,519)
	59,012	61,336
Other receivables, deposits and prepayments	**62,440**	84,378
Other PRC tax recoverable	**15,497**	17,347
Other Singapore tax recoverable	**1,444**	2,503
	138,393	165,564

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

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

Included in other receivables, deposits and prepayments as at 30 June 2019 were advance payments to suppliers of HK$8,543,000 (31 December 2018: HK$20,935,000) and rebate receivables of HK$23,188,000 (31 December 2018: HK$32,516,000). The remainings are individually insignificant.

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

	As at	
	30 June 2019 (unaudited)	31 December 2018 (audited)
	HK$'000	*HK$'000*
Within 30 days	**53,849**	52,249
31 – 60 days	**1,670**	1,362
61 – 90 days	**478**	2,536
over 90 days	**3,015**	5,189
	59,012	61,336

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

Included in the trade receivables balance were receivables from department stores with aggregate carrying amount of HK$3,955,000 (31 December 2018: HK$4,835,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collaterals over nor charge any interest on these balances.

Trade receivables that were past due but not impaired relate to department stores sales that have continuous settlements subsequent to the reporting date.

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Movement in the allowance for doubtful debts

	HK$'000
As at 1 January 2018	**–**
Impairment losses recognised	**4,519**
As at 31 December 2018	**4,519**
Impairment losses recognised	**686**
Exchange realignment	**(12)**
As at 30 June 2019	**5,193**

9. PAYABLES, DEPOSITS RECEIVED AND ACCRUED CHARGES

	As at	
	30 June 2019 (unaudited) ***HK$'000***	31 December 2018 (audited) *HK$'000*
Trade payables	**141,293**	190,625
Other payables, deposits received and accrued charges	**72,046**	101,714
Other PRC tax payables	**73**	381
	213,412	292,720

Included in other payables, deposits received and accrued charges as at 30 June 2019 were accrued bonus and incentive of HK$10,094,000 (31 December 2018: HK$15,863,000). The remainings are individually insignificant.

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

	As at	
	30 June 2019 (unaudited) ***HK$'000***	31 December 2018 (audited) *HK$'000*
Within 30 days	**138,433**	158,937
31 – 60 days	**791**	26,048
61 – 90 days	**65**	4,208
Over 90 days	**2,004**	1,432
	141,293	190,625

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

10. BANK BORROWINGS

	As at 30 June 2019 (unaudited) *HK$'000*	31 December 2018 (audited) *HK$'000*
Carrying amounts repayable:		
Within one year	**487,795**	561,822
Within a period of more than one year but not exceeding two years	**42,396**	77,689
Within a period of more than two years but not exceeding five years	**446,188**	103,788
Within a period of more than five years	**150,648**	413,196
	1,127,027	1,156,495
Less: Amounts due within one year shown under current liabilities	**(487,795)**	(561,822)
Amounts shown under non-current liabilities	**639,232**	594,673

The bank borrowings carry variable interest rate ranged from 1.14% to 2.00% over Hong Kong Interbank Offered Rate ("HIBOR") per annum (31 December 2018: from 0.90% to 2.25% over HIBOR).

As at 31 December 2018, the weighted effective interest rate on the Group's borrowings is 3.72% per annum (31 December 2018: 2.88% per annum).

The Group had pledged a property of HK$1,749,544,000 and related interests to secure banking facilities granted to the Group. In addition, corporate guarantee was also issued in favour of the banks by the Company to secure banking facilities granted to the Group.

11. SHARE CAPITAL

	Number of ordinary shares		Share Capital	
	2019 (unaudited)	2018 (audited)	**2019 (unaudited)** *HK$'000*	2018 (audited) HK$'000
Issued and fully paid:				
At beginning of period/year as at 1 January	**6,779,458,129**	6,882,448,129	**3,484,152**	3,484,152
Shares repurchased and cancelled	**–**	(102,990,000)	**–**	–
At the end of period as at 30 June / year as at 31 December	**6,779,458,129**	6,779,458,129	**3,484,152**	3,484,152

The total consideration for the shares repurchased and cancelled during the previous year was HK$51,194,000, which was debited to retained profits.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading retailer of European-made internationally renowned watches, together with self-designed fine jewellery products under its own brand, "***Emperor Jewellery***". The Company has been listed on the Stock Exchange since July 2008.

With a history of over 75 years, the Group has established a retail network of over 95 stores across Hong Kong, Macau, mainland China, Singapore and Malaysia, as well as an online shopping platform. The Company carries a balanced and comprehensive watch dealership list. The target customers range from middle to high income groups worldwide. The Group's core strategy focuses on maintaining its position as the leading watch and jewellery retailing group in Greater China, coupled with an eye on expansion beyond the region.

FINANCIAL REVIEW

Overall Review

Since the second half of 2018, the global economy has been facing a number of downside risks including the Sino-US Trade War and Brexit, resulting in unstable stock and property markets and hence weakened consumption sentiment. During the Period, there have been ongoing discussions between countries including China and the United States, while significant issues remain unresolved. In the meantime, local social issues have added to society's instability. In the face of a challenging external environment and an uncertain economic outlook, consumers remain cautious.

As a result of these factors, the Group's total revenue decreased gently to HK$2,402.7 million (1H2018: HK$2,454.0 million) during the Period. Hong Kong remained the Group's major market, with revenue achieving HK$1,751.1 million (1H2018: HK$1,908.4 million), and accounted for 72.9% (1H2018: 77.8%) of the Group's total revenue. By product segment, the Group's watch business continued to be the major revenue contributor, and recorded revenue of HK$1,884.1 million (1H2018: HK$1,941.5 million), accounting for 78.4% (1H2018: 79.1%) of the total revenue. Revenue from the jewellery business increased mildly to HK$518.6 million (1H2018: HK$512.5 million).

Despite the weakened consumption sentiment, market demand for certain luxury watches remained strong and corresponding prices remained resilient, hence gross profit grew by 11.9% to HK$757.9 million (1H2018: HK$677.3 million), while the gross profit margin increased to 31.5% (1H2018: 27.6%). As a result of a depreciation charge arising from the self-owned store at Nos. 4-8 Canton Road, Tsim Sha Tsui, Kowloon, the net profit decreased by 25.2% to HK$117.6 million (1H2018: HK$157.2 million). Excluding the depreciation charge of HK$45.7 million (1H2018: Nil), the adjusted net profit increased by 3.9% to HK$163.3 million (1H2018: HK$157.2 million). Despite the decline in total revenue, the downward pressure of adjusted net profit was mitigated by the enhanced gross profit margin and cost control strategy. Reported and adjusted basic earnings per share was HK1.73 cents (1H2018: HK2.29 cents) and HK2.41 cents (1H2018: HK2.29 cents), respectively. The Board has resolved to declare an interim dividend of HK0.35 cent (1H2018: HK0.70 cent) per share.

Capital Structure, Liquidity and Financial Resources

Bank balances and cash on hand of the Group as at 30 June 2019 amounted to HK$623.1 million (31 December 2018: HK$627.3 million), which were mainly denominated in Hong Kong dollars and Renminbi. As at 30 June 2019, the Group had total bank borrowings of HK$1,127.0 million (31 December 2018: HK$1,156.5 million), resulting in a net gearing ratio (calculated on the basis of net debts over net asset value) of 11.1% (31 December 2018: 11.9%). The Group also had available un-utilised banking facilities of approximately HK$781.5 million.

As at 30 June 2019, the Group's current assets and current liabilities were approximately HK$3,961.8 million (31 December 2018: HK$3,896.8 million) and HK$1,123.0 million (31 December 2018: HK$908.7 million), respectively. Current ratio and quick ratio of the Group were 3.5 (31 December 2018: 4.3) and 0.7 (31 December 2018: 0.9), respectively.

In view of the Group's financial position as at 30 June 2019, the Board considered that the Group had sufficient working capital for its operations and future development plans.

BUSINESS REVIEW

Presence in Prime Retail Locations

As at 30 June 2019, the Group had 97 stores (31 December 2018: 95) in Hong Kong, Macau, mainland China, Singapore and Malaysia. The distribution was as follows:

	Number of stores
Hong Kong	30
Macau	5
Mainland China	53
Singapore	8
Malaysia	1
Total	**97**

These stores include self-branded "***Emperor Jewellery***" stores, dedicated watch boutiques and multi-brand watch stores (with or without jewellery counters).

Over the years, the Group has built a strategic sales network in prime shopping areas in Hong Kong, and successfully established presences in Russell Street in Causeway Bay, Canton Road in Tsim Sha Tsui, and Queen's Road Central in Central, all of which enjoy convenient access to local transportation networks. Having presences in these locations enables the Group to benefit from extensive tourist exposure.

Solidifying Leading Position in the Region

With its long-standing history, the Group is a trusted partner of and maintains solid relationships with major Swiss watch brand suppliers, thereby continuing to hold a comprehensive portfolio of watch dealerships and maintaining its leading position in Hong Kong. The Group actively participates in co-marketing campaigns and events with brands, highlighting new products and connecting the customers in a personalised way. During the Period, a dedicated watch boutique was opened in mainland China and Singapore respectively, enhancing the Group's market penetration in the region.

Enhancing the Jewellery Business

The Group offers premium quality "***Emperor Jewellery***" products with a dedication to design excellence and craftsmanship. The spectacular "***Emperor Jewellery***" features a variety of precious gem stones with a key focus on diamonds and jadeites. "***Emperor Jewellery***" unveils unique collections of exquisite designs that embrace and nurture different clusters of customers.

During the Period, the Group launched the "***Love Knot***" Collection for contemporary women, in a tribute to romance, style and a joyful life. The bowknot embodies the emotional bonds that underlie relationships between friends, family and lovers. To mark the launch of the collection, the Group invited a renowned artiste, Charlene Choi, to star in a campaign video that explores the manifold relationships between love and life.

In recent years, the Group has strived to expand its coverage in emerging shopping areas, aiming to seize the market potential of local young consumers. During the Period, an "***Emperor Jewellery***" store was opened in KOLOUR•Tsuen Wan in Hong Kong, which is a major shopping and leisure stop for young professionals and young families in the district. The store is decorated with warm colour combinations, creating a harmonious and relaxing atmosphere, and perfect settings for presenting exquisite jewellery pieces. During the Period, two "***Emperor Jewellery***" stores were also opened in mainland China and one in Singapore.

Leveraging Group Synergies

The Group enjoys unique advantages by leveraging synergies with other companies within Emperor Group. For example, Emperor International Holdings Limited – another listed company under Emperor Group – owns many premium retail properties in renowned shopping areas. By leasing retail stores at prime locations from it on an arm's length basis, the Group can enjoy guaranteed foot traffic.

Another synergy arises through Emperor Entertainment Group and Emperor Motion Pictures, two private arms under Emperor Group. For instance, the Group invited Charlene Choi to promote the launch of the "***Love Knot***" Collection by starring in a campaign video. The Group also invited VIP guests to its movie premieres and sponsored jewellery for the artistes. Such exposure opportunities, with pop artistes, movie stars and high-profile celebrities, serve as an important tool for enhancing the reputation of the "***Emperor***" brand, particularly in Chinese-speaking communities.

PROSPECTS

The continued disputes between China and the United States, the world's most influential economies, will no doubt pose threats to global trade and economic development. A challenging operating environment is still expected in the second half of 2019, as concerns about the global economic slowdown continue to grow. The Group will closely monitor the market situation and respond as appropriate.

China remains an important engine of the world's economic growth, while Chinese consumers comprise a key target customer group for the Group. Against the backdrop of a stabilising Renminbi exchange rate, improved transportation links between Hong Kong and mainland China, increasing awareness of product credibility, pursuit of personal status by the younger generation, etc, the Group believes the luxury sector is poised for healthy growth in the longer term. The Group therefore remains cautiously optimistic about the future.

Looking ahead, the Group will further reinforce its longstanding relationships with watch brand suppliers, in order to maintain stable supplies and reinforce its leading market position. The Group will also continue promoting its "***Emperor Jewellery***" brand and strive to expand its coverage in order to seize the opportunities arising within different customer segments, with an aim of developing a global presence. Although the macro environment remains uncertain in the near term, riding on its solid foundation and core competencies, the Group is confident of overcoming the challenges, and strives to achieve sustainable growth in the long term.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group has 893 salespersons (30 June 2018: 805) and 262 office staff (30 June 2018: 234). Total staff costs (including Directors' remuneration) were approximately HK$178.4 million (1H2018: HK$150.7 million) for the Period. Employees' remuneration was determined in accordance with individual's responsibility, competence and skills, experience and performance as well as market pay level. Staff benefits include medical and life insurance, provident funds and other competitive fringe benefits.

INTERIM DIVIDEND

The Board is pleased to declare an interim dividend of HK0.35 cent per share ("Interim Dividend") for the financial year ending 31 December 2019 (2018: HK0.70 cent per share), amounting to approximately HK$23.7 million (2018: HK$47.5 million). The Interim Dividend will be payable on 19 September 2019 (Thursday) to shareholders whose names will appear on the register of members of the Company on 11 September 2019 (Wednesday).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed, for the purpose of determining shareholders' entitlement to the Interim Dividend, from 10 September 2019 (Tuesday) to 11 September 2019 (Wednesday), during which period no transfer of shares will be registered.

In order to qualify for the Interim 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 9 September 2019 (Monday).

REVIEW OF INTERIM RESULTS

These condensed consolidated Interim Financial Statements of the Group for the Period had not been reviewed nor audited by the Company's auditor, Deloitte Touche Tohmatsu, but had been reviewed by the audit committee of the Company, which comprises the three Independent non-executive Directors of the Company.

CORPORATE GOVERNANCE

Corporate Governance Code

The Company had complied throughout the Period with all code provisions of the Corporate Governance Code under Appendix 14 of the Listing Rules, except with the deviation from code provision A.2.1 which requires that the roles of chairman and chief executive officer should be separate and not be performed by the same individual. Ms. Cindy Yeung, being the Chief Executive Officer of the Group, had also been appointed as the Chairperson of the Board who provides the Board with strong and consistent leadership while at the same time leading the management on effective planning, formulation, implementation and execution of long-term business strategies of the Group. The Directors have considered the issue of balance of power of authority on the Board and believes the current structure (having strong independent elements in the Board, delegation of authorities to the management, supervision by the Board and Board committees) can properly address the potential issue on power concentration. All Directors, having different experiences to bring different expertise to the Company, are properly briefed on issues arising at Board meetings and that adequate, complete and reliable information is received by the Directors. The Board is of the opinion that the current Board structure functions effectively and does not intend to make any change thereof.

Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding securities transactions by Directors ("EWJ Securities Code") on no less exacting terms than the required standards for securities dealing as set out in Appendix 10 of the Listing Rules regarding Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"). Having made specific enquiry to the Directors, all of them confirmed that they had complied with the required standard of dealings as set out in the Model Code and EWJ Securities Code throughout the Period.

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.

PUBLICATION OF THE UNAUDITED INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (https://www.hkexnews.hk) and the Company (https://www.emperorwatchjewellery.com). The interim report of the Company for the Period will be dispatched to the shareholders of the Company and will be available on the aforesaid websites in due course.

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

Hong Kong, 20 August 2019

As at the date hereof, the Board comprises:

Executive Directors:	Ms. Cindy Yeung Mr. Wong Chi Fai Ms. Fan Man Seung, Vanessa
Independent Non-Executive Directors:	Ms. Chan Sim Ling, Irene Mr. Liu Hing Hung Ms. Chan Wiling, Yvonne