



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

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

2020 INTERIM REPORT





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RESULTS SUMMARY

| HK\$ million (unaudited) | For the six months ended 30 June | | Changes |
|----------------------------|----------------------------------|----------------|---------|
| | 2019 | 2020 | |
| Revenue | 2,403 | 931 | -61.3% |
| Gross profit | 758 | 305 | -59.8% |
| <i>Gross profit margin</i> | 31.5% | 32.8% | +1.3pp |
| Adjusted EBIT (LBIT)* | 223 | (44) | N/A |
| Net profit (loss) | 118 | (114) | N/A |
| Earnings (loss) per share | HK1.73 cents | HK(1.68) cents | N/A |

* Adjusted EBIT (LBIT) represents earnings (loss) before interest and tax; adding back the depreciation charge on the self-owned flagship store, for reflecting the Group's core operating performance. The Group has fully adopted the HKFRS16, which a depreciation of right-of-use assets associated with lease was recorded in the Period and the same period last year.



MANAGEMENT DISCUSSION AND ANALYSIS

Emperor Watch & Jewellery Limited (the “Company”) together with its subsidiaries (collectively referred to as 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 Main Board of The Stock Exchange of Hong Kong Limited since July 2008.

The Group has established a retail network of over 100 stores across Hong Kong, Macau, mainland China, Singapore and Malaysia, as well as several online shopping platforms. With a history of over 75 years, 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.

MARKET REVIEW

During the six months ended 30 June 2020 (the “Period”), the COVID-19 pandemic (the “Pandemic”) hit around the globe. Travel bans and health control measures upon arrival were implemented, which caused mass cancellations of individual and business travel plans. Hong Kong’s retail market experienced unprecedented challenges due to the crash in visitor numbers. During the Period, the number of mainland Chinese tourists, who accounted for majority of the city’s total arrivals, plummeted by more than 90% compared to the same period last year.

As a result of the public health crisis and global economic disputes, the economic outlook remains gloomy and shrouded in uncertainties. Despite economic activities being gradually resumed after implementation of stringent lockdown orders and slightly boosted by staycation trends, the general luxury consumption sentiment remained weak, as a market turnaround is yet to be seen.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overall Review

Against the backdrop of a complex business environment, the Group's total revenue decreased by 61.3% to HK\$930.6 million (2019: HK\$2,402.7 million) during the Period. As a result of falling visitor arrivals and dampened consumption sentiment, revenue from the Hong Kong market dropped significantly to HK\$503.7 million (2019: HK\$1,751.1 million), which accounted for 54.1% (2019: 72.9%) of the total revenue. On the other hand, the Pandemic situation has eased off slightly in the mainland China and local consumption has been picking up gradually, revenue from the mainland China market thereby decreased by 14.7% only to HK\$243.4 million (2019: HK\$285.4 million), accounting for 26.2% (2019: 11.9%) of the total revenue. Considering revenue breakdown by product, the sales revenue of watch and jewellery decreased to HK\$701.9 million (2019: HK\$1,884.1 million) and HK\$228.7 million (2019: HK\$518.6 million) respectively, accounting for 75.4% (2019: 78.4%) and 24.6% (2019: 21.6%) of the total revenue.

Gross profit inevitably decreased to HK\$305.2 million (2019: HK\$757.9 million), while the gross profit margin increased by 1.3 percentage points to 32.8% (2019: 31.5%). Amid the Pandemic, the Group has actively taken all necessary measures to mitigate the adverse financial implications. The Group strived for decrease in rental expenses by negotiating with landlords for short-term rental relief or one-off rental cuts for shops before or upon lease expiries; staff cost reductions by streamlining workflows and implementing a flexible human resources strategy; and boosting sales by enhancing customer engagement and adjusting the product range. Nevertheless, the Group incurred a net loss during the Period amounting to HK\$113.7 million (2019: net profit of HK\$117.6 million) as a result of the revenue slump and operating deleverage. Adjusted loss before interest and tax was HK\$44.0 million (2019: adjusted earnings before interest and tax of HK\$222.7 million). Basic loss per share was HK1.68 cents (2019: basic earnings per share of 1.73 cents).



MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure, Liquidity and Financial Resources

Bank balances and cash on hand of the Group as at 30 June 2020 amounted to HK\$251.1 million (31 December 2019: HK\$239.9 million), which were mainly denominated in Hong Kong dollars and Renminbi. As at 30 June 2020, the Group had total bank borrowings of approximately HK\$766.1 million (31 December 2019: 790.9 million), resulting in a net gearing ratio (calculated on the basis of net debts over net asset value) of 11.9% (31 December 2019: 12.3%). The Group also had available un-utilised banking facilities of approximately HK\$1,102.8 million.

As at 30 June 2020, the Group's current assets and current liabilities were approximately HK\$3,451.9 million (31 December 2019: HK\$3,539.4 million) and HK\$1,153.9 million (31 December 2019: HK\$659.3 million), respectively. Current ratio and quick ratio of the Group were 3.0 (31 December 2019: 5.4) and 0.3 (31 December 2019: 0.6), respectively.

In view of the Group's financial position as at 30 June 2020, the board of directors of the Company (the "Board" or "Directors") 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 2020, the Group had 102 stores (31 December 2019: 104) in Hong Kong, Macau, mainland China, Singapore and Malaysia. The distribution was as follows:

| | Number of stores |
|----------------|-------------------------|
| Hong Kong | 31 |
| Macau | 5 |
| Mainland China | 57 |
| Singapore | 8 |
| Malaysia | 1 |
| Total | 102 |



MANAGEMENT DISCUSSION AND ANALYSIS

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, Macau and mainland China. The Group also successfully expanded its presence in Singapore and Malaysia, to enhance its footprint and brand exposure beyond Greater China.

Solidifying Leading Position

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, especially 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.

Enhancing the Jewellery Business

The Group offers premium quality “**Emperor Jewellery**” products with a dedication to design excellence and craftsmanship. The spectacular “**Emperor Jewellery**” range 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 “**Fortune Bracelet**”, comprising a rice-shaped gold charm on a traditional Chinese cord bracelet. Each piece of gold rice is delicately engraved with the Chinese characters for “peace”, “health”, “happiness” or “luck”, to symbolise love and fortune, as well as a better future. In order to enhance engagements with local consumers, the Group launched many promotional and VIP events. Given the importance of social media in product promotions, the Group will continue to showcase and promote its products on mobile apps and social media platforms.



MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Supported by the expansion of the middle income group and more comprehensive transportation linkages, Hong Kong remains one of the region's hottest shopping destinations, and is among the best places to benefit from a recovery in consumption sentiment, particularly among mainland China tourists and shoppers. As soon as the travel restrictions and health quarantine measures upon arrival are eased, the Group expects that the suppressed desire for tourism and pent-up consumption demand will be unleashed, resulting in an obvious rebound in the number of visitor arrivals.

Nevertheless, the unfavourable business operating environment arising from the Pandemic and the volatile global economy are likely to hinder development of the luxury consumption market. It is expected that the business operating environment of tourism related sectors and the retail market landscape in Hong Kong will remain challenging in the near term. As consumers refrained from making physical shop visits due to public health concerns, the Group will further develop online business by enhancing social media engagements and online sales platforms. Meanwhile, the Group will adhere to its prudent approach, promptly react to market changes, and take appropriate measures to improve its overall operating efficiency.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group had 713 salespersons (30 June 2019: 893) and 159 office staff (30 June 2019: 262). Total staff costs (including Directors' remuneration) were approximately HK\$95.6 million (1H2019: HK\$178.4 million) for the Period. Each employee's remuneration was determined in accordance with individual's responsibilities, competence and skills, experience and performance as well as market pay levels. Staff benefits include medical and life insurance, retirement benefits and other competitive fringe benefits.

To provide incentives or rewards to the staff, the Company has adopted a share option scheme, particulars of which will be set out in the section headed "Share Options" of this interim report.

INTERIM DIVIDEND

The Board has resolved not to declare any payment of interim dividend for the financial year ending 31 December 2020 (2019: HK\$0.35 cent per share).



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

| | Notes | Six months ended 30 June | |
|---|-------|---------------------------------|---------------------------------|
| | | 2020 (unaudited) HK\$'000 | 2019 (unaudited) HK\$'000 |
| Revenue | 3 | 930,586 | 2,402,664 |
| Cost of sales | | (625,402) | (1,644,718) |
| Gross profit | | 305,184 | 757,946 |
| Other income | | 4,729 | 2,323 |
| Selling and distribution expenses | | (331,218) | (500,396) |
| Administrative expenses | | (50,048) | (79,761) |
| Other gains or losses | | (18,538) | (3,081) |
| Finance costs | | (20,783) | (29,689) |
| (Loss)profit before taxation | 4 | (110,674) | 147,342 |
| Taxation | 5 | (3,046) | (29,756) |
| (Loss)profit for the period | | (113,720) | 117,586 |
| Other comprehensive expense for the period | | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising from translation of foreign operations | | (15,398) | (2,975) |
| Total comprehensive (expense)income for the period attributable to owners of the Company | | (129,118) | 114,611 |
| (Loss)earnings per share | | | |
| – Basic | 7 | HK(1.68) cents | HK1.73 cents |



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

| | | As at | |
|--|-------|--|--|
| | Notes | 30 June 2020 (unaudited) HK\$'000 | 31 December 2019 (audited) HK\$'000 |
| Non-current assets | | | |
| Property, plant and equipment | | 1,773,090 | 1,850,058 |
| Right-of-use assets | | 416,535 | 565,779 |
| Rental deposits | | 101,854 | 116,721 |
| Deposits paid for acquisition of property, plant and equipment | | 1,393 | 1,541 |
| Deferred tax assets | | 13,086 | 13,086 |
| | | 2,305,958 | 2,547,185 |
| Current assets | | | |
| Inventories | | 3,101,951 | 3,148,350 |
| Right to returned goods asset | | 3,167 | 3,167 |
| Receivables, deposits and prepayments | 8 | 95,568 | 144,067 |
| Amounts due from related companies | 10 | 158 | 3,924 |
| Bank balances and cash | | 251,099 | 239,909 |
| | | 3,451,943 | 3,539,417 |



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

| | | As at | |
|----------------------------------|-------|--|--|
| | Notes | 30 June 2020 (unaudited) HK\$'000 | 31 December 2019 (audited) HK\$'000 |
| Current liabilities | | | |
| Payables and accrued charges | 9 | 87,277 | 117,186 |
| Lease liabilities | | 233,429 | 286,327 |
| Contract liabilities | | 18,785 | 11,957 |
| Refund liabilities | | 4,219 | 4,219 |
| Amounts due to related companies | 10 | 13,055 | 1,030 |
| Taxation payable | | 30,998 | 65,683 |
| Bank borrowings | 11 | 766,149 | 172,900 |
| | | 1,153,912 | 659,302 |
| Net current assets | | | |
| | | 2,298,031 | 2,880,115 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 3,134 | 3,269 |
| Lease liabilities | | 256,946 | 332,970 |
| Bank borrowings | 11 | – | 618,034 |
| | | 260,080 | 954,273 |
| Net assets | | | |
| | | 4,343,909 | 4,473,027 |
| Capital and reserves | | | |
| Share capital | | 3,484,152 | 3,484,152 |
| Reserves | | 859,757 | 988,875 |
| Total equity | | | |
| | | 4,343,909 | 4,473,027 |



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

| | Attributable to owners of the Company | | | | | | |
|---|---------------------------------------|------------------|-----------------|-----------------|---------------------|------------------|------------------|
| | Share capital | Merger reserve | Other reserve | Capital reserve | Translation reserve | Retained profits | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| As at 1 January 2019 (audited) | 3,484,152 | (373,003) | (26,195) | 2,529 | (24,926) | 1,402,463 | 4,465,020 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | (2,975) | - | (2,975) |
| Profit for the period | - | - | - | - | - | 117,586 | 117,586 |
| Total comprehensive (expense) income for the period | - | - | - | - | (2,975) | 117,586 | 114,611 |
| Effect on adoption of HKFRS 16 | - | - | - | - | - | (7,877) | (7,877) |
| Final dividend paid for 2018 (note 6) | - | - | - | - | - | (37,287) | (37,287) |
| As at 30 June 2019 (unaudited) | 3,484,152 | (373,003) | (26,195) | 2,529 | (27,901) | 1,474,885 | 4,534,467 |
| As at 1 January 2020 (audited) | 3,484,152 | (373,003) | (26,195) | 2,529 | (38,058) | 1,423,602 | 4,473,027 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | (15,398) | - | (15,398) |
| Loss for the period | - | - | - | - | - | (113,720) | (113,720) |
| Total comprehensive expense for the period | - | - | - | - | (15,398) | (113,720) | (129,118) |
| As at 30 June 2020 (unaudited) | 3,484,152 | (373,003) | (26,195) | 2,529 | (53,456) | 1,309,882 | 4,343,909 |



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Net cash from operating activities | 166,998 | 253,283 |
| Net cash used in investing activities | (728) | (27,371) |
| Net cash used in financing activities | (151,157) | (227,772) |
| <hr/> | | |
| Net increase(decrease) in cash and cash equivalents | 15,113 | (1,860) |
| Cash and cash equivalents at the beginning of the period | 239,909 | 627,256 |
| Effect of foreign exchange rate changes | (3,923) | (2,261) |
| <hr/> | | |
| Cash and cash equivalents at the end of the period | 251,099 | 623,135 |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2019.

The financial information relating to the year ended 31 December 2019 that is included in these unaudited condensed consolidated financial statements for the six months ended 30 June 2020 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year 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 2019 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to the CO.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION *(Continued)*

(b) The Company's auditor has reported on the consolidated financial statements of the Group for the year ended 31 December 2019. 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 amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|--------------------------------|
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 ¹ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ² |
| Amendments to HKFRS 16 | Covid-19-Related Rent Concessions ³ |

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 June 2020

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION

Revenue represents sales of products to retail customers and commission income from services provided.

For sales of products to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the retail shop. Payment of the transaction price is due immediately at the point the customer purchases the goods.

For commission income, revenue is recognised when it expects to be entitled in exchange for arranging for the specified goods provided by the other party to the customers at the retail shop.

All revenue are recognised at a point in time.

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, the Peoples’ Republic of China (the “PRC”) and other regions in Asia Pacific (representing Singapore and Malaysia). 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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

For the six months ended 30 June 2020

| | Hong Kong (unaudited) HK\$'000 | Macau (unaudited) HK\$'000 | PRC (unaudited) HK\$'000 | Other regions in Asia Pacific (unaudited) HK\$'000 | Elimination (unaudited) HK\$'000 | Consolidated (unaudited) HK\$'000 |
|----------------------|--------------------------------------|----------------------------------|--------------------------------|--|--|---|
| Revenue | | | | | | |
| External sales | 503,711 | 40,354 | 243,427 | 143,051 | - | 930,543 |
| Inter-segment sales* | 7,942 | 3,333 | - | - | (11,275) | - |
| Commission income | 6 | 37 | - | - | - | 43 |
| | 511,659 | 43,724 | 243,427 | 143,051 | (11,275) | 930,586 |

* Inter-segment sales are charged at cost

| | | | | | | |
|-------------------------------------|----------|---------|--------|--------|---|-----------|
| Segment (loss)profit | (59,481) | (5,108) | 22,779 | 15,776 | - | (26,034) |
| Unallocated other income | | | | | | 4,729 |
| Unallocated administrative expenses | | | | | | (50,048) |
| Unallocated other gains or losses | | | | | | (18,538) |
| Unallocated finance costs | | | | | | (20,783) |
| Loss before taxation | | | | | | (110,674) |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2019

| | Hong Kong (unaudited) HK\$'000 | Macau (unaudited) HK\$'000 | PRC (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 | 285,383 | 218,455 | - | 2,401,456 |
| Inter-segment sales* | 20,564 | 5,331 | 1,427 | 1,538 | (28,860) | - |
| Commission income | 1,172 | 36 | - | - | - | 1,208 |
| | 1,771,628 | 153,093 | 286,810 | 219,993 | (28,860) | 2,402,664 |
| * Inter-segment sales are charged at cost | | | | | | |
| Segment profit | 200,310 | 13,776 | 19,295 | 24,169 | - | 257,550 |
| Unallocated other income | | | | | | 2,323 |
| Unallocated administrative expenses | | | | | | (79,761) |
| Unallocated other gains or losses | | | | | | (3,081) |
| Unallocated finance costs | | | | | | (29,689) |
| Profit before taxation | | | | | | 147,342 |

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 (loss)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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. (LOSS)PROFIT BEFORE TAXATION

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2020 | 2019 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| (Loss)profit before taxation has been arrived at after charging (crediting): | | |
| Cost of inventories included in cost of sales (included allowance for inventories of HK\$2,022,000) (2019 interim: reversal of allowance for inventories of HK\$262,000) | 622,177 | 1,644,332 |
| Allowance for credit losses | 528 | 686 |
| Depreciation of property, plant and equipment | | |
| – retail shops | 68,697 | 62,018 |
| – offices | 2,854 | 3,374 |
| | 71,551 | 65,392 |
| Depreciation of right-of-use assets | | |
| – retail shops | 122,231 | 138,193 |
| – offices | 5,915 | 5,580 |
| | 128,146 | 143,773 |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. (LOSS)PROFIT BEFORE TAXATION *(Continued)*

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2020 | 2019 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| Staff costs including Directors' remuneration | | |
| – salaries and other benefits costs | 87,527 | 165,283 |
| – retirement benefits scheme contributions | 8,054 | 13,164 |
| | 95,581 | 178,447 |
| Included in other gains or losses: | | |
| Impairment loss recognised in respect of property, plant and equipment | 6,503 | – |
| Impairment loss recognised in respect of right-of-use assets | 7,738 | – |
| Loss on disposal/write-off of property, plant and equipment | 242 | 1,205 |
| Gain arising from leases modification | (313) | – |
| Gain arising from termination of leases | – | (57) |
| Net exchange losses | 4,368 | 1,933 |
| | 18,538 | 3,081 |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. TAXATION

| | Six months ended 30 June | |
|---|--|---------------------------------|
| | 2020 (unaudited) HK\$'000 | 2019 (unaudited) HK\$'000 |
| The tax charge (credit) comprises: | | |
| Profits tax: | | |
| Hong Kong | 398 | 25,928 |
| Singapore | 2,648 | 4,145 |
| | 3,046 | 30,073 |
| Deferred taxation | – | (317) |
| | 3,046 | 29,756 |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of 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%.

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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. TAXATION *(Continued)*

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 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 both periods. No provision for Malaysia Income Tax has been made as the Company’s subsidiary did not have any assessable profit arising from Malaysia for both periods.

6. DIVIDENDS

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2020 | 2019 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| 2019 Interim dividend paid of HK0.35 cent per share | – | 23,728 |
| 2018 final dividend paid of HK0.55 cent per share | – | 37,287 |

The Board did not declare any payment of interim dividend for the financial year ending 31 December 2020 (2019: HK0.35 cent per share, amounting to HK\$23,728,000).



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. (LOSS)EARNINGS PER SHARE – BASIC

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

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2020 | 2019 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| (Loss)earnings | | |
| (Loss)earnings for the period attributable to owners of the Company for the purpose of basic (loss)earnings per share | (113,720) | 117,586 |

| | Six months ended 30 June | |
|---|---------------------------------|---------------|
| | 2020 | 2019 |
| | (unaudited) | (unaudited) |
| Number of shares | | |
| Number of ordinary shares for the purpose of basic (loss)earnings per share | 6,779,458,129 | 6,779,458,129 |

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | As at | |
|---|--|--|
| | 30 June 2020 (unaudited) HK\$'000 | 31 December 2019 (audited) HK\$'000 |
| Trade receivables from contracts with customers | 45,464 | 50,716 |
| Less: Allowance for credit losses | (1,171) | (682) |
| | 44,293 | 50,034 |
| Other receivables, deposits and prepayments | 43,621 | 81,639 |
| PRC Value-Added Tax ("VAT") receivable | 7,654 | 12,394 |
| | 95,568 | 144,067 |

Retail sales are normally settled in cash or by credit cards with the settlement from the corresponding banks or other financial institutions within seven days. The credit term of receivables from retail sales in department stores are normally ranged between 15 to 45 days.

Included in other receivables, deposits and prepayments as at 30 June 2020 were advance payments to suppliers of HK\$5,023,000 (31 December 2019: HK\$19,208,000) and rebate receivables of HK\$18,933,000 (31 December 2019: HK\$33,654,000). The remaining items are individually insignificant.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

| | As at | |
|----------------|--|--|
| | 30 June 2020 (unaudited) HK\$'000 | 31 December 2019 (audited) HK\$'000 |
| Within 30 days | 41,759 | 47,165 |
| 31 – 60 days | 622 | 828 |
| 61 – 90 days | 50 | 313 |
| over 90 days | 3,033 | 2,410 |
| | 45,464 | 50,716 |

Included in the trade receivables balance were receivables from department stores with aggregate carrying amount of HK\$2,126,000 (31 December 2019: HK\$2,434,000) which are past due at the reporting date, for which the Group has provided an allowance for credit loss of HK\$528,000 (31 December 2019: NIL).



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. PAYABLES AND ACCRUED CHARGES

| | As at | |
|------------------------------------|--|--|
| | 30 June 2020 (unaudited) HK\$'000 | 31 December 2019 (audited) HK\$'000 |
| Trade payables | 17,742 | 44,357 |
| Other payables and accrued charges | 67,742 | 72,631 |
| PRC VAT payables | 1,793 | 198 |
| | 87,277 | 117,186 |

Included in other payables and accrued charges as at 30 June 2020 were accrued bonus and incentive of HK\$1,401,000 (31 December 2019: HK\$4,894,000) and accrued renovation costs of HK\$8,549,000 (31 December 2019: HK\$13,369,000).



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. PAYABLES AND ACCRUED CHARGES *(Continued)*

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 2020 (unaudited) HK\$'000 | 31 December 2019 (audited) HK\$'000 |
| Within 30 days | 16,045 | 37,339 |
| 31 – 60 days | 151 | 4,429 |
| 61 – 90 days | 7 | 326 |
| Over 90 days | 1,539 | 2,263 |
| | 17,742 | 44,357 |

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

10. AMOUNTS DUE FROM(TO) RELATED COMPANIES

The amounts due from related companies mainly represent prepayment of operating expenses. The amount was fully settled after period end.

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 which are controlled by a director or private trusts of which another director is one of the eligible beneficiaries.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. BANK BORROWINGS

| | As at | |
|--|--|--|
| | 30 June 2020 (unaudited) HK\$'000 | 31 December 2019 (audited) HK\$'000 |
| The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities as at 30 June 2020) but repayable: | | |
| Within one year | 149,043 | 172,900 |
| Within a period of more than one year but not exceeding two years | 43,788 | 42,396 |
| Within a period of more than two years but not exceeding five years | 414,676 | 438,088 |
| Within a period of more than five years | 158,642 | 137,550 |
| | 766,149 | 790,934 |
| Less: Amounts due within one year shown under current liabilities | (766,149) | (172,900) |
| Amounts shown under non-current liabilities | — | 618,034 |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. BANK BORROWINGS *(Continued)*

The bank borrowings carry floating interest rate ranged from 1.1% to 1.14% over Hong Kong Interbank Offered Rate (31 December 2019: from 1.11% to 1.14%) and 1.2% over Singapore Interbank Offered Rate (31 December 2019: 1.2%) per annum.

The Group had pledged a property of HK\$1,657,211,000 (31 December 2019: HK\$1,703,126,000) 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.

12. CAPITAL COMMITMENT

| | As at | |
|---|--|--|
| | 30 June 2020 (unaudited) HK\$'000 | 31 December 2019 (audited) HK\$'000 |
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements | 647 | 1,419 |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS

During the Period, other than disclosed in Note 10, the Group had the following transactions with related parties:

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2020 | 2019 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| (1) Sales of goods to Directors, their close family members and related companies | 571 | 1,724 |
| (2) Electricity and air-conditioning expenses paid and payable to related companies | 130 | 182 |
| (3) Service charge in respect of information system and administrative work paid and payable to related companies | 4,142 | 8,883 |
| (4) Advertising expenses paid and payable to related companies | 36 | 50 |
| (5) Financial advisory fee paid and payable to a related company | 165 | 210 |
| (6) Interest expenses on lease liabilities to related companies | 1,610 | 3,170 |
| (7) Expenses relating to short-term leases and other leases with lease terms and within 12 months of the date of initial application of HKFRS 16 to related companies | 10 | 1,949 |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS *(Continued)*

The key management personnel of the Company are the Director and senior management. The remuneration paid to them during the Period was as follows:

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2020 | 2019 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| Salaries and other short-term employee benefits | 4,025 | 6,352 |
| Retirement benefits costs | 174 | 95 |
| | 4,199 | 6,447 |

Notes:

- (a) The related companies are controlled by a Director or private trusts of which another Director is one of the eligible beneficiaries.
- (b) Other than the expenses under items (6) and (7), all other transactions are connected transactions exempt from announcement, reporting and independent shareholders' requirements under Rule 14A.33 of the Listing Rules.

As at 30 June 2020, deposits paid to related companies amounting to HK\$32,006,000 (31 December 2019: HK\$45,768,000) was included in rental deposits under non-current assets.

As at 30 June 2020, the Group had recognised lease liabilities of approximately HK\$70,291,000 (31 December 2019: HK\$117,118,000) for the leases with related companies.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in these condensed consolidated financial statements, which have no effect on previously reported profit for the period, to conform with the current period's presentation. In particular, for the six months ended 30 June 2019, depreciation of property, plant and equipment used for retail shops was reclassified from administrative expenses to selling and distribution expenses in the condensed consolidated statement of profit or loss and other comprehensive income. Presentation on respective operating segments in note 3 to the condensed consolidated financial statements have been restated to reflect such changes.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2020, the following Director(s) and chief executive(s) of the Company had or were deemed or taken to have interests and short positions in the following shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 adopted by the Company ("EWJ Securities Code"):

(a) Long position interests in the Company

Ordinary shares of the Company ("Shares")

| Name of Director | Capacity/ Nature of interests | Number of Shares interested | % of issued voting Shares |
|-------------------------|---|--|--------------------------------------|
| Ms. Cindy Yeung | Eligible beneficiary of a private discretionary trust | 4,290,850,000 | 63.29% |

Note: These Shares were held by Emperor Watch & Jewellery Group Holdings Limited ("Emperor W&J Holdings"), a wholly-owned subsidiary of Albert Yeung Watch & Jewellery Holdings Limited ("AY W&J Holdings"). AY W&J Holdings was held by First Family Advisors Trust reg. ("First Trust") in trust for a private discretionary trust under which Ms. Cindy Yeung had deemed interests by virtue of being one of the eligible beneficiaries.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

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

(i) Ordinary Shares

| Name of Director | Name of associated corporation | Capacity/ Nature of interests | Number of ordinary shares interested | % of issued voting shares |
|----------------------------|--|---|--|------------------------------|
| Ms. Cindy Yeung | Emperor International Holdings Limited ("Emperor International") | Eligible beneficiary of a private discretionary trust | 2,747,610,489 <i>(Note)</i> | 74.71% |
| | Emperor Entertainment Hotel Limited ("Emperor E Hotel") | Eligible beneficiary of a private discretionary trust | 851,352,845 <i>(Note)</i> | 68.98% |
| | Emperor Culture Group Limited ("Emperor Culture Group") | Eligible beneficiary of a private discretionary trust | 2,371,313,094 <i>(Note)</i> | 73.80% |
| | Ulferts International Limited ("Ulferts") | Eligible beneficiary of a private discretionary trust | 600,000,000 <i>(Note)</i> | 75.00% |
| Ms. Fan Man Seung, Vanessa | Emperor International | Beneficial owner | 10,500,000 | 0.29% |

Note: Emperor International, Emperor E Hotel, Emperor Culture Group and Ulferts are companies with their shares listed on the Stock Exchange. These shares were ultimately owned by the respective private discretionary trusts. Ms. Cindy Yeung, by virtue of being one of the eligible beneficiaries of such trusts, had deemed interests in the same shares.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

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

(ii) Debentures

| Name of Director | Name of associated corporation | Capacity/ Nature of interests | Amount of debentures held |
|-------------------------|---------------------------------------|--|--------------------------------------|
| Mr. Wong Chi Fai | Emperor International | Interest of controlled corporation | HK\$2,000,000 |

Save as disclosed above, as at 30 June 2020, none of the Directors nor chief executives 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).



OTHER PERSONS' INTERESTS IN SECURITIES

So far as is known to any Director or chief executive of the Company, as at 30 June 2020, the persons or corporations (other than a Director or a chief executive of the Company) who had, or were deemed or taken to have an interest and short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO ("DI Register") were as follows:

Long position in the Shares

| Name | Capacity/ Nature of interests | Number of Shares interested | % of issued voting Shares |
|-----------------------------------|--|--|--------------------------------------|
| Emperor W&J Holdings | Beneficial owner | 4,290,850,000 <i>(Note)</i> | 63.29% |
| AY W&J Holdings | Interest in a controlled corporation | 4,290,850,000 <i>(Note)</i> | 63.29% |
| First Trust | Trustee of a private discretionary trust | 4,290,850,000 <i>(Note)</i> | 63.29% |
| Dr. Yeung Sau Shing, Albert | Founder of a private discretionary trust | 4,290,850,000 <i>(Note)</i> | 63.29% |
| Ms. Luk Siu Man, Semon | Interest of spouse | 4,290,850,000 <i>(Note)</i> | 63.29% |
| Brandes Investment Partners, L.P. | Investment manager | 339,017,288 | 5.00% |

Note: These Shares were the same Shares as those set out under Section (a) of "Directors' and Chief Executives' Interests in Securities" above.

Save as disclosed above, as at 30 June 2020, the Directors or chief executives of the Company were not aware of any person or corporation (other than the Directors and chief executives 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 DI Register.



CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTIONS

The Company adopted a share option scheme (“Share Option Scheme”) at the annual general meeting of the Company held on 23 May 2018 to provide incentive or rewards to eligible participants including Directors and employees of the Group.

No share option was granted under the Share Option Scheme since its adoption and up to 30 June 2020.

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 and 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, who bring different experience and 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.



CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE *(Continued)*

Model Code for Securities Transactions

The Company has adopted EWJ Securities Code as its own code of conduct regarding securities transactions by Directors on no less exacting terms than the required standards for securities dealings 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.

Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines in line with the Model Code. No incident of non-compliance by relevant employees was noted throughout the Period.

CHANGES IN INFORMATION OF DIRECTORS

The changes in Directors’ information since the date of the 2019 Annual Report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Upon considering the Group’s financial performance and the market condition, the remuneration of Ms. Cindy Yeung (Executive Director) was revised with effect from 1 January 2020 and 1 March 2020. The total emolument for the Period was HK\$1,324,909. This amount comprises basic salaries, allowance and Director’s fee accrued in respect of her service during the Period and retirement benefits scheme employer’s contribution during the Period.

Save as disclosed above, the Company is not aware of other changes in the Directors’ information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2019 Annual Report.



CORPORATE GOVERNANCE AND OTHER INFORMATION

REVIEW OF INTERIM REPORT

The condensed consolidated financial statements of the Group for the Period as set out in this Interim Report had not been audited nor reviewed by the Company's auditor, Deloitte Touche Tohmatsu (Registered Public Interest Entity Auditor), but this report had been reviewed by the audit committee of the Company, which comprises the three Independent Non-executive Directors 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
Chairperson

Hong Kong, 27 August 2020

As at the date of this Report, 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



CORPORATE GOVERNANCE AND OTHER INFORMATION

This Interim Report (in both English and Chinese versions) is available to any shareholder of the Company in printed form or on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<https://www.emperorwatchjewellery.com>). In order to protect the environment, the Company highly recommends the shareholders to receive electronic copy of this Interim Report. 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's Share Registrar, Tricor Secretaries Limited, by post at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong or by email at is-enquiries@hk.tricorglobal.com.

