



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 Report 2014

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RESULTS SUMMARY

- Revenue decreased by 6.9% to HK\$3,066.0 million (1H2013: HK\$3,293.7 million).
- Watch segment was relatively resilient amid a slowdown in luxury consumption with its revenue decreased slightly by 2.0% only to HK\$2,492.5 million (1H2013: HK\$2,544.6 million) and continued to be the key contributor, accounting for 81.3% of the Group's revenue.
- Gross profit margin improved to 25.1% (1H2013: 24.2%), attributable to a more stabilised pricing environment and price hikes exercised by several watch brands.
- Net profit decreased to HK\$104.7 million (1H2013: HK\$156.7 million), mainly due to an uprise of rental pressure.
- Maintained a strong cash debt-free position as at 30 June 2014.
- 3 iconic stores were newly opened in 1881 Heritage, Canton Road, Tsim Sha Tsui, further extending the Group's foothold on prime retail location.

ACHIEVEMENTS

Standard Chartered Bank Women on Boards Hong Kong 2014

Ranked 1st on the Hang Seng Composite Index (HSCI), in terms of Board Gender Diversity

Community Business, March 2014

Hong Kong Service Awards 2014

Watch Retailer Category
East Week, March 2014

Hong Kong Asia's Best Companies Poll 2014

Best Mid-Cap Company (2nd)
Best Investor Relations (3rd)
Best Managed Company (6th)
Best Corporate Governance (6th)
Best Corporate Social Responsibility (8th)

FinanceAsia, April 2014

The Outstanding Brand Awards 2014

Economic Digest, May 2014

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 luxurious and internationally branded watches, together with self-designed fine jewellery products under its own brand, “**Emperor**”. The Group has extensive retail networks in Hong Kong, Macau, the People’s Republic of China (the “PRC”) and Singapore. The target customers range from middle to high income groups in the world. With a long history of over 70 years since its establishment, the Company has been carrying a balanced and comprehensive watches’ dealership list.

FINANCIAL REVIEW

Overall Review

During the six months ended 30 June 2014 (the “Period”), the Group’s revenue decreased by 6.9% to HK\$3,066.0 million (1H2013: HK\$3,293.7 million). Despite the sluggish demand on luxury consumption, the watch segment was relatively resilient and its revenue decreased slightly by 2.0% to HK\$2,492.5 million (1H2013: HK\$2,544.6 million), which accounted for 81.3% (1H2013: 77.3%) of the Group’s revenue and continued to be the key revenue contributor. Due to the special promotion campaigns on jewellery items and “gold fever” which brought additional traffic to **Emperor Jewellery** stores in the same period last year, the revenue of jewellery segment slumped by 23.4% to HK\$573.5 million (1H2013: HK\$749.1 million). 83.5% (1H2013: 83.0%) of the Group’s total revenue was supported by Hong Kong market.

Gross profit decreased slightly by 3.6% to HK\$770.0 million (1H2013: HK\$798.4 million) with enhanced gross profit margin as 25.1% (1H2013: 24.2%). The pricing environment of watches has been gradually stabilised. During the Period, the price hikes of several watch brands were exercised. Taking the competitive advantages of its retail network located at prime locations and diversified product portfolio, the overall gross profit margin improved during the Period.

EBITDA and net profit were HK\$155.8 million (1H2013: HK\$219.6 million) and HK\$104.7 million (1H2013: HK\$156.7 million) respectively. The decrease of EBITDA and net profit were owing to the increase in rental expenses. Basic earnings per share was HK1.5 cents (1H2013: HK2.3 cents). The board of directors of the Company (the “Board” or “Directors”) has resolved to declare an interim dividend of HK0.40 cent (1H2013: HK0.68 cent) per share.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL REVIEW (Continued)

Capital Structure, Liquidity and Financial Resources

During the Period, there was no change in the capital structure of the Group. Bank balances and cash on hand of the Group as at 30 June 2014 amounted to HK\$443.1 million (31 December 2013: HK\$657.1 million), which were mainly denominated in Hong Kong dollars (“HKD”) and Renminbi (“RMB”). As at 30 June 2014, the Group had no bank borrowings (31 December 2013: Nil) and its gearing ratio (calculated on the basis of the total borrowings over total equity) was nil (31 December 2013: Nil). The Group also had available unutilised banking facilities of approximately HK\$852.8 million. The strong liquidity with debt-free position and considerable unutilised banking facilities enables the Group to retain high flexibility for future development.

As at 30 June 2014, the Group’s current assets and current liabilities were approximately HK\$4,397.5 million (31 December 2013: HK\$4,481.4 million) and HK\$255.9 million (31 December 2013: HK\$388.6 million) respectively. Current ratio and quick ratio of the Group were 17.2 (31 December 2013: 11.5) and 2.3 (31 December 2013: 2.1) respectively.

In view of the Group’s financial position as at 30 June 2014, the Board considered that the Group had sufficient working capital for its operations and future development plans.

BUSINESS REVIEW

Further Strengthening the Presence in Prime Locations

As at 30 June 2014, the Group had 80 stores located in Hong Kong, Macau, the PRC and Singapore. Details of which are listed below:

	Number of stores
Hong Kong	25
Macau	6
The PRC	46
Singapore	3
Total	80

These stores include standalone jewellery shops, specialty outlets for specific watch brands and multi-brand watch shops (with or without jewellery counters) to create one-stop shopping experience.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

The Group's retail stores in Hong Kong are strategically located at the major high-end shopping areas, including Russell Street in Causeway Bay, Canton Road in Tsim Sha Tsui and Queen's Road Central in Central. In terms of rental rate per square feet during the Period, these three shopping streets remained as world-class top-ranked valuable shopping streets. Having a solid presence in these extreme prime locations is of paramount importance for the leading retailer of watches. The Group enjoys a high penetration rate amongst the visitors and brand enhancement through its presence in these extreme prime areas.

During the Period, the Group further extended its foothold on prime retail location. In June 2014, Patek Philippe independent corner, Chopard boutique and **Emperor Jewellery** store were opened in 1881 Heritage, which is the centre of Tsim Sha Tsui cultural and shopping hub featuring iconic and luxury shops. Such collaboration once again demonstrated the management's dedication to foster solid relationships with leading watch brand suppliers, thereby achieving win-win situations where both leading watch brands and the Group enjoyed brand enhancement through its presence in extreme prime areas.

Solidifying Leading Position in Hong Kong

Significant regional watch price difference, authenticity assurance and full assortments provide strong incentives for mainland visitors to purchase luxury watches in Hong Kong. The Group continued to enjoy solid and long-term relationship with major Swiss watch brand suppliers and hold comprehensive watch dealership with full collections in Greater China. Coupled with its excellent customer services and the strongest presence in the retail prime locations in Hong Kong, the Group continued to enjoy the best pedestrian flow and foster its leading position in Hong Kong.

Enriching Jewellery Product Portfolio

During the Period, the Group continued to offer quality with design on premium "**Emperor Jewellery**" products to the customers. With key focus on quality gemsets and fine jadeites among the comprehensive product range and commitment to high service standards, the Group enriched design features to satisfy diversified customers' taste and enhanced charisma of signature "**Emperor Jewellery**" collections to raise brand loyalty. Stylish and prestigious gem-sets, bridal collections and fine jadeites continued to be popular items. Meanwhile, new collections with unique themed design were launched regularly at different price points for further fostering the customer loyalty of sophisticated customers and penetrating new shoppers in different income groups.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

Enhancing Brand Image

The Group continued to promote various watch brands effectively through a range of joint promotions, sponsorships and exhibitions 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 organised joint promotion events with world-class watch suppliers to further foster the relationship and enhance the brand reputation for both leading watch brands and “**Emperor**”.

During the Period, the Group specially utilised numerous celebrity endorsements, print advertisements and social media to promote its jewellery products and build brand equity. The Group hosted various jewellery shows for consolidating VIP customers and widening new customer base. By capturing an ever-expanding opportunities over online and social media, the Group also strengthened the marketing efforts and enhanced brand awareness of “**Emperor Jewellery**” by various cost-effective advertising programs.

Enjoying Group Synergies

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

PROSPECTS

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

PROSPECTS (Continued)

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

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2014, the Group has 979 salespersons (30 June 2013: 843) and 217 office staff (30 June 2013: 211). Total staff costs (including Directors' remuneration) for the Period were approximately HK\$141.1 million (1H2013: HK\$135.2 million). 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 HK0.40 cent per share ("Interim Dividend") for the financial year ending 31 December 2014 (2013: HK0.68 cent per share), amounting to approximately HK\$27,530,000 (2013: HK\$46,799,000). The Interim Dividend will be payable on 26 September 2014 (Friday) to shareholders whose names appear on the register of members of the Company on 19 September 2014 (Friday).

The register of members of the Company will be closed, for the purpose of determining shareholders' entitlement to the Interim Dividend, from 18 September 2014 (Thursday) to 19 September 2014 (Friday), during which no share transfer will be effected.

In order to qualify for the Interim Dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 17 September 2014 (Wednesday).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Revenue	3	3,065,974	3,293,731
Cost of sales		(2,295,943)	(2,495,324)
Gross profit		770,031	798,407
Other income		4,754	2,611
Selling and distribution expenses		(552,744)	(516,377)
Administrative expenses		(96,113)	(94,326)
Finance costs		–	(2)
Profit before taxation	4	125,928	190,313
Taxation	5	(21,274)	(33,655)
Profit for the period		104,654	156,658
Other comprehensive (expense) income for the period:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operations		(15,549)	11,198
Total comprehensive income for the period attributable to owners of the Company		89,105	167,856
Earnings per share	6		
– Basic		HK1.5 cents	HK2.3 cents
– Diluted		HK1.5 cents	HK2.3 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	As at	
		30 June 2014 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000
Non-current assets			
Property, plant and equipment		109,449	107,744
Deferred tax asset		8,922	8,268
Rental deposits		192,539	194,893
Deposit paid for acquisition of property, plant and equipment		4,093	3,675
		315,003	314,580
Current assets			
Inventories		3,811,303	3,649,813
Receivables, deposits and prepayments	8	140,531	172,903
Taxation recoverable		2,570	1,582
Bank balances and cash		443,143	657,099
		4,397,547	4,481,397
Current liabilities			
Payables, deposits received and accrued charges	9	243,551	378,349
Amounts due to related companies	10	3,938	3,899
Taxation payable		8,387	6,319
		255,876	388,567
Net current assets		4,141,671	4,092,830
Net assets		4,456,674	4,407,410
Capital and reserves			
Share capital		3,484,152	68,824
Reserves		972,522	4,338,586
Total equity		4,456,674	4,407,410

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the Company								
	Share capital	Share premium	Merger reserve	Other reserve	Capital reserve	Translation reserve	Warrants equity reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2013 (audited)	67,185	3,263,867	(373,003)	(26,162)	2,529	44,932	53,100	1,068,219	4,100,667
Exchange differences arising on translation of foreign operations	-	-	-	-	-	11,198	-	-	11,198
Profit for the period	-	-	-	-	-	-	-	156,658	156,658
Total comprehensive income for the period	-	-	-	-	-	11,198	-	156,658	167,856
Shares issued upon exercise of warrants	1,639	151,461	-	-	-	-	(53,100)	-	100,000
Final dividend paid for 2012	-	-	-	-	-	-	-	(55,061)	(55,061)
As at 30 June 2013 (unaudited)	68,824	3,415,328	(373,003)	(26,162)	2,529	56,130	-	1,169,816	4,313,462
As at 1 January 2014 (audited)	68,824	3,415,328	(373,003)	(26,162)	2,529	63,218	-	1,256,676	4,407,410
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(15,549)	-	-	(15,549)
Profit for the period	-	-	-	-	-	-	-	104,654	104,654
Total comprehensive income for the period	-	-	-	-	-	(15,549)	-	104,654	89,105
De-registration of subsidiaries	-	-	-	(5)	-	82	-	-	77
Transfer upon abolition of par value under the new Hong Kong Companies Ordinance (Cap. 622) (Note)	3,415,328	(3,415,328)	-	-	-	-	-	-	-
Final dividend paid for 2013	-	-	-	-	-	-	-	(39,918)	(39,918)
As at 30 June 2014 (unaudited)	3,484,152	-	(373,003)	(26,167)	2,529	47,751	-	1,321,412	4,456,674

Note: In accordance with the new Hong Kong Companies Ordinance (Cap. 622) commencing from 3 March 2014, the authorised share capital of a company and the par value of a company's shares were abolished. As a result, the Company no longer has an authorised share capital and its shares ceased to have a par value as from 3 March 2014.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Net cash (used in) from operating activities	(138,492)	135,759
Net cash used in investing activities	(30,541)	(18,764)
Net cash (used in) from financing activities	(39,918)	43,986
Net (decrease) increase in cash and cash equivalents	(208,951)	160,981
Cash and cash equivalents at the beginning of the period	657,099	454,768
Effect of foreign exchange rate changes	(5,005)	2,394
Cash and cash equivalents at the end of the period, represented by bank balances and cash	443,143	618,143

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with 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 disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities (the “Listing Rules”) on the 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 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis. 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 2013, except for the application of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations (“INT”)) effective from 1 January 2014:

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2014

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC*) – INT 21	Leases

* IFRIC represents the International Financial Reporting Interpretations Committee.

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

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle ³
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
Amendments to HKFRS 11	Accounting for Acquisition of Interests in Joint Operations ⁴
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁴
Amendments to HKAS 19	Deferred Benefit Plans: Employee Contributions ¹
HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ⁵

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2014

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

- ¹ Effective for annual periods beginning on or after 1 July 2014.
- ² Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
- ³ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
- ⁴ Effective for annual periods beginning on or after 1 January 2016.
- ⁵ Effective for annual periods beginning on or after 1 January 2017.

The Directors anticipate that the application of the new and revised HKFRSs will have no material impact on the results and the 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.

Information reported to the chief operating decision maker of the Group, for the purposes of resource allocation and assessment of segment performance, focuses on the locations of the operations. This is also the basis upon which the Group is arranged and organised. The Group's operating segments under HKFRS 8 are operations located in Hong Kong, Macau, 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 chief operating decision maker have been aggregated in arriving at the reporting segments of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2014

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 2014

	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	2,561,327	185,502	319,145	-	3,065,974
Inter-segment sales*	58,499	10,019	-	(68,518)	-
	<u>2,619,826</u>	<u>195,521</u>	<u>319,145</u>	<u>(68,518)</u>	<u>3,065,974</u>

* Inter-segment sales are charged at cost

Segment profit	<u>186,269</u>	<u>26,420</u>	<u>4,658</u>	<u>-</u>	<u>217,347</u>
Unallocated administrative expenses					(94,684)
Interest income					3,265
Finance costs					-
Profit before taxation					<u>125,928</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2014

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2013

	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	2,735,037	217,055	341,639	–	3,293,731
Inter-segment sales*	42,524	16,838	–	(59,362)	–
	<u>2,777,561</u>	<u>233,893</u>	<u>341,639</u>	<u>(59,362)</u>	<u>3,293,731</u>

* Inter-segment sales are charged at cost

Segment profit	<u>250,311</u>	<u>31,407</u>	<u>312</u>	<u>–</u>	<u>282,030</u>
Unallocated administrative expenses					(93,065)
Interest income					1,350
Finance costs					<u>(2)</u>
Profit before taxation					<u>190,313</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies used 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 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 2014

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
(Reversal of) allowance for inventories	(240)	4,086
Cost of inventories included in cost of sales	2,289,128	2,485,389
Depreciation of property, plant and equipment	29,890	29,287
Loss on disposal of property, plant and equipment	1,618	1,387
Net exchange loss	2,221	1,432
Operating lease payments in respect of rented premises		
– minimum lease payments	330,906	295,735
– contingent rent	19,461	26,462
Write down of inventories	1,723	232
Staff costs, including Directors' remuneration		
– salaries and other benefits costs	130,579	126,103
– retirement benefits scheme contributions	10,537	9,102

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2014

5. TAXATION

	Six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
The charge comprises:		
Current period:		
Hong Kong	19,835	31,345
Macau	2,093	3,428
	21,928	34,773
Deferred taxation	(654)	(1,118)
	21,274	33,655

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

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the condensed consolidated profit or loss based on the following data:

	Six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	104,654	156,658

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2014

6. EARNINGS PER SHARE *(Continued)*

	Six months ended 30 June	
	2014 (unaudited)	2013 (unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	6,882,448,129	6,868,862,403
Effect of dilutive potential ordinary shares:		
Warrants	-	5,500,562
Weighted average number of ordinary shares for the purpose of diluted earnings per share	6,882,448,129	6,874,362,965

7. DIVIDENDS

	Six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Final dividend of HK0.58 cent per share for the year ended 31 December 2013 paid during the Period (year ended 31 December 2012: HK0.80 cent per share)	39,918	55,061

The Board has declared an interim dividend of HK0.40 cent per share for the financial year ending 31 December 2014 (2013: HK0.68 cent per share), amounting to approximately HK\$27,530,000 (2013: HK\$46,799,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2014

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at	
	30 June 2014 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000
Trade receivables	74,040	78,645
Other receivables, deposits and prepayments	49,782	76,462
Other PRC tax recoverable	14,685	16,521
Other Singapore tax recoverable	2,024	1,275
	140,531	172,903

Retails sales are normally settled in cash or by credit card with the settlement from the corresponding banks or other financial institutions within 7 days. Receivables from retail sales in department stores are collected within one month.

The following is an 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 2014 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000
Within 30 days	59,713	61,412
31 – 60 days	3,602	6,556
61 – 90 days	4,409	5,187
91 – 120 days	3,324	5,490
Over 120 days	2,992	–
	74,040	78,645

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2014

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

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

Included in the Group's trade receivables balance are receivables from department stores with aggregate carrying amount of HK\$14,327,000 (31 December 2013: HK\$17,233,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over nor charge any interest on these balances.

Ageing of trade receivables which are past due but not impaired

	As at	
	30 June 2014 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000
Overdue 1 – 30 day(s)	3,602	6,556
Overdue 31 – 60 days	4,409	5,187
Overdue 61 – 90 days	3,324	5,490
Overdue 91 – 120 days	2,992	–
	14,327	17,233

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2014

9. PAYABLES, DEPOSITS RECEIVED AND ACCRUED CHARGES

	As at	
	30 June 2014 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000
Trade payables	146,058	245,982
Other payables, deposits received and accrued charges	96,997	131,962
Other PRC tax payables	496	405
	243,551	378,349

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

	As at	
	30 June 2014 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000
Within 30 days	125,929	242,936
31 – 60 days	16,857	2,129
61 – 90 days	3,272	917
	146,058	245,982

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

10. AMOUNTS DUE TO RELATED COMPANIES

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2014

11. CAPITAL COMMITMENTS

	As at	
	30 June 2014 (unaudited) HK\$'000	31 December 2013 (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	914	964

12. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

	As at	
	30 June 2014 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000
Within one year	586,994	631,973
In the second to fifth year inclusive	711,019	562,919
	1,298,013	1,194,892

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2014

12. OPERATING LEASE ARRANGEMENTS *(Continued)*

The Group as lessee (Continued)

Included in the above is future lease payments with related companies of approximately HK\$488,063,000 (31 December 2013: HK\$238,050,000) which fall due as follows:

	As at	
	30 June 2014 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000
Within one year	197,246	222,627
In the second to fifth year inclusive	290,817	15,423
	488,063	238,050

The related companies are companies controlled by the AY Trust.

13. RELATED PARTY TRANSACTIONS

During the Period, other than those disclosed in Notes 10 and 12, the Group had the following transactions with related parties:

	Six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
(1) Sales of goods to Directors and their close family members	6,659	711
(2) Rental, electricity and air-conditioning expenses paid and payable to related companies (Note i)	119,358	124,696
(3) Service charges in respect of information system and administrative work paid and payable to related companies (Note ii)	12,689	11,519
(4) Advertising expenses paid and payable to related companies (Note ii)	512	419
(5) Financial advisory fee paid and payable to a related company (Note ii)	210	210
	139,428	137,555

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2014

13. RELATED PARTY TRANSACTIONS *(Continued)*

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

	Six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Salaries and other short-term employee benefits	5,139	5,260
Retirement benefits costs	8	15
	5,147	5,275

As at 30 June 2014, rental deposits paid to related companies, which are companies controlled by the AY Trust, amounting to approximately HK\$72,360,000 (31 December 2013: HK\$70,186,000) were included in rental deposits under non-current assets.

The Company provided corporate guarantees of approximately HK\$912,282,000 (31 December 2013: HK\$834,093,000) to banks in respect of the credit facilities granted to its subsidiaries. No facilities have been utilised by subsidiaries as at 30 June 2014 and 31 December 2013.

Notes:

- (i) The expenses paid are in relation to the tenancy agreements entered into with the related companies, which are companies controlled by the AY Trust.
- (ii) The related companies are companies controlled by certain Directors of the Company or their associates or the AY Trust.

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

As at 30 June 2014, 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 (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 of Listed Issuers (“Model Code”) of the Listing Rules were as follows:

(a) Long position interests in the Company

Ordinary shares of the Company (“Shares”)

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

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

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 Shares	Approximate % holding
Ms. Cindy Yeung	Emperor International Holdings Limited ("Emperor International")	Beneficiary of a trust	2,747,610,489	74.83%
- ditto -	Emperor Entertainment Hotel Limited ("Emperor E Hotel")	- ditto -	812,632,845	62.39%
- ditto -	Emperor Capital Group Limited ("Emperor Capital Group")	- ditto -	1,773,516,907	67.38%
- ditto -	New Media Group Holdings Limited ("New Media Group")	- ditto -	647,950,000	74.99%
Ms. Fan Man Seung, Vanessa ("Ms. Vanessa Fan")	Emperor International	Beneficial owner	5,000,000	0.14%

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

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

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

(ii) *Share options*

Name of Director	Name of associated corporation	Capacity / Nature of interests	Number of Underlying Shares	Approximate % holding
Mr. Wong Chi Fai ("Mr. Bryan Wong")	Emperor International	Beneficial owner	10,769,475 (adjusted)	0.29%
Ms. Vanessa Fan	Emperor International	Beneficial owner	5,769,475 (adjusted)	0.15%

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

Save as disclosed above, as at 30 June 2014, 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 AND SHORT POSITIONS

As at 30 June 2014, 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, 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 under Section 336 of the SFO or as otherwise notified to the Company were as follows:

Long positions in the Shares

Name	Capacity / Nature of interests	Number of Issued Shares	Approximate % holding
Emperor W&J Holdings	Beneficial owner	3,617,860,000 (Note)	52.57%
AY Holdings	Interest in a controlled corporation	3,617,860,000 (Note)	52.57%
STC International	Trustee	3,617,860,000 (Note)	52.57%
Dr. Yeung Sau Shing, Albert ("Dr. Albert Yeung")	Founder of a discretionary trust	3,617,860,000 (Note)	52.57%
Ms. Luk Siu Man, Semon	Interest of spouse	3,617,860,000 (Note)	52.57%
Mondrian Investment Partners Limited	Investment manager	415,910,000	6.04%
FIL Limited	Investment manager	348,160,000	5.06%

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

All interests stated above represent long position. As at 30 June 2014, no short positions were recorded in the SFO register of the Company.

Save as disclosed above, as at 30 June 2014, the Directors were not aware of any other 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 register required to be kept under Section 336 of the SFO or otherwise notified to the Company.

SHARE OPTIONS AND OTHER INFORMATION

SHARE OPTIONS

The Company has adopted a share option scheme (the “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 of 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.

CORPORATE GOVERNANCE

Corporate Governance Code

During the Period, the Company had complied 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 the roles of chairman and chief executive officer be separate and not be performed by the same individual. Taking up the role of Chairperson and Managing Director, Ms. Cindy Yeung provides the Group with strong and consistent leadership, and at the same time drives the strategic growth of the Group. As the Board members are keeping abreast of the conduct, business activities and development of the Group and as the day-to-day business operations of the Group are properly delegated to the management team of the Company as formalized by the Board, the Board considers that the current Board structure functions effectively and does not intend to make any change thereof.

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 had complied with the required standard of dealings as set out in the Model Code throughout the Period.

SHARE OPTIONS AND OTHER INFORMATION (Continued)

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to the requirements of Rule 13.51B(1) of the Listing Rules, the change in Directors' emoluments since the financial year ended 31 December 2013 is set out below:

On the recommendation of the Remuneration Committee, the Board had reviewed and revised the remuneration of two Executive Directors, namely Ms. Cindy Yeung and Mr. Chan Hung Ming, with effect from 1 January 2014 based on the performance, experience, ability and responsibility of the individuals and with reference to the market rates. The total emoluments of Ms. Cindy Yeung and Mr. Chan Hung Ming for the Period were HK\$2,996,203 and HK\$1,701,000 respectively. These amounts comprised basic salaries, allowance and Director's fee accrued in respect of his/her service during the Period as well as performance related incentive payment (related to previous year's performance) and retirement benefits scheme contribution paid 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.

REVIEW OF INTERIM REPORT

The condensed consolidated interim financial statements of the Group had not been audited nor reviewed by the Company's auditor, Deloitte Touche Tohmatsu, but this Report had been reviewed by the audit committee of the Company, which comprises the three Independent Non-executive Directors of the Company, namely Ms. Yip Kam Man, Mr. Chan Hon Piu and Ms. Lai Ka Fung, May.

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 2014

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

Executive Directors:

Ms. Cindy Yeung
Mr. Chan Hung Ming
Mr. Wong Chi Fai
Ms. Fan Man Seung, Vanessa

Independent Non-Executive Directors:

Ms. Yip Kam Man
Mr. Chan Hon Piu
Ms. Lai Ka Fung, May

This Interim Report (in both English and Chinese versions) is available to any shareholder in printed form and on the websites of the Stock Exchange (<http://hkex.com.hk>) and the Company (<http://www.emperorwatchjewellery.com>). In order to protect the environment, the Company highly recommends shareholders to elect to receive electronic copy of this Interim Report. Upon written request, a free printed version of Corporate Communication will be sent to shareholders who have elected to receive electronic copies but for any reason have difficulty in receiving or gaining access to any Corporate Communication through the Company's website. Shareholders may have the right to change their choice of receipt of our future Corporate Communications at any time by reasonable notice in writing to the Company or the Company's Share Registrar, Tricor Secretaries Limited, by post at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong or by email at is-enquiries@hk.tricorglobal.com.