10 December 2019

Watches of Switzerland Group PLC – Interim Results for the Half Year ended 27th October 2019

Continued Growth and Focused Operational Delivery

Financial highlights (on a continuing basis[1] and excluding exceptional items and IFRS 16[2] adjustments).

- Group revenue +17.3% to £428.7m (+15.9% on a constant currency basis[3]) with +10.3% like for like[3] ("LFL") sales growth driven by higher luxury watch sales
  - UK revenue +10.6% to £317.6m and LFL +11.0% benefiting from strong demand, improved ASP[3] together with strong growth in both showrooms (+10.4%) and online (+12.0%) growth
  - US revenue +42.1% to £111.1m boosted by contribution of new showrooms; LFL +7.5%
  - Luxury watch[3] revenue +21.6% to £365.5m (85.3% of total revenue, +3.0 ppts)
  - Luxury jewellery[3] revenue down -2.5% to £31.5m, but UK LFL +6.2%
- Adjusted EBITDA[3] up +23.5% to £41.2 million, representing an improved margin of 9.6% (+50 bps)
- Adjusted Earnings Before Interest and Tax[3] up +23.0% to £31.1m
- Capital expenditure of £12.9m in the first half (compared to HY19 of £16.5m)
- Net cash from operating activities of £49.6m up £12.2m
- Adjusted profit before tax[3] of £26.5m up 112.0% from £12.5m
- Adjusted basic Earnings Per Share[3] of 9.3p up 4.5p
- Net debt[4] at £92.1m compared with £234.9m in the prior year. EBITDA leverage[3] of 1.1x

Statutory financial measures

The Group implemented IFRS 16 'Leases' for the first time in FY20 using the modified retrospective approach. Comparatives have not been restated and therefore the statutory results are not comparable to the prior year. Further information on the implementation of IFRS 16 is included in the Appendix.

- Revenue £428.7m (unchanged by IFRS 16)
- Operating profit of £30.0m (£25.4m pre-IFRS 16)
- Loss before tax of £9.0m (£7.7m pre-IFRS 16) impacted by one-off exceptional costs of £34.2m relating to the IPO and subsequent refinancing
- Basic Earnings Per Share of (3.5)p ((3.1p) pre-IFRS 16)
- Net cash from operating activities £72.4m (£49.6m pre-IFRS 16)

Operational highlights

- Market conditions for luxury watches continue to be buoyant in the UK and US
- Growth driven by luxury watches. Demand continues to exceed supply on Rolex in particular. We continue to manage this. as in recent years, through the optimisation of showroom stock rotation, ASP enhancement and increasing supply through showroom investments
- Expansionary capex[3] of £12.5m in the half year
- In the UK we have opened one new, refurbished six and relocated three showrooms. In the US we have opened one new, refurbished one and relocated two showrooms
- US strategy is on-track and results are in line with plans and expectations
- Further expansion in the Travel retail market with the opening of Gatwick North
- Continued roll out of mono-brand plan in the UK along with the launch of the mono-brand strategy in the US
- Agreement reached to purchase four showrooms from Fraser Hart for c£31.7 million. These four showrooms had a combined annual revenue of £25.7m and 4-Wall EBITDA[3] of £5.0m. The transaction is expected to complete in January 2020

Outlook and guidance

Trading in the first half of FY20 was positive and the markets for luxury watches remain robust in both the UK and US, as illustrated by demand in the first half generally exceeding supply. Profitability is improved due to good gross margin management and the leverage of showroom overheads.

There is a strong pipeline of projects in both the UK and US, including the expansion and refurbishment of existing showrooms and the continued roll out of new showrooms, with returns on investment expected to be in line with recent history.

The Group remains well-positioned to deliver on its strategic aims and pre-tax profit for FY20 is expected to exceed the guidance issued at the time of the IPO and is now in line with current market consensus. Detailed guidance for FY20 is set out on page 16.

The Watches of Switzerland Group CEO, Brian Duffy, said:

"I am delighted to report our first half year results as a listed business. Strong progress was made in both the UK and US markets as we continue to deliver on our growth plans.

The growth in revenue and profitability is testament to the distinctive luxury experience we provide. Customers continue to react very positively to our showroom portfolio elevation programme – as reflected in increased average selling price, conversion rates, and sales uplift. Our showroom projects in the UK and US have been a success in the year to date. Our omni-channel strategy continues as we expand our mono-brand programme in the UK along with mono-brand openings planned in the US, expansions in UK Travel retail and continued momentum online.

We are also delighted to announce the addition of four more showrooms to our well invested network through the acquisition from Fraser Hart. These four showrooms are all in excellent locations with high visibility and awareness and have been important distribution points for luxury brands over the years. These showrooms will be renamed as either Watches of Switzerland or Mappin & Webb and the product ranges elevated to all luxury. We will immediately install our advanced systems and incorporate these showrooms into our sales management structures.

We are proud of our strong and long-standing relationships with brand partners. Exceptional customer service is central to our offering and we have pushed this even further with intensive offsite showroom manager training over the summer. We continue to develop our best-in-class business practices in marketing, merchandising and retail operations.

With a good project pipeline, we are well positioned to deliver against our strategic targets going forward."

Notes

[1]In the prior year the Watch Shop and The Watch Lab businesses were carved-out of the Group, these financial results reflect the continuing business only
[2]IFRS 16 was adopted in FY20 and prior year comparatives were not restated. These results have been provided pre-IFRS 16 adjustments for comparability
[3]Refer to the glossary for definition
[4]Net debt is shown net of capitalised transaction costs, refer to the glossary for details

Analyst and Investor Presentation

A presentation for analysts and investors will be held today starting at 9.00am at the Dorchester Hotel, Park Lane, London. An audio recording of the event will be available on our corporate website shortly afterwards at https://www.thewosgroupplc.com/investors/results-centre/year/2019.

About the Watches of Switzerland Group

The Watches of Switzerland Group is the UK's leading luxury watch specialist, operating in both the UK and US, with a complementary luxury jewellery offer.

The Group is comprised of four prestigious retail brands; Watches of Switzerland, Mappin & Webb, Goldsmiths and Mayors and has been transformed over the last five and a half years into a modern, technologically advanced, omni-channel retailer with a foundation of success based on strong watch brand partnerships, impactful marketing and unrivalled customer experience.

The Watches of Switzerland Group has 132 core showrooms across the UK and US (which includes 20 dedicated mono-brand boutiques in partnership with Rolex, TAG Heuer, Omega and Breitling) and has a leading presence in Heathrow Airport with representation in Terminals 2, 3, 4 and 5 as well as five online transactional websites.

The Watches of Switzerland Group is proud to be the UK's largest retailer for Rolex, Cartier, Omega, TAG Heuer and Breitling watches.

Mappin & Webb holds Royal Warrants as goldsmiths, silversmiths and jeweller to Her Majesty The Queen and silversmiths to His Royal Highness The Prince of Wales. The Mappin & Webb master jeweller has been Crown Jeweller, custodian of the Crown Jewels of Her Majesty The Queen since 2012.

Analyst & shareholder enquiries

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Introduction

We are pleased with the results for the half year ended 27 October 2019. Group revenues of £428.7m were up 17.3% with LFL growth of +10.3%, and, on a pre-IFRS 16 basis, adjusted operating profit rose by +23.0% to £31.1m and Basic Adjusted Earnings Per Share of 9.3p were generated.

Group strategy

We are committed to delivering on our key strategic aims which have underpinned the success we have achieved. The pillars of our strategy can be summarised as follows:

1. Investment in and elevation of our showroom portfolio and new showroom opportunities
2. Being a strong partner for our luxury brands
3. Delivering exceptional customer service
4. Continuing to develop best in class practices and leverage our scale across merchandising, marketing (including digital marketing, social media and CRM) and retail operations
5. Expanding omni-channel market leadership

This strategy is at the heart of everything we do, and we believe it will allow us to continue to achieve sustainable revenue and profitable growth into FY20 and beyond. Details of how this strategy has been and will be implemented in FY20 is set out below.

1. Investment in and elevation of our showroom portfolio and new showroom opportunities

The Group's investment in showrooms has continued to progress in line with previous guidance. Our showroom design philosophy is part of what makes us unique. Our showrooms are luxurious, open, modern and inviting with prominent frontages in the best locations.

In HY20 the Group incurred £12.5m in expansionary capex including, but not limited to:

UK

- Expansion within the travel retail market with the opening of our first Watches of Switzerland showroom at Gatwick North Terminal (August 2019)
- Relocation of the Watches of Switzerland Brighton, Goldsmiths Nottingham showrooms and Glasgow Omega boutique
- Refurbishment of Goldsmiths Merry Hill, Goldsmiths Watford, Mappin & Webb Old Bond Street, Mappin & Webb Manchester, Mappin & Webb Bluewater and Watches of Switzerland 155 Regent Street showrooms

Payback on our new UK showrooms is in line with our expectations. We have typically seen sales uplifts in our refurbished or relocated UK showrooms of **c25%** in year 1, **40%** in year 2 and **50%** in year 3.

US

- Commenced our Mayors refurbishment programme with the completion of the Miami International showroom (April 2019)
- Relocation of Mayors Merrick Park, Coral Gables (June 2019) and conversion to the new Mayors showroom concept
- Opened the Watches of Switzerland Encore showroom in Boston (June 2019)
- Mayors Lenox Square, Atlanta relocation (July 2019) incorporating a Mayors showroom and Rolex and Audemars Piguet boutiques

Over the last two years we have had success with our US expansion. With our acquisitions of Mayors and Wynn's showrooms, we have fully integrated and improved operations in line with our best-in-class practices in the UK.

Within Mayors, we have seen a positive uplift in performance from refurbished or relocated showrooms.

Opening our New York flagship showrooms required us to build a client base along with promoting the Watches of Switzerland brand to this new market. We are pleased with the performance of these showrooms and we have seen the revenue in these showrooms continue to grow. In particular, our Soho showroom has gained much success from holding events such as the Sneaker Time collection, Nas Haute Living cover dinner and various pop-up events for luxury watch brands.

Showroom / project pipeline:

The new project pipeline for the Group continues to be strong and the timing and scope of investment is broadly in line with the guidance set out at the IPO:

UK

- Goldsmiths Edinburgh Fort (November 19)
- Our first Fope jewellery boutique on Old Bold Street, London (November 19)
- Conversion of our Watches of Switzerland, Glasgow showroom to a Rolex boutique (April 20)
- Watches of Switzerland, Knightsbridge extension and new Rolex room (Spring 20)
- Four new TAG Heuer mono-brand boutiques in Watford, Oxford, Kingston and Cardiff (Spring/Summer 20)
- Our first Tudor mono-brand boutique in White City (Spring 20), the first in Europe
- Awarded a new five year contract with Heathrow for Terminal 3 in conjunction with the development of the showroom to include a new Rolex room (September 20)
- Watches of Switzerland Broadgate, London (Summer 20) with Rolex and Omega as lead brands
- Watches of Switzerland Battersea Power Station is now expected to complete in Spring 21 with Rolex as lead brand

US

- Mayors Avalon, Atlanta relocation (March 20)
- Watches of Switzerland American Dream, New Jersey now expected to complete in Autumn 20 with Rolex as the lead brand
- Refurbishment of the Wynn Rolex boutique (Autumn 20) and Mayors Aventura, Miami (Summer 2020)

Following the success of our mono-brand strategy in the UK, we have agreed to open eleven boutiques in four locations in the US partnering with Omega, TAG Heuer and Breitling.

Acquisition

On 9 December 2019, the Group entered into an agreement with Fraser Hart Limited to purchase four luxury watch and jewellery showrooms. The showrooms in Stratford, Brent Cross, Kingston and York and offer a variety of luxury watches and jewellery. The showrooms will be rebranded as Watches of Switzerland (Stratford and Brent Cross) and Mappin & Webb (Kingston and York) on completion.

This acquisition complements the Group's UK showroom network and enables us to apply our best in class practices in merchandising, marketing, systems and retail operations.

The four showrooms had a combined annual revenue of £25.7m and 4-Wall EBITDA of £5.0m for the financial year ended 24 June 2019. Gross tangible assets subject to the transaction are expected to be in the region of £5.5m.

The transaction is expected to complete in January 2020 for a total purchase price of £31.7m, subject to working capital adjustments on completion and represents a valuation of 6.3x EBITDA. The acquisition will be paid in cash from existing borrowing facilities. The transaction is expected to contribute revenue of c£6m and EBITDA of c£1m in FY20 and will be immediately earnings accretive.

2. Being a strong partner for our luxury brands

We hold strong and long-standing relationships with our key brand partners. We are proud of our collaborations with these key partners across all operational areas of our business.

Testament to our strong relationships we have recently partnered with TAG Heuer to open four new mono-brand boutiques in the UK. We will also partner with Tudor to open their first mono-brand boutique in Europe in White City in Spring 20.

In the US we have opened our first Audemars Piguet boutique in Lenox Square Mall, Atlanta. Following the success of our mono-brand strategy in the UK, we are now opening eleven boutiques in four locations in the US partnering with Omega, TAG Heuer and Breitling.

On the jewellery side, we have opened our first Fope boutique on Old Bond Street, London and now offer the full range of Fope lines on our websites.

In addition, the strong pipeline of new showrooms and refurbishments that we have laid out is carefully planned and implemented in close collaboration with our supplier partners.

3. Delivering exceptional customer service

Customer experience is considered and treated as a major point of difference. In our competitive and discretionary purchase market, the way we make our customers feel is always a primary focus. With an emphasis on local reputation, trust and networking, every customer is treated as a potential loyal client-for-life by our retail professionals.

The training of our showroom colleagues is paramount to delivering exceptional customer service and the Group invests heavily in training and development. For example, over the Summer, 90 members of showroom management representing every Rolex agency in our UK network attended a two-day offsite programme focussing specifically on customer experience and what it means to partner with such an iconic brand.

4. Continuing to develop best in class practices of merchandising, marketing (including digital marketing, social media and CRM) and retail operations

Merchandising

In the first half of the year we concentrated on ensuring we maximise the depth and availability of our stock holding for the best-selling lines of our key partner brands. At the end of HY20, stock levels were good overall across our brand portfolio, as was stock turn. On the back of strong demand, Rolex stock levels were reduced, and we will continue to proactively manage supply in the second half, as we have done successfully in the past.

We have relocated our jewellery workshop and studio to a new state of the art facility in central London. This workshop is used for the development of commissioned jewellery pieces and includes a VIP consultation room and a large Computer Aided Design and presentation room. Mappin & Webb's master craftsman, who holds the position of Crown Jeweller, is based in this facility.

Marketing

A key focus at the beginning of the year was the celebration of our 100 year partnership with Rolex. Our historic store in Newcastle, Northern Goldsmiths was the first authorised UK stockist of Rolex in 1919. To celebrate the monumental milestone, we hosted a prestigious event with Rolex at the BALTIC Centre for Contemporary Art in Newcastle to commemorate and thank our loyal North East clients and businesses. In addition, we also held a series of events across the UK with our loyal Rolex customers to celebrate both our Centenary and the Baselworld Rolex Collection.

In the first quarter, we delivered our first YouTube campaign for Goldsmiths across watches and jewellery with a combination of 30 second, 15 second and 6 second edits, which was supported with a GDN (retargeted adverts on websites consumers are browsing) and Local Catalogue Adverts (targeted activity when consumers are searching) which delivered 10 million video views and 60 million advertising impressions. Due to the success of the campaign, additional campaigns have been developed throughout the year with YouTube being a key strategy for the Christmas campaign.

Retail operations

In September 2019, we opened a purpose-built National Watch Service Centre in Manchester, expanding our after-sales and service proposition in the UK for luxury watch services.

The Service Centre has been designed with two spacious workshops offering a comfortable, high-end working environment, housing cutting-edge equipment and a team of experts that initially includes eleven watchmakers, three case polishers and an administration/customer service team.

The facility has been designed and built with significant expansion in mind, offering career opportunities for watch-making graduates as well as brand accredited watchmakers. The Centre's staff benefit from incentives that include the Group's training partnerships with luxury Swiss brands.

The Group already has more accredited watchmakers, (primarily based in showroom workshops) than any other UK retailer, and is proud to be a brand-accredited agent of luxury Swiss horology houses including Rolex, Omega, Breitling and Cartier. This follows the Group's rebranding of its aftercare services earlier this year.

As well as complementing the unrivalled in-house services on offer across the network of Watches of Switzerland, Mappin & Webb and Goldsmiths showrooms, the new Service Centre will further improve turnaround times for clients. Consulting closely with key brand partners we have invested in the latest specialist technical, testing and finishing equipment to ensure we comply with brand quality standards.

5. Expanding omni-channel market leadership

HY20 saw another period of strong growth for our ecommerce business with revenue up +12.0% compared to last year. This was driven through a continuation of improving and evolving our luxury and e-commerce strategies.

We continue to push the boundaries of omni-channel digital marketing by leveraging the rapidly evolving Artificial Intelligence and machine learning technologies. Our aim is to connect customer engagements on an ever-increasing number of devices and touch points, from initial research online through to visiting either our websites or physical showrooms, then through to online or offline purchase.

By leveraging the unique capabilities of the Watches of Switzerland Group's retail estate, along with Google's latest technology, we are able to link our physical Stores Sales Data (SSD) to our online digital marketing activity. This allows us to accurately measure both our showroom and websites' Return on Advertising Spend (ROAS). Being able to accurately understand and measure the effect that our digital online marketing has on our physical showroom sales means that we are thus able to further optimise our advertising investment.

In May 2019 we also updated our online customer experience to include 9pm order cut-off seven days per week, increased next day delivery through DPD and improved luxury packaging.

Watches of Switzerland in the community

We have continued to develop our corporate partnership with The Princes Trust and were sponsor to the National Young Ambassador of the Year award. As part of our centenary year with Rolex, we retailed 100 exclusive Rolex watches, each with an engraving to mark the anniversary. The Watches of Switzerland Group and Rolex have each donated £1,000 to the Prince's Trust for every watch sold.

We have been delighted to see colleagues engaging with our chosen charity partner on a number of different fronts. Our first team of mentors are trained and ready to be assigned to local schools in November and we have hosted World of Work Days for young people in Leicester and Birmingham.

Financial review

These tables below and commentary exclude the impact of IFRS 16 and are shown on a continuing basis, to allow for comparability of the results. A reconciliation between the loss before tax pre-IFRS 16 and post-IFRS 16 is included on page 17.

Continuing basis (£m)	HY20	HY19	%
Luxury watches Luxury jewellery Fashion & classic (incl. jewellery) Other	365.5 31.5 14.7 17.0	300.7 32.3 15.5 16.9	*21.6* *(2.5)* *(5.4)* *0.6*
Revenue	**428.7**	**365.4**	***17.3***
Adjusted EBITDA pre-exceptional and non-underlying items[3]	**43.7**	**36.8**	***18.8***
Showroom opening and closing costs and other non-underlying items	(2.5)	(3.4)	*26.6*
Adjusted EBITDA	**41.2**	**33.4**	***23.5***
Depreciation, amortisation, loss on disposal of fixed assets and other non-trading fees	(10.1)	(8.1)	*25.1*
Adjusted EBIT/operating profit	**31.1**	**25.3**	***23.0***
Net finance costs - ongoing	(4.6)	(12.8)	*63.8*
Adjusted profit before tax	**26.5**	**12.5**	***112.0***
Exceptional and other non-trading items	(5.7)	(0.1)	
Exceptional finance costs	(28.5)	-	
(Loss)/profit before tax	**(7.7)**	**12.4**	***(162.0)***
Adjusted basic Earnings Per Share (pre-exceptional items)	**9.3p**	**4.8p**	***95.2***

Revenue

Revenues grew strongly in HY20 to £428.7m, up +17.3% on the prior year and LFL +10.3%. Our revenues are spread geographically across our portfolio of showrooms and online as can be seen in the table below:

Region (£m)	HY20	HY19	%
UK	317.6	287.2	*10.6*
US	111.1	78.2	*42.1*
Total revenue	**428.7**	**365.4**	***17.3***

UK revenue is up by +10.6% to £317.6m, driven by LFL sales growth of +11.0% which contributed £29.5m of revenue in the period.

US revenue has increased by 42.1% in the year to £111.1m, and 35.4% on a constant currency basis. LFL growth was +7.5% and contributed £5.6m to revenue in the period. The additional revenue from new showrooms or relocations/expansions of £25.8m was offset by the loss on revenue from closed showrooms of £1.2m. The impact of the HY20 average US Dollar: Sterling exchange rate decrease from 1.315 to 1.253 over the previous year, resulted in an increased revenue of £3.9m.

US revenue now makes up 25.9% of Group revenue, up from 21.4% in the previous year, showing the success of our US business.

LFL sales

Region	HY20	HY19
UK	+11.0%	+8.3%
US (local currency)	+7.5%	+12.4%
Group	**+10.3%**	**+9.2%**

UK Like for like sales growth in the first half is higher than we would expect in the second half of the year. Price increases in the second half of FY19 will annualise in Q3 FY20. Pricing favourably impacted first half LFL sales growth in the UK by c2%.

Revenue by category

The Group continues to increase revenue in the luxury watch sector, with an increase in revenue of 21.6% in the year. The split of revenue by category is shown below:

HY20 (£m)	UK	US	Total	*Mix %*
Luxury watches	264.1	101.4	365.5	*85.3*
Luxury jewellery	25.3	6.2	31.5	*7.3*
Fashion & classic	14.2	0.5	14.7	*3.4*
Other	14.0	3.0	17.0	*4.0*
Total revenue	**317.6**	**111.1**	**428.7**	***100.0***

HY19 (£m)	UK	US	Total	*Mix %*
Luxury watches	233.4	67.3	300.7	*82.3*
Luxury jewellery	25.3	7.0	32.3	*8.8*
Fashion & classic	15.0	0.5	15.5	*4.2*
Other	13.5	3.4	16.9	*4.7*
Total revenue	**287.2**	**78.2**	**365.4**	***100.0***

As a result of high demand and the continued execution of the Group's strategy, luxury watches now make up 85.3% of our revenue, an increase of 300bps on last year. Demand for certain product continues to outstrip demand, restraining potential revenue growth.

Luxury jewellery sales were flat in the UK as they were impacted by the closure of non-core stores which were more heavily jewellery based. UK LFL jewellery sales were +6.2% despite a highly promotional market. In the US, jewellery sales declined by -10.4% as the Group focused on driving profitability through less promotional activity and a rebalancing of the product ranges in Mayors.

Sales of fashion & classic watches and jewellery reduced in line with our strategy to focus on luxury watches and this category now makes up less than 3.5% of our Group sales.

Other revenue, primarily servicing and insurance, rose by +0.6%.

Focus on profitable growth

The table below analyses our key costs and margins on a continuing basis:

£m	HY20	HY19	%
Net margin[3]	160.6	136.6	*17.6*
as % of revenue	*37.5*	*37.4*	*0.1*
Showroom costs	(93.1)	(82.0)	*(13.5)*
as % of revenue	*21.7*	*22.4*	*0.7*
4-Wall EBITDA	**67.5**	**54.6**	***23.7***
as % of revenue	*15.7*	*14.9*	*0.8*
Overheads	(23.8)	(17.7)	*(33.9)*
as % of revenue	5.5	4.9	*(0.6)*
Showroom opening and closing costs	(2.5)	(2.4)	*(7.2)*
Other non-trading items	-	(1.1)	*(100.0)*
Adjusted EBITDA	**41.2**	**33.4**	***23.5***
Adjusted EBITDA margin %[3]	*9.6*	*9.1*	*0.5*

Net margin

Net margin % increased by 10bpts to 37.5% in HY20. Margin was negatively impacted by the increase in mix towards luxury watches, which have a lower gross margin. This impact decreased margin by 60bpts.

The impact of product mix on margin has been mitigated by actions taken by management in relation to the Group's credit offer and a reduction in incentives as discussed in the table below. These benefits will annualise in Q4 FY20.

Credit offering	In the UK we offer interest-free and interest-bearing credit to our customers, which is provided through a third-party. In the US we also offer both interest-free and interest-bearing credit. 97% of credit is provided by a US based third party with 3% provided in-house via a Mayors and Watches of Switzerland proprietary credit card. By switching more customer purchases to interest bearing credit, we have reduced the costs with our external providers.
Incentives	The luxury products we showcase are in high demand, therefore we have focused on the reduction of incentives to a low level. This not only improves margin, but better represents the prestige of the brands we offer.

Showroom costs

Showroom costs have increased by £11.1m (13.5%) in the period as result of new showroom openings (£6.4m), wage inflation (£0.7m) and the increase in variable costs (£3.9m) reflecting the increase in sales. The focus on cost control and showroom efficiency, assisted by the closure of non-core stores, has reduced showroom costs as a % of revenue by 70bps to 21.7%.

Overheads

Overheads have increased by £6.1m in the period due to additional costs in relation to the introduction of new bonus and LTIP schemes (£1.2m) and additional headcount and legal, professional, board and advisory costs reflecting the listed nature of the business. We have also incurred additional marketing spend in the first half of the year of FY20 of £1.2m, due to the timing of front-loaded spend.

Showroom opening and closure costs

£m	HY20	HY19
Showroom opening costs	(0.9)	(2.1)
Showroom closure costs	(1.6)	(0.3)
Total	**(2.5)**	**(2.4)**

Showroom opening costs include the cost of rent (pre-IFRS 16), rates and payroll prior to the opening of the showroom, normally during the period of fit out. This cost will vary annually depending on the scale of expansion in the year. We opened two showrooms during HY20 in line with the prior year.

During the period we closed a total of two showrooms (both being non-core stores) with associated costs including rent (pre-IFRS 16), rates and redundancy.

Other non-trading items and exceptional costs

Other non-trading items in the prior year are made up of a number of costs which are either non-recurring or not related to trading. These costs have been treated as operating costs in HY20 and the HY19 costs are analysed below:

£m	HY20	HY19
Redundancy costs	-	(0.2)
Share-based payments	-	(0.2)
Other one-off legal, professional fees and advisory fees	-	(0.7)
Total	**-**	**(1.1)**

Reported profit in HY20 was impacted by costs incurred in relation to the IPO of £5.7m.

Finance costs

Ongoing net finance costs (pre-IFRS 16) reduced in the period by £8.2m to £4.6m as a result of the refinancing which took place in June 2019 (see below). This included 37 days of interest cost in the current year under the old financing agreement. Had the current financing facility been in place for the entire HY20 period, net finance costs would have been £1.7m lower than reported.

As a result of the refinancing, the Group incurred a one-off early redemption fee of £21.7m and has written off £6.8m of transaction costs capitalised under the old facility. These have been treated as exceptional finance costs in the period.

Profit before tax

As a consequence of the items noted above, adjusted profit before tax (before exceptional items and IFRS 16 adjustments) was £26.5m, an increase of £14.0m (112.0%) on the prior year. Adjusted profit before tax benefited from the favourable US Dollar to Sterling exchange rate by £0.2m.

After accounting for exceptional administration costs of £5.7m, exceptional finance costs of £28.5m and IFRS 16 adjustments of £1.3m, statutory loss before tax was £9.0m.

Taxation

The effective pre-exceptional tax rate (pre-IFRS 16) for the year is expected to be 20.5%, broadly comparable to the UK corporation tax rate of 19.0%. The IPO costs and early repayment fees on the bond subject to interest restriction, which are disallowed costs for tax purposes in HY20. This resulted in a lower recovery of tax £0.5m against the pre-tax loss of £7.7m. Post exceptional effective tax rate for the full year is expected to be around 25.5%.

Earnings Per Share

Basic EPS from continuing operations for the current year has been calculated as follows:

HY20	Adjusted EPS (before exceptional items and IFRS 16 adjustments)	EPS (after exceptional items but before IFRS 16 adjustments)	Statutory EPS (incl. IFRS 16)
Profit after tax	£21.2m	(£7.2m)	(£8.1m)
Weighted average number of ordinary shares	228,090,719	228,090,719	228,090,719
EPS	**9.3p**	**(3.1)p**	**(3.5)p**

In HY19, the Watches of Switzerland Group PLC company did not exist. For comparative purposes we have calculated basic EPS using the number of ordinary shares of Watches of Switzerland Group PLC immediately prior to the IPO, occurring on 4 June 2019. The results are as follows:

HY19	Adjusted EPS (before exceptional items)	Statutory EPS
Profit after tax	£8.6m	£8.5m
Weighted average number of ordinary shares	182,000,000	182,000,000
EPS	**4.8p**	**4.7p**

The weighted average number of shares at 26 April 2020 will be 233,733,137, assuming no further ordinary shares are issued.

Balance sheet

The balance sheet below is shown pre-IFRS 16 adjustments for comparability. A reconciliation to the post-IFRS 16 balance sheet is included on page 18.

£m	HY20	HY19
Intangibles	127.0	126.2
Property, plant & equipment	105.3	89.5
Inventories	220.7	212.6
Trade and other receivables	25.7	34.2
Other	4.9	5.9
Net assets of discontinued operations	-	35.5
Trade and other payables	(183.7)	(172.2)
Net debt	(92.1)	(234.9)
Net assets	**207.8**	**96.8**

Property, plant & equipment

Total capital additions in the period was £12.9m made up of £12.5m of expansionary capex and £0.4m maintenance capex. The investment in our showroom portfolio is paramount to our strategy as discussed previously.

Capital additions (£m)	HY20	HY19
Expansionary	12.5	15.6
Showroom maintenance	0.2	0.4
IT and technology	0.2	0.5
Total	**12.9**	**16.5**

Inventories

Inventories are £8.1m higher than the prior year (3.8%) reflecting the increase in the showroom estate and higher like for like sales. The Group has invested in increasing the depth of stockholding of best-selling brand lines to maximise sales. Whilst stock is 3.8% higher than last year, revenue for the Group is +17.3% with intake lower than demand and with lower core stockholding across our showroom estate for certain brands.

Trade receivables

Trade receivables have reduced by £8.5m (24.9%) primarily due to the planned reduction in the level of in-house credit offered in our US business, favouring the use of external financing companies.

Net assets of discontinued operations

These assets represent the net assets of the Watch Shop and The Watch Lab businesses which were carved out of the Group in December 2018. These have been shown separately to provide better comparability of the ongoing net assets of the Group.

Trade and other payables

Trade and other payables have increased by £11.5m (6.7%) reflecting the increase in inventories and accruals for bonus and IPO related exceptional costs which were not yet paid at the end of HY20.

Net debt and financing

The net proceeds of the IPO of £148.4m were primarily used to reduce our external debt to a level more appropriate for a publicly listed company. Accordingly, on 4 June 2019 the outstanding principal of the UK bonds were repaid, including an early redemption premium of £21.7m. On the same date, the Group drew down on a new term loan facility at a significantly lower rate of interest. The facilities of the Group are now as follows:

Type	**Expiring**	**Amount (£m)**
UK Term Loan – UK LIBOR +2.25%	June 2024	£120.0
UK Revolving Credit Facility – UK LIBOR +2.0%	June 2024	£50.0
US Asset Backed Facility – US LIBOR +1.25%	April 2023	$60.0

HY20 net debt was £92.1m, which was £142.8m lower than the prior year. EBITDA leverage improved to 1.1x benefiting from the IPO, refinancing and strong cash generation in the period.

Covenants

The debt facility is subject to a six-monthly financial covenant test on leverage and fixed charge cover ratio. These tests are based on pre-IFRS 16 measures and therefore the implementation of IFRS 16 has had no impact on financial covenants.

Pension

The Group operates two defined contribution pension schemes and one defined benefit scheme. The defined benefit scheme was closed on 28 February 2002 to new employees and future accrual. The latest full actuarial valuation was carried out on 6 April 2017 which reflected a technical deficit of £1.7m. As a result, minimum funding contributions of £550,000 per annum are being paid into the scheme until 5 April 2020.

The pension liability for accounting purposes at 27 October 2019 was £3.4m, an increase of £0.3m from the FY19 year end, primarily driven by the change in discount rate.

Cash flow

£m	HY20	HY19
Adjusted EBITDA	41.2	33.4
Exceptional costs paid	(2.1)	(0.6)
Working capital and other	16.8	7.3
Pension contributions	(0.3)	(0.4)
Tax	(6.0)	(2.3)
Cash generated from operations	**49.6**	**37.4**
Capital expenditure	(15.8)	(16.1)
Interest	(8.9)	(5.8)
Proceeds from IPO	148.4	-
Financing activities	(156.2)	(25.8)
Cash flow	**17.1**	**(10.3)**

The working capital movement was £16.8m favourable with ongoing reductions in the US in-house consumer debt. The stock increase has been more than offset by the favourable increase in creditors, due to higher accruals for bonus and IPO costs and inventory creditors at HY20.

£8.9m of interest was paid in the period, £8.2m of which related to the accumulated interest, representing 4.5 months of interest for the bond prior to refinancing. The equivalent HY19 bond interest payment of £5.4m represented three months of interest.

Tax payments are £3.7m higher than HY19 as a result of a change in quarterly tax instalments.

As noted above, the proceeds from the IPO were used to refinance the existing bond, this payment included the exceptional early redemption premium for the bond.

Audit tender

Under CMA guidelines, FTSE 350 companies are required to have held a tender for the audit appointment within the last ten years. As a private company, KPMG had been external auditor of the Group for over ten years. Therefore, on Admission, the Audit Committee commenced an audit tender for the financial year ending 26 April 2020. Shareholders voted in favour of the appointment of Ernst & Young LLP at the AGM held on 17 October 2019.

Outlook and guidance

The results for HY20 have been encouraging and the Group remains well positioned to deliver on its strategy. There continues to be a strong pipeline of projects, including new showroom, expansions and refurbishments.

As a result, we have upgraded our guidance for FY20 from that given at the time of the IPO to come in line with current market consensus. FY20 guidance, before IFRS 16 adjustments, is:

FY20 Guidance	**Current guidance**	**IPO guidance**
Revenue – like for like sales	+8%-9%	Mid-single digit
Total revenue	In line with market consensus[5]	n/a
EBITDA[3] margin (before pre-opening and closing costs)	Increase of 20 to 40bpts from FY19	Broadly stable
Pre-opening and closing costs	£4m-£5m	In line with longer term averages
Depreciation, amortisation, impairment and loss on disposal of fixed assets	£20m-£22m This includes c£2m write off of fixed assets relating to refurbishment and relocation of existing showrooms	n/a
Total finance costs	£7m-£8m; this includes £1.7m of incremental interest paid on the pre-IPO bond prior to redemption in HY20	n/a
Underlying tax rate	c20.5%	c20.0%
Capital expenditure	£22m-£25m. Lower than the £25m-£29m previously guided as capex on the American Dream project will not be incurred until FY21	£30m-£34m
Net debt	£90m-£100m	n/a

The acquisition of the four Fraser Hart showrooms is expected to additionally increase revenue by c£6m, EBITDA by c£1m, depreciation by £0.2m and finance costs by £0.2m. Net debt is expected to increase to £120m-£130m as a result of the acquisition.

[5]Market consensus is based on analyst consensus as disclosed on our corporate website at https://www.thewosgroupplc.com/investors/analyst-consensus; consensus is shown before exceptional items and IFRS 16 adjustments as follows: revenue £877.5m, adjusted EBITDA £82.5m, EBIT £65.9m and profit after tax £46.3m.

Appendix - IFRS 16 Leases

The financial results included on pages 1 to 16 exclude the impact of the adoption of IFRS 16 'Leases'. This means that operating leases have been held off balance sheet with the lease costs recognised on a straight-line basis over the lease term, following the accounting treatment adopted in the prior year.

The Group has implemented IFRS 16 using the modified retrospective approach, which means that prior year balances have not been restated.

Accounting under IFRS 16

IFRS 16 applies a single 'on balance sheet' approach to lease accounting. Under IFRS 16, leases are accounted for as follows:

- A right-of-use asset is recognised which represents the lessee's contractual right to use the lease asset over the lease term. The right-of-use asset is depreciated on a straight-line basis over the lease term.
- A lease liability is recognised which reflects the lessee's obligation to make payments under the lease term. The lease liability is held at amortised cost, with an associated interest charge. This results in a higher interest expense in the earlier years of the lease term.

IFRS 16 results in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases. However, the total expense over the life of the lease will be identical under IFRS 16 and IAS 17.

Income Statement impact

The impact of the implementation of IFRS 16 on the Income Statement is as follows:

£m	Under IAS 17	IFRS 16 adjustments	Under IFRS 16
Adjusted EBITDA	**41.2**	**22.8**	**64.0**
Depreciation and amortisation	(10.1)	(18.2)	(28.3)
Adjusted operating profit	**31.1**	**4.6**	**35.7**
Exceptional items	(5.7)	-	(5.7)
Operating profit	**25.4**	**4.6**	**30.0**
Ongoing finance costs	(4.6)	(5.9)	(10.5)
Exceptional finance costs	(28.5)	-	(28.5)
Loss before tax	**(7.7)**	**(1.3)**	**(9.0)**
Taxation	0.5	0.4	0.9
Loss after tax	**(7.2)**	**(0.9)**	**(8.1)**

Adjusted EBITDA increased by £22.8m as a result of adding back the operating lease rentals under IAS 17. This has been replaced with depreciation of the right-of-use asset and interest on the lease liability.

Balance Sheet impact

The impact on the Balance Sheet of the IFRS 16 at 27 October 2019 was as follows:

£m	Under IAS 17	IFRS 16 adjustments	Under IFRS 16
Non-current assets	245.9	242.0	487.9
Current assets	295.0	(5.9)	289.1
Current liabilities	(189.3)	(42.1)	(231.4)
Non-current liabilities	(143.8)	(215.2)	(359.0)
Net assets	**207.8**	**(21.2)**	**186.6**

On implementation of IFRS 16 on 29 April 2019, a transitional adjustment of £20.3m decreased retained earnings and distributable reserves.

Net debt on a pre-IFRS 16 basis was £88.9m (including capitalised transaction costs) at 27 October 2019. This increases to £369.7m under IFRS 16 due to the recognition of the lease liabilities of £280.8m.

Our banking covenants are based on a frozen-GAAP basis and therefore the application of IFRS 16 has no impact.

Cash Flow impact

IFRS 16 does not impact the total cash flow during the period. However, under IAS 17 the rental payments were included within operating activities, whereas under IFRS 16 these are treated as financing activities. The £nil impact on the cash flow is shown in the table below:

£m	Under IAS 17	IFRS 16 adjustments	Under IFRS 16
Net cash from operating activities	49.6	22.8	72.4
Investing activities	(15.8)	-	(15.8)
Financing activities	(16.7)	(22.8)	(39.5)
Cash flow	**17.1**	**-**	**17.1**

Leases and lease length

The average lease term remaining (to the nearest break clause) on our current portfolio of showrooms is 4.4 years. More than half of our leases (by value) will expire, or can be terminated, within the next 3.7 years.

Only seven of our showroom leases expire in more than 10 years at 27 October 2019, the longest expiry being 11.9 years.

On an IFRS 16 basis, in general leases have been recognised to the end of the lease term rather than the nearest break clause.

Market briefing

A presentation for analysts and investors will be held today starting at 9.00am at the Dorchester Hotel, Park Lane, London. An audio recording of the event will be available on our corporate website shortly afterwards at https://www.thewosgroupplc.com/investors/results-centre/year/2019.

Cautionary statement

This announcement contains certain forward-looking statements with respect to the financial condition and operational results of Watches of Switzerland Group. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements are made only as at the date of this announcement. Nothing in this announcement should be construed as a profit forecast. Except as required by law, Watches of Switzerland Group PLC has no obligation to update the forward-looking statements or to correct any inaccuracies therein.

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

WATCHES OF SWITZERLAND GROUP PLC
UNAUDITED INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		26 week period ended 27 October 2019			26 week period ended 28 October 2018		
		Pre-exceptional items	Exceptional items*	Total	Pre-exceptional items	Exceptional items*	Total
		IFRS 16	IFRS 16	IFRS 16	IAS 17	IAS 17	IAS 17
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	3	**428,711**	**-**	**428,711**	**365,426**	**-**	**365,426**
Cost of sales		(382,023)	-	(382,023)	(332,773)	-	(332,773)
Gross profit		**46,688**	**-**	**46,688**	**32,653**	**-**	**32,653**
Administrative expenses		(9,825)	(5,703)	(15,528)	(7,123)	(89)	(7,212)
Loss on disposal of property, plant and equipment		(1,191)	-	(1,191)	(217)	-	(217)
Operating profit/(loss)		**35,672**	**(5,703)**	**29,969**	**25,313**	**(89)**	**25,224**
Finance costs	5	(10,855)	(28,491)	(39,346)	(13,043)	-	(13,043)
Finance income	5	336	-	336	228	-	228
Net finance cost		(10,519)	(28,491)	(39,010)	(12,815)	-	(12,815)
Profit/(loss) before taxation from continuing operations		**25,153**	**(34,194)**	**(9,041)**	**12,498**	**(89)**	**12,409**
Taxation	6	(4,899)	5,866	967	(3,852)	-	(3,852)
Profit/(loss) for the financial period from continuing operations		**20,254**	**(28,328)**	**(8,074)**	**8,646**	**(89)**	**8,557**
Loss after taxation for the period from discontinued operations	14	**-**	**-**	**-**	**(1,039)**	**-**	**(1,039)**
Profit/(loss) for the financial period		**20,254**	**(28,328)**	**(8,074)**	**7,607**	**(89)**	**7,518**
Earnings Per Share	7						
Basic		**8.9p**		**(3.5)p**	**4.2p**		**4.1p**
Diluted		**8.8p**		**(3.5)p**	**4.2p**		**4.1p**
Earnings Per Share (continuing operations)	7						
Basic		**8.9p**		**(3.5)p**	**4.8p**		**4.7p**
Diluted		**8.8p**		**(3.5)p**	**4.8p**		**4.7p**

*Exceptional items have been further described within note 4.

WATCHES OF SWITZERLAND GROUP PLC
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	26 week period ended 27 October 2019 IFRS 16 £'000	26 week period ended 28 October 2018 IAS 17 £'000
(Loss)/profit for the financial period	**(8,074)**	**7,518**
Other comprehensive income/(expense):		
Items that will be reclassified to profit or loss		
Foreign exchange gain on translation of foreign operations	72	5,964
Related tax movements	(4)	(937)
Items that will not be reclassified to profit or loss		
Actuarial losses on defined benefit pension scheme	(546)	(1,167)
Related tax movements	93	198
Other comprehensive (expense)/income for the period net of tax	**(385)**	**4,058**
Total comprehensive (loss)/profit for the period, net of tax	**(8,459)**	**11,576**

As described in note 1, Watches of Switzerland Group PLC (the 'Company') (formerly Watches of Switzerland Group Limited) and its subsidiaries (collectively the 'Group') have undertaken a group reorganisation exercise during the period to 27 October 2019. As part of this process, the Company was inserted above Jewel UK Midco Limited in the group structure and merger accounting used to account for the transaction. The insertion of the Company as the new parent company of the existing Jewel UK Midco Limited group does not constitute a business combination under IFRS 3 'Business combinations' and instead has been accounted for as a capital reorganisation.

These condensed interim financial statements are the first set of financial statements presented for the newly formed group and the prior period comparison is that of the former Jewel UK Midco Limited group. The underlying structure of the Group is unchanged and as such the Unaudited Interim Condensed Consolidated Income Statement, Unaudited Interim Condensed Consolidated Statement of Comprehensive income, Unaudited Interim Condensed Consolidated Balance Sheet, Unaudited Interim Condensed Consolidated Statement of Changes in Equity and Unaudited Statement of Cash Flows have been presented on a consistent basis had the capital reorganisation not occurred.

The Group has initially applied IFRS 16 'Leases' at 29 April 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 29 April 2019 (see note 1). The comparative period is presented under the previous accounting standard, IAS 17 'Leases' and has accordingly not been restated. As such, the results for the 26 week period ended 27 October 2019 are not directly comparable with those reported in the prior period. See note 1 for a reconciliation of the IFRS 16 impact on the financial statements.

WATCHES OF SWITZERLAND GROUP PLC
UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	27 October 2019 IFRS 16 £'000	28 October 2018 IAS 17 £'000	28 April 2019 IAS 17 £'000
Assets				
Non-current assets				
Goodwill		109,770	109,775	109,666
Intangible assets		17,191	16,407	18,063
Property, plant and equipment	8	103,238	89,506	101,268
Right-of-use assets	8	240,202	-	-
Deferred tax assets		14,716	9,912	8,727
Trade and other receivables	9	2,783	4,126	4,544
		487,900	**229,726**	**242,268**
Current assets				
Inventories		220,704	212,621	200,271
Current tax asset		1,758	-	-
Trade and other receivables	9	15,227	30,119	35,638
Cash and cash equivalents		51,360	34,149	34,538
		289,049	**276,889**	**270,447**
Assets held for distribution (discontinued operations)	14	-	40,892	-
Total assets		**776,949**	**547,507**	**512,715**
Liabilities				
Current liabilities				
Trade and other payables		(160,939)	(155,085)	(137,344)
Lease Liabilities		(46,416)	-	-
Current tax liabilities		-	(4,697)	(2,759)
Borrowings	10	(23,388)	(4,037)	(27,213)
Provisions		(638)	(2,903)	(3,312)
		(231,381)	**(166,722)**	**(170,628)**
Non-current liabilities				
Trade and other payables		(3,557)	(17,108)	(20,318)
Lease Liabilities		(234,384)	-	-
Borrowings	10	(116,840)	(255,824)	(239,884)
Post-employment benefit obligations		(3,366)	(2,237)	(3,051)
Provisions		(844)	(3,422)	(2,275)
		(358,991)	**(278,591)**	**(265,528)**
Liabilities held for distribution (discontinued operations)	14	-	(5,374)	-
Total liabilities		**(590,372)**	**(450,687)**	**(436,156)**
Net assets		**186,577**	**96,820**	**76,559**
Equity				
Share capital	12	2,993	66	66
Share premium	12	147,653	-	-
Merger reserve	12	(2,209)	-	-
Retained earnings		37,274	95,349	75,695
Foreign exchange reserve		866	1,405	798
Total equity		**186,577**	**96,820**	**76,559**

The Group has initially applied IFRS 16 'Leases' at 29 April 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 29 April 2019 (see note 1).

WATCHES OF SWITZERLAND GROUP PLC
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Foreign exchange reserve £'000	Total equity attributable to owners £'000
Balance at 29 April 2018	**66**	**-**	**-**	**88,613**	**(3,622)**	**85,057**
Profit for the financial period – continuing operations	-	-	-	8,557	-	8,557
Loss for the financial period – discontinued operations	-	-	-	(1,039)	-	(1,039)
Other comprehensive income for the period net of tax	-	-	-	(969)	5,027	4,058
Share-based payment charge	-	-	-	187	-	187
Balance at 28 October 2018	**66**	**-**	**-**	**95,349**	**1,405**	**96,820**
Balance at 28 April 2019	**66**	**-**	**-**	**75,695**	**798**	**76,559**
Impact of change in accounting policy (IFRS 16)	-	-	-	(20,336)	-	(20,336)
Adjusted Balance at 29 April 2019*	**66**	**-**	**-**	**55,359**	**798**	**56,223**
Loss for the financial period	-	-	-	(8,074)	-	(8,074)
Other comprehensive income for the period net of tax	-	-	-	(453)	68	(385)
Share-based payment charge	-	-	-	1,943	-	1,943
Group restructure (note 12)	2,209	-	(2,209)	-	-	-
Distribution in law (note 9)	-	-	-	(11,501)	-	(11,501)
Share issue on IPO (note 12)	718	154,412	-	-	-	155,130
Costs directly attributable to primary issue (note 12)	-	(6,759)	-	-	-	(6,759)
Balance at 27 October 2019	**2,993**	**147,653**	**(2,209)**	**37,274**	**866**	**186,577**

* The Group has initially applied IFRS 16 'Leases' at 29 April 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 29 April 2019.

As noted in the Unaudited Interim Condensed Consolidated Statement of Comprehensive Income, the insertion of the Company as the new parent company of the existing Jewel UK Midco Limited group does not constitute a business combination under IFRS 3 'Business combinations' and instead has been accounted for as a capital reorganisation. Merger accounting was used to account for the insertion of the Company. The effect was an increase in share capital, to reflect the underlying capital structure of the Company, with the offset posted to a newly created merger reserve. The reorganisation was undertaken as part of the Initial Public Offering ('IPO') with the Company being both created and inserted as part of the process. This has been further described in note 12.

WATCHES OF SWITZERLAND GROUP PLC
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	26 week period ended 27 October 2019 IFRS 16 £'000	26 week period ended 28 October 2018 IAS 17 £'000
Cash flows from operating activities		
(Loss)/profit for the period from continuing operations	(8,074)	8,557
Adjustments for:		
Depreciation of property, plant and equipment	7,647	6,000
Depreciation of right-of-use assets	17,558	-
Amortisation of intangible assets	1,223	1,280
Share-based payment charge	1,943	187
Finance income	(336)	(228)
Finance costs	39,346	13,043
Gain on lease modification (IFRS 16)	(206)	-
Impairment of right-of-use assets and associated property, plant and equipment (IFRS 16)	863	-
Loss on disposal of property, plant and equipment	1,191	217
Taxation	(967)	3,852
Increase in inventories	(20,115)	(6,048)
Decrease/(increase) in debtors	5,509	(2,573)
Increase in creditors	33,087	15,816
Cash generated from operations (Continuing operations)	**78,669**	**40,103**
Pension scheme contributions	(340)	(350)
Tax paid	(5,963)	(2,330)
Net cash generated from operating activities (Continuing operations)	**72,366**	**37,423**
Net cash generated from operating activities (Discontinued operations)	**-**	**(1,701)**
Total net cash generated from operating activities	**72,366**	**35,722**
Cash flows from investing activities		
Purchase of property, plant and equipment	(15,500)	(16,161)
Purchase of intangible assets	(240)	-
Net cash outflow from investing activities (Continuing operations)	**(15,740)**	**(16,161)**
Net cash outflow from investing activities (Discontinued operations)	**-**	**(478)**
Total net cash outflow from investing activities	**(15,740)**	**(16,639)**
Cash flows from financing activities		
Net proceeds raised on Initial Public Offering ('IPO')	148,371	-
Net proceeds from term loan	117,482	-
Repayment of capital element of listed bond	(247,924)	-
Fees on early repayment of listed bond	(21,738)	-
Net repayment of loans	(3,990)	(25,706)
Payment of capital element of leases	(22,828)	-
Payment of capital element of finance leases	-	(113)
Interest paid	(8,851)	(5,758)
Net cash outflow from financing activities	**(39,478)**	**(31,577)**
Net increase/(decrease) in cash and cash equivalents	**17,148**	**(12,494)**
Cash and cash equivalents at the beginning of the period (Continuing operations)	34,538	44,132
Cash and cash equivalents at the beginning of the period (Discontinued operations)	-	5,090
Exchange losses on cash and cash equivalents	(326)	332
Cash and cash equivalents at the end of period	**51,360**	**37,060**
Comprised of:		
Cash at bank and in hand	44,350	25,720
Cash in transit	7,010	8,429
Cash and cash equivalents held by continuing operations	**51,360**	**34,149**
Cash and cash equivalents held by discontinued operations (note 14)	-	2,911
Cash and cash equivalents at end of period	**51,360**	**37,060**

The Group has initially applied IFRS 16 'Leases' at 29 April 2019, using the modified retrospective approach. Under this approach, comparative information is not restated .

1. General information and basis of preparation

Group capital reorganisation
The Group has undertaken a group reorganisation exercise during the period to 27 October 2019. As part of this process, Watches of Switzerland Group PLC (Formerly Watches of Switzerland Group Limited) was inserted above Jewel UK Midco Limited in the Group's structure.

On 24 May 2019, Watches of Switzerland Group PLC (formerly Watches of Switzerland Group Limited) (the 'Company') acquired the entire shareholding of Jewel UK Midco Limited and its related subsidiaries by a way of a share for share exchange with Jewel Holdco S.à.r.l. becoming the Group's immediate parent company. The insertion of the Company on top of the existing Jewel UK Midco Limited group does not constitute a business combination under IFRS 3 'Business combinations' and instead has been accounted for as a capital reorganisation. Merger Accounting has been used to account for this transaction.

On 30 May 2019, the Company was re-registered as a public limited company under the Companies Act 2006. On the 4 June 2019, the Company was admitted for listing on the London Stock Exchange. The Company issued 57,445,554 shares for £2.70 each with a nominal value of £0.0125p recognising additional share capital of £718,000 and share premium of £154,412,000.

These condensed interim financial statements are the first set of financial statements presented for the newly formed group and the prior period comparison is that of the former Jewel UK Midco Limited group. The underlying structure of the Group is unchanged and as such the Unaudited Interim Condensed Consolidated Income Statement, Unaudited Interim Condensed Consolidated Statement of Comprehensive Income, Unaudited Interim Condensed Consolidated Balance Sheet, Unaudited Interim Condensed Consolidated Statement of Changes in Equity and Unaudited Statement of Cash Flows have been presented on a consistent basis had the capital reorganisation not occurred.

Basis of preparation
The Group's condensed set of interim financial statements for the 26 weeks to 27 October 2019 (prior year 26 weeks to 28 October 2018) were approved by the Board of Directors on 10 December 2019 and have been prepared in accordance with IAS 34 'Interim financial reporting', as adopted by the European Union.

The results for the 26 weeks to 27 October 2019 have been reviewed by Ernst & Young LLP and a copy of their review report appears at the end of this interim report. The condensed set of interim financial statements have not been audited by the auditor and does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The Comparative information for the half year to or as at 28 October 2018 has not been audited and has not been reviewed.

The financial information contained in this report is condensed and does not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's Annual Report and Accounts for the 52 weeks to 28 April 2019 (being that of the former Jewel UK Midco Limited group) which have been delivered to the Registrar of Companies. The audit report for those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) or (3) of the Companies Act 2006. The Group's Annual Report and Accounts for the 52 weeks to 28 April 2019 was for the former Jewel Midco group as mentioned above.

The financial statements have been prepared on the historical cost basis except for certain financial instruments, pension assets and liabilities and share-based payment liabilities which are measured at fair value. Where applicable, disclosures required by paragraph 16A of IAS 34 are given either in these interim financial statements or in the accompanying Interim Report.

Whilst the financial information has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) as adopted by the European Union, this does not itself contain sufficient information to comply with IFRS.

Going concern
The Group regularly reviews market and financial forecasts and has reviewed its trading prospects in its key markets. As a result, it believes its trading performance will demonstrate continued improvement in future periods, and that liquidity will remain strong.

The Group has undertaken a risk-assessment exercise to understand the exposure to the likely Brexit outcomes. Whilst the Group remains mindful of any general economic slowdown within the UK, it is not foreseen that Brexit itself is a principal specific risk. The Group's major suppliers are all UK-based (and are indirectly sourced through Switzerland; a non-EU country), the majority of purchases are made in local currency and the majority of products are sourced via air rather than through potentially congested channel ports. The Group does not have a significant reliance on EU-national workforce or personnel and the removal of tariffs to EU consumers is not considered to be a threat to our customer demand.

Accounting policies
The accounting policies adopted in the preparation of the condensed set of interim financial statements are the same as those set out in the Group's Annual Report and Accounts for the 52 weeks ended 28 April 2019, except for the adoption of new standards effective as of 29 April 2019 as noted below. The changes in accounting policies will also be reflected in the Group's Annual Report and Accounts as at the year ending 26 April 2020.

Goodwill impairment
Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the group of CGUs containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. Goodwill was reviewed for indicators of impairment at the reporting date and no indicators were identified that would require an impairment test as at this interim date.

1. General information and basis of preparation (continued)

Exceptional items
The Group presents as exceptional items on the face of the Consolidated Income Statement, those material items of income and expense which, because of the nature or the expected infrequency of the events giving rise to them, merit separate presentation to provide a better understanding of the elements of financial performance in the financial period, so as to assess trends in financial performance. Further details on exceptional items are given within note 4.

Alternative performance measures (APMs)
The Group has identified certain measures that it believes will assist the understanding of the performance of the business. These APMs are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for, or superior to, IFRS measures, provide stakeholders with additional useful information on the underlying trends, performance and position of the Group and are consistent with how business performance is measured internally. The Alternative Performance Measures are not defined by IFRS and therefore may not be directly comparable with other companies' alternative performance measures.

The key APMs that the Group uses include: Adjusted EBITDA, Adjusted Earnings before Interest, Tax (EBIT) and Adjusted Basic EPS all of which exclude exceptional items and IFRS 16 adjustments. These APMs are set out in the Glossary on page 43 including explanations of how they are calculated and how they are reconciled to a statutory measure where relevant. A reconciliation to statutory measures is included in note 2 and note 7.

Change in estimate
During the 26 week period to 27 October 2019, the Group has revised the useful economic life attributed to the brand recognised on the acquisition of Mayors Jewellers in October 2017. Since the acquisition, the Group's strategy has developed to reflect the successful dual branding in the US with the Mayors brand name being considered a key element of the US growth strategy. This is evidenced by the significant capital expenditure in refurbishing existing stores as well as relocating old Mayors stores and keeping the Mayors branding. Based on this change in brand strategy, the Group has changed the estimate of the useful life of the brand to a more relevant period which reflects the history, investment and long-term plan for the Mayors brand – from 10 years to 30 years. The Group will account for this prospectively and as such the comparative results have not been restated, in line with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The impact to the Income Statement for the 26 week period to 27 October 2019 was a £513,000 reduction in amortisation.

Amendments to existing standards
The Group has adopted IFRS 16 'Leases' from the start of the Group's financial period, 29 April 2019. A number of other new standards are effective from 29 April 2019, including IFRIC 23 'Uncertainty over income tax treatments', but they do not have a material effect on the Group's financial statements.

IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases and replaces IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'. The Group adopted IFRS 16 from 29 April 2019 using a modified retrospective transition approach, under which the cumulative effect of initial application is recognised in retained earnings at 29 April 2019. The comparative information presented for the year ended 28 April 2019 and the half year ended 28 October 2018 has not been restated and therefore continues to be shown under IAS 17. For all periods prior to 29 April 2019, the Group classified the majority of its property leases as operating leases under IAS 17. Operating lease rental payments were recognised as an expense in the Income Statement on a straight-line basis over the lease term.

IFRS 16 'Leases', applicable from 29 April 2019
The main impact of IFRS 16 for the Group is the recognition of all future lease liabilities on the Balance Sheet. Corresponding right-of-use assets have also been recognised on the Balance Sheet representing the economic benefits of the Group's right to use the underlying leased assets. The impact upon the Income Statement will be to derecognise operating lease costs and to recognise depreciation of the right-of use assets and interest costs on the lease liabilities. The Group's activities as a lessor are not material and therefore the Group has not recognised any changes to lessor accounting as a result of the transition to IFRS 16.

The Group's lease portfolio is principally comprised of property leases in relation to Watches of Switzerland, Mappin & Webb, Goldsmiths and Mayors showrooms, mono-brand boutiques and central offices. The leases typically run for terms between five and 20 years and may include break clauses or options to renew beyond the non-cancellable periods. The majority of the Group's lease payments are subject to market review, usually every five years, with a number of leases which have annual increases dependent on economic indices. Some lease agreements include rental payments which are contingent on the turnover the property to which it relates. These payments are excluded from the calculation of the lease liabilities under IFRS 16.

Definition of a lease
Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining whether an arrangement contains a lease'. Under IAS 17 'Leases', classification of leases between operating or finance leases was determined based on an assessment of whether the lease transferred substantially all of the risks and rewards of ownership.

The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

1. General information and basis of preparation (continued)
Amendments to existing standards – IFRS 16 (continued)

On transition to IFRS 16, the Group did not elect to apply the practical expedient to grandfather the assessment of which contracts are leases. As such, on transition the Group has assessed on a lease by lease basis whether they meet the criteria as set out under IFRS 16. As part of the exercise, a number of properties have been identified as not meeting the criteria set out and as such will continue to be accounted for on a straight-line basis. This is considered a significant judgement as disclosed below. A reconciliation from operating lease commitments to the lease liability presented under IFRS 16 has been formed within this note.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

Accounting policy
Lease liability – initial recognition
Under IFRS 16, the Group recognises right-of-use assets and lease liabilities at the lease commencement date. The lease liabilities are initially measured at the present value of the lease payments that are not yet paid at the commencement date, less any incentives receivable, discounted using the determined incremental borrowing rate applicable to the lease.

Lease payments in the measurement of the lease liability comprise:
- Fixed lease payments (including in-substance fixed payments), less any lease incentives
- Variable lease payments such as those that depend on an index or rate (such as RPI), initially measured using the index or rate at the commencement date
- Penalty payments for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

Lease liability – subsequent measurement
Lease liabilities are subsequently measured at amortised cost and are increased to reflect interest on the lease liability (using the effective interest method) and decreased by the lease payments made.

Lease liability – remeasurement
Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or market rental review, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a renewal option is reasonably certain to be exercised or a break clause is reasonably certain to be exercised.

When the lease liability is re-measured, an equivalent adjustment is made to the right-of-use asset unless its carrying amount is reduced to £nil, in which case any remaining amount is recognised in profit or loss.

The Group has applied judgement to determine the lease term for those lease contracts that include a renewal or break option. The assessment of whether the Group is reasonably certain to exercise a renewal option or reasonably certain not to exercise a break option significantly impacts the value of lease liabilities and right-of-use assets recognised on the Balance Sheet and Income Statement.

Right-of-use assets – initial recognition
Right-of-use assets are initially measured at cost, which is an amount equal to the corresponding lease liabilities adjusted for any lease payments made at or before the commencement date, less any lease incentives received. The Group has elected to apply the exemption for short term leases (leases with a term of less than one year) and low value assets under IFRS 16, as such not recognising a right-of-use asset and lease liability on the Balance Sheet, but to recognise lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Where the Group has an obligation for costs to restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 'Provisions, contingent liabilities and contingent assets'. The estimated costs are included in the related right-of-use asset.

Right-of-use assets – subsequent measurement
Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses, adjusted for certain remeasurements of the lease liabilities. Depreciation is calculated on a straight-line basis over the expected useful economic life of a lease which is taken as the lease term.

Transition
The Group has applied the modified retrospective approach and recognised the lease liability on transition as the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application, 29 April 2019.

When measuring lease liabilities on transition to IFRS 16, the Group discounted lease payments using its incremental borrowing rate at 29 April 2019. The Incremental Borrowing Rate (IBR) applied to each lease was determined by taking into account the risk free rate, adjusted for factors such as the credit rating linked to the underlying lease agreement. The weighted average IBR applied by the Group at the date of initial application was 4.73% with individual leases ranged from 3.13% to 5.92%.

The Group has chosen on a lease-by-lease basis to measure the right-of-use asset as either:
- The carrying amount as if IFRS 16 had been applied since the commencement date, but discounting using the incremental borrowing rate at the date of initial application. The Group has applied this to a small number of property leases where it was possible to ascertain sufficient historical data.
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before the date of initial application. The Group has applied this methodology to the majority of its property leases and all its other leases.

1. General information and basis of preparation (continued)
Amendments to existing standards – IFRS 16 (continued)

The Group has not restated comparatives and the cumulative effect of £20,336,000 initially applying IFRS 16 was recognised as an adjustment to the opening balance of retained earnings.

Exemptions and practical expedients on transition to IFRS 16
The Group has elected to apply the following:

- Exclude long term leases with less than one year remaining at the date of initial application
- To rely on its assessment of whether leases are onerous immediately before the date of transition as an alternative to performing an impairment review (assessment performed on a lease by lease basis)
- To exclude initial direct costs from the measurement of the right-of-use assets on transition
- To apply hindsight, where appropriate, for instance in determining the lease term

The opening balance sheet position as at 28 April 2019 has been restated on transition to IFRS 16. The Group recognised additional right-of-use assets, lease liabilities and deferred tax assets as well as a reduction in prepayments, provisions and liabilities, recognising the difference in retained earnings. The impact on transition is summarised below. Comparative periods have not been restated.

	28 April 2019 IAS 17	IFRS 16 adjustments	29 April 2019 IFRS 16
	£'000	£'000	£'000
Assets			
Non-current assets			
Goodwill	109,666	-	109,666
Intangible assets	18,063	-	18,063
Property, plant and equipment (i)	101,268	(1,863)	99,405
Right-of-use assets	-	244,989	244,989
Deferred tax (ii)	8,727	3,447	12,174
Trade and other receivables	4,544	-	4,544
	242,268	**246,573**	**488,841**
Current assets			
Inventories	200,271	-	200,271
Trade and other receivables (iii)	35,638	(5,521)	30,117
Cash and cash equivalents	34,538	-	34,538
	270,447	**(5,521)**	**264,926**
Total Assets	**512,715**	**241,052**	**753,767**
Liabilities			
Current liabilities			
Trade and other payables (iv)	(137,344)	2,017	(135,327)
Lease liabilities	-	(45,992)	(45,992)
Current tax liabilities	(2,759)	-	(2,759)
Borrowings	(27,213)	110	(27,103)
Provisions (v)	(3,312)	2,151	(1,161)
	(170,628)	**(41,714)**	**(212,342)**
Non-current liabilities			
Trade and other payables (iv)	(20,318)	16,597	(3,721)
Lease liabilities	-	(238,546)	(238,546)
Borrowings	(239,884)	-	(239,884)
Post-employment benefit obligations	(3,051)	-	(3,051)
Provisions (v)	(2,275)	2,275	-
	(265,528)	**(219,674)**	**(485,202)**
Total liabilities	**(436,156)**	**(261,388)**	**(697,544)**
Net assets	**76,559**	**(20,336)**	**56,223**
Equity			
Share capital	66	-	66
Retained earnings	75,695	(20,336)	55,359
Foreign exchange reserve	798	-	798
Total equity	**76,559**	**(20,336)**	**56,223**

(i) In respect of transfer of former finance leases and date of initial application impairment review
(ii) Deferred tax recognised on transition to IFRS 16
(iii) Mainly in respect of prepaid rent
(iv) Mainly in respect of lease incentive creditors
(v) Mainly in respect of onerous lease provisions

1. General information and basis of preparation (continued)
Amendments to existing standards – IFRS 16 (continued)

A reconciliation from the commitments under non-cancellable operating leases as at 28 April 2019, as presented within the Group's Annual Report and Accounts for the 52 weeks to 28 April 2019, to the lease liabilities recognised as at the date of initial application, 29 April 2019, is presented below:

	29 April 2019
	£'000
Commitments under non-cancellable operating leases as at 28 April 2019	**322,463**
Contracts not in scope of IFRS 16[i]	(21,176)
Effect of discounting[ii]	(57,260)
Long term leases expiring before 26 April 2020 [iii]	(926)
Lease extension options[iv]	39,945
Leases identified under IFRS 16 not identified under IAS 17	1,236
Leases previously accounted for as finance leases	110
Other	146
Lease liabilities recognised at 29 April 2019	**284,538**

(i) Contracts that were considered to be leases under IAS 17 which do not meet the definition under IFRS 16, principally because the supplier is considered to have substantive substitution rights over the associated assets
(ii) The previously disclosed lease commitments were undiscounted, whilst the IFRS 16 obligations have been discounted based on an applicable incremental borrowing rate depending on the location of the asset and lease term
(iii) The Group has applied the practical expedient to classify leases for which the lease term ends within 12 months of the date of initial application of IFRS 16 as short term leases. The Group has also applied the recognition exception for short term leases
(iv) Previously, lease commitments only included non-cancellable periods in the lease agreements. Under IFRS 16, the lease term includes periods covered by options to break the lease where the Group is reasonably certain that such options will not be exercised

Impact for the period
As a result of applying IFRS 16, the Group recognised an additional depreciation charge of £(17,529,000), gains on lease modification of £206,000, impairments of £(863,000) and interest costs of £(5,880,000) in relation to the leases recognised under IFRS 16. This replaced an operating lease expense that would have otherwise been recognised under IAS 17 of £(22,718,000) impacting the loss before taxation by £(1,348,000). The impact on the Income Statement was as follows:

	26 week period to 27 October 2019		
	Presented under IAS 17	Impact of IFRS 16	Presented under IFRS 16
	£'000	£'000	£'000
Revenue	428,711	-	**428,711**
Gross Profit	42,317	4,371	**46,688**
Operating profit	25,437	4,532	**29,969**
Net finance cost	(33,130)	(5,880)	**(39,010)**
Loss before taxation	(7,693)	(1,348)	**(9,041)**
Taxation	515	452	**967**
Loss for the financial period	**(7,178)**	**(896)**	**(8,074)**
Earnings per share			
Basic	(3.1)p	(0.4)p	(3.5)p
Diluted	(3.1)p	(0.4)p	(3.5)p

1. General information and basis of preparation (continued)
Amendments to existing standards – IFRS 16 (continued)

Impact on closing balance sheet

	27 October 2019 IAS 17	Impact of IFRS 16	27 October 2019 IFRS 16
	£'000	£'000	£'000
Assets			
Non-current assets			
Goodwill	109,770	-	109,770
Intangible assets	17,191	-	17,191
Property, plant and equipment (i)	105,299	(2,061)	103,238
Right-of-use assets	-	240,202	240,202
Deferred tax (ii)	10,890	3,826	14,716
Trade and other receivables	2,783	-	2,783
	245,933	**241,967**	**487,900**
Current assets			
Inventories	220,704	-	220,704
Current tax asset	1,687	71	1,758
Trade and other receivables (iii)	21,217	(5,990)	15,227
Cash and cash equivalents	51,360	-	51,360
	294,968	**(5,919)**	**289,049**
Total Assets	**540,901**	**236,048**	**776,949**
Liabilities			
Current liabilities			
Trade and other payables (iv)	(163,055)	2,116	(160,939)
Lease liabilities	-	(46,416)	(46,416)
Borrowings	(23,446)	58	(23,388)
Provisions (iv)	(2,823)	2,185	(638)
	(189,324)	**(42,057)**	**(231,381)**
Non-current liabilities			
Trade and other payables (iv)	(20,709)	17,152	(3,557)
Lease liabilities	-	(234,384)	(234,384)
Borrowings	(116,840)	-	(116,840)
Post-employment benefit obligations	(3,366)	-	(3,366)
Provisions (iv)	(2,844)	2,000	(844)
	(143,759)	**(215,232)**	**(358,991)**
Total liabilities	**(333,083)**	**(257,289)**	**(590,372)**
Net assets	**207,818**	**(21,241)**	**186,577**
Equity			
Share capital	2,993	-	2,993
Share premium	147,653	-	147,653
Merger reserve	(2,209)	-	(2,209)
Retained earnings	58,506	(21,232)	37,274
Foreign exchange reserve	875	(9)	866
Total equity	**207,818**	**(21,241)**	**186,577**

(i) In respect of transfer of former finance leases and date of initial application impairment review
(ii) Deferred tax recognised on transition to IFRS 16
(iii) Mainly in respect of prepaid rent
(iv) Mainly in respect of lease incentive creditors
(v) Mainly in respect of onerous lease provisions

Significant areas of judgement and estimation
The application of IFRS 16 requires significant estimation and judgement, particularly around the calculation of the incremental borrowing rate and determining the lease term when there are options to extend or terminate early. Each of these have been determined on a lease-by-lease basis on transition. High levels of judgement are also involved in determining whether leases contain 'substantive substitution rights' and therefore whether they meet the definition of a lease under IFRS 16. See below for full disclosure of all the major sources of estimation uncertainty and judgement applicable to the Group.

Major sources of estimation uncertainty and judgement
The preparation of consolidated financial information requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Actual results may differ from these estimates.

Significant estimates
Estimates and underlying assumptions are reviewed by management on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future period affected. The areas involving significant risk resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial period are as follows:

1. General information and basis of preparation (continued)
Major sources of estimation uncertainty and judgement (continued)

Post-employment benefit obligations
The Group's accounting policy for defined benefit pension schemes requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, life expectancy and expected remaining periods of service of employees and the determination of the pension cost and defined benefit obligation of the Group's defined benefit pension scheme depends on the selection of these assumptions. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. Sensitivity of the Group's defined benefit scheme to movements in key assumptions is set out in note 20 of the Group's Annual Report and Accounts for the 52 weeks to 28 April 2019.

Net realisable value of inventories
Inventories are stated at the lower of cost and net realisable value, on a weighted average cost basis. Provisions are recognised where the net realisable value is assessed to be lower than cost. The calculation of this provision requires estimation of the eventual sales price and sell-through of goods to customers in the future. A 20% reduction in the store sell-through of slow moving stock would impact the net realisable value by c.£1,200,000.

Significant judgements
The following are the critical judgements, apart from those involving estimations, that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Classification of exceptional items and presentation of non-GAAP measures
The Directors exercise their judgement in the classification of certain items as exceptional and outside of the Group's underlying results. The determination of whether an item should be separately disclosed as an exceptional item, non-underlying or non-trading requires judgement on its materiality, nature and incidence, as well as whether it provides clarity on the Group's underlying trading performance. In exercising this judgement, the Directors take appropriate regard of IAS 1 'Presentation of financial statements' as well as guidance from the Financial Reporting Council and the European Securities Market Authority on the reporting of exceptional items and APMs.

The overall goal of the Directors is to present the Group's underlying performance without distortion from one-off or non-trading events regardless of whether they be favourable or unfavourable to the underlying result. Further details on exceptional items are provided in note 4.

Lease term (IFRS 16)
IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee were reasonably certain to exercise that option.

Where a lease includes the option for the Group to terminate the lease before the term end, the Group makes a judgement as to whether it is reasonably certain that the option will or will not be taken.

This assessment considers:
- The length of time remaining before the option is exercisable
- Current trading performance
- Future trading forecasts
- The level and type of planned future capital investment

This judgement is re-assessed on an ongoing and on a lease-by-lease basis.

Discount rates (IFRS 16)
The Group applies judgement in determining the appropriate discount rate to apply on a lease by lease basis. The discount rate used to calculate the lease liability is the rate implicit in the lease, if it can be readily determined, or the lessee's incremental borrowing rate if not. The Group uses the rate implicit in the lease in relation to the Group's "other" leases and the lessee's incremental borrowing rate for all property leases which is based on estimates. Incremental borrowing rates are determined on entering into a lease and depend on the term, country, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including:
- the risk-free rate based on country specific swap markets
- a credit risk adjustment based on country specific corporate indices
- a Group specific adjustment to reflect the Group's specific borrowing conditions

As a result, reflecting the breadth of the Group's lease portfolio, judgements on the lease terms and the international spread of the portfolio, there are a large number of discount rates applied to the leases within the range of 3.13% to 5.92%.

Substantive substitution rights (IFRS 16)
The Group has applied judgement to a number of leases and has judged that they do not meet the definition of a lease under IFRS 16. In these cases, the Group has judged that the lessor has a substantive right to substitute the asset and as such, there is no asset identified within the contract. If the Group judges that the lessor has the practical ability to substitute; the Group cannot prevent the lessor from proposing the substitution; and the costs of substitution are assessed to be low. As a result, the Group does not recognise lease liabilities or right-of-use assets in relation to these leases and continues to account for these on a straight-line basis.

1. General information and basis of preparation (continued)

Risks and uncertainties
The Board has considered the principal risks and uncertainties for the remaining half of the financial year and determined that the risks presented in the 2019 Annual Report, described as follows, also remain relevant to the rest of the financial year: Business strategy execution and development; key suppliers and supply chain; customer experience and market risks; colleague talent and capability; business interruption and IT infrastructure; data protection and cyber security; regulatory and compliance; economic and political; brand and reputation damage and financial and treasury. These are detailed on pages 50 to 54 of the 2019 Annual Report, a copy of which is available on the Watches of Switzerland PLC (the 'Company') website at www.thewosgroupplc.com.

2. Segment reporting
The key Group performance measures are Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and Adjusted Earnings Before Interest, Tax (EBIT), both shown pre-exceptional items, as detailed below. **The segment reporting is disclosed on a pre-IFRS 16 basis for comparability to the comparative period.**

Adjusted EBITDA represents profit/(loss) for the period before finance costs, finance income, taxation, depreciation, amortisation, exceptional items presented in the Group's Income Statement (consisting of exceptional administrative expenses and exceptional cost of sales), professional costs for non-trading activities and management fees paid to the Group's ultimate controlling party.

The segment reporting adopted for the period ended 27 October 2019 has been changed to show the new Group's Key Performance Indicator (KPI) of Adjusted EBIT and pre-exceptional items, as this KPI is linked to executive remuneration for the 52 weeks ended 26 April 2020. This presentation reflects the reporting to the Chief Operating Decision Maker (CODM) and the Board.

	26 week period ended 27 October 2019		
	UK watch & jewellery £'000	US watch & jewellery £'000	**Total £'000**
Revenue	317,645	111,066	**428,711**
Net margin	118,866	41,780	**160,646**
Less:			
Showroom costs	(66,032)	(27,106)	**(93,138)**
Overheads	(18,068)	(5,674)	**(23,742)**
Showroom opening and closing costs	(1,768)	(768)	**(2,536)**
Intra-group management charge	1,527	(1,527)	**-**
Adjusted EBITDA	34,525	6,705	**41,230**
Depreciation, amortisation and loss on disposal of assets (pre IFRS 16)	(7,167)	(2,923)	**(10,090)**
Segment profit*	27,358	3,782	**31,140**
Exceptional administrative costs (note 4)			**(5,703)**
Exceptional finance costs (note 4)			**(28,491)**
Net other finance costs			**(4,639)**
IFRS 16 adjustments			**(1,348)**
Loss before taxation for the financial period for continuing operations			**(9,041)**

* Segment profit is defined as being Earnings Before Interest, Tax and exceptional items (pre- IFRS 16 adjustments)

2. Segment reporting (continued)

	26 week period ended 28 October 2018		
	UK watch & jewellery £'000	US watch & jewellery £'000	**Total continuing operations £'000**
Revenue	287,271	78,155	**365,426**
Net margin	105,986	30,602	**136,588**
Less:			
Showroom costs	(62,936)	(19,092)	**(82,028)**
Overheads	(13,475)	(4,252)	**(17,727)**
Showroom opening and closing costs	(422)	(1,943)	**(2,365)**
Other non-underlying costs	(991)	(97)	**(1,088)**
Intra-group management charge	753	(753)	**-**
Adjusted EBITDA	28,915	4,465	**33,380**
Depreciation, amortisation and loss on disposal of assets	(5,999)	(1,498)	**(7,497)**
Other non-trading fees (i)	(470)	(100)	**(570)**
Segment profit*	22,446	2,867	**25,313**
Exceptional administrative costs (note 4)			**(89)**
Net other finance costs			**(12,815)**
Profit before taxation for the financial period for continuing operations			**12,409**

* Segment profit is defined as being Earnings Before Interest, Tax and exceptional items

(i) Other non-trading fees relates principally to legacy share-based payment charges and non-recurring professional and legal fees and management fees paid to the Group's former ultimate parent company.

Entity-wide revenue disclosures

	26 week period ended 27 October 2019 £'000	26 week period ended 28 October 2018 Continuing operations £'000
UK watch & jewellery		
Luxury watches	264,110	233,403
Luxury jewellery	25,256	25,343
Fashion & classic (incl. jewellery)	14,244	15,009
Other	14,035	13,516
Total	**317,645**	**287,271**
US watch & jewellery		
Luxury watches	101,387	67,266
Luxury jewellery	6,196	6,912
Fashion & classic (incl. jewellery)	439	515
Other	3,044	3,462
Total	**111,066**	**78,155**
Group		
Luxury watches	365,497	300,669
Luxury jewellery	31,452	32,255
Fashion & classic (incl. jewellery)	14,683	15,524
Other	17,079	16,978
Total	**428,711**	**365,426**

'Other' consists of the sales of gifts, servicing, repairs and insurance.

Information regarding geographical areas, including revenue from external customers is disclosed above.

No single customer accounted for more than 10% of revenue in any of the financial periods noted above.

3. Revenue

The Group's disaggregated revenue recognised under contracts with customers relates to the following categories and operating segments.

	26 week period ended 27 October 2019		
	Sale of goods	Rendering of services	Total
	£'000	£'000	**£'000**
UK watch & jewellery	304,263	13,382	**317,645**
US watch & jewellery	108,100	2,966	**111,066**
Total	**412,363**	**16,348**	**428,711**

	26 week period ended 28 October 2018		
	Sale of goods	Rendering of services	Total
	£'000	£'000	**£'000**
UK watch & jewellery	273,439	13,832	**287,271**
US watch & jewellery	74,792	3,363	**78,155**
Total – continuing operations	**348,231**	**17,195**	**365,426**

4. Exceptional items

Exceptional items are those that in the judgement of the Directors need to be disclosed by virtue of their size, nature or incidence, in order to draw the attention of the reader and to show the underlying business performance of the Group. Such items are included within the Income Statement caption to which they relate and are separately disclosed on the face of the Consolidated Income Statement.

	26 week period ended 27 October 2019	26 week period ended 28 October 2018 Continuing operations
	£'000	£'000
Exceptional administrative expenses		
Revision of estimates of payments to former owners (i)	-	(23)
Exceptional costs in relation to Initial Public offering ('IPO') (ii)		
Share based payment in respect of the Chief Executive Officer	1,828	-
Bonus paid to employees on IPO	2,071	-
Professional and legal fees	1,804	112
Total exceptional administrative costs	5,703	89
Exceptional finance costs		
Early redemption fees (note 5)	21,738	-
Write off capitalised transaction costs on bond redemption (note 5)	6,753	-
Total exceptional finance costs	28,491	-
Total exceptional items	**34,194**	**89**
Tax impact of exceptional administrative costs	(666)	-
Tax impact of exceptional finance costs	(5,200)	-
Tax impact of exceptional items	**(5,866)**	**-**

(i) Revision to estimates of payments to former owners
As part of the consideration for The Watch Lab Limited acquisition, the former owners received an additional pay-out based on the performance of the acquired entities as long as they remained in employment. This is regarded as an exceptional expense as it does not form part of underlying trading costs.

(ii) Exceptional professional fees for Initial Public Offering ('IPO')
The Group has incurred exceptional professional costs for services performed as part of the IPO process. These costs are regarded as an exceptional expense as the transaction was material to the Group and a unique non-recurring event and the costs do not form part of underlying trading costs.

5. Net finance costs

	26 week period ended 27 October 2019 IFRS 16	26 week period ended 28 October 2018 Continuing operations IAS 17
	£'000	£'000
Finance costs		
Interest payable on secured borrowings	(4,304)	(11,319)
Amortisation of capitalised transaction costs	(447)	(905)
Other interest payable	(64)	(396)
Unwinding of discount on provisions	(14)	(55)
Net foreign exchange loss on financing activities	(108)	(356)
Interest on lease liabilities	(5,880)	-
Net interest expense on net defined benefit liabilities	(38)	(12)
	(10,855)	(13,043)
Finance income		
Interest receivable from related undertakings	86	-
Interest income on trade receivables	246	228
Other interest receivable	4	-
	336	228
Exceptional finance costs		
Early redemption fees	(21,738)	-
Write off of capitalised transaction costs on bond redemption	(6,753)	-
	(28,491)	-
Net finance costs	**(39,010)**	**(12,815)**

On 4 June 2019, the Group initially drew down their new term loan facility consisting of a term loan for £120,000,000 and a revolving credit facility of £50,000,000. Interest is currently charged at LIBOR plus 2.25% on the term loan and LIBOR plus 2.0% on the revolving credit facility. The term loan facility expires on 4 June 2024. The term loan facility is unsecured and is cross guaranteed by subsidiary entities.

On 4 June 2019, the Group repaid the outstanding principal of the Listed Bond of £247,924,000, accumulated associated interest of £8,229,000 and redemption premiums, expensed as exceptional finance costs, of £21,738,000 in relation to the listed bond notes. This resulted in the extinguishment of the listed bond and as such the associated capitalised transaction costs were written off as an exceptional finance cost.

6. Taxation

The taxation credit in the Income Statement for the half year is based on a forecast full year tax rate on profit from continuing operations before exceptional items and tax on exceptional items arising in the period to 27 October 2019 to give an effective tax rate on loss before taxation of 10.7% (last half year 31.0%).

7. Earnings Per Share (EPS)

	26 week period ended 27 October 2019 IFRS 16	26 week period ended 28 October 2018 IAS 17
Basic		
EPS	(3.5)p	4.1p
EPS (continuing operations)	(3.5)p	4.7p
EPS adjusted for exceptional items (continuing operations)	8.9p	4.8p
EPS adjusted for exceptional items and pre-IFRS 16 (continuing operations)	9.3p	4.8p
EPS (discontinued operations)	-	(0.6)p
Diluted		
EPS	(3.5)p	4.1p
EPS (continuing operations)	(3.5)p	4.7p
EPS adjusted for exceptional items (continuing operations)	8.8p	4.8p
EPS adjusted for exceptional items and pre-IFRS 16 (continuing operations)	9.2p	4.8p
EPS (discontinued operations)	-	(0.6)p

Basic EPS is based on the profit/(loss) for the year attributable to the equity holders of the parent company divided by the net of the weighted average number of shares ranking for dividend.

Diluted EPS is calculated by adjusting the weighted average number of shares used for the calculation of basic EPS as increased by the dilutive effect of potential ordinary shares.

7. Earnings Per Share (EPS) (continued)

The following table reflects the profit data used in the basic and diluted EPS calculations:

	26 week period ended 27 October 2019	26 week period ended 28 October 2018
	£'000	£'000
(Loss)/profit after tax attributable to equity holders of the parent company		
Continuing operations	(8,074)	8,557
Discontinued operations	-	(1,039)
(Loss)/profit attributable to ordinary equity holders of the parent for basic earnings	(8,074)	7,518

(Loss)/profit after tax attributable to equity holders of the parent company (continuing operations)	(8,074)	8,557
Add back:		
Exceptional administrative expenses (continuing operations), net of tax	5,037	89
Exceptional finance costs (continuing operations), net of tax	23,291	-
IFRS 16 adjustments, net of tax	896	-
Profit adjusted for exceptional items and IFRS 16 for continuing operations	21,150	8,646

The following table reflects the share data used in the basic and diluted EPS calculations:

	26 week period ended 27 October 2019	26 week period ended 28 October 2018
Weighted average number of shares:	'000	'000
Weighted average number of ordinary shares in issue	228,091	182,000
Weighted average shares for basic EPS	**228,091**	**182,000**
Weighted average dilutive potential shares	1,831	-
Weighted average shares for diluted EPS	**229,922**	**182,000**

As discussed in note 1, the group performed a capital reorganisation. As part of this process, Watches of Switzerland Group PLC (formerly Watches of Switzerland Group Limited) was inserted above Jewel UK Midco Limited in the Group's structure. As at 27 October 2019, the share capital presented in the Unaudited Interim Condensed Consolidated Balance Sheet reflects that of the company Watches of Switzerland Group PLC.

As at the comparative period, 28 October 2018, Watches of Switzerland Group PLC did not exist as an entity. As such, for comparative purposes, we have presented the weighted average number of shares for the comparative period being the number of shares in Watches of Switzerland Group PLC immediately prior to the IPO, occurring on 4 June 2019.

8. Property, plant and equipment and right-of-use assets

	Land and buildings	Fittings and equipment	**Property, plant and equipment**	Right-of-use assets	**Total**
	£'000	£'000	£'000	£'000	**£'000**
Net book value					
At 28 April 2019	1,905	99,363	**101,268**	-	**101,268**
Impact of change in accounting policy (IFRS 16)	-	(1,863)	**(1,863)**	244,989	**243,126**
At 29 April 2019*	1,905	97,500	**99,405**	244,989	**344,394**
Additions	100	12,604	**12,704**	12,604	**25,308**
Disposals	(32)	(1,159)	**(1,191)**	-	**(1,191)**
Gain on lease modification (IFRS 16)	-	-	**-**	206	**206**
Impairment (IFRS 16)	-	(227)	**(227)**	(636)	**(863)**
Depreciation	(162)	(7,485)	**(7,647)**	(17,558)	**(25,205)**
Foreign exchange differences	-	194	**194**	597	**791**
At 28 April 2019	**1,811**	**101,427**	**103,238**	**240,202**	**343,440**

* The Group has initially applied IFRS 16 'Leases' at 29 April 2019, which requires the recognition of right-of-use assets for lease contracts that were previously classified as operating leases. As at the date of initial application, £277,000 of assets under finance leases were transferred to right-of-use assets. These assets continued to be depreciated and incurred depreciation of £29,000 in the period to 27 October 2019.

During the period to 27 October 2019, the Group invested significant levels of capital expenditure in the showrooms fit outs and refurbishments.

8. Property, plant and equipment and right-of-use assets (continued)

During the period to 27 October 2019, the Group has assessed individual cash generating units, defined as individual showrooms, for signs of impairment. Where impairment indicators are identified, the Group has performed impairment calculations and identified impairments under IFRS16. Under the previous accounting standards, we identified no impairment in relation to property, plant and equipment, however, with the inclusion of the right-of-use assets, impairments have been identified. As such, in line with IAS 36 'Impairment of assets' the impairment recognised has been apportioned between the right-of use assets and property, plant and equipment on a weighted basis. As these impairments would not have been recognised under IAS 17, we have presented this as part of our IFRS 16 adjustments within the segmental note in note 2.

The net book value of property, plant and equipment as at 28 October 2018 was £89,506,000 consisting of £1,734,000 land and buildings and £87,772,000 fittings and equipment. Property, plant and equipment attributable to discontinued operations totalled £1,105,000 consisting of fittings and equipment.

9.Trade and other receivables

	27 October 2019 IFRS 16	28 October 2018 IAS 17	28 April 2019 IAS 17
	£'000	£'000	£'000
Trade receivables	15,119	22,590	16,929
Other receivables	3,735	6,192	5,379
Less: allowance for expected credit losses	(4,004)	(3,876)	(3,336)
	14,850	24,906	18,972
Prepayments and accrued income	3,097	9,314	9,485
Amounts owed by related entities	63	25	11,725
Total trade and other receivables	**18,010**	**34,245**	**40,182**

As part of the group re-organisation, the Group made a distribution by law to Jewel UK Topco Limited, the former Parent Company of the Group for £11,501,000. This was offset against the amount owed to the Group.

In the 26 week period to 27 October 2019, the Group has applied IFRS 16 for the first time. This has resulted in a reduction to trade and other receivables. See note 1 for details.

10. Borrowings

	27 October 2019 IFRS 16	28 October 2018 IAS 17	28 April 2019 IAS 17
	£'000	£'000	£'000
Current			
Revolving credit facility	23,388	3,899	27,103
Finance lease liabilities	-	138	110
	23,388	4,037	27,213
Non-current			
Listed bond	-	255,766	239,884
Term loan	116,840	-	-
Finance lease liabilities	-	58	-
	116,840	255,824	239,884
Total borrowings	**140,228**	**259,861**	**267,097**

On 18 April 2018, Jewel UK Bondco PLC, a subsidiary of Jewel UK Midco Limited, issued a listed bond note on The International Stock Exchange for a principal value of £265,000,000. Interest is payable at 8.5% with the notes maturing in 2023.

On 4 June 2019, the Company initially drew down their new term loan facility consisting of a term loan for £120,000,000 and a revolving credit facility of £50,000,000. Interest is charged at LIBOR plus 2.25% on the term loan and LIBOR plus 2.0% on the revolving credit facility. The term loan facility expires on 4 June 2024. The term loan facility is unsecured and is cross guaranteed by subsidiary entities.

On 4 June 2019, Jewel UK Bondco PLC repaid the outstanding principal of £247,924,000, accumulated associated interest of £8,229,000 and redemption premiums of £21,738,000 in relation to the listed bond notes. The redemption premium will be treated as an exceptional expense in the financial period ending 26 April 2020.

The listed bond and term loan are presented net of capitalised transaction costs. Capitalised transaction costs are amortised using the effective interest rate.

11. Analysis of net debt

	28 April 2019	Impact of IFRS 16	29 April 2019	Cash flow	Non-cash charges [1]	Foreign exchange	**27 October 2019**
	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
Cash at bank and in hand	26,960	-	26,960				**44,350**
Cash in transit	7,578	-	7,578				**7,010**
Cash and cash equivalents	34,538	-	34,538	17,148	-	(326)	**51,360**
Revolving credit facility	(27,103)	-	(27,103)	3,990	-	(275)	**(23,388)**
Corporate bonds	(247,924)	-	(247,924)	247,924	-	-	**-**
Term loan	-	-	-	(120,000)	-	-	**(120,000)**
Capitalised transaction costs	8,040	-	8,040	2,518	(7,408)	10	**3,160**
Finance lease liabilities	(110)	110 -	-	-	-	-	**-**
Net debt excluding lease liabilities	**(232,559)**	**110**	**(232,449)**	**151,580**	**(7,408)**	**(591)**	**(88,868)**
Current lease liability	-	(45,992)	(45,992)	22,828	(23,161)	(91)	**(46,416)**
Non-current lease liability	-	(238,546)	(238,546)	-	4,759	(597)	**(234,384)**
Total net debt	**(232,559)**	**(284,428)**	**(516,987)**	**174,408**	**(25,810)**	**(1,279)**	**(369,668)**

1. Non-cash charges include interest charges as well as additions and revisions to lease liabilities.

The Group has initially applied IFRS 16 'Leases' at 29 April 2019, which requires the recognition of lease liabilities for lease contracts that were previously classified as operating leases. As part of the transition to IFRS 16, finance lease liabilities have been transferred to lease liabilities and accounted for in line with IFRS 16. The only movement on the former finance lease liability (October 2019: £58,000, April 2019: £110,000) was a £52,000 cash payment. As a result, the Group recognised £284,538,000 of lease liabilities from those lease contracts as at the date of initial application and £280,800,000 as at 27 October 2019.

Covenant calculations are performed before the impact of IFRS 16 and therefore excludes the lease liabilities.

12. Equity

On 24 May 2019, the Company acquired the entire shareholding of Jewel UK Midco Limited and its related subsidiaries by a way of a share for share exchange with Jewel Holdco S.á.r.l. becoming the Group's immediate parent company. The insertion of the Company on top of the existing Jewel UK Midco Limited Group does not constitute a business combination under IFRS 3 'Business combinations' and instead has been accounted for as a capital reorganisation. Merger accounting was used to account for the insertion of the company. The effect was an increase in share capital, to reflect the underlying capital structure of the Company, with the offset posted to a newly created merger reserve. The reorganisation was undertaken as part of the IPO with the company being both created and inserted as part of the process. As at 24 May 2019, the Group financial statements were adjusted to include the assets and liabilities as well as reflecting the capital structure of the Company.

On 28 May 2019, the Company waived its right to an amount of £11,501,000 receivable from a related entity, Jewel UK Topco Limited. The waiver has been considered to be a distribution in law and as such has been accounted for directly in equity.

On 30 May 2019, the Company was re-registered as a public limited company under the Companies Act 2006. On the 4 June 2019, the Company was admitted for listing on the London Stock Exchange. The Company issued 57,445,554 shares for £2.70 each with a nominal value of £0.0125p recognising additional share capital of £718,000 and share premium of £154,412,000.

Incremental expenses of £6,759,000 which are directly attributable to the primary issue of shares has been offset against the share premium recognised in line with IAS 32 'Financial instruments: presentation'.

The movement on share capital is reflected as follows:

	Nominal value	Share capital		Share premium	Merger reserve
	£	Shares	£'000	£'000	£'000
As at 28 April 2019 Per Annual Report and Accounts (Jewel UK Midco Limited)	**0.001**	**66,308,371**	**66**	**-**	**-**
Capital reorganisation					
Remove Jewel UK Midco Limited (Nominal value £0.001)	0.001	(66,308,371)	(66)	-	66
Insert Watches of Switzerland Group PLC (Nominal value £0.0125)	0.0125	182,000,000	2,275	-	(2,275)
Initial public offering					
Raising of shares on IPO	0.0125	57,445,554	718	154,412	-
Directly attributable costs	-	-	-	(6,759)	-
Balance at 27 October 2019	**0.0125**	**239,445,554**	**2,993**	**147,653**	**(2,209)**

13. Related party transactions

Transactions with related undertakings
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Group has traded products and provided services to Watch Shop Holdings Limited and The Watch Lab Holdings Limited, entities with the same ultimate parent company, in the 26 week period to 27 October 2019. The Group has an outstanding balance with these entities of £63,000 (October 2018: £nil, April 2019: £280,000).

On 28 May 2019, the Company waived its right to an amount of £11,501,000 receivable from a related entity, Jewel UK Topco Limited. The waiver has been considered to be a distribution in law and as such has been accounted for directly in equity. As at 27 October 2019, there are no amounts owed by Jewel UK Topco Limited to the Group (October 2018: £nil, April 2019: £11,420,000).

In the 26 week period to 27 October 2019, the Group incurred management charges from the former owner of the Group, Jewel Holdco S.à.r.l, totalling £165,000 (October 2018: £573,000). The amount outstanding as at the period end totalled £nil (October 2018: £732,000, April 2019: £1,318,000).

14. Discontinued operations

On 3 December 2018, the Online and servicing segment was carved-out of the Group and passed to a related undertaking outside of the Group. A third party, independent valuation of these businesses was obtained immediately prior to disposal, totalling £21,012,000 for the combined businesses. As this transfer was entirely intra-group, no cash proceeds were generated.

The impact upon the Balance Sheets for the historic periods have been presented below:

Effect of the disposals on individual assets and liabilities

	28 October 2018	As at date of carve out (3 December 2018)
	£'000	£'000
Goodwill	9,872	2,950
Intangible assets	12,594	2,376
Property, plant and equipment	1,105	1,087
Inventories	15,620	16,704
Trade and other receivables	856	780
Current tax assets	191	-
Cash and cash equivalents	2,911	5,659
Trade and other payables	(5,374)	(8,544)
Deferred tax liabilities	(2,257)	-
Net identifiable assets and liabilities	35,518	21,012

15. Financial instruments

Categories

	27 October 2019 IFRS 16	28 October 2018 IAS 17	28 April 2019 IAS 17
	£'000	£'000	£'000
Financial assets – held at amortised cost			
Trade and other receivables*	14,913	24,931	30,697
Cash and cash equivalents	51,360	34,149	34,538
	66,273	**59,080**	**65,235**
Financial liabilities – held at amortised cost			
Interest-bearing loans and borrowings:			
Corporate bonds	-	(255,766)	(239,884)
Term loans	(116,840)	-	-
Revolving credit facility	(23,388)	(3,899)	(27,103)
Finance lease liability	-	(196)	(110)
Trade and other payables**	(155,869)	(152,478)	(132,523)
Net financial liabilities (pre-IFRS 16)	**(296,097)**	**(412,339)**	**(399,620)**
Lease liability	(280,800)	-	-
Total financial liabilities	**(576,897)**	**(412,339)**	**(399,620)**

*Excludes prepayments of £3,097,000 (October 2018: £9,314,000, April 2019: £9,485,000) that do not meet the definition of a financial instrument.
**Excludes property lease incentives of £43,000 (IAS17, October 2018: £14,671,000, April 2019: £18,010,000), customer deposits of £5,357,000 (October 2018: £3,436,000, April 2019: £5,083,000) and deferred income of £3,227,000 (October 2018: £1,608,000, April 2019: £2,046,000) that do not meet the definition of a financial instrument.

15. Financial instruments (continued)

Fair values
The fair values of each category of the Group's financial instruments are the same as their carrying values in the Group's Balance Sheet, other than corporate bonds, based on the following criteria:

Trade and other receivables, trade and other payables, cash and cash equivalents, revolving credit facility, finance lease liability	The fair value approximates the carrying amount because of the short maturity of these investments.

16. Contingent liabilities

From time to time, the Group may be subject to complaints and litigation from its customers, employees, suppliers and other third parties. Such complaints and litigation may result in damages or other losses, which may not be covered by the Group's insurance policies or which may exceed any existing coverage. Regardless of the outcome, complaints and litigation could have a material adverse effect on the Group's reputation, divert the attention of the Group's management team and increase its costs.

On 17 March 2019, a claim was brought against a subsidiary of the Company, Watches of Switzerland Group USA, Inc., in the U.S. District Court for the Southern District of Florida by a group of individuals who, in the two years prior to filing the complaint, had engaged in debit or credit card transactions with the Group in the United States and who were issued customer receipts that displayed more than the last five digits of the credit or debit card number used in connection with the transaction.

The suit alleges violations of the FACTA, which requires persons that accept credit and/or debit cards for the transaction of business to truncate all but the last five digits of the card number on printed receipts provided to consumers, as a means of protecting against identity theft and fraud. No specific monetary amount has been claimed, the potential liability in respect of such claim or any related claims is difficult to quantify. The Company continues to robustly defend it and, at this point in time, believes that the Group has a good defence. The legal costs of defending the claim are insured subject to the policy excess.

17. Post-balance sheet events

On 9 December 2019, the Group entered into an agreement with Fraser Hart Limited to purchase four luxury watch and jewellery showrooms trading under the brand name Fraser Hart.

The four showrooms had a combined revenue of £25,700,000 and 4-Wall EBITDA of £5,000,000 for the financial year ended 24 June 2019. Gross tangible assets subject to the transaction are expected to be in the region of £5,500,000.

The transaction is expected to complete in January 2020 for a total purchase price of £31,700,000, subject to working capital adjustments on completion. The acquisition will be paid in cash from existing borrowing facilities. The transaction is expected to contribute revenue of c£6,000,000 and EBITDA of c£1,000,000 in FY20.

WATCHES OF SWITZERLAND GROUP PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that, to the best of their knowledge, this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim report includes a fair review of the information required by DTR 4.2.4R, DTR 4.2.7R and DTR 4.2.8R, namely:

- the condensed set of financial statements gives a true and fair view of the assets, liabilities, financial position, cash flows and profit or loss of the issuer, or undertakings included in the consolidation;
- an indication of important events that have occurred during the first 26 weeks to 27 October 2019 and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining 26 weeks of the financial year; and
- material related party transactions in the first 26 weeks to 27 October 2019 and any material changes in the related party transactions described in the last annual report.

There have been no changes to the directors of Watches of Switzerland Group PLC to those listed in the Group's Annual Report and Accounts for the 52 weeks to 28 April 2019.

A list of current directors is maintained on the Group's website: www.thewosgroupplc.com.

For and by order of the Board

Brian Duffy
Chief Executive Officer

Anders Romberg
Chief Financial Officer

9 December 2019

INDEPENDENT REVIEW REPORT TO WATCHES OF SWITZERLAND GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 months ended 27 October 2019 which comprises Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet and Consolidated Statement of Changes in Equity. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 27 October 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
9 December 2019

Glossary
Alternative performance measures

The Directors use alternative performance measures (APMs) as they believe these measures provide additional useful information on the underlying trends, performance and position of the Group. These measures are used for performance analysis. The APMs are not defined by IFRS and therefore may not be directly comparable with other companies APMs. These measures are not intended to be a substitute for, or superior to, IFRS measures.

APM	Definition	Why used	Reconciliation to IFRS measures
Average selling price (ASP)	Revenue generated in a period from sales of a product category divided by the total number of units of such products sold in such period.	Measure of sales performance.	Not applicable.
4-Wall EBITDA	Net margin less store costs shown as a % of revenue.	4-Wall EBITDA is a direct measure of profitability of the showroom operations	See table A below
Adjusted EBIT/operating profit	Operating profit before exceptional items and IFRS 16 impact.	Measure of profitability that excludes one-off exceptional items.	See table B below
Adjusted EBITDA	EBITDA before exceptional items presented in the Group's Income Statement, professional costs for non-trading activities and management fees paid to the Group's ultimate controlling party. Pre-IFRS 16 adjustments.	Measure of profitability that excludes one-off exceptional items and non-underlying items.	Reconciled in note 2 of the financial statements.
Adjusted EBITDA pre-exceptional and non-underlying items	Adjusted EBITDA adjusted for showroom opening and closing costs, non-underlying items, exceptional costs and IFRS 16 adjustments.	Showroom opening and closing costs, non-underlying and exceptional items are removed from EBITDA in this measure to provide a consistent view of profitability excluding significant items that are one-off in nature.	See table C below

Table A (4-Wall EBITDA):

£m	HY20	HY19
Revenue	428.7	365.4
Cost of inventory expensed	(270.4)	(232.1)
Other	2.3	3.3
Net margin	**160.6**	**136.6**
Showroom costs	(93.1)	(82.0)
4-Wall EBITDA	**67.5**	**54.6**

Table B (Adjusted EBIT/operating profit):

£m	HY20	HY19
Statutory operating profit	30.0	25.2
IFRS 16	(4.6)	-
Exceptional items	5.7	0.1
Adjusted operating profit	**31.1**	**25.3**

Table C (Adjusted EBITDA pre-exceptional and non-underlying items):

£m	HY20	HY19
Adjusted EBITDA (note 2 of the financial statements)	41.2	33.4
Showroom opening and closing costs	2.5	2.4
Other non-underlying items	-	1.0
Adjusted EBITDA pre-exceptional items and non-underlying items	**43.7**	**36.8**

<table>
<tr><td>EBITDA leverage</td><td>Net debt (excluding capitalised transaction costs) at the end of a period divided by the last 12 month Adjusted EBITDA pre-opening and closing costs.</td><td>Measures the Group's indebtedness compared to its cash profitability.</td><td>Net debt £92.1m divided by
last 12 month Adjusted EBITDA pre-opening and closing costs £84.9m</td></tr>
<tr><td>Adjusted profit before tax</td><td>Profit before tax before exceptional items and IFRS 16 impact.</td><td>Measure of profitability that excludes one-off exceptional items.</td><td><table>
<tr><th>£m</th><th>HY20</th><th>HY19</th></tr>
<tr><td>Loss before tax</td><td>(9.0)</td><td>12.4</td></tr>
<tr><td>IFRS 16</td><td>1.3</td><td>-</td></tr>
<tr><td>Exceptional items</td><td>34.2</td><td>0.1</td></tr>
<tr><td>Adjusted operating profit</td><td>26.5</td><td>12.5</td></tr>
</table></td></tr>
<tr><td>Adjusted basic Earnings Per Share</td><td>Earnings per share before exceptional items and IFRS 16 impact.</td><td>Measure of profitability that excludes one-off exceptional items.</td><td>Reconciled within note 7 of the interim financial statements.</td></tr>
<tr><td>Constant currency basis</td><td>Results for the period had the exchange rates remained constant from the comparative period.</td><td>Measure of profitability that excludes the impact of foreign exchange.</td><td>HY20 Group revenue £428.7m
HY19 Group revenue £365.4m
HY20 US Revenue $139.2m
HY19 Exchange rate £1: $1.2531
HY19 Exchange rate £1: $1.315

HY20 US revenue @ PY exchange rate: £105.9m
HY20 Group @ PY Exchange rate: £423.5m</td></tr>
<tr><td>Adjusted EBITDA margin %</td><td>Adjusted EBITDA as a percentage of revenue. Shown on a continuing basis.</td><td>Measure of profitability compared to revenue.</td><td>Adjusted EBITDA £41.2m divided by Revenue £428.7m.</td></tr>
<tr><td>EBITDA margin before pre-opening and closing costs</td><td>EBITDA before pre-opening and closing costs as a percentage of revenue. Shown on a continuing basis.</td><td>Measure of profitability compared to revenue, excluding one-off type costs.</td><td>Adjusted EBITDA pre-opening and closing costs of £43.7m divided by revenue of £428.7m</td></tr>
<tr><td>Exceptional items</td><td>Items that in the judgement of the Directors need to be disclosed by virtue of their size, nature or incidence, in order to draw the attention of the reader and to show the underlying business performance of the Group.</td><td>Draws the attention of the reader and to show the items that are significant by virtue of their size, nature or incidence.</td><td>Disclosed in Note 4 of the interim financial statements.</td></tr>
<tr><td>Like for like sales growth</td><td>The percentage increase or decrease in sales from showrooms that have been trading continuously from the same selling space for at least one year. Like for like sales are measured in local currency.</td><td>Enables the performance of the showrooms to be measured on a consistent year-on-year basis and is a common term used in the retail industry.</td><td>Not applicable</td></tr>
</table>

<table>
<tr>
<td>Net debt (excluding capitalised transaction costs)</td>
<td>Total borrowings (excluding capitalised transaction costs) less cash and cash equivalents. Excludes the impact of IFRS 16.</td>
<td>Measures the Group's indebtedness.</td>
<td>
<table>
<tr><th>£m</th><th>HY20</th><th>FY19</th></tr>
<tr><td>Net debt including capitalised transaction costs (note 11 to the interim financial statements)</td><td>(369.7)</td><td>(225.7)</td></tr>
<tr><td>Capitalised transaction costs</td><td>(3.2)</td><td>(9.2)</td></tr>
<tr><td>Lease liabilities – net of finance leases (IFRS 16)</td><td>280.8</td><td>-</td></tr>
<tr><td>Net debt</td><td>(92.1)</td><td>(234.9)</td></tr>
</table>
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<tr>
<td>Net margin</td>
<td>Revenue less inventory recognised as an expense, commissions paid to the providers of interest free credit and inventory provision movements.</td>
<td>Measures the profit made from the sale of inventory before store or overhead costs.</td>
<td>
<table>
<tr><th>£m</th><th>HY20</th><th>HY19</th></tr>
<tr><td>Revenue</td><td>428.7</td><td>365.4</td></tr>
<tr><td>Cost of inventory expensed</td><td>(270.4)</td><td>(232.1)</td></tr>
<tr><td>Other</td><td>2.3</td><td>3.3</td></tr>
<tr><td>Net margin</td><td>160.6</td><td>136.6</td></tr>
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<tr>
<td>Net margin %</td>
<td>Net margin % is calculated as net margin as a percentage of revenue.</td>
<td>Direct indicator of profitability.</td>
<td>Net margin £160.6m divided by revenue £428.7m.</td>
</tr>
</table>

Other definitions

Continuing basis – results exclude the results of discontinued operations as disclosed in the Income Statement

Expansionary capital expenditure/capex – relates to new showrooms, relocations or refurbishments greater than £250,000

Luxury watches – watches that have Recommended Retail Price greater than £1,000

Luxury jewellery – jewellery that has a Recommended Retail Price greater than £500