

Emperor Watch & Jewellery Limited (the “Company”) together with its subsidiaries (collectively referred to as the “Group”) is a leading retailer of European-made internationally renowned watches, together with self-designed fine jewellery products under its own brand, “*Emperor Jewellery*”. The Company has been listed on the Main Board of the Stock Exchange since July 2008.

The Group has established a retail network of around 100 stores across Hong Kong, Macau, mainland China, Singapore and Malaysia, as well as several online shopping platforms. With a history of over 75 years, the Company carries a balanced and comprehensive watch dealership list. The target customers range from middle to high income groups worldwide. The Group’s core strategy focuses on maintaining its position as the leading watch and jewellery retailing group in Greater China, coupled with an eye on expansion beyond the region.

MARKET REVIEW

The outbreak of COVID-19 was a catastrophe to all countries around the world. Entry restrictions and quarantine measures were implemented in various countries, putting a halt to all individual and business travel plans. During the Year, the total number of visitor arrivals to Hong Kong decreased by 93.6%, to only approximately 3.6 million. Hong Kong’s luxury sector suffered a major blow, and Hong Kong retail sales of jewellery, watches and clocks, and valuable gifts decreased by 54.0% year on year.

By contrast, despite nationwide shutdowns of factories in early 2020, COVID-19 was relatively under control in mainland China, hence it reported 2.3% growth in GDP during the Year. With life slowly returning to normal in mainland China in the second half of the Year, while outbound travel was still restricted, domestic consumption has gradually regained momentum

FINANCIAL REVIEW

Overall Review

In the face of a tough operating environment as a result of COVID-19, the Group’s total revenue decreased by 36.1% to HK\$2,626.6 million (2019: HK\$4,110.1 million) during the Year. Revenue from the Hong Kong market dropped significantly to HK\$1,256.6 million (2019: HK\$2,760.7 million), as the retail market remained difficult due to weak tourism, and accounted for 47.8% (2019: 67.2%) of the total revenue. On the other hand, with mainland China substantially containing COVID-19, domestic economic activities returned to a relatively reasonable level, and there was an expansion of inbound consumption due to restrictions on outbound travel, resulting in a robust rebound of the

Group's mainland China business. Hence, revenue from the mainland China market increased by 39.7% to HK\$783.3 million (2019: HK\$560.6 million), accounting for 29.8% (2019: 13.6%) of the total revenue. In respect of product segment, the sales revenue from watch and jewellery segments decreased to HK\$2,056.2 million (2019: HK\$3,158.2 million) and HK\$570.4 million (2019: HK\$951.9 million) respectively, accounting for 78.3% (2019: 76.8%) and 21.7% (2019: 23.2%) of the total revenue.

Gross profit decreased to HK\$840.1 million (2019: HK\$1,264.0 million), while gross profit margin increased by 1.2 percentage points to 32.0% (2019: 30.8%). The Group actively adopted all necessary measures to mitigate the adverse financial impacts, including but not limited to rental reductions, staff cost reductions, and driving sales by various means. During the Year, the net profit decreased to HK\$34.0 million (2019: HK\$90.0 million), while a net loss of HK\$113.7 million was recorded for the six months ended 30 June 2020, indicating a turnaround during the second half of the Year. Basic earnings per share was HK0.50 cent (2019: HK1.33 cents). The Group has recommended the payment of a final dividend of HK0.15 cent (2019: Nil) per share.

Capital Structure, Liquidity and Financial Resources

Bank balances and cash on hand of the Group as at 31 December 2020 amounted to HK\$405.1 million (2019: HK\$239.9 million), which were mainly denominated in Hong Kong dollars and Renminbi. As at 31 December 2020, the Group had total bank borrowings of approximately HK\$638.7 million (2019: HK\$790.9 million), resulting in a net gearing ratio (calculated on the basis of bank borrowings less cash and cash equivalents over net asset value) of 5.1% (2019: 12.3%). The Group also had available un-utilised banking facilities of approximately HK\$948.3 million.

As at 31 December 2020, the Group's current assets and current liabilities were approximately HK\$3,585.3 million (2019: HK\$3,539.4 million) and HK\$1,027.3 million (2019: HK\$659.3 million), respectively. Current ratio and quick ratio of the Group were 3.5 (2019: 5.4) and 0.5 (2019: 0.6), respectively.

In view of the Group's financial position as at 31 December 2020, the Directors considered that the Group had sufficient working capital for its operations and future development plans.

BUSINESS REVIEW

Presence in Prime Retail Locations

As at 31 December 2020, the Group was operating 101 stores (31 December 2019: 104) in Hong Kong, Macau, mainland China, Singapore and Malaysia. The distribution was as follows:

| | Number of stores |
|----------------|-------------------------|
| Hong Kong | 30 |
| Macau | 5 |
| Mainland China | 57 |
| Singapore | 8 |
| Malaysia | 1 |
| Total | 101 |

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

Over the years, the Group has built a strategic sales network in prime shopping areas as well as well popular residential districts in Hong Kong, Macau and mainland China. The Group also successfully expanded its presence in Singapore and Malaysia, to enhance its footprint and brand exposure beyond Greater China.

Solidifying Leading Position

With its long-standing history, the Group is a trusted partner of and maintains solid relationships with major Swiss watch brand suppliers, thereby continuing to hold a comprehensive portfolio of watch dealerships and maintaining its leading position, especially in Hong Kong. The Group actively participates in co-marketing campaigns and events with brands, highlighting new products and connecting the customer in a personalised way.

Enhancing the Jewellery Business

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

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

SNAPSHOTS OF BUSINESS DEVELOPMENT DURING COVID-19

COVID-19 has brought tremendous influence to the macro economy. The business development of the Group during COVID-19 are summarised as follows:

- The total numbers of visitor arrivals to Hong Kong and Macau declined by 93.6% and 85.0% respectively during the Year, while the Group’s segmental revenue of Hong Kong and Macau markets only decreased by 54.5% and 47.2%, demonstrating the resilience of local luxury consumption demand, and the effectiveness of sales and marketing strategies of the Group.
- Entering the second half of the Year, with mainland China substantially containing COVID-19, the Group’s mainland China business recorded a strong rebound, and achieved year-on-year growth of 39.7% in revenue.
- The public health measures caused disruptions to the production of watch and jewellery products, especially during the first quarter of the Year. Overall, supplies of watches and jewellery subsequently returned to normal.
- The total number of stores remained at more than 100 throughout the Year. The Group continued closely monitoring the market situation and assessing individual store performances. Although the tourism and retail sectors in Hong Kong were hit hard by COVID-19, there was only one store closure in Hong Kong during the Year.
- To tackle the challenges arising from COVID-19, the Group promptly implemented a number of mitigating measures, including but not limited to rental savings, staff cost reductions, and driving sales by various means. The Group also closely monitored inventory levels and adjusted the product portfolio in accordance with market responses.

- To safeguard our customers' health, the Group has put additional efforts and resources into in-store precautionary measures — such as monitoring body temperatures and providing hand sanitisers; and salespersons are required to complete health declaration forms from time to time.
- With increased usage of online platforms to make purchases by consumers during COVID-19, it has reshaped consumer behaviour. In view of this, the Group is enhancing its online platforms for its jewellery products, and has already established a presence on popular platforms such as JD.com, Tmall.com, and Zalora. Meanwhile, the Group will continue liaising with watch suppliers regarding potential online business collaboration.
- As there are uncertainties regarding travel restrictions worldwide, the mainland China market will be an important growth driver for the Group in the near future. The Group will continue enhancing its strategic coverage in the mainland China market and seizing opportunities ahead.

PROSPECTS

During the last quarter of the Year, the Group's businesses in the Hong Kong, Macau, and Singapore markets have seen slight improvements, while the mainland China market saw good progress in recovering from the earlier downturn. In the meantime, various governments have been pushing ahead with vaccination programmes, which will take some time to achieve mass inoculation. Thus, it is anticipated that the global travel restrictions imposed by various governments will remain in the near future.

Considering the above-mentioned limitations, the Group believes that domestic consumption within mainland China will be an important driver of the Group's business going forward, given the strong pent-up demand and high purchasing power of Chinese citizens. The Group will continue evaluating the market situation and exploring development opportunities, in order to strengthen its footprint in the mainland China market. As for the Hong Kong, Macau and Southeast Asia markets in which the Group has established a strategic network, they are poised to benefit from the recovery of the tourism and consumption sentiment riding on the reputation of "Emperor" built over the past decades.

Looking ahead, the Group will adhere to its prudent approach and strive to minimise the downside risks to which the Group is exposed. The Group will closely monitor the inventory levels and adjust the product mix accordingly, exercise stringent control of cost expenses, and enhance the retail network as opportunities arise, with an aim of maintaining steady development of its businesses amid this unprecedented, challenging business environment.