

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

The Group has established a retail network of over 90 stores across Hong Kong, Macau, mainland China, Singapore and Malaysia, as well as an online shopping platform, and now has over 1,100 staff. 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

2018 was a year of contrasts. The first half of the year was marked by encouraging growth for the luxury consumption market in general. However, this growth was not sustained and the second half was punctuated by a fall-off in market sentiment in the shadow of a prolonged Sino-US trade dispute.

In Hong Kong, retail sales growth has moderated since September 2018, particularly in the jewellery and watch sector. Statistics from The Census and Statistics Department revealed that September retail sales in the jewellery, watches and clocks category increased year-on-year by a slight 1.9% only after eight straight months of double-digit growth, and the trend has become even weaker after the third quarter of 2018. The moderation in retail sales was due partly to softer Chinese tourist spending because of a weaker yuan, and partly to the more cautious local consumption sentiment amid various external uncertainties and weaker asset prices.

Financial Review

Overall Review

Despite a slowdown in the second half, the Group’s overall results during the year ended 31 December 2018 (the “Year”) remained satisfactory. During the Year, the Group’s total revenue increased by 15.9% to HK\$4,722.2 million (2017: HK\$4,075.1 million). Gross profit grew by 19.8% to HK\$1,304.5 million (2017: HK\$1,089.2 million). The gross profit margin was lifted by 0.9 percentage point to 27.6% (2017: 26.7%), which was mainly attributable to stronger market demand for luxury watches.

The Group's net profit recorded a growth of 65.5% to HK\$264.3 million (2017: HK\$159.7 million). Subsequent to the completion of the acquisition of a retail space at Nos. 4-8 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong – as a self-owned store (the “Self-owned Store”) – on 12 December 2018, a depreciation charge of HK\$4.8 million (2017: Nil) was incurred. Excluding such depreciation charge, the adjusted net profit grew by 68.5% to HK\$269.1 million (2017: HK\$159.7 million). The increase in profit was due to an improved gross profit and disciplined control over the operating and administrative expenses. Basic earnings per share increased to HK3.87 cents (2017: HK2.32 cents). The board of directors of the Company (the “Board” or the “Directors”) recommended the payment of a final dividend of HK0.55 cent (2017: HK0.58 cent) per share. Together with the interim dividend of HK0.70 cent (2017: HK0.17 cent) per share, the total dividends for the Year are HK1.25 cents (2017: HK0.75 cent) per share.

Hong Kong remained the core market for the Group, with revenue delivering a solid growth of 19.6% to HK\$3,642.9 million (2017: HK\$3,046.7 million), which accounted for 77.1% (2017: 74.8%) of the total revenue. Revenue from Macau grew by 22.4% to HK\$286.6 million (2017: HK\$234.2 million), while sales from Southeast Asia and mainland China were broadly stable year-on-year.

Considering the breakdown by product, watch segment revenue rose 13.1% to HK\$3,664.0 million (2017: HK\$3,238.6 million) and accounted for 77.6% (2017: 79.5%) of the total revenue. Revenue from the jewellery segment recorded impressive growth of 26.5% to HK\$1,058.2 million (2017: HK\$836.5 million), as a result of an expanded “*Emperor Jewellery*” store network, coupled with successful marketing strategies.

Capital Structure, Liquidity and Financial Resources

In December 2018, the Group completed the acquisition of the Self-owned Store at a total consideration of HK\$1,800 million. Approximately HK\$1,200 million cash was deployed, equivalent to the total consideration net of the outstanding amounts payable under the mortgages of approximately HK\$600 million. The acquisition has resulted in changes in the Group's financial position.

Bank balances and cash on hand of the Group as at 31 December 2018 amounted to HK\$627.3 million (31 December 2017: HK\$1,613.1 million), which were mainly denominated in Hong Kong dollars and Renminbi (“RMB”). As at 31 December 2018, the Group had total bank borrowings of approximately HK\$1,156.5 million (31 December 2017: Nil), resulting a net gearing ratio (calculated on the basis of net debts over net asset value) of 11.9% (31 December 2017: Nil). The Group also had available un-utilised banking facilities of approximately HK\$526.6 million.

During the Year, the Company repurchased a total of 102,990,000 of its own shares from the market by using internal resources at an aggregate consideration of HK\$51.2 million, with an average price of HK\$0.50 per share. These repurchased shares were cancelled during the Year. Having considered the Group's cash reserves, the Directors believe the share repurchases would recognise value to the Company's shareholders and benefit the Company and its shareholders as a whole.

As at 31 December 2018, the Group's current assets and current liabilities were approximately HK\$3,896.8 million (31 December 2017: HK\$4,450.3 million) and HK\$908.7 million (31 December 2017: HK\$305.7 million), respectively. Current ratio and quick ratio of the Group were 4.3 (31 December 2017: 14.6) and 0.9 (31 December 2017: 5.9), respectively.

In view of the Group's financial position as at 31 December 2018, 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 2018, the Group was operating 95 stores (31 December 2017: 80) in Hong Kong, Macau, mainland China, Singapore and Malaysia. The distribution was as follows:

	Number of stores
Hong Kong	29
Macau	5
Mainland China	53
Singapore	7
Malaysia	1
Total	95

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

In Hong Kong, the Group has established a strong presence in prime shopping areas, on Russell Street in Causeway Bay, Canton Road in Tsim Sha Tsui, and Queen's Road Central in Central. Surrounded by the world's leading brands, the stores located in these areas continue to benefit from massive tourist exposure and high foot traffic. In addition, the solid foothold in prime areas enables the Group to ensure its market position as one of Hong Kong's leading watch retailers.

In December 2018, the Group secured its significant foothold on the core part of Canton Road through the acquisition of the Self-owned Store, which it has operated as a flagship store for over the past decade. Being one of the busiest shopping streets in Hong Kong, Canton Road receives massive tourist traffic as it is within a comprehensive public transportation network comprising mass transit railways, buses and ferries. Acquiring the Self-owned Store has enabled the Group to sustain a strategic sales network on Canton Road, which abounds with the world's premier brands. Given its proven sales performance, the continuity of a major financial contributor has also been guaranteed.

Solidifying Leading Position

In the watch sector, it is imperative to maintain a collaborative brand-retailer relationship. The Group has continued to enjoy solid long-term relationships with major Swiss watch brand suppliers and retain comprehensive watch dealerships in Greater China.

The Group actively participates in co-marketing campaigns and events with brands, highlighting new products and connecting the customer in a personalised way. During the Year, one multi-watch store and three dedicated watch boutiques were launched in Beijing and Chongqing, further reinforcing the Group's market penetration in mainland China.

Enhancing 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 strived to enrich its product offerings in an effort to penetrate the affordable luxury jewellery segment. The signature collections launched during the Year included new "***Yo Yo***" Collection featuring unisex designs, "***Mini Me***" mother-and-baby pendant sets, "***One Vow, Two Love***" Bridal Collection, "***Emperor Jewellery X Joey Yung Heartbeat***" Collection and Chinese Wedding Fine Gold Collection. To engage with the evolving preferences of fashion-savvy customers, the Group has been revamping the images of some "***Emperor Jewellery***" stores, to refresh them with new store layouts. Meanwhile, the Group also seeks to broaden customer portfolio through expanding its presence in local shopping areas, enhancing product displays, and implementing a series of social media campaigns.

In Hong Kong, six “*Emperor Jewellery*” stores were added during the Year. These are all in shopping malls with heavy foot traffic, such as Telford Plaza I in Kowloon Bay, APM in Kwun Tong and MOSTown in Ma On Shan. The stores are decorated with warm colour combinations, creating a harmonious and relaxing atmosphere, and are perfect settings for presenting exquisite jewellery pieces.

Going beyond borders, “*Emperor Jewellery*” has expanded its footprint to include Malaysia. The new store was opened in November 2018, spans 2,000 square feet and is strategically located in the iconic premium shopping mall Pavilion Kuala Lumpur. The grand launch was graced by special guests including Dr. Albert Yeung, Chairman of Emperor Group; multi-hyphenate Hong Kong pop star Ms. Joey Yung; as well as Malaysia prominent celebrity couple Mr. Awal Ashaari and Ms. Scha Alyahya, who were joined by Ms. Cindy Yeung, Chairperson and Chief Executive Officer of the Group, to officiate the opening ceremony and celebrate this important milestone.

The Group has organised various marketing events to showcase and reveal the design essence of “*Emperor Jewellery*”. In November 2018, the Group was proud to present “*Nuò by Cindy Yeung*”, the new high jewellery brand led by Ms. Yeung, in its prestigious annual jewellery exhibition. “*Nuò*” is a brand of high jewellery that embodies perfect artwork imbued with boundless creativity and passion, delivering an extraordinary experience. Meaning “promise”, the word “*Nuò*” is taken from the Putonghua pronunciation of a Chinese character in the names of Ms. Yeung and her daughter. The collection symbolises a distinctive family lineage that continues through generations.

Leveraging Group Synergies

The Group enjoys unique advantages by leveraging synergies with other companies within Emperor Group. For example, Emperor International Holdings Limited – another listed company under Emperor Group – owns many premium retail properties in renowned shopping areas. By leasing retail stores at prime locations from it on an arm’s length basis, the Group can enjoy guaranteed foot traffic. Another synergy arises through Emperor Entertainment Group and Emperor Motion Pictures, two private arms under Emperor Group. The Group invited VIP guests to its movie premieres and sponsored jewellery for the artistes. Such exposure opportunities, with pop artistes, movie stars and high-profile celebrities, serve as an important tool for enhancing the reputation of the “*Emperor*” brand, particularly in Chinese-speaking communities.

During the Year, the Group continued collaborating with pop stars of Emperor Entertainment Group and Emperor Motion Pictures, to tie-in with the launch of its new initiatives. For instance, pop star Ms. Gillian Chung, who got married last year, was

invited to showcase the Chinese Wedding Fine Gold Collection and to share her joy, creating a vibrant touch for the wedding jewellery. To spotlight the new “*Yo Yo*” collection, renowned artist Mr. Nicholas Tse carried the jewellery pieces that are imbued with an urban sense of style. In October 2018, famous actress Ms. Niki Chow was appointed as the endorser for “*One Vow Two Love*” Bridal Collection, which featured a romantic story as its design motif.

Prospects

The macro-economic headwinds such as the Sino-US trade dispute, cooling economy in China and swings in currencies all present formidable business challenges in the near-term. Over the past decades, the Group has witnessed many ups and downs, and has emerged stronger after each cycle. As such, the Group will continue to execute responsive and flexible strategies while fine-tuning its priorities to stay competitive. The Group will also strive to optimise its cost structures across each level of business and remain vigilant regarding uncertainties on the horizon.

China remains an important engine of the world’s growth. Despite recent uncertainties, the expansion of the luxury market is apparent across China, fuelled by rising income levels, shifting demographics and improving quality of life. With convenient access supported by better infrastructure, comprehensive assortment of luxury products and competitive pricing, Hong Kong remains a top shopping destination for mainland Chinese. All these factors result in favourable market fundamentals and propel the Group’s long-term growth prospects.

With rising female empowerment, along with women’s increasing spending, the jewellery sector is well placed to benefit from the expanding roles of modern women in the society. The Group is committed to reinforcing the brand identity of “*Emperor Jewellery*” in Chinese-speaking communities. In the coming years, the Group will focus on boosting marketing efforts, strengthening its presence in strategic locations and delivering a more favourable product mix to evolve the right path for sustainable growth in the affordable luxury jewellery segment.

Geographically, the Group is adopting a two-pronged strategy, comprising further penetration in Greater China while expanding its presence into new cities in other regions. The Group’s recent initiative in Malaysia has demonstrated its dedication to strengthening its footprint in Southeast Asia. In view of ample opportunities arising from outbound travel by mainland Chinese, the Group will continue to further explore scope for geographical expansion.

Looking beyond the near-term uncertainties, the Group is confident that its acknowledged position as a leading retailer shall enable it to effectively capitalise on its core competencies. The Group remains committed to seeking and seizing new opportunities, and is well-prepared to excel in changing times.