

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 over 100 stores across Hong Kong, Macau, mainland China, Singapore and Malaysia, as well as an online shopping platform, and now has over 1,000 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.

In November 2019, “英皇” and “英皇鐘錶珠寶”, which have been recognised as well-known to relevant public in mainland China, obtained cross-class protection by the National Intellectual Property Administration, affirming their wide recognition and brand value in China.

MARKET REVIEW

Hong Kong’s retail market landscape experienced an exceptionally tough cycle during the Year. The ongoing Sino-US trade dispute and local social issues unquestionably hindered economic development in Hong Kong. Local shoppers became cautious and put big spending on hold because of the less optimistic economic outlook. Store traffic dropped markedly as tourists refrained from visiting Hong Kong due to concerns regarding social instability. Hong Kong Tourism Board statistics revealed that the number of tourist arrivals declined by approximately 39.1% year-on-year, during the second half of 2019.

As the yuan’s value remained low during the Year, Chinese tourists’ spending softened and their consumption sentiment turned weak amid various external uncertainties and falling asset prices. On a global basis, the performance of luxury sales moderated.

FINANCIAL REVIEW

Overall Review

During the Year, the Group’s total revenue inevitably decreased, by 13.0% to HK\$4,110.1 million (2018: HK\$4,722.2 million). As a result of falling visitor arrivals and dampening consumption sentiment arising from local social issues, revenue from

Hong Kong market dropped to HK\$2,760.7 million (2018: HK\$3,642.9 million), which accounted for 67.2% (2018: 77.1%) of the total revenue. On the contrary, mainland China and Southeast Asia markets both exhibited strong growth, with revenue increasing by 36.8% and 26.4%, respectively; while revenue from Macau market increased by 6.6% year-on-year.

Considering revenue breakdown by product, the watch segment generated sales of HK\$3,158.2 million (2018: HK\$3,664.0 million), accounting for 76.8% (2018: 77.6%) of the total revenue. In the meantime, revenue from the jewellery segment decreased by 10.0% to HK\$951.9 million (2018: HK\$1,058.2 million).

Despite the weaker consumption sentiment, market demand for certain luxury watches remained stable and corresponding prices remained resilient, hence gross profit decreased only slightly to HK\$1,264.0 million (2018: HK\$1,304.5 million), while the gross profit margin increased by 3.2 percentage points to 30.8% (2018: 27.6%). As a result of a depreciation charge arising from the self-owned store, net profit decreased by 65.9% to HK\$90.0 million (2018: HK\$264.3 million), while the net profit before the depreciation charge decreased by 32.3% to HK\$182.1 million (2018: HK\$269.1 million). Basic earnings per share was HK1.33 cents (2018: HK3.87 cents).

Capital Structure, Liquidity and Financial Resources

Bank balances and cash on hand of the Group as at 31 December 2019 amounted to HK\$239.9 million (31 December 2018: HK\$627.3 million), which were mainly denominated in Hong Kong dollars and Renminbi. As at 31 December 2019, the Group had total bank borrowings of approximately HK\$790.9 million (31 December 2018: 1,156.5 million), resulting in a net gearing ratio (calculated on the basis of net debts over asset value) of 12.3% (31 December 2018: 11.9%). The Group also had available un-utilised banking facilities of approximately HK\$1,095.3 million.

As at 31 December 2019, the Group's current assets and current liabilities were approximately HK\$3,539.4 million (31 December 2018: HK\$3,896.8 million) and HK\$659.3 million (31 December 2018: HK\$908.7 million), respectively. Current ratio and quick ratio of the Group were 5.4 (31 December 2018: 4.3) and 0.6 (31 December 2018: 0.9), respectively.

In view of the Group's financial position as at 31 December 2019, 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 2019, the Group was operating 104 stores (31 December 2018: 95) in Hong Kong, Macau, mainland China, Singapore and Malaysia. The distribution was as follows:

	Number of stores
Hong Kong	31
Macau	5
Mainland China	59
Singapore	8
Malaysia	1
Total	104

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 successfully built a strategic sales network of both watches and jewellery in prime shopping areas and extended the presence of “*Emperor Jewellery*” in emerging shopping areas in Hong Kong. During the Year, several “*Emperor Jewellery*” stores were opened in emerging shopping areas, to enhance its brand exposure.

The weaker yuan provided more incentives for inbound consumption. During the Year, several “*Emperor Jewellery*” stores and two dedicated watch boutiques were opened in first-tier cities within mainland China, to seize the opportunities arising from the expansion of the luxury market, which is fuelled by rising income levels, shifting demographics and improving quality of life.

Beyond Greater China, during the Year the Group continued to implement plans for expanding both watch and jewellery stores in Singapore. This enabled the Group to benefit from extensive tourist exposure as well as rising local spending.

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 new designs of the “*Sunray*” Collection, drawing inspiration from the warm rays of the sun. To mark the launch of the collection, the Group invited Mr. Hins Cheung, a renowned artist who confidently embraces versatility, to star in the campaign advertisements.

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.

PROSPECTS

Despite the recent phase-one agreements between the United States and China which slightly eased trade tensions, the ongoing trade discussions will continue casting shadows on the growth of the global economy. Meanwhile, local social issues are likely to continue to adversely affect tourism and the retail market, and hence local economic development as a whole. Against the backdrop of the unfavourable market situation, especially in Hong Kong, the Group will adhere to its prudent approach, and is planning

the following strategies for mitigating the potential downside risk:

- The Group will closely monitor inventory levels and remix the product portfolio in accordance with market responses, to optimise the use of capital;
- The Group will exercise stringent control over operating costs and aim to effectively manage shop rental pressures in Hong Kong;
- The Group will evaluate individual shop performances in Hong Kong. In certain situations, the Group may consider optimising the retail network, and plan better reallocation of resources; and
- The Group will promptly react to market changes, and take appropriate measures to address and improve its overall operating efficiency.

The outbreak of coronavirus disease has been spreading across the world since January 2020. Many countries or territories have already implemented travel restrictions while some have even imposed nationwide lockdown, further decreasing the number of visitor arrivals in Hong Kong. The tough business environment which started in the second half of the Year is expected to persist for some time, with problems exacerbated by the coronavirus disease outbreak. The Group will closely monitor the market condition and strive to stay competitive in the marketplace.

Looking beyond the current uncertainties, the Group remains committed to seeking and seizing new opportunities, and is well-prepared to excel in changing times. As China remains an important engine of the world's long-term growth, the Group will focus on strengthening its footprint in mainland China and Southeast Asia, and further explore opportunities for geographical expansion.