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英皇鐘錶珠寶有限公司
EMPEROR WATCH & JEWELLERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 887)

2020 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the “Board” or “Directors”) of Emperor Watch & Jewellery Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020 (the “Year”).

FINANCIAL SUMMARY

HK\$ million

| | For the year | | Changes |
|----------------------------|--------------------------|--------------------|----------------|
| | ended 31 December | | |
| | 2019 | 2020 | |
| Revenue | 4,110 | 2,627 | -36.1% |
| Gross profit | 1,264 | 840 | -33.5% |
| <i>Gross profit margin</i> | <i>30.8%</i> | 32.0% | +1.2pp |
| Adjusted EBIT* | 268 | 160 | -40.3% |
| Net profit | 90 | 34 | -62.2% |
| Earnings per share | HK1.33 cents | HK0.50 cent | -62.4% |

* Adjusted EBIT represents earnings before interest and tax; adding back the depreciation charge on the self-owned flagship store, which reflects the Group’s core operating performance. The Group has fully adopted the HKFRS 16, which a depreciation of right-of-use assets associated with lease was recorded in both financial years.

RESULTS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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.

BUSINESS REVIEW

Presence in Prime Retail Locations

As at 31 December 2020, the Group had 101 (2019: 104) stores 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 customers 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.

FINANCIAL REVIEW

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.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, the Group has 706 salespersons (2019: 819) and 159 office staff (2019: 234). Total staff costs (including Directors' remuneration) were HK\$192.2 million (2019: HK\$313.9 million) for the Year. Employees' remuneration was determined in accordance with individual's responsibility, competence and skills, experience and performance as well as market pay level. Staff benefits include medical and life insurance, retirement benefits and other competitive fringe benefits.

To provide incentive or rewards to staff, the Company adopted a share option scheme, particulars of which will be set out in the section headed "Share Options" of the annual report of the Company.

FINAL DIVIDEND

The Board is pleased to recommend the payment of a final dividend of HK0.15 cent (2019: Nil) per share ("Final Dividend") for the Year, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company ("AGM") to be held on 27 May 2021 (Thursday). If being approved, the Final Dividend will be paid on 18 June 2021 (Friday) to shareholders whose names appear on the register of members of the Company on 4 June 2021 (Friday).

CLOSURE OF REGISTER OF MEMBERS

For ascertaining shareholders' right to attend and vote at AGM

| | |
|--------------------------------|-----------------------------------|
| Latest time to lodge transfers | 4:30 p.m. on 21 May 2021 (Friday) |
| AGM | 27 May 2021 (Thursday) |

For ascertaining shareholders' entitlement to the proposed Final Dividend

| | |
|--------------------------------|--|
| Latest time to lodge transfers | 4:30 p.m. on 2 June 2021 (Wednesday) |
| Book close dates | 3 June 2021 (Thursday) and 4 June 2021 (Friday) (both days inclusive) |
| Record date | 4 June 2021 (Friday) |
| Final Dividend payment date | 18 June 2021 (Friday) |

In order to qualify for the right to attend and vote at the AGM and for the entitlement to the proposed Final Dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration before the above respective latest time.

The audited consolidated results of the Group for the Year together with the comparative figures for the year 2019 are set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

| | <i>Notes</i> | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Revenue | 3 | 2,626,609 | 4,110,117 |
| Cost of sales | | (1,786,545) | (2,846,138) |
| Gross profit | | 840,064 | 1,263,979 |
| Other income | | 8,195 | 5,952 |
| Selling and distribution expenses | | (677,227) | (930,365) |
| Administrative expenses | | (89,265) | (136,504) |
| Other gains or losses | | (13,832) | (26,802) |
| Finance costs | | (33,139) | (56,936) |
| Profit before tax | 4 | 34,796 | 119,324 |
| Taxation | 5 | (803) | (29,293) |
| Profit for the year | | 33,993 | 90,031 |
| Other comprehensive income (expense) for the year | | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | 42,098 | (13,132) |
| Total comprehensive income for the year and attributable to owners of the Company | | 76,091 | 76,899 |
| Earnings per share – basic | 7 | HK0.50 cent | HK1.33 cents |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

| | <i>Notes</i> | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 1,717,896 | 1,850,058 |
| Right-of-use assets | | 365,022 | 565,779 |
| Rental deposits | | 93,910 | 116,721 |
| Deposits paid for acquisition of property, plant and equipment | | 364 | 1,541 |
| Deferred tax assets | | 10,896 | 13,086 |
| | | 2,188,088 | 2,547,185 |
| Current assets | | | |
| Inventories | | 3,029,949 | 3,148,350 |
| Right to returned goods asset | | 794 | 3,167 |
| Receivables, deposits and prepayments | 8 | 148,928 | 144,067 |
| Amounts due from related companies | | 561 | 3,924 |
| Bank balances and cash | | 405,111 | 239,909 |
| | | 3,585,343 | 3,539,417 |
| Current liabilities | | | |
| Payables and accrued charges | 9 | 123,697 | 117,186 |
| Lease liabilities | | 227,155 | 286,327 |
| Contract liabilities | | 9,877 | 11,957 |
| Refund liabilities | | 1,035 | 4,219 |
| Amounts due to related companies | | 4,622 | 1,030 |
| Taxation payable | | 22,184 | 65,683 |
| Bank borrowings | 10 | 638,693 | 172,900 |
| | | 1,027,263 | 659,302 |
| Net current assets | | 2,558,080 | 2,880,115 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 3,359 | 3,269 |
| Lease liabilities | | 193,691 | 332,970 |
| Bank borrowings | 10 | – | 618,034 |
| | | 197,050 | 954,273 |
| Net assets | | 4,549,118 | 4,473,027 |
| Capital and reserves | | | |
| Share capital | | 3,484,152 | 3,484,152 |
| Reserves | | 1,064,966 | 988,875 |
| Total equity | | 4,549,118 | 4,473,027 |

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The financial information relating to the years ended 31 December 2020 and 2019 included in this preliminary announcement of annual results 2020 do not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the CO is as follows:

- (a) The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to the CO and will deliver the financial statements for the year ended 31 December 2020 in due course.
- (b) The Company’s auditor has reported on the financial statements of the Group for both years. The auditor’s reports were unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports and did not contain a statement under sections 406(2), 407(2) or (3) of the CO.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

| | |
|---|--------------------------------|
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts and the related Amendments ¹ |
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions ⁴ |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework ² |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform — Phase 2 ⁵ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹ |
| Amendments to HKAS 16 | Property, Plant and Equipment — Proceeds before Intended Use ² |
| Amendments to HKAS 37 | Onerous Contracts — Cost of Fulfilling a Contract ² |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018–2020 ² |

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 June 2020.

⁵ Effective for annual periods beginning on or after 1 January 2021.

Except for the new and amendments to HKFRSs mentioned below, the Directors anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendment to HKFRS 16 *Covid-19-Related Rent Concessions*

The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 *Leases* if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application is not expected to have impact on the Group's financial position and performance as the Group does not elect to apply the practical expedient.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents sales of products to retail customers and commission income from services provided.

For sales of products to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the retail shop. Payment of the transaction price is due immediately at the point the customer purchases the goods.

For commission income, revenue is recognised when it expects to be entitled in exchange for arranging for the specified goods provided by the other party to the customers at the retail shop.

All revenue are recognised at a point in time.

Information reported to the chief operating decision maker (“CODM”), the Executive Director and Chief Executive of the Group, for the purposes of resource allocation and assessment of segment performance focuses on the locations of the operations. This is also the basis upon which the Group is arranged and organised. The Group’s operating segments under HKFRS 8 *Operating Segments* are operations located in Hong Kong, Macau, The People’s Republic of China excluding Hong Kong and Macau (“PRC”) and other regions in Asia Pacific (representing Singapore and Malaysia). The revenue generated by each of the operating segments is mainly derived from sales of watch and jewellery. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

All the sales of products and commission income are completed within one year. As permitted under HKFRS15, the transaction price allocated to these unsatisfied contracts is not disclosed.

The following is an analysis of the Group’s revenue and results by reportable and operating segment:

For the year ended 31 December 2020

| | Hong Kong HK\$'000 | Macau HK\$'000 | PRC HK\$'000 | Other regions in Asia Pacific HK\$'000 | Elimination HK\$'000 | Consolidated HK\$'000 |
|---|-----------------------|-------------------|-----------------|---|-------------------------|--------------------------|
| Revenue | | | | | | |
| External sales | 1,256,426 | 160,393 | 783,267 | 426,331 | – | 2,626,417 |
| Inter-segment sales* | 42,681 | 6,637 | – | – | (49,318) | – |
| Commission income | 155 | 37 | – | – | – | 192 |
| | <u>1,299,262</u> | <u>167,067</u> | <u>783,267</u> | <u>426,331</u> | <u>(49,318)</u> | <u>2,626,609</u> |
| * Inter-segment sales are charged at cost | | | | | | |
| Segment profit | <u>70,570</u> | <u>11,599</u> | <u>104,509</u> | <u>68,493</u> | <u>–</u> | 255,171 |
| Unallocated other income | | | | | | 8,195 |
| Unallocated corporate expenses | | | | | | (181,599) |
| Unallocated other gains or losses | | | | | | (13,832) |
| Unallocated finance costs | | | | | | <u>(33,139)</u> |
| Profit before tax | | | | | | <u>34,796</u> |

For the year ended 31 December 2019

| | Hong Kong HK\$'000 | Macau HK\$'000 | PRC HK\$'000 | Other regions in Asia Pacific HK\$'000 | Elimination HK\$'000 | Consolidated HK\$'000 |
|---|-----------------------|-------------------|-----------------|---|-------------------------|--------------------------|
| Revenue | | | | | | |
| External sales | 2,759,443 | 304,997 | 560,612 | 483,736 | – | 4,108,788 |
| Inter-segment sales* | 80,923 | 9,343 | 1,396 | 1,529 | (93,191) | – |
| Commission income | 1,234 | 95 | – | – | – | 1,329 |
| | <u>2,841,600</u> | <u>314,435</u> | <u>562,008</u> | <u>485,265</u> | <u>(93,191)</u> | <u>4,110,117</u> |
| * Inter-segment sales are charged at cost | | | | | | |
| Segment profit | <u>291,855</u> | <u>32,051</u> | <u>43,481</u> | <u>58,308</u> | <u>–</u> | 425,695 |
| Unallocated other income | | | | | | 5,952 |
| Unallocated corporate expenses | | | | | | (228,585) |
| Unallocated other gains or losses | | | | | | (26,802) |
| Unallocated finance costs | | | | | | <u>(56,936)</u> |
| Profit before tax | | | | | | <u>119,324</u> |

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies stated in the consolidated financial statements. Segment profit represents the profit earned from each segment without allocation of other income, corporate expenses including depreciation charged on the self-owned flagship shop, other gains or losses and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

No assets and liabilities are included in the measures of the Group's segment reporting that are regularly reviewed by the CODM. Accordingly, no segment assets and liabilities are presented.

Other segment information

Amounts included in the measure of segment result:

For the year ended 31 December 2020

| | Hong Kong HK\$'000 | Macau HK\$'000 | PRC HK\$'000 | Other regions in Asia Pacific HK\$'000 | Unallocated HK\$'000 (note b) | Consolidated HK\$'000 |
|---|-----------------------|-------------------|-----------------|---|-------------------------------------|--------------------------|
| Depreciation of property, plant and equipment | 116,031 | 5,864 | 7,758 | 6,159 | 5,778 | 141,590 |
| Depreciation of right-of-use assets | 189,143 | 12,528 | 19,552 | 9,533 | 11,759 | 242,515 |
| Expense relating to rented premises (note a) | <u>33</u> | <u>–</u> | <u>66,882</u> | <u>5,767</u> | <u>945</u> | <u>73,627</u> |

For the year ended 31 December 2019

| | Hong Kong <i>HK\$'000</i> | Macau <i>HK\$'000</i> | PRC <i>HK\$'000</i> | Other regions in Asia Pacific <i>HK\$'000</i> | Unallocated <i>HK\$'000</i> <i>(note b)</i> | Consolidated <i>HK\$'000</i> |
|--|------------------------------|--------------------------|------------------------|--|---|---------------------------------|
| Depreciation of property, plant and equipment | 112,899 | 4,987 | 7,017 | 5,528 | 6,248 | 136,679 |
| Depreciation of right-of-use assets | 250,357 | 17,890 | 19,725 | 9,132 | 11,633 | 308,737 |
| Expense relating to rented premises <i>(note a)</i> | 28,799 | 1,379 | 52,039 | 13,302 | 2,022 | 97,541 |

Notes:

- (a) In 2020, expenses relating to rented premises includes expenses relating to variable lease payments and rental expenses for contracts assessed not under the definition of lease under HKFRS 16.

In 2019, expenses relating to rented premises includes expenses relating to other leases with lease term end within 12 months of the date of initial application of HKFRS 16, variable lease payments and rental expenses for contracts reassessed not under the definition of lease under HKFRS 16.

- (b) Unallocated represents amount used for office.

Revenue by major products

The following is an analysis of the Group's revenue from its major products and services:

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---------------------------|-------------------------|-------------------------|
| Sales of watch | 2,055,960 | 3,156,923 |
| Sales of jewellery | 570,457 | 951,865 |
| Commission income – Watch | 192 | 1,329 |
| | <u>2,626,609</u> | <u>4,110,117</u> |

Geographical information

Information about the Group's non-current assets, excluding rental deposits and deferred tax assets, presented based on the geographical location of the assets are detailed below:

As at 31 December 2020

| | Hong Kong <i>HK\$'000</i> | Macau <i>HK\$'000</i> | PRC <i>HK\$'000</i> | Other regions in Asia Pacific <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|--------------------|-------------------------------------|---------------------------------|-------------------------------|---|--|
| Non-current assets | <u>1,946,835</u> | <u>31,634</u> | <u>83,829</u> | <u>20,984</u> | <u>2,083,282</u> |

As at 31 December 2019

| | Hong Kong <i>HK\$'000</i> | Macau <i>HK\$'000</i> | PRC <i>HK\$'000</i> | Other regions in Asia Pacific <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|--------------------|-------------------------------------|---------------------------------|-------------------------------|---|--|
| Non-current assets | <u>2,251,540</u> | <u>56,364</u> | <u>74,711</u> | <u>34,763</u> | <u>2,417,378</u> |

No revenue from a single customer amounted to 10% or more of the Group's total revenue for both years.

4. PROFIT BEFORE TAX

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit before tax has been arrived at after charging (crediting): | | |
| Auditor's remuneration | | |
| – Current year | 3,433 | 3,576 |
| – (Over) underprovision in prior years | (220) | 262 |
| Cost of inventories included in cost of sales (included reversal of allowance for inventories of HK\$1,189,000 (2019: allowance for inventories HK\$843,000)) | 1,777,163 | 2,836,628 |
| Allowance (reversal of allowance) for credit losses | 536 | (3,837) |
| Depreciation of property, plant and equipment | | |
| – retail shops | 135,812 | 130,431 |
| – offices | 5,778 | 6,248 |
| | <u>141,590</u> | 136,679 |
| Depreciation of right-of-use assets | | |
| – retail shops | 230,756 | 297,104 |
| – offices | 11,759 | 11,633 |
| | <u>242,515</u> | 308,737 |
| Staff costs, including Directors' remuneration | | |
| – salaries and other benefits costs | 177,664 | 289,508 |
| – retirement benefits scheme contributions | 14,534 | 24,419 |
| | <u>192,198</u> | 313,927 |
| Included in other gains or losses: | | |
| Impairment loss recognised in respect of property, plant and equipment | 6,990 | 3,406 |
| Impairment loss recognised in respect of right-of-use assets | 8,951 | 16,804 |
| Loss on disposals/write-off of property, plant and equipment | 1,580 | 3,559 |
| Gain arising from termination/modification of leases | (317) | (561) |
| Net exchange (gains) losses | (3,372) | 3,594 |
| | <u><u>13,832</u></u> | <u><u>26,802</u></u> |

5. TAXATION

The tax charge (credit) for the year comprises:

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---------------------------------------|-------------------------|-------------------------|
| Current year: | | |
| Hong Kong | – | 24,596 |
| Macau | – | 1,415 |
| Singapore | <u>9,286</u> | <u>8,969</u> |
| | <u>9,286</u> | <u>34,980</u> |
| (Over) underprovision in prior years: | | |
| Hong Kong | <u>(5,894)</u> | 61 |
| Macau | <u>(4,855)</u> | – |
| Singapore | <u>–</u> | <u>21</u> |
| | <u>(10,749)</u> | <u>82</u> |
| Deferred taxation | <u>2,266</u> | <u>(5,769)</u> |
| | <u><u>803</u></u> | <u><u>29,293</u></u> |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The Macau Complementary Income Tax is calculated at 12% of the estimated assessable profits for both years.

Singapore Income Tax is calculated at 17% of the estimated assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the Company’s subsidiaries in the PRC is 25% for both years.

Malaysia Income Tax is calculated at 24% of the estimated assessable profits for both years. No provision for Malaysia Income Tax has been made as the Company’s subsidiary did not have any assessable profit arising from Malaysia for both years.

6. DIVIDENDS

| | 2020 | 2019 |
|---|------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Dividends recognised as distribution during the year: | | |
| 2019 Final: Nil (2019: 2018 final dividend HK0.55 cent per share) | – | 37,287 |
| 2020 Interim: Nil (2019: interim dividend HK0.35 cent per share) | – | 23,728 |
| | <u>–</u> | <u>61,015</u> |
| | <u>–</u> | <u>61,015</u> |

The Board proposed the payment of a final dividend of HK0.15 cent per share (2019: Nil) for the year ended 31 December 2020 which is subject to approval by the shareholders of the Company at the forthcoming AGM.

7. EARNINGS PER SHARE – BASIC

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

| | 2020 | 2019 |
|--|------------------------|----------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Earnings | | |
| Profit for the year attributable to the owners of the Company for the purpose of basic earnings per share | <u>33,993</u> | <u>90,031</u> |
| | 2020 | 2019 |
| Number of shares | | |
| Number of ordinary shares for the purpose of basic earnings per share | <u>6,779,458,129</u> | <u>6,779,458,129</u> |

No diluted earnings per share in both years was presented as there were no potential dilutive ordinary shares in issue during both years.

8. RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Trade receivables from contracts with customers | 63,830 | 50,716 |
| Less: Allowance for credit losses | <u>(1,223)</u> | <u>(682)</u> |
| | 62,607 | 50,034 |
| Other receivables, deposits and prepayments | 78,140 | 81,639 |
| PRC Value-Added Tax (“VAT”) recoverable | <u>8,181</u> | <u>12,394</u> |
| | <u>148,928</u> | <u>144,067</u> |

As at 1 January 2019, trade receivable from contracts with customers amounted to HK\$65,855,000.

Retails sales are normally settled in cash or by credit cards with the settlement from the corresponding banks or other financial institutions within seven days. The credit term of receivables from retail sales in department stores are normally ranged between 15 to 45 days.

Included in other receivables, deposits and prepayments as at 31 December 2020 were advance payments to suppliers of HK\$15,506,000 (2019: HK\$19,208,000) and rebate receivables of HK\$30,624,000 (2019: HK\$33,654,000). The remaining items are individually insignificant.

The following is an ageing analysis of trade receivables before impairment presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|----------------|-------------------------|-------------------------|
| Within 30 days | 60,956 | 47,165 |
| 31–60 days | 409 | 828 |
| 61–90 days | 48 | 313 |
| Over 90 days | <u>2,417</u> | <u>2,410</u> |
| | <u>63,830</u> | <u>50,716</u> |

Included in the trade receivables balance were receivables from department stores with aggregate carrying amount of HK\$1,301,000 (2019: HK\$2,434,000) which are past due at the reporting date for which the Group has not provided for impairment loss.

9. PAYABLES AND ACCRUED CHARGES

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Trade payables | 45,235 | 44,357 |
| Other payables and accrued charges | 75,484 | 72,631 |
| Singapore Goods and Services Tax payables | 1,892 | – |
| PRC VAT payables | 1,086 | 198 |
| | <u>123,697</u> | <u>117,186</u> |

Included in other payables and accrued charges as at 31 December 2020 were accrued bonus and incentive of HK\$6,621,000 (2019: HK\$4,894,000) and accrued renovation costs of HK\$12,005,000 (2019: HK\$13,369,000).

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

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|----------------|-------------------------|-------------------------|
| Within 30 days | 39,964 | 37,339 |
| 31–60 days | 2,131 | 4,429 |
| 61–90 days | 866 | 326 |
| Over 90 days | 2,274 | 2,263 |
| | <u>45,235</u> | <u>44,357</u> |

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

10. BANK BORROWINGS

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities as at 31 December 2020) but repayable: | | |
| Within one year | 45,630 | 172,900 |
| Within a period of more than one year but not exceeding two years | 45,630 | 42,396 |
| Within a period of more than two years but not exceeding five years | 430,179 | 438,088 |
| Within a period of more than five years | <u>117,254</u> | <u>137,550</u> |
| | 638,693 | 790,934 |
| Less: Amounts due within one year shown under current liabilities | <u>(638,693)</u> | <u>(172,900)</u> |
| Amounts shown under non-current liabilities | <u> –</u> | <u>618,034</u> |

The bank borrowings carry floating interest rate ranged from 1.10% to 1.14% over Hong Kong Interbank Offered Rate (2019: 1.11% to 1.14%) and 1.2% over Singapore Interbank Offered Rate (2019: 1.2%) per annum.

The Group had pledged a property with carrying amount of HK\$1,610,792,000 (2019: HK\$1,703,126,000) to secure banking facilities granted to the Group. In addition, corporate guarantee was also issued in favour of the banks by the Company and its subsidiary to secure banking facilities granted to Group.

As at 31 December 2019, the Group has obtained the comfort letters from the bank indicating that bank borrowing would not be called within the next twelve months and therefore the bank borrowing due after twelve months would not be classified as current liabilities in the consolidated financial statements.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU, REGISTERED PUBLIC INTEREST ENTITY AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR

The Audit Committee of the Company, which comprises the three Independent Non-executive Directors of the Company, had reviewed the Group's audited consolidated financial statements for the year ended 31 December 2020 in conjunction with the Group's auditors, Messrs. Deloitte Touche Tohmatsu. Based on this review and discussion with the management of the Company, the Audit Committee was satisfied that the audited consolidated financial statements were prepared in accordance with applicable accounting standards and fairly presented the Group's financial position as at 31 December 2020 and annual results for the Year.

CORPORATE GOVERNANCE

Corporate Governance Code

The Company had complied throughout the Year with all the code provisions as set out in the Corporate Governance Code under Appendix 14 of the Listing Rules, except with the deviation from code provision A.2.1 which requires that the roles of chairman and chief executive officer should be separate and not be performed by the same individual. Ms. Cindy Yeung, being the Chief Executive Officer of the Group, has also been appointed as the Chairperson of the Board who provides the Board with strong and consistent leadership while at the same time leading the management on effective planning, formulation, implementation and execution of long-term business strategies of the Group. The Directors have considered the issue of balance of power and authority on the Board and believes the current structure (having strong independent elements in the Board, delegation of authorities to the management, supervision by the Board and Board committees) can properly address the potential issue on power concentration. All Directors, who bring different experiences and expertise to the Company, are properly briefed on issues arising at Board meetings and that adequate, complete and reliable information is received by the Directors. The Board is of the opinion that the current Board structure functions effectively and does not intend to make any change thereof.

Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding securities transactions by Directors (“EWJ Securities Code”) on no less exacting terms than the required standards for securities dealing as set out in Appendix 10 of the Listing Rules regarding Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”). Having made specific enquiry to the Directors, all of them confirmed that they had complied with the required standard of dealings as set out in the Model Code and EWJ Securities Code throughout the Year.

Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines in line with the Model Code. No incident of non-compliance by relevant employees was noted throughout the Year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the Year.

PUBLICATION OF THE AUDITED ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<https://www.emperorwatchjewellery.com>). The annual report will be dispatched to the shareholders of the Company and will be available on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Emperor Watch & Jewellery Limited
Cindy Yeung
Chairperson

Hong Kong, 24 March 2021

As at the date hereof, the Board comprises:

Executive Directors:

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

Independent Non-Executive Directors:

Ms. Chan Sim Ling, Irene
Mr. Liu Hing Hung
Ms. Chan Wiling, Yvonne