ERNEST BOREL
1856

ERNEST BOREL HOLDINGS LIMITED
依波路控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

2018 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Ernest Borel Holdings Limited (the "**Company**" or "**Ernest Borel**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017.

FINANCIAL AND OPERATION HIGHLIGHTS

- Turnover for the financial year ended 31 December 2018 ("**FY2018**") decreased from HK$227.2 million to HK$171.8 million when compared with last year ("**FY2017**").
- Gross margin for FY2018 increased from 21.2% to 44.2%. Gross profit for FY2018 increased from HK$48.1 million to HK$75.9 million.
- Loss after tax for FY2018 was HK$97.7 million (FY2017: HK$197.3 million), a decrease of 50.5%.
- Loss per share was HK28.11 cents for FY2018 (FY2017: HK56.78 cents).
- The Board has resolved not to recommend any payment of a final dividend for FY2018 (FY2017: Nil).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Revenue	*3*	**171,806**	227,205
Cost of sales		**(95,874)**	(179,099)
Gross profit		**75,932**	48,106
Other gains and losses, net		**(13,893)**	(25,789)
Other income		**250**	859
Distribution expenses		**(69,743)**	(117,587)
Administrative expenses		**(61,674)**	(61,122)
Finance costs		**(27,218)**	(27,651)
Loss before tax	*4*	**(96,346)**	(183,184)
Income tax expense	*5*	**(1,320)**	(14,099)
Loss for the year attributable to owners of the Company		**(97,666)**	(197,283)
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit obligations		**2,510**	396
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**1,388**	6,912
Other comprehensive income for the year		**3,898**	7,308
Total comprehensive income for the year attributable to owners of the Company		**(93,768)**	(189,975)
LOSS PER SHARE			
— Basic and diluted (Hong Kong cents)	*7*	**(28.11)**	(56.78)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment		**37,944**	44,216
Life insurance policies		**17,226**	17,405
Deposit paid for proposed acquisition of a subsidiary		**–**	25,000
		55,170	86,621
CURRENT ASSETS			
Inventories		**366,118**	402,224
Trade and other receivables	*8*	**62,356**	81,569
Pledged bank deposits		**1,039**	1,026
Bank balances and cash		**28,946**	56,177
		458,459	540,996
CURRENT LIABILITIES			
Trade and other payables	*9*	**40,968**	39,241
Tax payable		**2,352**	2,333
Amount due to a related company		**25,141**	–
Amount due to a fellow subsidiary		**11,443**	–
Amount due to ultimate holding company		**176,446**	–
Bank borrowings		**10,048**	11,591
Notes payable		**–**	140,000
		266,398	193,165
NET CURRENT ASSETS		**192,061**	347,831
TOTAL ASSETS LESS CURRENT LIABILITIES		**247,231**	434,452
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**20,468**	21,921
Pension obligations		**2,137**	4,973
Liability component of convertible bond		**–**	89,972
		22,605	116,866
NET ASSETS		**224,626**	317,586
EQUITY			
Equity attributable to owners of the Company			
Share capital		**3,474**	3,474
Reserves		**221,152**	314,112
TOTAL EQUITY		**224,626**	317,586

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL

Ernest Borel Holdings Limited (the "**Company**") is an exempted company with limited liability incorporated in the Cayman Islands. The Company's shares listed on the Main Board of The Stock Exchange of Hong Kong Limited. The Company's ultimate holding company is Citychamp Watch & Jewellery Group Limited, a limited liability company incorporated in the Cayman Islands with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company's addresses of the registered office is P.O. Box 10008, Willow House, Cricket Square Grand Cayman KY1-1001, Cayman Islands and its principal place of business is Units 1612–18, Level 16, Tower I, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong.

The principal activity of the Company is investment holding and its subsidiaries are principally engaged in manufacturing and sales of watches.

The consolidated financial statements are presented in Hong Kong dollar ("**HK$**"), which is the functional currency of the Company and may be different from the functional currency of certain group entities, i.e. Renminbi ("**RMB**") and Swiss Franc ("**CHF**"). The Group's management has elected to use HK$ as they believe HK$ is the appropriate presentation currency for the users of Group's consolidated financial statements.

2. APPLICATION OF NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Adoption of new or revised IFRSs — effective 1 January 2018

In the current year, the Group has applied the following new or revised International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2018:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)
IFRIC-Interpretation 22	Foreign Currency Transactions and Advance Considerations

Except for the impact of IFRS 9 and IFRS 15 which have been disclosed as below, the adoption of the above new standards, interpretation and amendments to standards did not have any significant financial impact on these consolidated financial statements.

A. IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group.

(i) Classification and measurement of financial instruments

(a) The Group's insurance contracts of HK$17,405,000 were previously classified as deposits placed for life insurance policies and measured at amortised cost under IAS 39. Under IFRS 9, as life insurance policies whose cash flow characteristics fail to meet the SPPI criterion. As a result, life insurance policies have been classified and measured as financial assets at FVPL. As at 1 January 2018, the difference between the carrying amount and the fair value of the life insurance policy is immaterial, no transition adjustment against the opening balance of equity at 1 January 2018 was made.

The following table summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	**Original classification under IAS 39**	**New classification under IFRS 9**
Life insurance policies	Loans and receivables	FVPL
Deposit paid for proposed acquisition of a subsidiary	Loans and receivables	Amortised cost
Trade receivables	Loans and receivables	Amortised cost
Other receivables	Loans and receivables	Amortised cost
Pledged bank deposits	Loans and receivables	Amortised cost
Bank balances and cash	Loans and receivables	Amortised cost

The Group's management has assessed and considered there is no significant changes on the carrying amount of the financial assets classified under IAS 39 and IFRS 9 as at 1 January 2018.

(ii) Impairment of financial assets

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" to the "expected credit losses ("**ECL**") model". IFRS 9 requires the Group to recognised ECL for trade receivables, other receivables, pledged bank deposits and bank balances and cash earlier than IAS 39. Pledged bank deposits and bank balances and cash are subject to ECL model but the impairment is assessed to be immaterial.

Under IFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECL: these are the ECL that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECL: these are ECL that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using IFRS 9 simplified approach and has calculated ECL based on lifetime ECL. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECL are based on the 12-months ECL. The 12-months ECL is the portion of the lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due, unless the Group has reasonable and supportable information that a more lagging default criterion is more appropriate.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECL

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

(a) Impairment of trade receivables

As mentioned above, the Group applies the IFRS 9 simplified approach to measure ECL which adopts a life time ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

After performing the assessment of expected credit loss on the Group's existing trade receivables, no additional expected credit loss allowance was recognised by the Group as at 1 January 2018 as the Group's management has assessed and considered the effect of ECL is insignificant.

(b) Impairment of other receivables

The Group's other receivables are measured at amortised costs and are considered as low credit risk. After performing the assessment of expected credit loss on the Group's existing other receivables, no expected credit loss allowance was recognised by the Group as at 1 January 2018 as the Group's management has assessed and considered the effect of ECL is insignificant.

(iii) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECL rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessment have been made on the basis of the facts and circumstances that existed at the date of initial application of IFRS 9:

- The determination of the business model within which a financial asset is held.

B. IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the cumulative effect transition method. The Group has recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained profits at the date of initial application (that is, 1 January 2018) if any. As a result, the financial information presented for 2017 has not been restated.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The Group's management has assessed the impacts of adopting IFRS 15 on the consolidated financial statements and considered the impact on the Group's revenue recognition is insignificant.

Upon the adoption of IFRS 15, if there is any satisfied performance obligation but where the Group does not have an unconditional right to consideration, the Group should recognised a contract asset. If the Group does not satisfied any performance obligation but the Group has an unconditional right to consideration, the Group should recognised contract liabilities. No contract assets and liabilities is recognised upon transition.

(b) New and revised IFRSs in issue but not yet effective

The following new or revised IFRSs, potentially relevant to the Group's consolidated financial statements, have been issued but are not yet effective and have not been early adopted by the Group.

IFRS 16	Leases[1]
Amendments to IAS 1 and IAS 8	Definition of Material[2]
IFRIC-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IAS 19	Plan amendment, curtailment or settlement[1]
Amendments to IFRS 3	Definition of a Business[2]
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to IFRS 3, Business Combinations[1]
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to IAS 12, Income Taxes[1]
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to IAS 23, Borrowing Costs[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020

The Group will apply the above new standards, interpretation and amendments to standards when they become effective. The Group has commenced an assessment of the expected impact of the IFRS 16 as set out below. Except for IFRS 16, none of the rest of the new standards, interpretation and amendments to standards is expected to have a significant effect on the consolidated financial statements of the Group.

IFRS 16 — Leases

IFRS 16, which upon the effective date will supersede IAS 17 Leases and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$8,441,000. The Group does not expect the adoption of IFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

This new standard is not expected to be applied until the financial year beginning on or after 1 January 2019.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received or receivable for the sale of watch products, less returns and trade discounts, during the year. The revenue of the Group are recognised at point in time.

The Group's principal activities are the manufacturing and sale of watches. Information reported to the chief operating decision makers, being the executive directors of the Company, for resources allocation and performance assessment, is based on the Group's overall performance, which is considered as a single operating segment. Segment revenue, results, assets and liabilities are therefore the same as the respective amounts presented in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position. Entity-wide disclosures of segment information are set out below.

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers based on the location of customers, and (ii) the Group's non-current assets (which exclude the non-current financial assets) based on the location of assets.

	Revenue from external customers	
	2018	2017
	HK$'000	*HK$'000*
The People's Republic of China (the "**PRC**")	**149,623**	193,401
Hong Kong and Macau	**8,539**	10,692
Southeast Asia	**12,568**	17,992
Others	**1,076**	5,120
	171,806	227,205

	Non-current assets	
	2018	2017
	HK$'000	*HK$'000*
PRC	**5,847**	9,243
Hong Kong	**3,077**	4,648
Switzerland	**29,020**	30,325
	37,944	44,216

Information about major customers

During the year there is no revenue from customers contributing over 10% of the total sales of the Group (2017: Nil).

4. LOSS BEFORE TAX

	2018	2017
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging/(crediting):		
Auditors' remuneration	**730**	1,260
Impairment loss of trade and other receivables	**1,445**	18,788
Cost of inventories recognised as expenses, including:	**95,874**	179,099
— (Reversal of)/provision for inventories	**(997)**	49,849
Depreciation of property, plant and equipment	**13,740**	34,451
Provision for claims from a distributor	**–**	1,727
Staff costs (including directors' emoluments):		
— Salaries and other benefits	**63,179**	54,660
— Retirement benefits scheme contributions	**4,676**	4,722
Total staff costs	**67,855**	59,382
Operating lease rental in respect of rented premises	**8,244**	18,165

5. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax *(note i)*	**–**	–
Switzerland Income Tax *(note ii)*	**1,488**	257
PRC Enterprise Income Tax *(note iii)*	**–**	–
	1,488	257
Over-provision in prior years:		
Switzerland Income Tax	**–**	(1,915)
Deferred tax charge	**(168)**	15,757
Income tax expense for the year	**1,320**	14,099

Notes:

(i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years. No provision for Hong Kong profits tax has been made for both years as the Group has no assessable profits arising in Hong Kong.

(ii) Switzerland

Switzerland Income Tax is calculated at certain tax rates on the assessable income for both years. Under the relevant Tax Laws in Switzerland, the Group's subsidiaries incorporated in Switzerland were subjected to Direct Federal Tax ("**DFT**") of 8.5% (2017: 8.5%) and Cantonal Communal Tax ("**CCT**") calculated at 16.18% (2017: 16.37%).

Swiss Federal withholding tax is levied at a rate of 35% on the distribution of the profit of the company incorporated in Switzerland for both years.

(iii) PRC

Under the laws of PRC on Enterprise Income Tax (The "**EIT Law**") and Implementation Regulation of EIT Law, the tax rate of PRC subsidiary is 25% (2017: 25%). No provision for Enterprise Income Tax has been made for both years as the Group has no assessable profits arising in the PRC.

6. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

7. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year ended 31 December 2018 is based on the loss attributable to the owners of the Company of HK$97,666,000 (2017: HK$197,283,000) and on the weighted average number of 347,437,000 (2017: 347,437,000) ordinary shares in issue during the year.

Diluted loss per share amount for the year ended 31 December 2017 were not presented because the impact of the exercise of the convertible bonds was anti-dilutive. Potential ordinary shares are dilutive when and only when their conversion into ordinary shares would increase loss per share attributable to owners of the Company.

There is no potential dilutive ordinary shares outstanding for the year ended 31 December 2018 and thus the dilute loss per share is the same as the basic loss per share.

8. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables, gross	**75,329**	92,619
Less: impairment loss allowance	**(20,611)**	(20,216)
Trade receivables, net	**54,718**	72,403
Other receivables	**901**	1,426
Other tax recoverable	**1,308**	1,847
Prepayments	**2,296**	2,715
Deposits	**3,133**	3,178
	7,638	9,166
Total trade and other receivables	**62,356**	81,569

Included in the trade receivables, amounts of HK$513,000 (2017: Nil) are due from the fellow subsidiaries of the Company.

The Group allows a credit period ranging from 30 to 120 days to its trade customers. The following is an ageing analysis of trade receivables, net of impairment loss allowance, presented based on the invoice date which approximates the respective revenue recognition date:

	2018	2017
	HK$'000	*HK$'000*
0–90 days	**41,702**	42,177
91–180 days	**9,932**	28,557
181–270 days	**1,958**	1,068
Over 270 days	**1,126**	601
	54,718	72,403

Before accepting any new customer, the Group assesses the potential customer's credit worthiness and defines credit limits for each customer. Limits attributed to customers are reviewed annually.

Movement in the impairment loss allowance for trade receivables

	2018	2017
	HK$'000	*HK$'000*
Balance at beginning of the year	**20,216**	725
Impairment losses allowance recognised	**1,445**	18,788
Exchange realignment	**(1,050)**	703
Balance at the end of the year	**20,611**	20,216

Included in the impairment loss allowance are individually impaired trade receivables with an aggregate credit impaired balance of HK$20,545,000 (2017: HK$20,216,000) which has been fully impaired and expected credit loss allowance of HK$66,000 as at 31 December 2018. The Group does not hold any collateral over these balances.

9. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**8,098**	8,579
Other payables	**3,575**	6,232
Accruals	**28,983**	24,430
Contract liabilities arising from sales of goods	**312**	–
	40,968	39,241

The following is an ageing analysis of trade payable presented based on the invoice date at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
1–30 days	**2,747**	3,849
31–60 days	**4,437**	3,835
Over 60 days	**914**	895
	8,098	8,579

The credit period for trade purchases ranges from 30 to 90 days.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning over 163 years. Throughout the course of its history and across its operations, the Group has upheld the principles of producing high precision "Swiss-made" products and implemented stringent quality controls. Under its own brand "Ernest Borel", the Group is engaged in the design, production, marketing and sale of mechanical and quartz premium watches. As one of the oldest Swiss premium watchmakers, Ernest Borel has adopted the "dancing couple" as its icon, which embodies "romance and elegance". Together with its distinctive market position, Ernest Borel has gained leadership among brands of watches for couples in Switzerland. The extensive distribution network of the Group covers retail markets in the People's Republic of China (the "**PRC**"), (the PRC and for the purpose of this announcement, excludes the Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region ("**Macau**") and Taiwan), Hong Kong, Macau and Southeast Asia. As at 31 December 2018, the Group has more than 770 points of sale ("**POS**").

Ernest Borel recorded a revenue of HK$171.8 million (2017: HK$227.2 million), representing a year-on-year decrease of approximately 24.4%, and gross profit and gross profit margins increased to HK$75.9 million (2017: HK$48.1 million) and 44.2% (2017: 21.2%), respectively. Consequently, loss attributable to equity holders amounted to HK$97.7 million in FY2018.

The PRC Market

The PRC remains the core market of the Group. As at 31 December 2018, the Group had around 620 POS in the country. Revenue from the PRC segment decreased from HK$193.4 million for FY2017 to HK$149.6 million for FY2018, accounting for approximately 87.1% of total revenue.

Hong Kong, Macau and Southeast Asia Markets

As at 31 December 2018, the Group had around 130 POS in Hong Kong, Macau and Southeast Asia markets. Sales in these markets decreased by approximately 26.4% from HK$28.7 million for FY2017 to HK$21.1 million for FY2018, accounting for approximately 12.3% of total revenue.

EVENTS AFTER THE REPORTING PERIOD

There are no material events undertaken by the Group after the reporting period.

FINANCIAL REVIEW

Revenue and segment information

Our revenue decreased by HK$55.4 million, or approximately 24.4% from HK$227.2 million for FY2017 to HK$171.8 million for FY2018.

Performance by geographical locations

	2018	2017	Changes	
	HK$'000	*HK$'000*	*HK$'000*	%
PRC market	**149,623**	193,401	**(43,778)**	**(22.6)**
Hong Kong, Macau and Southeast Asia markets	**21,107**	28,684	**(7,577)**	**(26.4)**
Other markets mainly in the United States and Europe	**1,076**	5,120	**(4,044)**	**(79.0)**
Total	**171,806**	227,205	**(55,399)**	**(24.4)**

The PRC market

The PRC continues to be our major market, representing approximately 87.1% of our total revenue for FY2018. Sales in this region showed a decrease of approximately 22.6% from HK$193.4 million for FY2017 to HK$149.6 million for FY2018.

Hong Kong, Macau and Southeast Asia markets

Hong Kong, Macau and Southeast Asia markets accounted for approximately 12.3% of our total revenue for FY2018. Sales in these markets decreased by approximately 26.4% from HK$28.7 million for FY2017 to HK$21.1 million for FY2018.

Other markets

Revenue from other markets, namely markets in the United States and Europe recorded a decrease from HK$5.1 million FY2017 to HK$1.1 million for FY2018.

Cost of sales

Cost of sales decreased by approximately 46.5% from approximately HK$179.1 million for FY2017 to approximately HK$95.9 million for FY2018. The decrease was mainly attributable to decrease in provision for allowance of inventories.

Gross profit

Our gross profit increased by HK$27.8 million or approximately 57.8% from HK$48.1 million for FY2017 to HK$75.9 million for FY2018, while the gross profit margin increased to approximately 44.2% for FY2018 from approximately 21.2% for FY2017. The increase in gross profit margin was primarily due to decrease in provision for allowance of inventories by approximately HK$50.9 million.

Other gains and losses

Other losses decreased by HK$11.9 million or approximately 46.1% to HK$13.9 million for FY2018 from HK$25.8 million for FY2017. This was primarily due to decrease in impairment loss of trade and other receivables by HK$17.3 million, decrease in loss of inventory by HK$18.8 million and decrease in claims by HK$4.3 million which was partially offset by increase in loss on early redemption of the convertible bonds by HK$1 million and increase in foreign exchange loss by approximately HK$27.0 million mainly arising from depreciation of the RMB and CHF against the Hong Kong dollars.

Distribution expenses

Our selling and distribution expenses decreased by HK$47.9 million or approximately 40.7% from HK$117.6 million for FY2017 to HK$69.7 million for FY2018, representing approximately 40.6% of our total revenue for 2018 (2017: approximately 51.8%).

Administrative expenses

Our administrative expenses increased slightly to HK$61.7 million for FY2018 from HK$61.1 million for FY2017, representing an increase of HK$0.6 million or approximately 1.0%.

Finance costs

Our finance costs decreased slightly by HK$0.5 million or approximately 1.8% from HK$27.7 million for FY2017 to HK$27.2 million for FY2018.

Loss for the year attributable to owners of our Company

Our net loss for FY2018 decreased from HK$197.3 million for FY2017 to HK$97.7 million for FY2018, a decrease of 50.5%.

Inventory

Inventory amounted to approximately HK$366.1 million as at 31 December 2018, representing a decrease of HK$36.1 million, or around 9.0%, from HK$402.2 million as at 31 December 2017. Such decrease in inventory was attributable to consumption during the year.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK$81.6 million and approximately HK$62.4 million as at 31 December 2017 and 2018 respectively. Such decrease in trade and other receivables was attributable to a decrease in revenue for FY2018.

The Group's trade and other payables showed a slight increase from approximately HK$39.2 million as at 31 December 2017 to approximately HK$41.0 million as at 31 December 2018.

Liquidity, financial resources and capital structure

As at 31 December 2018, we had non-pledged cash and bank balances of HK$28.9 million (2017: HK$56.2 million). Based on the borrowings of HK$223.1 million (2017: HK$241.6 million) and shareholders' equity of HK$224.6 million (2017: HK$317.6 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 99.3% (2017: approximately 76.1%).

As at 31 December 2018, all of our borrowing amounting to HK$223.1 million was repayable within one year.

Foreign exchange exposure

Certain members of our Group have foreign currency sales, which expose us to foreign currency exchange fluctuation risk. In addition, certain amounts of our trade receivables, other receivables and deposits, bank balances, other payables and accrued expenses, bank borrowings and our intra-group balances were denominated in foreign currencies.

We monitor foreign exchange trends and shall consider hedging significant foreign currency exposure should the need arise.

Charge on assets

Our outstanding bank borrowings were secured by:

(a) charges over our time deposits with a carrying amount of HK$1.0 million (2017: HK$1.0 million); and

(b) charges over deposits placed for a life insurance policies with a carrying amount of HK$17.2 million (2017: HK$17.4 million).

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during FY2018.

Future plan for material investment and capital assets

The Group does not have any plan authorised by the Board for material investments or additions of capital assets as at the date of this announcement.

Contingent liabilities/Pending litigation

As at the close of business on 31 December 2018, the Group had the following litigation:

(a) According to the Court Order* (民事判決書) granted by the Guangzhou Tianhe District Court* (廣州市天河區法院) on 26 December 2018, the Group need to compensate RMB2,356,212 to a former employee. The Group refused to accept the judgment and has applied to the court for appeal. However, full provision for the claim has been made in the consolidated financial statements for the year ended 31 December 2017.

Save as disclosed above, the Group did not have any other material contingent liabilities as at the close of business on 31 December 2018.

Change of controlling shareholder of the Company and unconditional mandatory cash offers

On 18 September 2018, Citychamp Watch & Jewellery Group Limited ("**Citychamp**") became the controlling shareholder of the Company and indirectly owned 202,275,000 shares of the Company, representing 58.22% of the issued share capital of the Company, immediately upon the completion of the acquisition of such shares of the Company by VGB Limited (the "**Offeror**"), a wholly-owned subsidiary of Citychamp.

Accordingly, CCB International Capital Limited, on behalf of the Offeror, made unconditional mandatory cash offers (the "**Offers**") to acquire all of the issued shares of the Company not already owned and/or agreed to be acquired by it and/or parties acting in concert with it and acquire all the outstanding convertible bonds of the Company in accordance with the Takeovers Code.

As at the date of this announcement, Citychamp indirectly owns 222,634,485 shares of the Company, representing approximately 64.08% of the issued share capital of the Company. The Company is an indirect non-wholly owned subsidiary of Citychamp.

Details of, among others, the change of controlling shareholder of the Company and the Offers were set out in the composite offer and response document jointly issued by Offeror and the Company dated 5 October 2018 and the joint announcement issued by Offeror and the Company dated 26 October 2018.

* *for identification purpose*

Employees and remuneration policies

As at 31 December 2018, the Group had a total of 231 full-time employees, representing a decrease of 15.4% compared to 273 employees as at 31 December 2017. Total staff costs for FY2018 increased to approximately HK$67.9 million from approximately HK$59.4 million for FY2017.

All of our full-time employees are paid a fixed salary and may be granted other allowances, based on their positions. Members of the sales staff are also eligible for commissions based on their ability to meet sales targets. In addition, year-end bonuses may also be awarded to the employees at our discretion and based on employees' performance. Yearly performance appraisals are conducted to ensure that the employees receive feedback on their performance. Our Company has adopted a share option scheme (the "**Share Option Scheme**") on 24 June 2014 for the purpose of providing incentives and rewards to eligible directors and employees of the Group, which became effective on the Listing Date. No option has been granted under the Share Option Scheme during FY2018.

The Group provides training to its employees on a regular basis to keep them abreast of their knowledge in the Group's products, technology developments and market conditions of its industry. In addition, the Group's senior management also participates in conferences and exhibitions to deepen their knowledge in the industry.

Capital commitments

There was no capital commitments as at 31 December 2018. (2017: HK$26.1 million).

PROSPECTS

As always, the Group endeavours to enhance the reputation of "Ernest Borel" brand by implementing effective marketing tactics and organizing various brand enhancement activities. During the year under review, the Group has completely revamped to a brand-new image in the market with the endorsement by two new brand ambassadors, with a view to promoting "Ernest Borel" as a "affordable luxury" possessing an energetic, youthful and international image to consumers. In the future, the Group will continue to hold roadshows in different regions, place outdoor advertisements, engage internet celebrities to advertise our products and display all kinds of digital and electronic advertisements, so as to increase our brand popularity and market share.

During the year under review, the Group has facilitated collaboration with world-renowned Swiss watch designers to enhance our capability in product design, and re-interpret the "Ernest Borel" brand while inheriting the "romance" element of our brand. We have developed three new product lines that fit our brand and market position, including romantic series, feminine series and casual series. The Group believes that all "Swiss-made" watch series for men, women and couples can meet the diverse preferences of our target mid-range-to-high-end customers and the millennials.

During the year under review, the production lines in the Switzerland plant have undergone a comprehensive upgrade and reform. While carrying forward with the expertise and know-how in the craftsmanship of "Swiss-made" watches, the Group will continue to maintain a high level of quality for watches with the "Ernest Borel" brand.

Looking forward to 2019, in light of the prevailing challenges from global economy and the PRC market environment, the Group remains cautiously optimistic and positive to closely control its operation costs, including sales, distribution and administrative expenses, and the industry environment of "Swiss-made" watches, as well as implement effective resource utilization plan. Meanwhile, the Group will continue to deploy appropriate marketing strategies externally while strengthening our product design capability to cope with the ever-changing market environment and challenges. Lastly, the Group has been exploring various investment opportunities to diversify and broaden its profit base in anticipation to bring valuable and sustainable returns to our shareholders in the future.

REVIEW OF ANNUAL RESULTS

The Company has established an audit committee (the "**Audit Committee**") in compliance with Rule 3.21 of the Listing Rules and code provision C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules (the "**Corporate Governance Code**") for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three members, namely Mr. Lui Wai Ming (who is also the chairman of the Audit Committee), Mr. To Chun Kei and Ms. Chan Lai Wa, all being independent non-executive Directors (the "**INEDs**") of the Company.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Group's audited results for FY2018 with the Company's management. The Audit Committee has also met and discussed with the Group's independent auditors, BDO Limited, regarding the Group's audit, internal control system and financial reporting matters.

CORPORATE GOVERNANCE

Code Provision A.2.1

Pursuant to the code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company deviated from this code provision as Mr. Sit Yau Chiu ("**Mr. Sit**") was the chairman and chief executive officer of the Company concurrently until his resignation on 12 October 2018. Having considered that (a) the holding of the positions of the chairman and chief executive officer by Mr. Sit provided the Group with efficient and effective business planning and execution; and (b) the INEDs provided independent opinion on issues to be considered by the Board, the Board believes that for the period between 1 January 2018 and 12 October 2018, the balance of power and authority was adequately ensured by the composition of the Board.

In light of the change of controlling shareholder of the Company, on 12 October 2018, Mr. Shang Jianguang was appointed as the executive Director and the chairman of the Board and Mr. Tao Li was appointed as the chief executive officer of the Company to take charge of the supervision of the execution of the policies determined by the Board. Following such appointment on 12 October 2018, the Company is in compliance with the requirement under code provision A.2.1 of the Corporate Governance Code.

Code Provision A.6.7

Pursuant to the code provision A.6.7 of the Corporate Governance Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Ms. Lou Linqing ("**Ms. Lou**"), the non-executive Director, and Ms. Chan Lai Wa, the independent non-executive Director, were unable to attend the Company's extraordinary general meeting held on 17 April 2018 due to other business engagements. Ms. Lou was also unable to attend the Company's annual general meeting held on 1 June 2018 due to other business engagements.

Code provision E.1.2

Pursuant to the code provision E.1.2 of the Corporate Governance Code, the chairman of the board should attend the annual general meeting. He should also invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting. Mr. Sit, the then chairman of the Board, did not attend the annual general meeting of the Company held on 1 June 2018 due to other business engagements.

Save as disclosed above, the Board is of the view that the Company has complied with all code provisions as set out in the Corporate Governance Code for the year ended 31 December 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealing in the securities of the Company by the Directors. Following specific enquiries made by the Company on the Directors, all Directors have confirmed that they had fully complied with the required standards set out in the Model Code during the year ended 31 December 2018.

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

During the year ended 31 December 2018, the Company did not redeem any of its shares listed and traded on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such shares.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for FY2018 (2017: Nil).

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held in Hong Kong on Wednesday, 29 May 2019. Notice of the AGM will be issued and disseminated to the Company's shareholders (the "**Shareholders**") in due course.

BOOK CLOSURE

In order to determine the Shareholders' entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Friday, 24 May 2019 to Wednesday, 29 May 2019, both days inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the forthcoming AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 23 May 2019.

SCOPE OF WORK OF BDO LIMITED ON THIS PRELIMINARY ANNOUNCEMENT

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 2018 as set out in this announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited 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 BDO Limited on this preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is available for viewing on the respective websites of the Stock Exchange at www.hkexnews.hk and the Company's website at www.ernestborel.ch. The annual report of the Company for FY2018 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board of
Ernest Borel Holdings Limited
Shang Jianguang
Chairman

Hong Kong, 29 March 2019

As at the date of this announcement, the board of directors of the Company comprises the following directors:

Executive Directors:	Mr. Shang Jianguang, Mr. Teguh Halim, Mr. Xiong Wei and Ms. Lam Lai
Non-executive Director:	Mr. Xiong Ying
Independent Non-executive Directors:	Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa