BONJOUR

Bonjour Holdings Limited
卓悦控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 653)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors (the "**Director(s)**") of Bonjour Holdings Limited (the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, "**Bonjour**" or the "**Group**") for the year ended 31 December 2018 (the "**Year**") with comparative figures for the previous year as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Turnover	3	**1,793,457**	1,934,893
Cost of goods sold		**(1,157,692)**	(1,254,665)
Gross profit		**635,765**	680,228
Other income	4	**20,639**	43,541
Distribution costs		**(57,414)**	(50,419)
Administrative expenses		**(612,158)**	(714,269)
Other operating expenses		**(3,045)**	(228)
Core operating loss		**(16,213)**	(41,147)
Loss on disposal of available-for-sale financial assets		**–**	(6,086)
Impairment loss on available-for-sale financial assets		**–**	(140,293)
Loss from operations		**(16,213)**	(187,526)
Finance costs	6	**(16,860)**	(14,769)
Loss before tax		**(33,073)**	(202,295)
Income tax expense	7	**(6,540)**	(47)
Loss for the year	8	**(39,613)**	(202,342)
Attributable to owners of the Company		**(39,613)**	(202,342)
Loss per share	10		
Basic		**HK(1.2) cents**	HK(5.9) cents
Diluted		**HK(1.2) cents**	HK(5.9) cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
Loss for the year	**(39,613)**	(202,342)
Other comprehensive income:		
Item that will not be reclassified to profit or loss:		
Remeasurement gains on long service payment liabilities	**199**	870
Fair value changes of equity instruments at fair value through other comprehensive income ("FVTOCI")	**(4,448)**	–
	(4,249)	870
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**2,333**	(3,576)
Fair value changes of available-for-sale financial assets	**–**	(103,783)
Investment revaluation reserve reclassified to profit or loss upon disposal of available-for-sale financial assets	**–**	(3,600)
Reclassification adjustment to profit or loss on impairment of available-for-sale financial assets	**–**	100,077
	2,333	(10,882)
Other comprehensive income for the year, net of tax	**(1,916)**	(10,012)
Total comprehensive income for the year	**(41,529)**	(212,354)
Attributable to owners of the Company	**(41,529)**	(212,354)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**706,071**	733,588
Goodwill		**–**	–
Rental and utility deposits		**40,899**	43,819
Financial assets at FVTOCI	11	**83,212**	–
Available-for-sale financial assets	11	**–**	87,660
Deferred tax assets		**1,289**	1,289
		831,471	866,356
Current assets			
Inventories		**235,697**	189,841
Trade receivables	12	**27,723**	40,936
Rental and utility deposits		**35,772**	43,092
Prepayments, deposits and other receivables		**21,950**	19,310
Amounts due from related companies		**42**	3,342
Current tax assets		**2,972**	3,089
Bank and cash balances		**237,532**	250,076
		561,688	549,686
Current liabilities			
Trade payables	13	**125,812**	150,967
Other payables, deposits received and accrued charges		**88,298**	77,945
Amounts due to related companies		**3,346**	2,771
Bank borrowings		**265,012**	155,941
Trade finance loans		**26,239**	28,422
Finance lease payables		**885**	1,062
Current tax liabilities		**13,456**	8,459
		523,048	425,567
Net current assets		**38,640**	124,119
Total assets less current liabilities		**870,111**	990,475

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Other payables and deposits received		**9,724**	11,639
Loan from a related company		**125,000**	138,000
Bank borrowings		**128,748**	193,247
Finance lease payables		**–**	885
Deferred tax liabilities		**4,245**	2,751
Long service payment liabilities		**2,709**	2,739
		270,426	349,261
NET ASSETS		**599,685**	641,214
Capital and reserves			
Share capital		**34,126**	34,126
Reserves		**565,559**	607,088
TOTAL EQUITY		**599,685**	641,214

Notes:

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following developments are relevant to the Group's consolidated financial statements:

(i) HKFRS 9 Financial Instruments; and

(ii) HKFRS 15 Revenue from Contracts with Customers

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 9 Financial instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

The adoption of HKFRS 9 resulted in the following changes to the Group's accounting policies.

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at FVTOCI or financial assets at fair value through profit or loss ("FVTPL"), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

(b) Measurement

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

(c) Impairment

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The following table and the accompanying notes below explain the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Financial assets	*Note*	**Classification under HKAS 39**	**Classification under HKFRS 9**	**Carrying amount under HKAS 39** HK$'000	**Carrying amount under HKFRS 9** HK$'000
Equity investments	(a)	Available-for-sale	FVTOCI	87,660	87,660
Trade and other receivables	(b)	Loans and receivables	Amortised cost	135,545	135,545

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application.

The Group did not designate or de-recognise any financial assets or financial liabilities at FVTPL at 1 January 2018.

Note:

(a) These equity investments represent investments that the Group intends to hold for the long term for strategic purposes. The Group elected to present in OCI changes in the fair value of these investments because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of HK$87,660,000 were reclassified from available-for-sale financial assets to financial assets at FVTOCI on 1 January 2018. Unlike HKAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

(b) Trade and other receivables that were classified as loans and receivables under HKAS 39 are now classified at amortised cost. No allowance for impairment of the trade receivables was recognised in opening retained earnings at 1 January 2018 on transition to HKFRS 9.

For assets in scope of the HKFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of HKFRS 9 impairment model requirements at 1 January 2018 did not result in an additional impairment allowance.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The adoption of HKFRS 15 resulted in the following changes to the Group's accounting policies.

The Group operates a chain of retail shops selling merchandise. Revenue from the sale of goods is recognised when the Group sells a product to the customer.

Payment of the transaction price is due immediately when the customer purchases the merchandise. It is the Group's policy to sell its products to the customers with a right of return within 30 days. Therefore, a refund liability (included in trade and other payables) and a right to the returned goods (included in inventories) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

The Group has assessed that there is no impact on the Group's opening retained earnings as at 1 January 2018.

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16 Leases	1 January 2019
HK(IFRIC) 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to HKFRSs 2015 –2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's retail shops leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

The Group's future minimum lease payments under non-cancellable operating leases for its retail shops amounted to HK$473,030,000 as at 31 December 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2019 onwards.

HK(IFRIC) 23 Uncertainty over Income Tax Treatments

The interpretation of HKAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

3. TURNOVER

An analysis of the Group's turnover for the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
Revenue from contract with customers within the scope of HKFRS 15		
Sales of merchandise	**1,793,457**	1,934,893
Timing of revenue recognition		
Products transferred at a point in time	**1,793,457**	1,934,893

4. OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Dividend income from listed equity investments	**–**	519
Discounts received	**3,748**	4,425
Gain on disposal of property, plant and equipment	**1,650**	264
Interest income on bank deposits	**650**	89
Licence income	**–**	3,729
Rental income	**9,973**	29,554
Sundry income	**4,618**	4,961
	20,639	43,541

5. SEGMENT INFORMATION

The Group has carried on a single business, which is wholesaling and retailing of beauty and health-care products. Accordingly, there is only one single reportable segment of the Group which is regularly reviewed by the chief executive director.

Geographical information:

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	Revenue		**Non-current assets**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,599,755**	1,720,423	**705,004**	731,570
Macau	**184,395**	202,369	**712**	1,069
PRC except Hong Kong and Macau	**9,307**	12,101	**355**	949
Consolidated total	**1,793,457**	1,934,893	**706,071**	733,588

6. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest expense on bank borrowings	**10,253**	7,649
Interest expense on loan from a related company	**6,517**	6,900
Finance leases charges	**90**	220
	16,860	14,769

7. INCOME TAX EXPENSE

Income tax has been recognised in profit or loss as following:

	2018	2017
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**1,108**	178
Under/(over)-provision in prior years	**4,955**	(612)
	6,063	(434)
Current tax – Overseas		
Provision for the year	**683**	1,460
Over-provision in prior years	**(1,700)**	(928)
	(1,017)	532
Deferred tax	**1,494**	(51)
	6,540	47

Hong Kong Profits Tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year ended 31 December 2018.

On 21 March 2018, the Inland Revenue (Amendment) (No. 7) Bill 2017, which introduces a two-tiered profits tax regime, was substantively enacted. Under the two-tiered profits tax regime, the first HK$2 million of assessable profits of qualifying corporations will be taxed at 8.25% with effect from the year assessment 2018/2019. Profits above HK$2 million will continue to be subject to the tax rate of 16.5%.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expense and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2018	2017
	HK$'000	*HK$'000*
Loss before tax	**(33,073)**	(202,295)
Tax at the Hong Kong Profits Tax rate of 16.5%	**(5,457)**	(33,379)
Tax effect of income that is not taxable	**(915)**	(207)
Tax effect of expenses that are not deductible	**3,037**	27,194
Tax effect of utilisation of tax losses not previously recognised	**(1,045)**	–
Tax effect of unrecognised tax losses and temporary differences	**7,073**	7,766
Under/(over)-provision in prior years	**4,545**	(1,540)
Tax effect of tax concession	**(185)**	–
Effect of different tax rates of subsidiaries	**(513)**	213
Income tax expense	**6,540**	47

8. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

	2018	2017
	HK$'000	*HK$'000*
Auditors' remuneration		
Current	**1,178**	1,153
Cost of inventories sold *(Note)*	**1,157,692**	1,254,665
Allowance for/(reversal of allowance for) slow-moving inventories *(Note)*	**234**	(10)
Depreciation	**43,420**	44,742
Write off of property, plant and equipment	**666**	466
Gain on disposal of property, plant and equipment	**(1,650)**	(264)
Loss on disposal of available-for-sale financial assets	**–**	6,086
Impairment loss on available-for-sale financial assets	**–**	140,293
Net exchange losses/(gains)	**2,707**	(819)
Operating lease charges for land and buildings (included contingent rentals of HK$262,000 (2017: HK$507,000))	**277,644**	368,793
Staff costs, including directors' emoluments		
Wages and salaries	**214,929**	220,183
Retirement benefits scheme contributions	**9,332**	9,961
Provision for unutilised annual leave	**587**	501
Provision for long service payments	**392**	185
	225,240	230,830

Note: Cost of inventories sold includes allowance for slow-moving inventories of HK$234,000 (2017: reversal of allowance of HK$10,000) which is included in the amount disclosed separately above.

9. DIVIDENDS

The Board does not recommend the payment of any interim and final dividends for the year (2017: Nil).

10. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following:

	2018	2017
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of calculating basic and diluted loss per share	**(39,613)**	(202,342)

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**3,412,566,000**	3,412,566,000

The effects of potential ordinary shares are anti-dilutive for the years ended 31 December 2018 and 2017.

11. FINANCIAL ASSETS AT FVTOCI (2017: AVAILABLE-FOR-SALE FINANCIAL ASSETS)

	2018	2017
	HK$'000	*HK$'000*
Listed investments, at fair value		
Equity securities, analysed as non-current assets	**83,212**	87,660

As at 31 December 2018 and 2017, as there is no quoted market price in an active market, the fair value of listed securities was determined by the directors with reference to the valuation carried out by an external independent valuer by using Index return method which is based on index return on certain market comparables (level 3 fair value measurements). The liquidity discount rate used is 30%.

For the year ended 31 December 2017, the Group recognised a fair value loss of HK$140,293,000 related to listed securities classified as available-for sale financial assets held at the end of the reporting period. As the decline in fair value over the cost is considered to be significant, it is recognised as impairment loss in profit or loss.

For the year ended 31 December 2018, the Group recognised a fair value change of HK$4,448,000 related to listed securities classified as financial assets at FVTOCI held at the end of the reporting period in other comprehensive income.

Financial assets at FVTOCI (2017: available-for-sale financial assets) are denominated in HKD.

12. TRADE RECEIVABLES

(a) The Group's sales to wholesale customers are entered into on credit terms ranging from 60 to 90 days, and trade receivables under retail sales are due within 150 days from the date of billings. The ageing analysis of trade receivables is as follows:

	2018	2017
	HK$'000	*HK$'000*
Wholesales customers		
0–30 days	**1,323**	2,559
31–60 days	**937**	1,647
61–90 days	**1,633**	721
91–120 days	**87**	618
Over 120 days	**93**	1,653
	4,073	7,198
Trade receivables under retail sales		
0–30 days	**20,242**	24,652
31–60 days	**2,411**	2,488
61–90 days	**952**	2,826
91–120 days	**25**	2,487
Over 120 days	**20**	1,285
	23,650	33,738
Total	**27,723**	40,936

13. TRADE PAYABLES

(a) The ageing analysis of the Group's trade payables based on the date of receipt of goods, is as follows:

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**64,411**	72,612
31–60 days	**39,880**	52,641
61–90 days	**12,789**	15,191
91–120 days	**5,085**	3,772
Over 120 days	**3,647**	6,751
	125,812	150,967

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

In 2018, the retail market in Hong Kong has gone through ups and downs of recording double-digit year-on-year growth in the first half of the year and decelerating pace of growth in the second half. The value of total retail sales for the whole year was provisionally estimated at $485.2 billion, increased by 8.8% in value over 2017, according to the Census and Statistics Department. The annual growth looked strong but the growth in December was only 0.1% compared with the same month in 2017. A government spokesman commented that the favorable labor market conditions and buoyant inbound tourism may continue to support the retail sector in the near term but external uncertainties and weaker asset markets may increasingly affect consumer sentiment.

According to the Tourism Development Board, there was a record high of around 65.1 million total tourist arrivals in 2018, an increase of 11.4% year-on-year. However, it is believed that the same-day visitors from mainland was the key driver of visitor growth soaring 20.1% to 31.1 million. More significantly, the average spending by overnight mainland visitors dropped by a further 1.7% in the third quarter of 2018 which adversely effected the retail market performance.

According to JLL's Year-end Property Market Review and Forecast, the street-shop rents has raised 1.6% for the first time in 2018, after plunging 43% over the previous three years because of the improving overall retail sales and tightening vacancy. The report also revealed that F&B operators and mass retailers, notably personal care and pharmacy retailers, continued to drive leasing momentum. Retailers were facing higher cost pressure to survive in a highly competitive environment.

BUSINESS REVIEW

Retail Sales

The Group's total retail sales for the Year decreased by 7.3% compared to the last corresponding year (2017: decrease 3.0%). Such performance was driven by the decrease in average ticket size of mainland tourists though their total number of transactions grew which was in line with the overall increase of mainland tourist arrivals. Same store sales growth was 0.8% (2017: 2.3%).

Structural change of PRC tourist mix since over the last few years has been affecting the average ticket size where increasing arrivals were from lower-tier cities with less spending power. In addition, the weak RMB and uncertain economic environment dampened the attractiveness of Hong Kong goods to mainland shoppers that they became more cautious in their spending.

Customers retail shopping experience has evolved drastically in the last decade. Traditionally, store beauty consultants were the key driver to increase the conversion rate and thus increase revenue. Today, social media is extremely influential and powerful to convert prospect into sale. Customers, instead of purely seeking for beauty consultant's advice, look for a different shopping experience that requires better product display to facilitate self-service. Therefore, we not only used various e-marketing channels to connect our businesses to customers and introducing or promoting our business and products, but we also adapted our operations to these market changes. In 2018, we further enhanced our store showcasing to improve customers self-service shopping experience and make them easier to hunt and examine the products.

Pressure on profitability remained. Though gross profit margin increased slightly by 0.3% in 2018 mainly due to sales mix improvement, ongoing sales promotions and discounts used for sustaining sales flattened the gross profit growth. To maintain the competitiveness of our product offerings and achieve higher sales efficiency, the Group closely monitored and timely adjusted pricing strategies throughout the year. Moreover, we review the product performance regularly and discontinued those underperforming products from our product list.

E-Commerce

In 2018, the Group's online retail sales in the Hong Kong and Chinese markets increased by 9.0% from 2017.

E-commerce retail remained strong in 2018. According to the "Asia-Pacific Cross-Border B2C E-Commerce 2018" report, more than 50% of online shoppers in Asia made cross-border purchases. Also, Chinese online shoppers prefer cross-border shopping platforms hosted by local providers, such as Tmall Global, Kaola and JD Global.

In response, apart from enhancing the Group's own official online store, Bonjour flagship store has also been stationed in a number of e-commerce platforms such as Tmall Global, Kaola, Xiahongshu to increase company's visibility and provide more information and promotions to customers timely. The Group also has a long established e-Commerce platform providers like and already built a strong customer base for our brand at Tmall and WeChat.

As e-commerce keeps growing and social media continues to play a bigger role while retail and social media channels even intertwine more and more significantly. With the rise of social media, consumers pays more attention on promotions at online platforms, such as Facebook, WeChat, YouTube and Instagram. The Group put more effort on digital media by distributing promotional videos on Facebook and Weibo pages and regularly launched online promotion activities and special events, including "Double Eleven", etc. which achieved a great success. The Group's cost of digital media promotion increase 4.3% in 2018 (increase 7.6% in 2017).

Rental and Store Network

As at 31 December 2018, the Group was operated 39 stores in Hong Kong, Macau and Guangzhou (2017: 38). The rental cost of the Group was HK$277.6 million for the whole (2017: HK$368.8 million). The retail store rent-to-turnover ratio has dropped from 19.1% in 2017 to 15.5% in 2018, representing that the Group took a big leap forward with the shop operating efficiency and the current retail network strategy.

Although the high-street shop rents started to raise slightly in 2018 due to the recovery of the retail sector in the first half of 2018, the Group has adopted an optimistic cautious strategic planning in its store network in response to the market changes. By closely monitoring and analyzing market changes, the Group has reviewed its store network from time to more time to adjust store locations and negotiated for reasonable rental levels. Stores were deliberately chosen at both tourists shopping hotspots and community districts or residential areas with high population density to cater both tourists and local communities' needs which also helped the Group to increase the market penetration.

Brand Management

Currently, the Group has distributed 180 internationally self-owned brands, including Suisse Reborn, Dr. Bauer, Yumei, WOWWOW, Dr. Schafter and Auslin, covering a broad series of skin-care, fragrance and cosmetics, hairdressing, body-care and healthcare products and beauty devices.

The Group has invited a number of celebrities as spokespersons for its house brands, including Ms. Ada Choi (Suisse Reborn), Ms. Myolie Wu (Dr. Bauer), Miss Elanne Kwong (WOWWOW), Miss Joey Wong (Yumei) and Mr. Louis Cheung (Dr. Schafter). With the positive image of our spokepersons, the products have been promoted and brand awareness has been enhanced successfully.

Thanks to the promotion of the "Bonjour" brand at different media and channels, the number of current members under Bonjour VIP programme has exceeded 490,000. The VIP members are able to discover more Bonjour latest news and hottest promotional items and redeem items anytime and anywhere. Such VIP programme helped the brand to take root in the lives of customers, as well as to enhance the customers' shopping experience and loyalty.

The Group has implemented effective brand strategy and strived to diversify the product mix. The Group continuously evaluated the product performances and improved the product life cycle to reorganize the product portfolio. With a more sophisticated product portfolio, the Group would be able to fulfill the ever-changing needs of customers and maintain market competitiveness.

Talents Training and Social Responsibility

During the Year, there are approximately 850 staff in the Group and the staff cost-to-turnover ratio was 12.6% (2017: 11.9%).

Understanding that talent is an important asset to the Group, Bonjour stressed the development of every staff and provided comprehensive training for them. The Group regularly reformed training courses and workshops. We offered suitable and relevant trainings with professional beauty knowledge which could elevate staff's abilities to serve customers more confidently so as to adapt to the various changing customers' demands and develop long-term relationships with customers.

OUTLOOK

Challenging retail market amid macroeconomic headwinds

In view of the significant slowdown in total sales growth towards the end of 2018, the retail market braces for a challenging year. The global economic downturn looms over consumer confidence and actual spending. The opening major infrastructures such as the Hong Kong-Zhuhai-Macau Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link have boosted mainland tourist number which recorded high tourist arrivals in 2018. However, the behavior of the mainland visitors has been changing from play-eat-shop to in-depth travel, also from buying high-end luxury products to value-for-money or daily necessity products which brought limited impact on sales volume. The Group will keep an eye on the market changes and prepared well to brace for challenges ahead.

Rental and Store Network

According to the JLL report, the high-street shop rents is expected to soften in the range of 0-5% in 2019 due to the depreciating RMB and conservative local consumer sentiment. Therefore, the Group will critically review and monitor the rental trend in order to seize the opportunity to optimize the store network planning.

The Group will continue to review the current store distribution and adjust the location of the store network by elevating any individual underperforming stores and expanding to high traffic retail locations no matter they are at tourist shopping hotspots or local communities. Store locations that are conveniently located in popular shopping districts or shopping malls would be considered. The Group will strategically locate stores to increase market penetration and improve the retail network portfolio.

Timely Product Portfolio Adjustment

By analyzing big data, the Group will be able to better understand customers' demands and provide more customer-oriented products and services. The Group will simultaneously adjust the product mix and launch more nationwide trendy products to cater customers' needs.

In the past few years, K-beauty was unabashed stare of skincare world, from cleanser to hydrating essences. Korea is constantly innovating with extremely avant-garde new formulas and harnessing the power of nature's most amazing skin-transforming ingredients. J-beauty, on the other hand, is all about gentle skincare, soft and clean skin, which always attracts a number of die-hard fans. Europe and U.S. is unbeatable through sophisticated skincare market where Australia and New Zealand always offer great products from natural ingredients specially good for sensitive skin types. The Group product procurement team will continue to understand the market and analyse the customer preferences and convert these understanding into product choices by seeking the latest best-selling trendy products around the world.

The Group will also continue to pay close attention to inventory. Obsolete products will be removed timely based on the popularity performance in order to upgrade the product portfolio, especially those lower price products which launches very fast and those products with shorter product life cycle.

Grasp the opportunities of e-commerce development

Cross-border B2C e-commerce sales are still growing worldwide, projected to account for one-fifth of overall online retail sales volume by 2022, according to the "Global Cross-Border B2C E-Commerce 2018" report.

The Group will grasp the opportunity in further promoting the e-commerce platform and seeking cooperation with different well-known social media platforms such as VIP.COM (Vipshop) and JD.COM (Jindong Mall) to enhance brand awareness and expand customer base. The Group will strive for enhancing communication and interaction with customers through online and offline services to better understand their preferences and needs, so as to provide better shopping experience.

According to the prediction from Worldpay, a payments technology company, the e-commerce across Asia-Pacific will continue to grow significantly in 2019 and beyond. It is believed that the Asia-Pacific will lead the world in transiting to mobile commerce, including Hong Kong. The adoption of e-commerce in Asia-Pacific will account for two-thirds of regional payment volume by 2022.

The Group has embraced a variety of payment methods for customers' convenience, including mobile payments like Tencent's WeChat Pay, Alibaba's Alipay, Alipay HK, Google Pay, Apple Pay and Samsung Pay. The Group will not only strengthen and upgrade various applications but also seek for cooperation with different e-payment suppliers for discounts and promotions to its customers.

Conclusion

All in all, the retail market in coming year remains positive, but still challenging. Mainland tourist inflows are forecast to grow continually, particularly the same-day visitor arrivals are expected to increase further. Facing the weakened spending power and changing consumer behavior, the Group will continue to optimize the product mix to increase the competitiveness. Online e-commerce development that will be one of the key focus in 2019. The Group will strengthen the promotion activities by cooperating with different e-commerce platforms to boost sales. Bonjour will strive for excellence in the market to keep the Group steadily moving forward.

FINANCIAL REVIEW

Liquidity and Financial Resources

Liquidity and financial resources position remain healthy as the Group continues to adopt a prudent approach in managing its financial resources. As at 31 December 2018, the Group's cash and bank deposits amounted to HK$237.5 million (2017: HK$250.1 million). The Group's bank borrowings, loan from a related company and finance lease payables as at 31 December 2018 were HK$519.6 million (2017: HK$489.1 million), out of which HK$265.9 million (2017: HK$157.0 million) were repayable within the next 12 months.

The current ratio of the Group as at 31 December 2018 was 1.07 (2017: 1.29). The Board believes that the Group has maintained sufficient working capital for its operation.

As at 31 December 2018, the Group's gearing ratio was 0.867 (2017: 0.763), and was calculated based on the Group's bank and other borrowings and finance lease payables, divided by total equity of HK$599.7 million (2017: HK$641.2 million). Total liabilities to shareholders' funds was 132.3% (2017: 120.8%). The Group services its debt primarily through the cash earned from its operation.

Cash Flow

Net cash outflow from operating activities was HK$28.9 million in 2018 (2017: inflow of HK$34.7 million). The loss before tax was HK$33.1 million. The total amount of non-cash items amounting to HK$43.1 million (mainly depreciation expense) and there was a net increase in working capital of HK$38.3 million.

Net cash outflow from investing activities was HK$14.3 million in 2018 (2017: HK$209.0 million) which mainly represented purchase of property, plant and equipment.

Net cash inflow from financing activities was HK$28.1 million in 2018 (2017: outflow of HK$24.7 million) which mainly represented increase in bank borrowings.

Contingent Liabilities

	2018	2017
	HK$'000	*HK$'000*
Guarantees given by banks for rental payment to landlords	**–**	2,850
Guarantees given for purchase to vendors	**100**	100
	100	2,950

Foreign Exchange and Bank Borrowing Interest Rate Exposures

The Group has limited exposure to foreign exchange fluctuations given that most of its assets, receipts and payments are principally denominated in Hong Kong dollars, Macau Pataca and RMB with some denominated in USD and Japanese Yen. The Group monitors its foreign exchange position and, if necessary, will hedge its foreign exchange exposure by forward foreign exchange contracts. As at 31 December 2018, none of the Group's bank borrowings was dominated in foreign currency.

As at 31 December 2018, the Group had short-term bank borrowings amounting to HK$200.0 million (2017: HK$130.0 million) and long-term bank borrowings amounting to HK$193.8 million (2017: HK$219.2 million). The bank borrowings were arranged at both fixed interest rate and floating interest rate basis at short-term inter-bank offer rates.

Capital Structure

During the Year, the Company did not issue and allot any new shares.

The total number of issued and fully paid ordinary shares of the Company as at 31 December 2018 was 3,412,565,999 shares.

Charges on Group Assets

As at 31 December 2018, certain of the Group's assets with carrying amount of approximately HK$637.9 million (2017: HK$653.7 million) were pledged to secure banking facilities granted to the Group.

Material Acquisitions or Disposals of Subsidiaries, Associates and Joint Ventures

There was no material acquisition or disposal of subsidiaries, associates and joint ventures during the Year.

Significant Securities Investments

The investment objective of the Group is to achieve earnings and enhance the corporate value to the shareholders of the Company. The strategy of the Group is to identify and invest in both listed and unlisted investments and other related financial assets with potential of growth within their industries. The Group has no specific industry focus on potential investment.

As at 31 December 2018, the Group had financial assets at FVTOCI (31 December 2017: available-for-sale financial assets) through equity investments in Town Health International Medical Group Limited, a company listed on the Stock Exchange (Stock Code: 3886) ("**Town Health**") with a total market value of HK$83.2 million, accounting for 6.0% of the Group's total assets (31 December 2017: HK$87.7 million, accounting for 6.2% of total assets). Throughout the Year, the Group has been holding only one single financial asset and the change on the fair value of such financial asset amounted to a loss of HK$4.4 million for the Year (2017: HK$144.0 million). The market value of the financial assets will be affected by the current status of being suspended in trading and the financial performance of Town Health. To mitigate relevant risks, the Group will monitor the trends of macro economy to optimise its investment strategies in response to market conditions. When considering future investment, the Group will assess the results of operations and compliance of the investees to prevent receiving no future economic benefits.

Details of Future Plans for Material Investments or Capital Assets

The Directors currently do not have any future plans for material investments or capital assets. The management will continue to monitor the industry and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests.

Events after the Year

Referring to the court case (case number: HCCC 348/2017) of the Company in relation to a defrauding of about HK$40,490,000 from Bonjour Cosmetic Wholesale Center Limited ("**BCWCL**"), a wholly-owned subsidiary of the Company, by a former Human Resource Manager of the Company, Ms. Kiu Mei-ling ("**Ms. Kiu**"), with her family members through their positions in the Company from 2004 to 2011 (the "**Incident**"). The Board, together with the Commercial Crime Bureau, has conducted a thorough review of banking records to ascertain the extent of the defrauding conducted by Ms. Kiu. Ms. Kiu and her family members were convicted by the court on 25 March 2019.

Immediately after discovering the Incident, the Board has engaged external independent accountant to ascertain the amount of misappropriate fund and engaged independent consultancy firm, Baker Tilly Hong Kong Risk Assurance Limited (currently known as Corporate Governance Professionals Limited) to conduct a thorough review of the Company's internal control procedures and systems and followed up on the improvement recommendations accordingly. The Company has also sought legal advice on all possible legal actions as well as opinion on compliance matters.

The amount misappropriated in each of the financial years from Year 2004 through Year 2012 have fully been reflected in the Group's audited consolidated financial statements for the respective years as staff expenses. Therefore, the Board is of the view that the Incident does not impact on the day-to-day operations of the Group and the financial position of the Group in respect of the year ended 31 December 2018 was not affected. Meanwhile, the Company has also continued to discuss with its advisors and considered any appropriate course of action to be taken to pursue its loss arising from the Incident.

Human Resources

The Group adheres to a strong belief that employees are always the most valuable assets of a corporation. The Group values its human resources and recognises the importance of attracting and retaining qualified staff for its continuing success. Remuneration packages are generally structured by reference to market terms and individual qualifications. In addition, share options and discretionary bonuses are also granted to eligible employees based on individual's performance. The Group also provides mandatory provident fund schemes, medical insurance schemes, staff purchases discounts and training programs for our employees.

As at 31 December 2018, the Group had approximately 850 (2017: 910) full-time and part-time employees in Hong Kong, Macau and the PRC. For the Year, the total staff cost including Directors' emoluments amounted to approximately HK$225.2 million (2017: HK$230.8 million).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the Year.

DIVIDENDS

The Board does not recommend the payment of any interim and final dividend for the Year. (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 20 May 2019 to Friday, 24 May 2019, both days inclusive, during the period no transfer of shares will be registered. The holders of shares whose names appear on the register of members of the Company on Friday, 24 May 2019 will be entitled to attend and vote at the AGM. In order to determine the entitlement to attend and vote at the forthcoming AGM, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Friday, 17 May 2019.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures. Throughout the Year, the Company has complied with the code provisions prescribed in the Corporate Governance Code (the "**CG Code**") set out in the Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), except for the deviation from the code provision A.2.1 which is explained in the following relevant paragraph.

Code Provision A.2.1

The code provision A.2.1 of the CG Code stipulates that the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. Please refer to the paragraph under "Chairman and Chief Executive Officer" below.

The Board considered that Dr. Ip Chun Heng, Wilson has in-depth knowledge and experience in the retails sales and cosmetic product market and is the most appropriate person. Notwithstanding the above, the Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make necessary arrangements.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the Year.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") on 17 June 2003 with written terms of reference no less exacting terms than the CG Code. At present, members of the Audit Committee comprise three independent non-executive directors, namely Mr. Wong Chi Wai, Dr. Chow Ho Ming and Mr. Lo Hang Fong. Mr. Wong Chi Wai is the chairman of the Audit Committee. The Audit Committee has reviewed the effectiveness of both external audit and risk management and internal control systems. The audited consolidated financial statements of the Group for the Year have been reviewed by the Audit Committee and audited by the independent auditor of the Company, RSM Hong Kong.

APPRECIATION

Finally, on behalf of the Directors, I would like to express my gratitude to our management and staff for their hard work and dedication throughout the Year.

By order of the Board
Bonjour Holdings Limited
Ip Chun Heng, Wilson
Chairman and executive Director

Hong Kong, 29 March 2019

As at the date of this announcement, the executive Directors are Dr. Ip Chun Heng, Wilson, Ms. Chung Pui Wan, Mr. Chen Jianwen, Mr. Yip Kwok Li and Mr. Wan Yim Keung, Daniel; and the independent non-executive Directors are Mr. Wong Chi Wai, Dr. Chow Ho Ming and Mr. Lo Hang Fong.