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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)

2019 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 2019, together with the comparative figures for the year ended 31 December 2018.

FINANCIAL AND OPERATION HIGHLIGHTS

- Turnover for the financial year ended 31 December 2019 ("**FY2019**") decreased from HK$171.8 million to HK$141.5 million when compared with last year ("**FY2018**").
- Gross margin for FY2019 decreased from 44.2% to 39.5%. Gross profit for FY2019 decreased from HK$75.9 million to HK$55.9 million.
- Loss before tax, excluding the effect of other gain or loss and other income, for FY2019 decreased from HK$82.7 million to HK$55.2 million, a decrease of 33.3%.
- Loss after tax for FY2019 was HK$79.0 million (FY2018: HK$97.7 million), a decrease of 19.1%.
- Loss per share was HK22.75 cents for FY2019 (FY2018: HK28.11 cents).
- The Board has resolved not to recommend any payment of a final dividend for FY2019 (FY2018: Nil).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** **HK$'000**	2018 *HK$'000*
Revenue	*3*	**141,518**	171,806
Cost of sales		**(85,659)**	(95,874)
Gross profit		**55,859**	75,932
Other gains and losses, net		**(24,285)**	(13,893)
Other income		**707**	250
Distribution expenses		**(47,458)**	(69,743)
Administrative expenses		**(52,340)**	(61,674)
Finance costs		**(11,222)**	(27,218)
Loss before tax	*4*	**(78,739)**	(96,346)
Income tax expense	*5*	**(308)**	(1,320)
Loss for the year attributable to owners of the Company		**(79,047)**	(97,666)
Other comprehensive income			
Item that will not be subsequently reclassified to profit or loss:			
Remeasurement of net defined benefit obligations		**(832)**	2,510
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**3,109**	1,388
Other comprehensive income for the year		**2,277**	3,898
Total comprehensive income for the year attributable to owners of the Company		**(76,770)**	(93,768)
Loss per share			
— Basic and diluted (Hong Kong cents)	*7*	**(22.75)**	(28.11)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	**2019** **HK$'000**	2018 *HK$'000*
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment		**26,448**	37,944
Life insurance policies		**–**	17,226
		26,448	55,170
CURRENT ASSETS			
Inventories		**326,900**	366,118
Trade and other receivables	*8*	**41,971**	62,356
Pledged bank deposits		**–**	1,039
Restricted bank deposits		**1,260**	–
Bank balances and cash		**18,735**	28,946
		388,866	458,459
CURRENT LIABILITIES			
Trade and other payables	*9*	**33,252**	40,968
Tax payable		**2,388**	2,352
Lease liabilities		**6,385**	–
Amount due to a related company		**–**	25,141
Amounts due to fellow subsidiaries		**144,132**	11,443
Amount due to ultimate holding company		**39,488**	176,446
Amounts due to directors		**22,241**	–
Bank borrowings		**–**	10,048
		247,886	266,398
NET CURRENT ASSETS		**140,980**	192,061
TOTAL ASSETS LESS CURRENT LIABILITIES		**167,428**	247,231
NON-CURRENT LIABILITIES			
Lease liabilities		**3,023**	–
Deferred tax liabilities		**20,360**	20,468
Pension obligations		**3,617**	2,137
		27,000	22,605
NET ASSETS		**140,428**	224,626
EQUITY			
Equity attributable to owners of the Company			
Share capital		**3,474**	3,474
Reserves		**136,954**	221,152
TOTAL EQUITY		**140,428**	224,626

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 Unit 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 distribution 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 2019

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 2019:

IFRS 16	Leases
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features and Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015–2017 Cycle

The impact of the adoption of IFRS 16 Leases has been summarised in below. The other new or amended IFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

(i) Impact of the adoption of IFRS 16

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 Leases ("**IAS 17**"), IFRIC Interpretation 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases-Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from IAS 17. For details of IFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under IFRS 16, please refer to section (ii) to (iv) of this note.

The Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The following tables summarised the impact of transition to IFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	HK$'000
Consolidated statement of financial position as at 1 January 2019	
Right-of-use assets presented in property, plant and equipment	–
Lease liabilities (non-current)	2,265
Lease liabilities (current)	5,163
Retained profits	(7,428)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	HK$'000
Right-of-use assets relating to operating lease recognised upon application of IFRS 16	7,428
Less: Impairment loss recognised upon application of IFRS 16	(7,428)
Right-of-use assets as at 1 January 2019	–

The following reconciliation explains how the operating lease commitments disclosed applying IAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitment to lease liabilities:

	HK$'000
Operating lease commitment as of 31 December 2018	8,441
Less: short term leases for which lease terms end within 31 December 2019	(748)
Less: future interest expenses	(265)
Total lease liabilities as of 1 January 2019	7,428

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 5%.

(ii) The new definition of a lease

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

At the inception of a contract that contains a lease component, as lessee, the Group chooses to separate non-lease components from lease components and allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

(iii) Accounting as a lessee

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the consolidated statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Transition

As mentioned above, the Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified as operating leases under IAS 17 as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied IAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; and (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC Interpretation 4 Determining whether an Arrangement contains a Lease and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC Interpretation 4.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received or receivable for the sale of watches, 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 set 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 the assets.

	Revenue from external customers	
	2019	2018
	HK$'000	*HK$'000*
PRC	**110,124**	149,623
Hong Kong and Macau	**6,587**	8,539
Others (mainly in Southeast Asia and Europe)	**24,807**	13,644
	141,518	171,806

	Non-current assets	
	2019	2018
	HK$'000	*HK$'000*
PRC	**8,445**	5,847
Hong Kong	**1,342**	3,077
Switzerland	**16,661**	29,020
	26,448	37,944

Information about major customers

During the year, revenue from one customer amounted to HK$18,144,000 contributing over 10% of the total sales of the Group (2018: nil).

4. LOSS BEFORE TAX

	2019	2018
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging/(crediting):		
Auditors' remuneration	**730**	730
Impairment loss of trade receivables	**1,350**	1,445
Impairment loss of property, plant and equipment	**19,043**	–
Cost of inventories recognised as expenses, including:	**85,659**	95,874
— Reversal of allowance	**(3,114)**	(997)
Depreciation of property, plant and equipment	**9,811**	13,740
Short-term lease rental	**480**	–
Operating lease rental in respect of rented premises	**–**	8,244
Staff costs (including directors' emoluments):		
— Salaries and other benefits	**56,812**	63,179
— Retirement benefits scheme contributions	**6,535**	4,676
Total staff costs	**63,347**	67,855

Note: Cost of inventories sold includes HK$24,745,000 (2018: HK$32,351,000) relating to staff costs and depreciation expenses.

5. INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax *(note i)*	**–**	–
Switzerland income tax *(note ii)*	**286**	1,488
PRC Enterprise Income Tax *(note iii)*	**–**	–
	286	1,488
Deferred tax charge /(credit)	**22**	(168)
Income tax expense for the year	**308**	1,320

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% (2018: 8.5%) and Cantonal Communal Tax ("**CCT**") calculated at 16.18% (2018: 16.18%).

Swiss Federal withholding tax is levied at a rate of 35% on the distribution of the profit (if any) of the subsidiaries 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% (2018: 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 2019 and 2018, 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 2019 is based on the loss attributable to the owners of the Company of HK$79,047,000 (2018: HK$97,966,000) and on the weighted average number of 347,437,000 (2018: 347,437,000) ordinary shares in issue during the year.

There are no potential dilutive ordinary shares outstanding for the year ended 31 December 2019 and 2018 and thus the diluted loss per share is the same as the basic loss per share.

8. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables, gross	**55,585**	75,329
Less: impairment loss allowance	**(21,534)**	(20,611)
Trade receivables, net	**34,051**	54,718
Other receivables	**1,111**	901
Other tax recoverable	**1,162**	1,308
Prepayments	**2,625**	2,296
Deposits	**3,022**	3,133
	7,920	7,638
Total trade and other receivables	**41,971**	62,356

Included in the trade and other receivables, amounts of HK$756,000 (2018: HK$513,000) 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:

	2019	2018
	HK$'000	*HK$'000*
0–90 days	**20,571**	41,702
91–180 days	**8,639**	9,932
181–270 days	**3,310**	1,958
Over 270 days	**1,531**	1,126
	34,051	54,718

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

	2019	2018
	HK$'000	*HK$'000*
Balance at beginning of the year	**20,611**	20,216
Impairment losses allowance recognised, net	**1,350**	1,445
Exchange realignment	**(427)**	(1,050)
Balance at the end of the year	**21,534**	20,611

Included in the impairment loss allowance are individually impaired trade receivables with an aggregate credit impaired balance of HK$21,484,000 (2018: HK$20,545,000) which has been fully impaired and expected credit loss allowance of HK$50,000 as at 31 December 2019 (2018: HK$66,000). The Group does not hold any collateral over these balances.

9. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**9,602**	8,098
Other payables	**2,059**	3,575
Accruals	**20,675**	28,983
Contract liabilities arising from sales of goods	**916**	312
	33,252	40,968

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

	2019	2018
	HK$'000	*HK$'000*
1–30 days	**4,873**	2,747
31–60 days	**2,329**	4,437
Over 60 days	**2,400**	914
	9,602	8,098

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

10. EVENT AFTER REPORTING PERIOD

Since January 2020, Hong Kong and the PRC has reported certain confirmed cases of novel Coronavirus ("**COVID-19**") which may affect the global business environment. Pending on the developments and spread of COVID-19 subsequent to the date of these consolidated financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these consolidated financial statements.

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**"), (excludes the Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region ("**Macau**") and Taiwan), Hong Kong, Macau and other markets. As at 31 December 2019, the Group has more than 772 points of sale ("**POS**").

Ernest Borel recorded a revenue of HK$141.5 million (2018: HK$171.8 million), representing a year-on-year decrease of approximately 17.6%, and gross profit and gross profit margins decreased to HK$55.9 million (2018: HK$75.9 million) and 39.5% (2018: 44.2%), respectively. Consequently, loss attributable to equity holders amounted to HK$79.0 million in FY2019. The Group has always distributed resources to the development of e-commerce business and selling its products on mainstream sales platforms, such as Tmall and JD.com. In order to meet customers' needs, the Group promoted exclusive watches which were only available in these online platforms, to cater different consumer segments needs, as well as broaden the source of income.

The PRC Market

The PRC remains the core market of the Group. As at 31 December 2019, the Group had around 631 POS in the country. Revenue from the PRC segment decreased from HK$149.6 million for FY2018 to HK$110.1 million for FY2019, accounting for approximately 77.8% of total revenue.

Hong Kong and Macau Markets

As at 31 December 2019, the Group had around 55 POS in Hong Kong and Macau markets. Sales in these markets decreased by approximately 22.9% from HK$8.5 million for FY2018 to HK$6.6 million for FY2019, accounting for approximately 4.7% of total revenue.

Other markets

As at 31 December 2019, the Group had 86 POS in the other markets, mainly in Southeast Asia and Europe. Sales in these markets increased by approximately 81.8% from HK$13.6 million for FY2018 to HK$24.8 million for FY2019, accounting for approximately 17.5% of total revenue.

FINANCIAL REVIEW

Revenue and segment information

Our revenue decreased by HK$30.3 million, or approximately 17.6% from HK$171.8 million for FY2018 to HK$141.5 million for FY2019.

Performance by geographical locations

	2019	2018	Changes	
	HK$'000	*HK$'000*	*HK$'000*	*%*
PRC market	**110,124**	149,623	(39,499)	(26.4)
Hong Kong and Macau markets	**6,587**	8,539	(1,952)	(22.9)
Other markets mainly in Southeast Asia and Europe	**24,807**	13,644	11,163	81.8
Total	**141,518**	171,806	(30,288)	(17.6)

The PRC market

The PRC continues to be our major market, representing approximately 77.8% of our total revenue for FY2019. Sales in this region showed a decrease of approximately 26.4% from HK$149.6 million for FY2018 to HK$110.1 million for FY2019.

Hong Kong and Macau markets

Hong Kong and Macau markets accounted for approximately 4.7% of our total revenue for FY2019. Sales in these markets decreased by approximately 22.9% from HK$8.5 million for FY2018 to HK$6.6 million for FY2019.

Other markets

Revenue from other markets, mainly in Southeast Asia and Europe recorded a increase from HK$13.6 million FY2018 to HK$24.8 million for FY2019.

Cost of sales

Cost of sales decreased by approximately 10.6% from approximately HK$95.9 million for FY2018 to approximately HK$85.7 million for FY2019.

Gross profit

Our gross profit decreased by HK$20.0 million or approximately 26.4% from HK$75.9 million for FY2018 to HK$55.9 million for FY2019, while the gross profit margin decreased to approximately 39.5% for FY2019 from approximately 44.2% for FY2018.

Other gains and losses

Other losses increased by HK$10.4 million or approximately 74.8% to HK$24.3 million for FY2019 from HK$13.9 million for FY2018.

Distribution expenses

Our selling and distribution expenses decreased by HK$22.2 million or approximately 31.9% from HK$69.7 million for FY2018 to HK$47.5 million for FY2019, representing approximately 33.6% of our total revenue for 2019 (2018: approximately 40.6%).

Administrative expenses

Our administrative expenses decreased to HK$52.3 million for FY2019 from HK$61.7 million for FY2018, representing an decrease of HK$9.4 million or approximately 15.2%.

Finance costs

Our finance costs decreased by HK$16.0 million or approximately 58.8% from HK$27.2 million for FY2018 to HK$11.2 million for FY2019.

Loss for the year attributable to owners of our Company

Our net loss for FY2019 decreased from HK$97.7 million for FY2018 to HK$79.0 million for FY2019, a decrease of 19.1%.

Inventory

Inventory amounted to approximately HK$326.9 million as at 31 December 2019, representing a decrease of HK$39.2 million, or around 10.7%, from HK$366.1 million as at 31 December 2018. 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$62.4 million and approximately HK$42.0 million as at 31 December 2018 and 2019 respectively.

The Group's trade and other payables showed a decreased from approximately HK$41.0 million as at 31 December 2018 to approximately HK$33.3 million as at 31 December 2019.

Liquidity, financial resources and capital structure

As at 31 December 2019, we had non-pledged cash and bank balances of HK$18.7 million (2018: HK$28.9 million). Based on the borrowings of HK$205.9 million (2018: HK$223.1 million) and shareholders' equity of HK$140.4 million (2018: HK$224.6 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 146.7% (2018: approximately 99.3%).

As at 31 December 2019, all of our borrowing amounting to HK$205.9 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$nil million (2018: HK$1.0 million); and

(b) charges over deposits placed for a life insurance policies with a carrying amount of HK$nil million (2018: HK$17.2 million).

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during FY2019.

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 annual report.

Significant investments held

During FY2019, no significant investments were held by the Group.

Contingent liabilities

As at 31 December 2019, the Group did not have any contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

Since January 2020, Hong Kong and the PRC has reported certain confirmed cases of Novel Coronavirus ("**COVID-19**") which may affect the global business environment. Pending on the developments and spread of COVID-19 subsequent to the date of these consolidated financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these consolidated financial statements.

Employees and remuneration policies

As at 31 December 2019, the Group had a total of 211 full-time employees, representing a decrease of 8.7% compared to 231 employees as at 31 December 2018. Total staff costs for FY2019 decreased to approximately HK$63.3 million from approximately HK$67.9 million for FY2018.

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, which became effective on 11 July 2014 and will expire on 24 June 2024. No option has been granted under the Share Option Scheme during FY2019.

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 2019 (2018: nil).

PROSPECTS

In 2019, the China-US trade dispute and unsteady political situation in Hong Kong impacted the economy in the world, the PRC and Hong Kong. The premium watch retails market in the PRC also suffered from extremely negative effects. These factors exerted adverse effects on the Company's operation and revenue. The Company has adopted various measures to deal with such difficult operating environment.

Products

The Company always insists on making high-quality "Swiss-made" watches. In the future, the Company will monitor market conditions from an objective view and design watch series, that conformed to the preference of our target consumers, for men, women and couples with our professional product design ability.

Brand Promotion

The Group continues to promote and enhance the reputation of "Ernest Borel" brand through various marketing tactics. During the year, Ms. Kelly Chen, the brand ambassador of "Ernest Borel", promoted the Company's elegant and romantic brand image with her graceful and healthy charisma; meanwhile, the Company's display counters have been constantly upgrading, bringing positive feedback for "Ernest Borel" brand. In addition, the Company constantly placed various kinds of digital and electronic advertisements on various online platforms to promote "Ernest Borel" brand to younger and international consumers for upholding the romantic culture of "Ernest Borel" brand.

Marketing

The Group continues to adopt effective sales strategies and endeavors to explore new POS in markets with growth potential through different brand promotion tactics. Meanwhile, the Group will continue to review the performance of each POS and abandon those with a weak performance with a view to increasing the sales revenue of POS with better performances. In the future, the Group will continue to monitor market conditions and timely distribute resources to e-commerce with view to increasing sales revenue. The Group will also promote exclusive watches on online platform to attract target customers.

Operation

The Group has always adopted effective cost control strategies to utilize and allocate resources, enabling the Company to cut unnecessary operation cost and expenditure. Meanwhile, the Company has also been closely monitoring our inventory and was able to maintain it on a reasonable level to reduce inventory risk.

Conclusion

Looking ahead, COVID-19 has spread throughout the world, as well as the uncertainties and adverse factors of the global economy, such as the China-US trade dispute, the Group believes that the future economic environment will consist of uncertainties. However, in the future, the Group will still maintain a prudential and active attitude, closely monitor market conditions and adjust the Group's operation strategies based on our actual needs. The Group will review and allocate the resources used in advertisements and product research and development, adjust the time of usage while controlling operation expense with more caution. Lastly, the Group has been exploring various investment and development opportunities with a view to increasing the Group's revenue and bringing valuable and sustainable returns for our shareholders in future.

REVIEW OF ANNUAL RESULTS

The Company has established an audit committee (the "**Audit Committee**") in compliance with Rule 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 "**CG 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. To Chun Kei (who is also the chairman of the Audit Committee), Mr. Hui Cheuk Kit Frederick 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 FY2019 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

Pursuant to the Code provision A.6.7 of the CG Code, Independent Non-executive Directors and other Non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Lui Wai Ming, the former Independent Non-executive Director, was unable to attend the Company's annual general meeting ("**AGM**") held on 29 May 2019 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 out in the CG Code for FY2019.

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 2019.

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

During the year ended 31 December 2019, the Company did not redeem any of its shares listed and traded on The Stock Exchange of Hong Kong Limited (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 FY2019 (2018: Nil).

ANNUAL GENERAL MEETING

The AGM will be held in Hong Kong on Wednesday, 27 May 2020. Notice of the AGM will be issued and disseminated to the Company's 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, 22 May 2020 to Wednesday, 27 May 2020, both days inclusive, during which period no transfer of Share(s) 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 and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration, not later than 4:30 p.m. on Thursday, 21 May 2020.

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 2019 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 FY2019 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, 30 March 2020

As at the date of this announcement, the Board comprises of the following members:

Executive Directors:	Mr. Shang Jianguang, Mr. Teguh Halim, Mr. Xiong Wei and Ms. Lam Lai
Non-executive Directors:	Mr. Xiong Ying and Mr. Tao Li
Independent Non-executive Directors:	Mr. To Chun Kei, Mr. Hui Cheuk Kit Frederick and Ms. Chan Lai Wa