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CITYCHAMP WATCH & JEWELLERY GROUP LIMITED

冠城鐘錶珠寶集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 256)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the “**Board**”) of Citychamp Watch & Jewellery Group Limited (the “**Company**”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2018 together with the consolidated statement of financial position of the Group as at 31 December 2018, and the notes with comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Interest income from banking business		221,648	120,604
Interest expenses from banking business		(40,817)	(25,612)
Net interest income from banking business	5a	180,831	94,992
Service fees and commission income from banking business		325,614	307,041
Service fees and commission expenses from banking business		(89,253)	(94,425)
Net service fees and commission income from banking business	5b	236,361	212,616
Trading income from banking business	5c	63,172	65,227
Service fees and commission income from financial business	5d	3,342	9,307
Interest income from financial business	5d	193	128
Sales of goods from non-banking and financial businesses	5e	2,444,364	2,583,495
Rental income from non-banking and financial businesses	5e	9,586	16,936
Total revenue		2,937,849	2,982,701
Cost of sales from non-banking and financial businesses		(1,022,568)	(1,226,494)
Other income and other net gains or losses	6	79,486	1,300,392
Selling and distribution expenses		(849,551)	(800,923)
Administrative expenses		(737,985)	(774,011)
Share of loss of joint ventures		(2,678)	(1,159)
Share of profit of associates		8,387	20,711
Finance costs from non-banking business	7	(65,828)	(68,453)
Profit before income tax	8	347,112	1,432,764
Income tax expense	9	(105,664)	(221,566)
Profit for the year		241,448	1,211,198

<i>Notes</i>	2018 HK\$'000	2017 <i>HK\$'000</i>
Others comprehensive income		
Items that will not be subsequently reclassified to profit or loss		
– Remeasurement of net defined benefit obligations	33,025	15,186
– Change in fair value of financial assets at fair value through other comprehensive income	(123,352)	–
– Revaluation gain upon transfer of owner occupied land and buildings to investment properties	57,128	–
– Deferred tax arising from transfer of owner occupied land and buildings to investment properties	(22,212)	–
	<u>(55,411)</u>	<u>15,186</u>
Items that may be subsequently reclassified to profit or loss		
– Exchange differences on translation to presentation currency	(162,086)	233,906
– Release of exchange reserve to profit or loss upon disposal of subsidiaries	–	(2,809)
– Share of exchange differences on translation of associates	(117)	96
– Changes in fair value of available-for-sale financial assets	–	(5,041)
	<u>(162,203)</u>	<u>226,152</u>
Other comprehensive income for the year	<u>(217,614)</u>	<u>241,338</u>
Total comprehensive income for the year	<u>23,834</u>	<u>1,452,536</u>
Profit for the year attributable to:		
Owners of the Company	201,372	1,170,484
Non-controlling interests	40,076	40,714
	<u>241,448</u>	<u>1,211,198</u>

	<i>Notes</i>	2018 HK\$'000	2017 <i>HK\$'000</i>
Total comprehensive income for the year attributable to:			
Owners of the Company		(9,083)	1,395,850
Non-controlling interests		32,917	56,686
		<u>23,834</u>	<u>1,452,536</u>
Earnings per share attributable to owners of the Company			
– Basic	12	<u>HK4.63 cents</u>	<u>HK26.91 cents</u>
– Diluted		<u>HK4.63 cents</u>	<u>HK26.87 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Assets			
Cash and deposits		7,701,743	7,420,678
Due from clients		1,575,438	1,011,516
Due from banks		3,387,836	5,921,878
Trading portfolio investments		123,606	641,031
Financial assets at fair value through other comprehensive income		627,200	–
Derivative financial assets		7,694	4,680
Trade receivables	13	571,424	506,287
Other financial assets at amortised cost		1,034,773	–
Available-for-sale financial assets		–	488,368
Held-to-maturity investments		–	1,138,704
Inventories		2,314,545	2,027,191
Income tax recoverable		13,269	10,133
Interests in joint ventures		2,439	5,117
Interests in associates		102,919	99,648
Property, plant and equipment		1,036,736	1,027,303
Investment properties		179,133	125,384
Prepaid land lease payments		47,605	51,083
Intangible assets	14	53,310	13,136
Goodwill	15	1,071,552	906,036
Deferred tax assets		9,437	6,900
Other assets		397,570	450,598
		<hr/>	<hr/>
Total assets		20,258,229	21,855,671
		<hr/> <hr/>	<hr/> <hr/>

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Liabilities			
Due to banks		4,181	3,042
Due to clients		12,504,591	14,270,089
Derivative financial liabilities		20,866	35,656
Trade payables	16	324,106	305,798
Contract liabilities		30,918	–
Corporate bonds		760,244	732,978
Income tax payables		73,867	101,985
Borrowings		1,047,189	583,269
Provisions		476	721
Subordinated debt		–	95,674
Deferred tax liabilities		60,369	8,188
Due to a shareholder		73,000	–
Other liabilities		548,931	570,145
		<hr/>	<hr/>
Total liabilities		15,448,738	16,707,545
Equity			
Equity attributable to owners of the Company			
Share capital		435,189	435,032
Reserves		4,004,602	4,369,849
		<hr/>	<hr/>
		4,439,791	4,804,881
Non-controlling interests		369,700	343,245
		<hr/>	<hr/>
Total equity		4,809,491	5,148,126
		<hr/>	<hr/>
Total liabilities and equity		20,258,229	21,855,671
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

Citychamp Watch & Jewellery Group Limited (the “Company”) is a limited liability company incorporated in Cayman Islands. Its registered office address is P.O. Box 309, Uglund House, South Church Street, Grand Cayman, Cayman Islands and its principal place of business is Units 1902–04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

During the year, the principal activities of the Company and its subsidiaries (together referred to as the “Group”) include:

- Manufacturing and distribution of watches and timepieces;
- Property investments; and
- Banking and financial businesses.

In September 2018, the Group has completed the acquisition of 58.22% of the issued share capital of Ernest Borel Holdings Limited and its subsidiaries (together the “Ernest Borel”), which is listed on the Stock Exchange with stock code 1856 at HK\$1.85 per share with the total consideration of HK\$374,209,000. Since then, Ernest Borel becomes a subsidiary of the Group. In October 2018, the Group has further acquired an additional 24.28% of the issued share capital of Ernest Borel at HK\$1.85 per share with the total consideration of HK\$156,077,000.

Other than the aforementioned transactions, there was no other significant change in the Group’s operations during the year.

The Group’s principal places of the business are in Hong Kong, Switzerland, United Kingdom, Liechtenstein and the People’s Republic of China (the “PRC”).

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Adoption of new or revised HKFRSs – effective 1 January 2018

In the current year, the Group has applied for the first time the following new or revised standards, amendments and interpretations (the “new or revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are relevant to and effective for the Group’s consolidated financial statements for the annual period beginning on 1 January 2018:

Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKAS 40	Transfers of Investment Property
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarification to HKFRS 15)
HK(IFRIC)-Interpretation 22	Foreign Currency Transactions and Advance Considerations

Changes in accounting policies

This is the first set of the Group's financial statements in which HKFRS 9 and HKFRS 15 have been adopted. The impact of the adoption of HKFRS 9 Financial Instruments (see note (A) below) and HKFRS 15 Revenue from Contracts with Customers (see note (B) below) have been summarised below. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

(A) *HKFRS 9 Financial Instruments ("HKFRS 9")*

(i) Classification and measurement of financial instruments

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

	<i>HK\$'000</i>
<i>Retained profits</i>	
Retained profits as at 31 December 2017	3,421,989
Increase in expected credit losses ("ECL") (<i>note (A)(ii) below</i>)	(12,280)
Reclassification of trading portfolio investments to financial assets at fair value through other comprehensive income ("FVOCI") (<i>note (A)(i)(a) below</i>)	(131,974)
Reclassification of the entire convertible bond investment to trading portfolio investments (<i>note (A)(i)(f) below</i>)	1,621
Reclassification of available-for-sale financial assets to other financial assets at amortised cost (<i>note (A)(i)(c) below</i>)	(134)
Reclassification of available-for-sale financial assets to trading portfolio investments (<i>note (A)(i)(e) below</i>)	(903)
Recognition of deferred tax assets arising from the recognition of ECL	2,179
	<hr/>
Restated retained profits as at 1 January 2018	3,280,498 <hr/> <hr/>
<i>Non-controlling interests</i>	
Non-controlling interests as at 31 December 2017	343,245
Increase in ECL (<i>note (A)(ii) below</i>)	(868)
Recognition of deferred tax assets arising from the recognition of ECL	110
	<hr/>
Restated non-controlling interests as at 1 January 2018	342,487 <hr/> <hr/>

HK\$'000

Investment revaluation reserve

Investment revaluation reserve at 31 December 2017	117,525
Reclassification of available-for-sale financial assets to financial assets at FVOCI (<i>note (A)(i)(b) below</i>)	(118,562)
Reclassification of available-for-sale financial assets to other financial assets at amortised cost (<i>note (A)(i)(c) below</i>)	134
Reclassification of available-for-sale financial assets to trading portfolio investments (<i>note (A)(i)(e) below</i>)	903
	<hr/>
Restated investment revaluation reserve as at 1 January 2018	<hr/> <hr/>

FVOCI reserve

FVOCI reserve as at 31 December 2017	–
Reclassification of trading portfolio investments to financial assets at FVOCI (<i>note (A)(i)(a) below</i>)	131,974
Reclassification of available-for-sales financial assets to financial assets at FVOCI (<i>note (A)(i)(b) below</i>)	118,562
	<hr/>
Restated FVOCI reserve as at 1 January 2018	<hr/> <hr/> 250,536

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments except for the embedded derivatives. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost; (ii) financial assets at FVOCI; or (iii) financial assets at FVPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if both of the following conditions are met and it has not been designated as at FVPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if both of the following conditions are met and it has not been designated as at FVPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI or FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

Financial assets at FVPL	Financial assets at FVPL are subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Financial assets at amortised costs	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
Financial assets at FVOCI (debt investments)	Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
Financial assets at FVOCI (equity investments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

- (a) As at 1 January 2018, certain listed equity investments were reclassified from trading portfolio investments to financial assets at FVOCI. The Group intends to hold these equity investments for long term strategic purposes. Under HKFRS 9, the Group has designated these equity investments at the date of initial application as financial assets at FVOCI. As a result, financial assets with a fair value of HK\$506,863,000 were reclassified from trading portfolio investments to financial assets at FVOCI and accumulated fair value gains of HK\$131,974,000 were reclassified from retained profits to FVOCI reserve on 1 January 2018. The fair value of these listed equity investments at 31 December 2018 is HK\$492,759,000 and a fair value loss of HK\$14,104,000 would be recognised in profit or loss for the year as if no reclassification was made upon the adoption of HKFRS 9.
- (b) In addition to (a) above, certain listed equity investments were reclassified from available-for-sale financial assets to financial assets at FVOCI. The Group intends to hold these equity investments for long term strategic purposes. As a result, the carrying amount of these listed equity investments of HK\$237,959,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and accumulated fair value surplus of HK\$118,562,000 were reclassified from investment revaluation reserve to FVOCI reserve on 1 January 2018.
- (c) As at 1 January 2018, listed debt instruments were reclassified from available-for-sale financial assets to other financial assets at amortised cost as the Group's business model is hold-to-collect contractual cash. These listed debt instruments meet the SPPI criterion. As such, listed debt instruments with a carrying amount of HK\$178,747,000 were reclassified from available-for-sale financial assets to other financial assets at amortised cost and accumulated fair value deficits of HK\$134,000 were reclassified from investment revaluation reserve to retained profits on 1 January 2018. The fair value of these listed debt instruments as at 31 December 2018 is HK\$147,573,000; the carrying amount of HK\$27,162,000 would be mature for the year; and a fair value gain of HK\$1,091,000 would be recognised in other comprehensive income for the year as if no reclassification was made upon the adoption of HKFRS 9.
- (d) As at 1 January 2018, certain equity investments were reclassified from available-for-sale financial assets to financial assets at FVOCI. These equity investments were previously stated at cost as they do not have quoted price in an active market. The Group intends to hold these equity investments for long term strategic purposes. Therefore, the Group has now designated these equity investments at the date of initial application as financial assets at FVOCI. As at 1 January 2018, the previous carrying amount of these equity investments of HK\$6,023,000 was assessed as approximate to the fair value.
- (e) As at 1 January 2018, certain investments in other financial products stated at fair value were reclassified from available-for-sale financial assets to trading portfolio investments as these unlisted investments failed to meet the SPPI criterion. As such, these investments at fair value of HK\$65,639,000 were reclassified from available-for-sale investments to trading portfolio investments and the fair value deficits of HK\$903,000 were reclassified from investment revaluation reserve to retained profits on 1 January 2018.

- (f) As at 1 January 2018, the entire of debt component and conversion option component of the convertible bond investment were combined and reclassified to trading portfolio investments. The conversion option component causes the financial assets to fail to meet the SPPI criterion. This is because the embedded feature cannot be separated and the contractual terms of that convertible bond receivable as a whole do not give rise solely to payments of principal and interest on the principal amount outstanding of the convertible bond investment. As a result, that convertible bond investment as a whole is classified as trading portfolio investments. As at 1 January 2018, the difference between the previous carrying amount and the fair value of HK\$1,621,000 has been adjusted in the opening retained profits.

The following table summarises 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	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount	Effect of	Carrying amount
			as at 1 January 2018 under HKAS 39 HK\$'000	adoption of HKFRS 9 HK\$'000	as at 1 January 2018 under HKFRS 9 HK\$'000
Cash and deposits	Loans and receivable	Amortised cost	7,420,678	-	7,420,678
Due from clients	Loans and receivable	Amortised cost	1,011,516	(3,335)	1,008,181
Due from banks except for precious metal	Loans and receivable	Amortised cost	5,875,901	(2,179)	5,873,722
Due from banks					
- Precious metal	Financial assets at FVPL	FVPL	45,977	-	45,977
Trading portfolio investments	Financial assets at FVPL	FVPL	134,168	-	134,168
Trading portfolio investments	Financial assets at FVPL (note 3(a)(i)(a))	FVOCI	506,863	-	506,863
Derivative financial assets except for conversion option component	Financial assets at FVPL	FVPL	4,609	-	4,609
Trade receivables	Loans and receivable	Amortised cost	506,287	(1,793)	504,494
Available-for-sales financial assets	Available-for-sale (at fair value) (note 3(a)(i)(b))	FVOCI	237,959	-	237,959
Available-for-sales financial assets	Available-for-sale (at fair value) (note 3(a)(i)(c))	Amortised cost	178,747	(28)	178,719
Available-for-sales financial assets	Available-for-sale (at fair value) (note 3(a)(i)(e))	FVPL	65,639	-	65,639
Available-for-sales financial assets	Available-for-sale (at fair value) (note 3(a)(i)(d))	FVOCI	6,023	-	6,023
Held-to-maturity investments	Loans and receivable	Amortised cost	1,138,704	(500)	1,138,204
Other assets except for debt component	Loans and receivable	Amortised cost	442,177	(5,313)	436,864
Convertible bond investment	Conversion option component: Financial assets at FVPL Debt component: Loans and receivables (note 3(a)(i)(f))	As a whole: FVPL	8,492	1,621	10,113

At the date of initial application of HKFRS 9, the Company's management has assessed which business models apply to the financial assets held by the Group and has classified its financial assets into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

As at 1 January 2018	Trading portfolio investments HK\$'000	Financial asset at FVOCI HK\$'000	Derivative financial assets HK\$'000	Other financial assets at amortised cost HK\$'000	Available-for-sale financial assets HK\$'000	Held-to-maturity investments HK\$'000	Other assets HK\$'000
Opening balance – HKAS 39	641,031	-	4,680	-	488,368	1,138,704	450,598
Reclassification of trading portfolio investments to financial assets FVOCI	(506,863)	506,863	-	-	-	-	-
Reclassification of available-for-sale financial assets to other financial assets at amortised cost	-	-	-	178,747	(178,747)	-	-
Reclassification of available-for-sale financial assets to trading portfolio investments	65,639	-	-	-	(65,639)	-	-
Reclassification of available-for-sale financial assets to financial assets at FVOCI	-	243,982	-	-	(243,982)	-	-
Reclassification of held-to-maturity investments to other financial assets at amortised cost	-	-	-	1,138,704	-	(1,138,704)	-
Reclassification of entire convertible bond investment to trading portfolio investments	8,492	-	(71)	-	-	-	(8,421)
Effect of initial adoption of HKFRS 9	1,621	-	-	-	-	-	-
Recognition of additional expected credit losses	-	-	-	(528)	-	-	(5,313)
Opening balance – HKFRS 9	<u>209,920</u>	<u>750,845</u>	<u>4,609</u>	<u>1,316,923</u>	<u>-</u>	<u>-</u>	<u>436,864</u>

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECL") model". HKFRS 9 requires the Group to recognise ECL for due from clients, due from banks, trade receivables and other financial assets at amortised costs and other assets earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is assessed to be immaterial.

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

Measurement of ECL

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

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

Presentation of ECL

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the assets.

Impact of the ECL model

(a) Impairment of trade receivables

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

(b) Impairment of debt investments

The Group's debt investments are measured at amortised costs and are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months ECL.

(c) Impairment of due from clients and due from banks

The Group's due from clients and due from banks except for precious metal are measured at amortised costs. ECL is determined by reference to the estimation of the exposure at default ("EAD"), probability of default ("PD") as well as a loss given default ("LGD"). At the initial recognition, 12 months ECL (stage 1) would be considered resulting from the possible default event within next 12 months. Lifetime ECL (stage 2) would be considered resulting from the significant increase in credit risk on the balances. Lifetime ECL (stage 3) would be considered resulting from the occurrence of credit impaired on the balances.

(d) Impairment of other assets

Other assets at amortised cost of the Group includes dividend receivable from an associate, amounts due from an associate and related companies, other interest receivables and other receivables.

As a result of the above change, the following table summarises the impact of the new HKFRS 9 impairment model results in additional expected credit losses as at 1 January 2018 as follows:

	<i>HK\$'000</i>
Loss allowance at 31 December 2017 under HKAS 39	56,279
Recognition of additional expected credit losses on:	
– Due from clients	3,335
– Due from banks	2,179
– Trade receivables	1,793
– Other financial assets at amortised cost	528
– Other assets	5,313
	<hr/>
Loss allowance at 1 January 2018 under HKFRS 9	<u>69,427</u>

(iii) Transition

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

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

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the date of initial application of HKFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

(B) *HKFRS 15 Revenue from Contracts with Customers*

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

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

HKFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The management of the Group has assessed the impacts of adopting HKFRS 15 on its consolidated financial statements and considered there is no significant impact on the Group's revenue recognition policy.

Revenue from sales of goods is recognised at a point in time as when the control of the goods has been transferred to the customers and there is no unfulfilling performance obligation after the acceptance of the goods. Service fees and commission income are recognised at a point in time basis when the relevant services provided to the customers and there is no unfulfilling performance obligation after the services rendering. Revenue from custody account service and asset management service is recognised over time so as to depict the pattern of delivery of services.

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

Amendments HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these consolidated financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

Amendments to HKAS 40, Investment Property – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no impact on these consolidated financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration

The interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The interpretation specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of this interpretation has no impact on the consolidated financial statements as the Group has not paid or received advance consideration in a foreign currency.

(b) New or revised HKFRSs that have been issued but are not yet effective

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

HKFRS 16	Leases ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ²
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations ¹
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 11, Joint Arrangements ¹
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes ¹
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

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

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

³ The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

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

A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group may be required to recognise a right-of-use assets and corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirement may result in change in measurement, presentation and disclosure as indicated above. The Group is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the Group completes the review.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK\$112,456,000. HKAS17 does not require the recognition of any right-of-use assets and liabilities for future payments for these leases; instead, certain information is disclosed as operating lease commitments. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS16, and hence the Group may be required to recognise a right-of-use assets and corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS16.

Amendments to HKAS 1 and HKAS 8

The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments clarify that, in assessing whether an information could reasonably be expected to influence decisions of the primary users, an entity must consider the characteristics of those users as well as its own circumstances.

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests (“LTI”) in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015–2017 Cycle – Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015–2017 Cycle – Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015–2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015–2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors’ interests in the joint venture or associate.

The Group is in the progress of making assessments of the potential impact of these new or revised HKFRSs upon initial application.

3. BASIS OF PREPARATION

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRS”) issued by the HKICPA. The consolidated financial statements also included the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

3.2 Basis of measurement

The consolidated financial statements have been prepared under historical cost basis except for investment properties and certain financial instruments, which are measured at fair value. The adoption of new or revised HKFRSs and the impacts on the Group’s consolidated financial statements, if any, are disclosed in note 2.

It should be noted that accounting estimates and assumptions are used in preparing these consolidated financial statements. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

3.3 Functional and presentation currency

The consolidated financial statements are presented in Hong Kong Dollars (“HK\$”), which is also the functional currency of the Company and all values are rounded to the nearest thousand (“HK\$’000”) unless otherwise stated.

4. SEGMENT INFORMATION

The chief operating decision-maker, being the Company’s executive directors, have re-organised the Group’s product and service lines as operating segments as follows:

- (a) manufacturing and distribution of watches and timepieces;
- (b) property investments; and
- (c) banking and financial businesses.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

2018

	Watches and timepieces <i>HK\$'000</i>	Property investments <i>HK\$'000</i>	Banking and financial businesses <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:					
Net interest income from banking business	-	-	180,831	-	180,831
Net service fees and commission income from banking business	-	-	236,361	-	236,361
Trading income from banking business	-	-	63,172	-	63,172
Service fees and commission income from financial business	-	-	3,342	-	3,342
Interest income from financial business	-	-	193	-	193
Sales of goods from non-banking and financial businesses	2,444,364	-	-	-	2,444,364
Rental income from non-banking and financial businesses	-	9,586	-	-	9,586
Total revenue	2,444,364	9,586	483,899	-	2,937,849
Segment results	258,131	3,314	164,657	-	426,102
Unallocated corporate income and expenses, net				(18,871)	(18,871)
Share of loss of joint ventures	-	-	-	(2,678)	(2,678)
Share of profit of associates	-	-	-	8,387	8,387
Finance costs	(14,786)	-	(131)	(50,911)	(65,828)
Profit before income tax	243,345	3,314	164,526	(64,073)	347,112
Income tax expense	(77,728)	(414)	(27,868)	346	(105,664)
Profit for the year	165,617	2,900	136,658	(63,727)	241,448

	Watches and timepieces HK\$'000	Property investments HK\$'000	Banking and financial businesses HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment assets	5,191,326	179,523	13,957,275	-	19,328,124
Unallocated corporate assets:					
- Interests in associates	-	-	-	102,919	102,919
- Interests in joint ventures	-	-	-	2,439	2,439
- Financial assets at fair value through other comprehensive income	-	-	-	621,489	621,489
- Trading portfolio investments	-	-	-	48,945	48,945
- Cash and deposits	-	-	-	48,286	48,286
- Other unallocated corporate assets	-	-	-	106,027	106,027
Consolidated total assets	5,191,326	179,523	13,957,275	930,105	20,258,229
Segment liabilities	1,078,126	25,343	12,723,651	-	13,827,120
Unallocated corporate liabilities:					
- Corporate bonds	-	-	-	760,244	760,244
- Borrowings	-	-	-	738,299	738,299
- Due to a shareholder	-	-	-	73,000	73,000
- Other unallocated corporate liabilities	-	-	-	50,075	50,075
Consolidated total liabilities	1,078,126	25,343	12,723,651	1,621,618	15,448,738
Other segment information					
Interest income and other interest income	3,910	2	231	1,505	5,648
Expected credit losses on trade receivable	4,381	-	-	-	4,381
Expected credit losses on due from banks and customers	-	-	3,256	-	3,256
Reversal of provision for litigation risks	-	-	(320)	-	(320)
Provision for inventories	11,050	-	-	-	11,050
Reversal of provision for inventories	(7,301)	-	-	-	(7,301)
Depreciation and amortisation	111,521	-	15,597	1,795	128,913
Additions to non-current assets	150,480	-	43,566	100	194,146
Net deficit on revaluation of investment properties	-	4,066	-	-	4,066

2017

	Watches and timepieces <i>HK\$'000</i>	Property investments <i>HK\$'000</i>	Banking and financial businesses <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:					
Net interest income from banking business	–	–	94,992	–	94,992
Net service fees and commission income from banking business	–	–	212,616	–	212,616
Trading income from banking business	–	–	65,227	–	65,227
Service fees and commission income from financial business	–	–	9,307	–	9,307
Interest income from financial business	–	–	128	–	128
Sales of goods from non-banking and financial businesses	2,583,495	–	–	–	2,583,495
Rental income from non-banking and financial businesses	–	16,936	–	–	16,936
Total revenue	2,583,495	16,936	382,270	–	2,982,701
Segment results	70,732	24,420	156,527	–	251,679
Unallocated corporate income and expenses, net	–	–	–	(152,179)	(152,179)
Gain on disposal of subsidiaries	28,247	1,353,795	–	–	1,382,042
Share of loss of joint ventures	–	–	–	(1,159)	(1,159)
Share of profit of associates	–	–	–	20,711	20,711
Finance costs	(14,180)	–	(200)	(53,950)	(68,330)
Profit before income tax	84,799	1,378,215	156,327	(186,577)	1,432,764
Income tax expense	(70,628)	(132,738)	(18,675)	475	(221,566)
Profit for the year	14,171	1,245,477	137,652	(186,102)	1,211,198
Segment assets	4,609,858	125,817	15,880,189	–	20,615,864
Unallocated corporate assets:					
– Interests in associates	–	–	–	99,648	99,648
– Interests in joint ventures	–	–	–	5,117	5,117
– Available-for-sale financial assets	–	–	–	249,796	249,796
– Trading portfolio investments	–	–	–	495,751	495,751
– Cash and deposits	–	–	–	247,488	247,488
– Other unallocated corporate assets	–	–	–	142,007	142,007
Consolidated total assets	4,609,858	125,817	15,880,189	1,239,807	21,855,671

	Watches and timepieces <i>HK\$'000</i>	Property investments <i>HK\$'000</i>	Banking and financial businesses <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment liabilities	661,219	26,739	14,574,259	–	15,262,217
Unallocated corporate liabilities:					
– Corporate bonds	–	–	–	732,978	732,978
– Borrowings	–	–	–	583,269	583,269
– Other unallocated corporate liabilities	–	–	–	129,081	129,081
Consolidated total liabilities	661,219	26,739	14,574,259	1,445,328	16,707,545
Other segment information					
Interest income and other interest income	5,571	172	16	3,964	9,723
Impairment loss on trade receivable	8,110	–	–	–	8,110
Reversal of impairment due from banks and customers credit risks	–	–	(96)	–	(96)
Provision for litigation risks	–	–	158	–	158
Provision for inventories	43,258	–	–	5,125	48,383
Depreciation and amortisation	104,655	2,231	10,401	5,510	122,797
Additions to non-current assets	162,322	–	9,109	38,067	209,498
Net surplus on revaluation of investment properties	–	17,605	–	–	17,605

Unallocated corporate income and expenses mainly comprised dividend income from trading portfolio investment and financial assets at fair value through other comprehensive income, gain or loss on fair value changes in trading portfolio investments, gain or loss on fair value changes in the derivative financial assets, impairment of yacht and other corporate income and expenses of the Group's headquarter which are not directly attributable to the business activities of any operating segment. Other corporate expenses mainly included employee costs, directors' remuneration and office rental expenses for administrative purpose.

The Group's revenues from external customers and its non-current assets (other than financial assets and deferred tax assets) are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Hong Kong	142,281	129,046	177,912	157,023
PRC	1,818,464	2,070,853	1,397,045	1,423,641
Switzerland	22,942	21,201	460,505	204,097
United Kingdom	103,060	101,265	7,928	12,102
Liechtenstein	480,364	372,835	448,423	444,970
Others	370,738	287,501	2,492	2,214
	2,937,849	2,982,701	2,494,305	2,244,047

The geographical location of revenue is based on the location of customers. For goodwill and intangible assets, the geographical location is based on the areas of operation of CGUs. The geographical location of other non-current assets is based on the physical location of the assets.

The Group has a large number of customers and there is no significant revenue that is more than 10% of the Group's revenue derived from specific external customers for the years ended 31 December 2018 and 2017.

5. REVENUE

The Group is principally engaging in manufacturing and distribution of watches and timepieces, property investments and banking and financial businesses.

For banking and financial businesses, revenue mainly comprises net interest income, net service fees and commission income and net trading income (notes 5(a), 5(b), 5(c) and 5(d)). For non-banking and financial businesses, revenue mainly represents the net invoiced value of goods sold, after allowance for returns and trade discounts and rental income received and receivables (note 5(e)).

Revenue recognised during the year is as follows:

(a) Net interest income from banking business

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest income from banking business arising from:		
Interest income – due from banks	161,518	85,006
Interest income – due from clients	29,512	23,405
Interest income from trading portfolio investments	72	155
Interest income from mortgage loans	8,026	3,751
Interest income from available-for-sale financial assets	–	1,945
Interest income from held-to-maturity investments	–	5,551
Interest income from money market papers	8,827	1,792
Interest income from financial assets	12,973	–
Negative interest income/(expense) on due to clients	720	(1,001)
	<u>221,648</u>	<u>120,604</u>
Interest expenses from banking business arising from:		
Interest expense on due to banks	(38,403)	(20,620)
Interest expense on due to clients	(564)	(946)
Interest expense for issued debt instruments	(1,645)	(3,606)
Negative interest income on due from banks and clients	(205)	(440)
	<u>(40,817)</u>	<u>(25,612)</u>
Net interest income from banking business	<u>180,831</u>	<u>94,992</u>

(b) Net service fees and commission income from banking business

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Service fee and commission income from banking business arising from:		
Commission income from loans	4,049	2,743
Brokerage fees	37,107	47,871
Custody account fees	27,368	27,281
Commission on investment advice and asset management	105,612	93,665
Commission income from service fees	92,890	78,710
Commission income from fiduciary fees	554	528
Commission income from retrocession	4,385	3,954
Other commission income	53,649	52,289
	<u>325,614</u>	<u>307,041</u>
Service fees and commission expenses from banking business	<u>(89,253)</u>	<u>(94,425)</u>
Net service fees and commission income from banking business	<u>236,361</u>	<u>212,616</u>

(c) Trading income from banking business

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Debt instruments	(815)	598
Securities	5	298
Forex and precious metals	62,715	63,868
Funds	1,267	463
	<u>63,172</u>	<u>65,227</u>
Trading income from banking business	<u>63,172</u>	<u>65,227</u>

(d) Revenue from financial business

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Service fees and commission income from financial business	3,342	9,307
Interest income from financial business	193	128
	<u>3,535</u>	<u>9,435</u>
Revenue from financial business	<u>3,535</u>	<u>9,435</u>

(e) Revenue from non-banking and financial businesses

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Sales of goods	2,444,364	2,583,495
Rental income	9,586	16,936
	<hr/>	<hr/>
Revenue from non-banking and financial businesses	2,453,950	2,600,431

6. OTHER INCOME AND OTHER NET GAINS OR LOSSES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Gain/(loss) on fair value changes in trading portfolio investments, net	15,541	(5,949)
Loss on fair value changes in derivative financial instruments, net	-	(11)
Loss on early redemption of the convertible bonds	(978)	-
Net (deficit)/surplus on revaluation of investment properties	(4,066)	17,605
Gain on disposal of subsidiaries (<i>note 10</i>)	-	1,382,042
(Loss)/gain on disposal of property, plant and equipment	(1,589)	1,711
Bank and other interest income from non-banking business	5,648	9,723
Dividend income from trading portfolio investments	1,097	1,406
Dividend income from financial assets at fair value through other comprehensive income	11,316	-
Dividend income from available-for-sale financial assets	-	3,436
Sales of scrap materials	161	217
Other operating income	8,281	4,453
Government subsidies (<i>note (a)</i>)	40,701	26,672
Impairment loss on intangible assets (<i>note 14</i>)	-	(123,378)
Impairment loss on goodwill (<i>note 15</i>)	-	(19,000)
Reversal of provision/(provisions) for litigation risks	320	(158)
Expected credit losses on due from banks and clients	(3,256)	-
Reversal of impairment due from banks and customers credit risks	-	96
Other sundry income, net	6,310	1,527
	<hr/>	<hr/>
	79,486	1,300,392

Note:

- (a) Government subsidies mainly comprised of unconditional subsidies received for subsidising the Group's business.

7. FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Interest charged on corporate bonds	34,454	30,534
Interest charged on bank borrowings and bank overdrafts	29,510	37,719
Margin loan interests	1,864	200
	<u>65,828</u>	<u>68,453</u>

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2018 HK\$'000	2017 HK\$'000
Cost of inventories recognised as expense, including:	1,022,568	1,226,494
– Reversal of provision for inventories	(7,301)	–
– Provision for inventories	11,050	48,383
Depreciation and amortisation	128,913	122,797
– Depreciation (<i>note (a)</i>)	126,255	119,767
– Amortisation of prepaid land lease payments (<i>note (b)</i>)	864	1,219
– Amortisation of intangible assets (<i>note (b)</i>)	1,794	1,811
Lease payments under operating leases in respect of:		
– Land and buildings	54,333	56,964
– Plant and machinery	–	1,400
Auditor's remuneration	4,600	4,300
Gross rental income	(9,586)	(16,936)
Less: direct operating expenses	2,309	3,970
Net rental income	(7,277)	(12,966)
Research and development expenses (<i>note (b)</i>)	55,267	54,317
Impairment loss on trade receivables	–	8,110
Expected credit losses on trade receivables	4,381	–

Notes:

- (a) Depreciation expense of HK\$19,653,000 (2017: HK\$15,082,000) has been included in cost of sales from non-banking and financial businesses, HK\$53,213,000 (2017: HK\$50,159,000) in selling and distribution expenses and HK\$53,389,000 (2017: HK\$54,526,000) in administrative expenses.
- (b) Amortisation expenses and research and development expenses had been included in the administrative expenses.

9. INCOME TAX EXPENSE

For the year ended 31 December 2018 and 2017, Hong Kong profit tax has been provided for certain subsidiaries within the Group and is calculated at 16.5% on the estimated assessable profits. The subsidiaries established in the PRC are subject to income taxes at tax rates ranging between 15% and 25% (2017: 15% and 25%). Overseas tax is calculated at the rates applicable in the respective jurisdictions.

The Group is also subject to PRC withholding tax at the rate of 5% or 10% (2017: 5% or 10%) in respect of its PRC sourced income earned, including rental income from properties in the PRC, dividend income derived from PRC incorporated company and profit arising from the transfer of equity interest in PRC incorporated company.

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current tax for the year		
Hong Kong	665	465
PRC	78,140	224,845
Liechtenstein	27,891	19,059
Switzerland	289	812
Deferred tax for the year	<u>(1,321)</u>	<u>(23,615)</u>
Total income tax expense	<u>105,664</u>	<u>221,566</u>

10. DISPOSAL OF SUBSIDIARIES

10.1 Disposal of Seti Timber Industry (Shenzhen) Co., Ltd and its subsidiaries (together "Seti Timber Group")

The Group's gain on disposal of Seti Timber Group for the year ended 31 December 2017 were set out as follows:

	<i>HK\$'000</i>
Net assets disposed of	414,530
Non-controlling interests	(2,670)
Release of exchange reserve upon disposal	<u>(2,952)</u>
	408,908
Less: Total consideration	<u>(1,762,703)</u>
Gain on disposal of Seti Timber Group (<i>note 6</i>)	<u>(1,353,795)</u>

The cash consideration of RMB1,400,000,000 (equivalent to HK\$1,630,446,000) in respect of disposal of Seti Timber Group has been fully received by the Group during the year ended 31 December 2017.

10.2 Disposal of Gold Vantage Industrial Limited and its subsidiaries (together “Gold Vantage Group”)

The Group’s gain on disposal of Gold Vantage Group for the year ended 31 December 2017 were set out as follows:

	<i>HK\$’000</i>
Net liabilities disposed of	(53,200)
Non-controlling interests	24,815
Release of exchange reserve upon disposal	<u>143</u>
	(28,242)
Less: Total consideration	<u>(5)</u>
Gain on disposal of Gold Vantage Group (note 6)	<u><u>(28,247)</u></u>

The cash consideration of HK5,100 from disposal of Gold Vantage Group has been fully received by the Group during the year ended 31 December 2017.

11. DIVIDENDS

At the board meeting held on 29 March 2019, the board of directors do not recommend the payment of final dividend for the year ended 31 December 2018 (2017: recommended final dividend of HK6 cents per share).

The dividend payable for 2017 final dividend as at 30 June 2018 was HK\$261,113,000. During the six months ended 30 June 2018, 1,575,000 ordinary shares were issued due to exercise of share options. The aforementioned issuance of ordinary shares were completed before the closure of members’ register on 29 June 2018. As such, ordinary shares newly issued during the six months ended 30 June 2018 were entitled to the 2017 final dividend.

12. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share attributable to owners of the Company are based on the following data:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Earnings		
Profit attributable to owners of the Company for the purpose of calculating basic and diluted earnings per share	<u>201,372</u>	<u>1,170,484</u>
	2018 Number of shares '000	2017 Number of shares '000
Number of shares		
Weighted average number of shares for the purpose of calculating basic earnings per share	4,351,370	4,350,313
Effect of dilutive potential shares:		
– share options issued by the Company	<u>2,249</u>	<u>5,752</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>4,353,619</u>	<u>4,356,065</u>

13. TRADE RECEIVABLES

As at 31 December 2018, the Group's trade receivable is amounted to HK\$571,424,000 (2017: HK\$506,287,000), in which HK\$562,674,000 (2017: HK\$500,980,000) is arising from watch and timepieces business and HK\$8,750,000 (2017: HK\$5,307,000) is arising from financial business.

The Group's trading terms with its customers of watches and timepieces business are mainly on credit, except for certain customers, where payment in advance is required. The credit period is generally for a period of one to six months (2017: one to six months) for major customers. The credit term for customers is determined by the management according to industry practice together with consideration of their creditability. In view of the aforementioned and the fact that the Group's trade receivables relate to a wide range of customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

Ageing analysis of trade receivables arising from watches and timepieces business as at the reporting date, based on invoice dates, and net of provisions, is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
1 to 3 months	401,115	407,744
4 to 6 months	73,448	44,480
Over 6 months	<u>88,111</u>	<u>48,756</u>
	<u>562,674</u>	<u>500,980</u>

14. INTANGIBLE ASSETS

	Supplier and distribution networks <i>HK\$'000</i>	Brand names <i>HK\$'000</i>	Patents <i>HK\$'000</i>	Trading rights <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2018					
Opening carrying amount	5,585	305	–	7,246	13,136
Acquisition of subsidiaries (note 17)	–	42,000	–	–	42,000
Amortisation	(1,718)	(76)	–	–	(1,794)
Exchange realignment	68	(100)	–	–	(32)
Closing carrying amount	3,935	42,129	–	7,246	53,310

As at 31 December 2018, intangible assets of HK\$46,064,000 (2017: HK\$5,890,000) are attributable to watches and timepieces business while intangible assets of HK\$7,246,000 (2017: HK\$7,246,000) are attributable to financial business.

Intangible assets with indefinite useful lives amounted to HK\$27,011,000 are attributable to the CGU of Montres Corum Sàrl and its subsidiaries (together “Corum Group”). The recoverable amount of the CGU of Corum Group has been determined from value-in-use calculation in which overall negative cash flow is expected. The recoverable amount of the CGU of Corum Group as at 31 December 2017 would be nil. In the opinion of the directors of the Company, the revenue growth of Corum Group is not achieved as previously expected and it is uncertain that those intangible assets could generated economic benefit to Corum Group. As such, an impairment loss on the intangible assets of HK\$27,011,000 was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2017. No further impairment loss would be provided for the year ended 31 December 2018.

Intangible assets with indefinite useful lives amounted to HK\$96,058,000 and intangible assets with definite useful lives amounted to HK\$309,000 are attributable to the CGU of The Dreyfuss Group Limited and its subsidiaries (together “Dreyfuss Group”). As the recoverable amount of the CGU of Dreyfuss Group would be nil, an impairment loss on the intangible assets of HK\$96,367,000 was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2017. No further impairment loss would be provided for the year ended 31 December 2018.

15. GOODWILL

The amount of goodwill capitalised as an asset recognised in the consolidated statement of financial position, arising from business combinations, is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Year ended 31 December		
Opening carrying amount	906,036	862,834
Acquisition of subsidiaries (<i>note 17</i>)	201,454	3,080
Impairment loss	–	(19,000)
Exchange realignment	(35,938)	59,122
	<hr/>	<hr/>
Closing carrying amount	<u>1,071,552</u>	<u>906,036</u>

Dreyfuss Group incurred loss for the year ended 31 December 2017 and the revenue growth and the plan of new market development are not achieved as previously expected. The directors of the Company considered the goodwill arising from the acquisition of Dreyfuss Group should be impaired. The recoverable amount of the CGU of Dreyfuss Group as at 31 December 2017 would be nil. An impairment loss on the goodwill of HK\$19,000,000 was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2017. No impairment loss would be provided for the year ended 31 December 2018.

16. TRADE PAYABLES

As at 31 December 2018, the Group's trade payable is amounted to HK\$324,106,000 (2017: HK\$305,798,000), in which HK\$280,567,000 (2017:HK\$262,629,000) is arising from watch and timepieces business and HK\$43,539,000 (2017: HK\$43,169,000) is arising from financial business.

The credit terms of trade payables to watches and timepieces business vary according to the terms agreed with different suppliers. Ageing analysis of trade payables arising from watches and timepieces business as at the reporting dates, based on the invoice dates, is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
1 to 3 months	215,854	172,581
4 to 6 months	25,151	23,410
Over 6 months	39,562	66,638
	<hr/>	<hr/>
	<u>280,567</u>	<u>262,629</u>

Trade payable to watches and timepieces business are non-interest bearing.

17. ACQUISITION OF SUBSIDIARIES

Acquisition of Ernest Borel

The Group has completed the acquisition of 58.22% of the issued share capital of Ernest Borel, which listed on Stock Exchange with stock code 1856 in September 2018. The total consideration paid for the acquisition is HK\$374,209,000.

Details of the net assets acquired at the acquisition date are as follows:

	<i>HK\$'000</i>
Cash consideration	374,209
Less: Fair value of net assets acquired	<u>(172,755)</u>
Goodwill (<i>note 15</i>)	<u><u>201,454</u></u>

The goodwill of HK\$201,454,000, which is not deductible for tax purposes, comprises the acquired workforce and the expected synergy with existing watch business of the Group.

The fair values of the identifiable assets and liabilities arising from the acquisition of Ernest Borel as at the date of acquisition:

	Fair value <i>HK\$'000</i>
Cash and deposits	25,714
Property, plant and equipment	39,116
Intangible assets (<i>note 14</i>)	42,000
Inventories	383,747
Financial assets at fair value through profit or loss	16,995
Trade receivables	55,024
Other assets	11,501
Deferred tax liabilities	(32,406)
Trade payables	(5,324)
Notes payable	(100,000)
Borrowings	(10,505)
Income tax payables	(2,951)
Liability portion of convertible bonds	(97,184)
Other liabilities	<u>(28,999)</u>
	296,728
Less: Non-controlling interests	<u>(123,973)</u>
Fair value of net assets acquired	<u><u>172,755</u></u>

Ernest Borel contributed revenue of approximately HK\$41,501,000 and net loss of approximately HK\$35,568,000 to the Group from the date of acquisition to 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the year ended 31 December 2018, the Group recorded total revenue of approximately HK\$2,937,849,000 (31 December 2017: HK\$2,982,701,000), a decrease of HK\$44,852,000 or 1.5% over 2017.

Operating expenses (including selling and distribution expenses and administrative expenses) for the year ended 31 December 2018 was approximately HK\$1,587,536,000 (31 December 2017: HK\$1,574,934,000), an increase of HK\$12,602,000 or 0.8% over 2017.

Gross profit generated from non-banking and financial businesses for the year ended 31 December 2018 was approximately HK\$1,431,382,000 (31 December 2017: HK\$1,373,937,000), an increase of HK\$57,445,000 or 4.2% over 2017.

Gross profit generated from banking and financial businesses for the year ended 31 December 2018 was approximately HK\$483,899,000 (31 December 2017: HK\$382,270,000), an increase of HK\$101,629,000 or 26.6% over 2017.

The EBITDA for the year ended 31 December 2018 was approximately HK\$541,853,000 (31 December 2017: HK\$1,624,014,000), a decrease of HK\$1,082,161,000 or 66.6% over 2017.

Net profit after tax for the year ended 31 December 2018 was approximately HK\$241,448,000 (31 December 2017: HK\$1,211,198,000), a decrease of HK\$969,750,000 or 80.1% over last year. For the year ended 31 December 2017, the Group recorded a gain of approximately HK\$1.35 billion on disposal of the entire equity interest in Seti Timber Industry (Shenzhen) Co., Limited. Excluding the one-off gain on disposal and loss on asset impairment in 2017, the Group has an increase of 948% over 2017.

PERFORMANCE

Notwithstanding the challenging environment, we have collectively made good progress towards our strategic goals. Our Group comprises three key divisions – watches and timepieces businesses, banking and financial businesses, and various investment businesses. These divisions are described in more details in the following review.

I. Watches and timepieces businesses

I.A – Local proprietary brands

I.B – Foreign proprietary brands

I.C – Non-proprietary brands

II. Banking and financial businesses

II.A – Bendura Bank AG

II.B – Shun Heng Finance Holding (Hong Kong) Limited

III. Various investment business

III.A – Listed equity investment

III.B – Property investment

III.C – Other marketable securities

I.A Watches and Timepieces Businesses – Local Proprietary Brands

Zhuhai Rossini Watch Industry Limited

For the year ended 31 December 2018, Zhuhai Rossini Watch Industry Limited (“**Rossini**”), a 91% subsidiary of the Group, recorded revenue of HK\$1,060,274,000, an increase of HK\$39,973,000, or 3.9% from HK\$1,020,301,000, for 2017. Net profit after tax attributable to owners of the Company for the year ended 31 December 2018 was HK\$274,419,000, representing a decrease of HK\$9,117,000 or 3.2%, from HK\$283,536,000 in 2017.

In 2018, Rossini saw significant growth in sales from e-commerce, industrial tourism and group purchase, while sales from physical stores dropped slightly. Over the past years, the proportion of total revenue derived from e-commerce, industrial tourism and group purchase has been showing an increasing trend.

E-commerce sales for the year ended 31 December 2018 increased to HK\$353,778,000 from HK\$280,421,000 last year, representing an increase of HK\$73,357,000 or 26.2%. It is expected that the e-commerce will be able to maintain a solid growth rate in the forthcoming years given the trend of e-commerce in Mainland China.

Rossini’s industrial tourism hits record highs in terms of number of tourists and revenue. More than 600,000 tourists visited the watch museum and generated revenue of approximately HK\$89,342,000 in 2018. The watch museum is in the process of preparation for a new upgrading by adding more scientific elements such as modernized sound and light and multi-media methods into demonstration.

In 2018, Rossini was awarded “Customer Satisfaction Pilot Enterprise (Rating: AAA)” (用戶滿意標杆企業(AAA等級)) by the China Association for Quality and National Customer Committee. Meanwhile, Rossini was also awarded the “40th Anniversary of the Reform and Opening – Outstanding Enterprise in Guangdong Province” (改革開放40周年廣東省優秀企業).

EBOHR Group

EBOHR Group is composed of EB Brand Limited, EBOHR Luxuries International Limited (“**EBOHR**”), Shenzhen EBOHR Luxuries Online E-commerce Co., Ltd., PAMA Precision Manufacturing Limited and Shenzhen EBOHR PAMA Sales Co., Ltd incorporated in 2018.

Revenue of EBOHR Group for the year ended 31 December 2018 was HK\$596,579,000, a decrease of HK\$88,827,000, or 13%, from HK\$685,406,000 in 2017. Net profit after tax for the year ended 31 December 2018 was HK\$60,353,000, representing a decrease of HK\$9,791,000 or 14%, compared with HK\$70,144,000 in 2017. The decrease in revenue was attributable to several reasons. First, the declining trend of sales from physical stores has continued and the newly opened physical stores were not performing well. Second, e-commerce sales for the year ended 31 December 2018 dropped compared to that of last year. Third, development of new sales channels needs to be improved.

EBOHR’s new headquarters has become operational since early 2018. Production and new product development have not been resumed to a normal level, resulting in shortage of product supply and hence affecting the revenue and profitability in 2018.

Due to that EBOHR’s headquarters having been relocated from downtown to a newly developed region, EBOHR has suffered from loss of some young talents specialized in e-commerce business. Such loss adversely affected EBOHR’s e-commerce performance in 2018. In 2018, the revenue earned from e-commerce decreased to HK\$165,283,000 from HK\$185,508,000 in 2017, representing a decrease of HK\$20,225,000 or 10.9%.

Mainland China is our home and remains the backbone of our business. Rossini and EBOHR Group continued to be the major sources of revenue and accounted for more than 68% of the total revenue from non-banking and financial businesses of the Group (31 December 2017: 66%); they were also the major contributors of net profits for the Group.

The rapid growth of digital economy is changing consumer behavior, and Rossini and EBOHR are aggressively implementing strategies to enhance e-commerce. It is believed that the proportion of the e-commerce sales to both companies’ revenue and profit will steadily increase.

I.B Foreign Proprietary Brands

Ernest Borel Holdings Limited

The Group held 82.50% equity interest in Ernest Borel as at 31 December 2018. Under its own brand “Ernest Borel”, Ernest Borel Group is engaged in the design, production, marketing and sale of mechanical and quartz premium watches. Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning over 160 years. Throughout the course of its history and across its operations, the Ernest Borel Group has upheld the principles of producing high precision “Swiss-made” products and implement stringent quality controls.

Ernest Borel Group recorded revenue and net loss after tax attributable to the owners of the Company from the date of acquisition to 31 December 2018 of HK\$41,501,000 and HK\$25,773,000, respectively.

Mainland China remains as the core market of the Ernest Borel Group. Revenue from Mainland China was approximately HK\$35,666,000 from the date of acquisition to 31 December 2018, accounting for approximately 85.9% of its total revenue.

The extensive distribution network of the Ernest Borel Group covers retail markets in Mainland China, Hong Kong, Macau and Southeast Asian countries. As at 31 December 2018, Ernest Borel Group had more than 770 POS, comprising approximately 620 POS in Mainland China and approximately 130 POS in Hong Kong, Macau and Southeast Asian countries.

The Group has disposed approximately 18.42% equity interest in Ernest Borel in order to restore the public float of Ernest Borel. As at the date of this announcement, the Group held approximately 64.08% equity interest in Ernest Borel.

Backed by our competitive strengths and deep understanding of the needs of our customers, we will redeploy our resources to realize gains in efficiency and synergy and will build on the good progress we have made to provide long-term value.

Other Foreign Proprietary Brands

Collectively, Corum, Eterna and the Dreyfuss Group contributed revenue and net loss after tax for the year ended 31 December 2018 of HK\$474,032,000 (31 December 2017: HK\$515,664,000) and HK\$113,963,000 (31 December 2017: HK\$340,068,000), respectively.

Asia, Europe and the USA remained the largest markets for Corum in 2018. Among which, Asia was the biggest market, representing approximately 60% of Corum's total sales, and witnessed a growth in sales of approximately 7% over 2017. Mr. Hu Bing, a renowned Chinese actor and model, was announced in 2018 as Corum's new Global Brand Ambassador to gain more visibility on this biggest market. In 2018, the sluggish global economic growth, terrorist attacks and uncertainty in Europe posed significant challenges for Corum's sales in Europe and USA. Sales in both markets dropped approximately 8% over 2017.

The operation and management of Eterna has been integrated under Corum. In May 2018, a new Business Analysis Department was set up, with a goal to restructure the flow and organization to increase its profitability and efficiency. The primary mission is to analyze each department and provide solutions to identify issues through implementation of improvement or project reorganization. In addition, the department is also in charge of providing all necessary indicators to the managers to monitor the performance of their departments. The most urgent projects were undertaken to rapidly improve the productivity and profitability.

A project to integrate customer service, back office and invoicing departments was in progress. With this now in place, it will allow for a seamless workflow which results in significant cost savings. In addition, a reorganisation and merger between the sales department and marketing department was being put in place. This reorganisation goes in the direction of favoring the synergy of these two inseparable departments to be closer to the needs of the market.

Apart from supplying mechanical movements to intra-company brands, Eterna Movement will continue to concentrate on European and Asian markets and keep acquiring new customers by strengthening the marketing activities.

As UK is single largest market for The Dreyfuss Group Limited (the “**Dreyfuss Group**”), representing 88% of its total revenue for the year ended 31 December 2018, its performance was still particularly influenced by economic factors created by Brexit affecting its UK market, especially the consumers' cautiousness on non-essential spending. The key strategy for the UK market is to increase the profitability of trade with the major customers, by providing desirable watches at compelling price points that deliver the targeted profitability. In 2018, the UK sales team worked closely with the customer base, built a strong relationship through regular meetings to review product ranges and point of sale opportunities. On the other hand, international sales went up in 2018, reflecting both a focus on profitable sales channels and the newly-established sales operation in Mainland China. The new subsidiary in Mainland China has been established to maximise the opportunity for Rotary watches in that market, contributing 5% of the total revenue of the Dreyfuss Group in 2018.

I.C Watches and Timepieces Businesses – Non-Proprietary Brands

Currently, the Group held four distribution companies. Collectively, distribution companies contributed revenue and net profit after tax for the year ended 31 December 2018 of HK\$231,864,000 (31 December 2017: HK\$216,476,000) and HK\$6,663,000 (31 December 2017: net loss after tax of HK\$895,000) respectively.

II.A Bendura Bank AG

Bendura Bank aims to accompany its clients from one generation to the next and to provide long-term wealth creation and protection. The range of private banking services is comprehensive, focusing on, among others, following areas:

- (1) Asset management and investment advice; and
- (2) Security issuance and investment funds.

As a result of our quality services related to the asset management and investment advice but slightly affected by market movements, assets under management was CHF3.5 billion as of 31 December 2018 (31 December 2017: CHF3.6 billion).

Despite a challenging market environment, Bendura Bank has succeeded in consistently pursuing the path it has taken in previous years and in continuing the very good results of previous years. Revenue for the year ended 31 December 2018 was HK\$480,364,000, an increase of HK\$107,529,000, or 28.8%, from HK\$372,835,000 over 2017. Net profit after tax attributable to owners of the Company for the year ended 31 December 2018 was HK\$154,065,000 compared with HK\$106,967,000 in 2017, an increase of HK\$47,098,000 or 44%.

The increase in net profit was attributable firstly to the most recent interest rate hikes in the US and the resulting extra interest income from interbank deposits held in US Dollars and secondly to an increase in lending volume to clients.

Particularly, the increase in interest income was contributed by the higher income from USD interbank investment and foreign exchange swaps. Net income from interest and dividends increased strongly by approximately HK\$85,839,000 or 90.4% compared with 2017. Net income from commission and service fees amounted to CHF29.5 million, an increase of 9.8% over 2017. While brokerage revenue fell short of the previous year's level despite the volatile stock market environment, the encouraging development of asset management and advisory mandates had a positive impact on custody and administration fees. The result from trading income amounted to approximately CHF7.9 million and it was evidently stable compared to 2017.

Operating expense amounted to CHF31.5 million in 2018 and hence increased significantly compared to 2017. On the one hand, this was because higher operating cost, which increased due to the employee structure. On the other hand, general and administrative expenses increased by CHF1.9 million or 24% compared to 2017.

Owing to the cost management, the Bank achieved cost/income ratio of 48.5%. Liquidity remained at a high level. The substantial holdings of liquid assets achieved a Liquidity Coverage Ratio (LCR) of 197% as at 31 December 2018, being well above the regulatory threshold. The net profit generated in 2018 further strengthened its capital base and capital ratios.

Bendura Bank continues to drive improvement of basic systems and processes. It allocates significant resources to compliance, risk management, control and reporting systems so that it remains a stable and secure institution. The banking industry is making rapid strides towards complete transparency. In order to fulfill the regulatory requirements, our clients have to disclose the full financial background to their payment transactions when first requested to do so by correspondent banks, including the identity of the beneficial owner, a profile of the acting persons and documentation on the transaction. Such information is necessary for the counterparty to comply with local regulatory requirements and help fight for tax evasion, money laundering and terrorist financing so as to ensure market transparency and maintain the stability of the financial system. In addition, the automatic exchange of information between Liechtenstein and a significant number of third countries has become standard procedure. As of 31 December 2018, Liechtenstein has agreements with 98 countries. Despite of these increasingly strict regulations, Bendura Bank manages to grow assets under management gradually.

Bendura Bank refrains from cooperating with businesses that have a dubious reputation. It does not support arm manufacturing, arm trading, adult entertainment or online betting services. Specifically, it does not work with companies related to cryptocurrencies as we can't control the source of funds for cryptocurrencies. Bendura Bank does not have accounts for its shareholders or their family members or related parties so as to avoid conflicts of interest and at the same time emphasize the independence.

Bendura Bank has stepped up training to build a more flexible and productive workforce. Our highly qualified employees are multilingual (German, English, Italian, Turkish, Russian, Polish, Czech, Slovak, Serbian, Croatian, Slovenian, Hungarian and Mandarin). Their cultural understanding facilitates efficient market access internationally. Business segments are based on language regions enabling efficient market access, which is considered to be the key success factor.

Bendura Bank continues to invest in the Mandarin speaking team so as to work on opportunities for Mandarin speaking clients. The Bank has already opened a representative office in Hong Kong, representing one of the remarkable achievements in our recent bank strategy. Staff from various department of the Bank will come to Hong Kong to experience the market.

Bendura Bank is working on the expansion of premises in Bendern. The extension to the existing premises, mirrored on the advice of the former and current architect, is connected with a central block. The space would be able to accommodate 150 more employees with improved facilities. The construction work has begun and the target date of completion is by the end of autumn 2021.

It is the objective of Bendura Bank to focus primarily on commission and fee income by providing quality services. It continues to provide loans to selective clients on secured basis but maintains a broad extent of diversification.

Bendura Bank is optimistic on the long-term prospects. It is fully committed to service our customers and realize our vision to be the Bank delivering on their needs. We believe that this commitment, combined with our unique resources built over the past decades, will propel the Group's growth in the businesses of banking and finance and contribute to delivering steady returns to our shareholders.

II.B Shun Heng Finance Holding (Hong Kong) Limited

The Group currently conducts securities and asset management businesses under the umbrella of Shun Heng Finance Holding (Hong Kong) Limited (formerly known as Global Wealthy Link Limited) ("**Shun Heng Finance Holding**"), which is 60% owned by the Group. It comprises Shun Heng Securities Limited and Hong Kong Metasequoia Capital Management Limited.

For the year ended 31 December 2018, Shun Heng Finance Holding contributed revenue and net loss after tax attributable to owners of the Company of HK\$3,535,000 (31 December 2017: HK\$9,945,000^{note}) and HK\$6,350,000 (Net profit of 31 December 2017: HK\$694,000^{note}) respectively.

Shun Heng Securities Limited ("Shun Heng Securities")

Shun Heng Securities, a corporate licensed to conduct Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (the "**SFO**"), is mainly engaged in securities brokerage and margin businesses.

In addition to the traditional brokerage business, Shun Heng Securities has continued to grow the underwriting business for overseas bonds issued by Chinese enterprises. In 2018, Shun Heng Securities completed its 4th underwriting project for a bond issue at a size of USD80 million.

To adapt itself to the expanding business and attract new individual and institutional investors, Shun Heng Securities has upgraded its online trading system which provides higher security and better user experience.

Note: Revenue and profit loss after tax for the year ended 31 December 2017 covered period from February 2017, the date of acquisition to 31 December 2017

Hong Kong Metasequoia Capital Management Limited (“Metasequoia Capital”)

Metasequoia Capital, a corporate licensed to conduct Type 4 (advisory on securities) and Type 9 (asset management) regulated activities under the SFO, is mainly engaged in asset management business.

Metasequoia Capital has launched its first fund, Global Opportunities Fund, with an initial fund size of HK\$80 million and investing mainly in securities markets in Hong Kong and the US. As at 31 December 2018, assets under management of Metasequoia Capital was approximately USD10 million. In addition, Metasequoia Capital has obtained the approval from the People’s Bank of China the access to the China Inter-Bank Bond Market, for the purpose of launching more funds focusing on the bond market.

III.A Listed Equity Investment

(1) Citychamp Dartong Company Limited

As at 31 December 2018, financial assets at fair value through other comprehensive income of the Group was HK\$627,200,000. HK\$128,731,000 was related to the listed equity investment in the equity share of Citychamp Dartong Company Limited (“**Citychamp Dartong**”). Citychamp Dartong is a company listed on the Shanghai Stock Exchange (Stock code: 600067) and engaged in real estate, enameled wire, banking and new energy. As at 31 December 2018, the Group owned 30,389,058 shares of Citychamp Dartong at the market price of RMB 3.72 per share (equivalent to HK\$4.236 per share) with the fair value of approximately HK\$128,731,000. The shares held by the Group accounted for 2.04% of the total issued share capital of Citychamp Dartong as at 31 December 2018. Such fair value accounted for 0.6% of the Group’s total assets.

The Group incurred a net loss on fair value change through other comprehensive income in investment in Citychamp Dartong of HK\$109,229,000 for the year ended 31 December 2018, as a result of decrease in the share price of Citychamp Dartong from RMB6.52 (equivalent to HK\$7.83) as at 1 January 2018 to RMB3.72 (equivalent to HK\$4.236) as at 31 December 2018. The Group recognised dividend receivable of HK\$3,577,000 from Citychamp Dartong for the year ended 31 December 2018.

This is the Group’s long-term investment due to its dividend yield and long-term share price performance and potential. Given its substantial land bank for development and profitability of certain business segments, we are optimistic about the future prospects of the Citychamp Dartong.

(2) *Min Xin Holdings Limited*

Investment in Min Xin Holdings Limited (“**Min Xin**”) (Stock code: 222) was reclassified to financial assets at fair value through other comprehensive income from trading portfolio investments as the Company intends to hold the investment on a long term basis.

Min Xin is a company engaged in financial services, securities trading, real estate development, toll road and manufacturing. As at 31 December 2018, the investment in Min Xin was approximately HK\$492,759,000, i.e. 88,150,000 shares at the market price of HK\$5.59 per share as at 31 December 2018. Such fair value of the investment accounted for 2.4% of the Group’s total assets. The shares held by the Company accounted for 14.76% of the total issued share capital of Min Xin as at 31 December 2018.

The Company incurred a net loss on fair value change through other comprehensive income in Min Xin’s investment of HK\$14,104,000 for the year ended 31 December 2018 (31 December 2017: HK\$19,632,000), as a result of decrease in the share price of Min Xin from HK\$5.75 as at 1 January 2018 to HK\$5.59 as at 31 December 2018. For the year ended 31 December 2018, the Company’s dividend receivable from Min Xin was HK\$6,997,000.

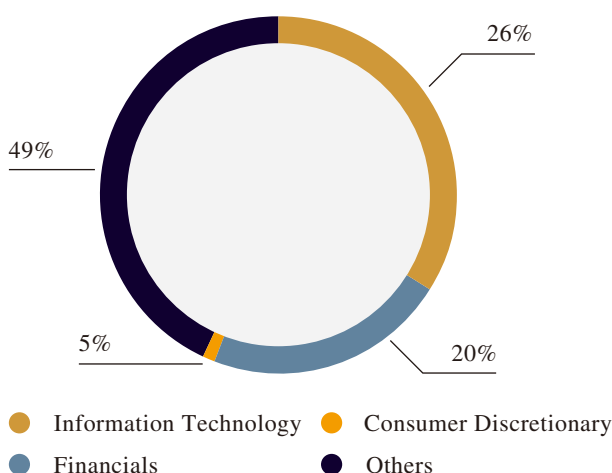
III.B Property Investment

The properties in Mainland China and Hong Kong owned by the Group have been leased out, with stable rental returns to the Group for the period under review. During the period, these investment properties generated rental income of HK\$9,586,000 (31 December 2017: HK\$16,936,000).

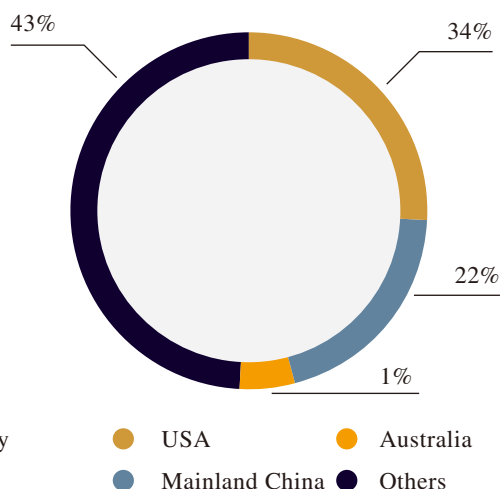
III.C Other Marketable Securities

The Group has acted as the founder investor and invested USD5.12 million in “Metasequoia Investment Fund SPC – Global Opportunities Fund SP” (the “**Fund**”) since 15 August 2017 in order to facilitate establishing the fund management business with an initial capital of USD10.24 million and the rest of the fund was subscribed by other investors with the capital of USD5.12 million. As of 31 December 2018, the total net asset value of the Fund was USD10.42 million, which was composed of USD5.32 million and USD5.10 million for the Group and other investors respectively. The composition of investments in the Fund were approximately 26% in information technology sector, 20% in financial sector, 5% in consumer discretionary sector and the remaining 49% in other sectors. Geographically, the Fund invested in companies whose origins were approximately 34% in the US, 22% in Mainland China, 1% in Australia and the remaining 43% in other countries. For the year ended 31 December 2018, the unrealized loss on fair value of the investment was approximately USD796,740.

Sector Breakdown



Geographical Breakdown



FINANCIAL POSITION

(1) Liquidity, Financial Resources and Capital Structure

As at 31 December 2018, the Group had non-pledged cash and bank balances of approximately HK\$7,701,743,000 (31 December 2017: HK\$7,420,678,000). Based on the bank borrowings of HK\$1,047,189,000 (31 December 2017: HK\$583,269,000), the corporate bonds of approximately HK\$760,244,000 (31 December 2017: HK\$732,978,000), due to a shareholder of HK\$73,000,000 (31 December 2017: Nil) and shareholders' equity of HK\$4,439,791,000 (31 December 2017: HK\$4,804,881,000), the Group's gearing ratio (being borrowings plus corporate bonds divided by shareholders' equity) was 42% (31 December 2017: 27%).

As at 31 December 2018, the Group's bank borrowings amounting to HK\$825,086,000 (31 December 2017: HK\$567,178,000) were repayable within one year, representing 79% (31 December 2017: 97%) of the total borrowings.

The Group intends to apply a conservative approach to lending in view of the challenging global economic environment.

List of borrowings by currencies and by nature of interest rate and by duration

Currency	Nature of interest rate	Duration	Duration More
		within 1 year	than 1 year
		HK\$'000	HK\$'000
CHF	Fixed/Floating	48,468	15,758
GBP	Floating	51,041	–
HKD	Floating	542,002	206,345
RMB	Floating	181,982	–
USD	Floating	1,593	–
		<u>825,086</u>	<u>222,103</u>

(2) Charge on assets

As at 31 December 2018, banking facilities of the Company were secured by the Group's trade receivables of HK\$14,639,000 and land and buildings in Switzerland with net book values of HK\$120,711,000, totaling HK\$135,350,000 (31 December 2017: HK\$138,595,000).

(3) Capital commitment

Capital commitments as at 31 December 2018 were approximately HK\$270,000,000 in total (31 December 2017: HK\$275,265,000), for investment in an associate – Citychamp Allied International Limited

Except for the above, the Group had no other material capital commitments as at 31 December 2018.

FINANCIAL REVIEW

(1) Total assets

Total assets decreased to HK\$20,258,229,000 as at 31 December 2018 from HK\$21,855,671,000 as at 31 December 2017, mainly attributable to a decrease in due from banks.

Cash and deposits

	31 December 2018	31 December 2017	Increase/(decrease)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	Amount	%
			<i>HK\$'000</i>	
Cash and bank balances	395,444	560,329	(164,885)	-29.4
Cash held on behalf of clients	46,932	47,251	(319)	-0.68
Sight deposits with central banks	7,259,367	6,813,098	446,269	6.6

Due from banks

	31 December 2018	31 December 2017	Increase/(decrease)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	Amount	%
			<i>HK\$'000</i>	
Due from banks on a daily basis	3,205,104	5,808,499	(2,603,395)	-44.8
Due from banks other claims	185,557	113,571	71,986	63.4
Valuation adjustments	(2,825)	(192)	(2,633)	-1,371.4

(2) Investments

The investment as at 31 December 2018 included (a) trading portfolio investments of HK\$123,606,000; (b) derivative financial assets of HK\$7,694,000; (c) financial assets at amortised cost of HK\$1,034,773,000; and (d) financial assets at fair value through other comprehensive income of HK\$627,200,000 (the “Investments”).

(a) Trading portfolio investments of HK\$123,606,000

	31 December 2018 HK\$'000	31 December 2017 HK\$'000
Equity Instruments		
Listed equity instruments in Hong Kong at market value	42,793	556,634
Listed equity instruments outside Hong Kong at market value	35,429	42,579
Total equity instruments	78,222	599,213
Debt instruments		
Debt instruments of financial institutions listed outside Hong Kong	603	33,878
Unlisted debt instruments of financial institutions	12,890	2,733
Total debt instruments	13,493	36,611
Investment fund units		
Investment fund units listed outside Hong Kong	793	3,228
Unlisted investment fund unit	7,851	1,979
Total investment fund units	8,644	5,207
Investments in other financial products	23,247	–
Total trading portfolio investments	123,606	641,031

It is the objective of the Group to maintain certain level of liquidity in the form of trading portfolio investments for unplanned capital expenditure. The liquidity is usually parked with the listed equities in order to generate short term return.

As at 31 December 2018, there were HK\$42,793,000 invested in a variety of listed equities in Hong Kong and HK\$35,429,000 invested in Mainland China and overseas markets.

The debt instruments of HK\$13,493,000 included HK\$2,106,000 invested in the Europe markets by Bendura Bank and HK\$11,387,000 invested in the Mainland China by PRC company.

Bendura Bank totally invested HK\$10,749,000 in listed debt instruments (HK\$2,106,000, shown above) as well as investment funds (HK\$8,644,000). The portfolio of the listed debt instruments were composed of four listed debt instruments with different maturity, geography, segment and currency and hence, diversification was ensured. All listed debt instruments were considered upper-medium-grade and were subject to low credit risk. The basic prerequisite for constant growth in value is a broad diversification of the investments. That is the reason why Bendura Bank invests in selected funds as well. The investment policy of Bendura Bank also includes strict implementation of the investment process and is subject to constant review by the investment committee.

Investments in other financial products consist of the financial product investments of HK\$23,247,000 invested by Eternal Brands and Ernest Borel.

As at 31 December 2017, included in the trading portfolio investments of HK\$641,031,000, there was an investment in Min Xin of HK\$506,863,000, i.e., 88,150,000 shares at the market price of HK\$5.75 per share as at 31 December 2017. Such fair value of the investment accounted for 2.3 % of the Group's total assets as at 31 December 2017.

As at 1 January 2017, the Company owned 24,312,000 shares of Min Xin. During the year of 2017, the Company acquired 63,838,000 shares and received dividends of HK\$1.2 million. The Company incurred a net loss on fair value change in Min Xin's investment of HK\$19.6 million for the year ended 31 December 2017, as a result of decrease in the share price of Min Xin from HK\$7.65 as at 1 January 2017 to HK\$5.75 as at 31 December 2017.

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, certain listed equity investments were reclassified from trading portfolio investments to financial assets at fair value through other comprehensive income ("FVOCI"). The Group intends to hold Min Xin's investment for long term strategic purposes. As a result, such financial assets with a fair value of HK\$506,863,000 were reclassified from trading portfolio investments to financial assets at FVOCI effective from 1 January 2018.

(b) *Derivative financial assets of HK\$7,694,000*

	31 December 2018 HK\$'000	31 December 2017 HK\$'000
Derivative financial assets		
Convertible bond investment – Conversion option component	–	71
Forward and option contracts	<u>7,694</u>	<u>4,609</u>
	<u><u>7,694</u></u>	<u><u>4,680</u></u>

In the derivative financial assets of HK\$7,694,000, there were forward and option contracts conducted by Bendura Bank.

Bendura Bank offers derivative products including currency forwards and swaps to its clients. These derivative positions were managed through entering back-to-back deals with external parties to ensure that remaining exposures are within acceptable risk levels. First-rate banks serve as counterparties, as is generally the case in trading business. It is not the objective of Bendura Bank to speculate the gain on the change in the price by conducting forward and option contracts without having invested in the underlying assets.

As at 31 December 2018, forward and option contracts of HK\$7,694,000, whereof approximately HK\$7,481,000 relate to FX swaps entered by Bendura Bank. Based upon risk/return considerations, client deposits denominated in foreign currencies were, in part, no longer invested on the interbank market but were swapped into Swiss francs using currency swaps and deposited with the Swiss National Bank (SNB). Income from the interest component of currency swaps exceeded the expense of SNB negative interest and the reduced level of interest from banks.

At as 31 December 2017, included in the derivative financial assets of HK\$4,680,000, there were forward and option contracts of HK\$4,609,000 conducted by Bendura Bank.

(c) *Other financial assets at amortised cost of HK\$1,034,773,000*

**31 December
2018
HK\$'000**

Listed debt instruments, at amortised cost

Issued by:

Governments and public sector	7,822
Financial institutions	716,747
Corporations	310,204
	<hr/>
	1,034,773
	<hr/> <hr/>

Bendura Bank invested in listed debt instruments issued by government and public sector, financial institutions and corporations amounting to HK\$1,034,773,000. The portfolio was composed of 57 listed debt instruments with different maturity, geography, segment and currency and hence, diversification is ensured. Almost all listed debt instruments were considered upper-medium-grade and are subject to low credit risk. The average remaining term of the held-to-maturity investment is 1.8 years. Largest single investments are bond issued by International Bank for Reconstruction and Development (CHF20 million) and followed by European Investment Bank (CHF12 million). Both are triple-A issuers. Risk concentration is analysed and presented to the senior management on a monthly basis.

Relatively major listed debt instruments as at 31 December 2018 are as follows:

Issuer	Nature of interest rate	Sector	Maturity date	Value (CHF'000)
Mondelez International	Fixed	Corporations	30 March 2020	5,000
Deutsche Bank AG	Floating	Financial Institutions	16 May 2022	7,869
Bank of Nova Scotia	Floating	Financial Institutions	5 October 2022	8,566
ABN AMRO Bank N.V.	Floating	Financial Institutions	19 July 2022	7,863
Industrial & Commercial Bank of China, London	Floating	Financial Institutions	14 December 2022	4,914
European Investment Bank	Floating	Financial Institutions	24 March 2021	11,825
Intl Bk Recon & Develop	Floating	Financial Institutions	18 March 2020	19,658
				<hr/>
				65,695
				<hr/> <hr/>

Collectively, listed debt instruments, at amortised cost accounted for 5.1% of the Group's total assets.

As at 31 December 2017, Bendura Bank invested in listed debt instruments issued by government and public sector, financial institutions and corporations amounting to HK\$1,138,704,000, the portfolio was composed of 65 listed debt instruments with different maturity, geography, segment and currency and hence, diversification is ensured. Almost all listed debt instruments were considered upper-medium grade and are subject to low credit risk. Their maturity dates ranged from 6 months to 48 months with an average remaining term of 27 months. Risk concentration is analyzed and presented to the senior management on a monthly basis.

Issuer	Nature of interest rate	Sector	Maturity date	Value (CHF'000)
Mondelez International	Fixed	Corporations	30 March 2020	5,000
Daimler Intl Finance B.V.	Floating	Corporations	11 May 2022	4,686
Deutsche Bank AG	Floating	Financial Institutions	16 May 2022	8,164
Bank of Nova Scotia	Floating	Financial Institutions	5 October 2022	8,925
ABN AMRO Bank N.V.	Floating	Financial Institutions	19 July 2022	7,795
Industrial & Commercial Bank of China, London	Floating	Financial Institutions	14 December 2022	4,872
Treasury Bill	Zero	Governments and public sector	11 October 2018	44,253
				83,695

During 2017, Bendura Bank generated interest income of HK\$5,551,000 from held-to-maturity investments. Besides, there was no impairment made.

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, certain listed debt instruments were reclassified from held-to-maturity investment to other financial assets at amortised cost. As a result, other financial assets at amortised cost of HK\$1,138,704,000 were reclassified from held-to-maturity investment to other financial assets at amortised cost since 1 January 2018.

(d) *Other financial assets at fair value through other comprehensive income of HK\$627,200,000*

	31 December 2018 HK\$'000
Listed equity instruments in Hong Kong	492,759
Listed equity instruments outside Hong Kong	128,730
Unlisted equity investment	5,711
	<hr/> 627,200 <hr/>

Listed equity instruments of HK\$128,730,000 related to investment in Citychamp Dartong and HK\$492,759,000 related to investment in Min Xin.

(3) Total liabilities

Total liabilities decreased to HK\$15,448,738,000 as at 31 December 2018 from HK\$16,707,545,000 as at 31 December 2017, mainly attributable to a decrease in due to clients of Bendura Bank.

Due to clients

	31 December 2018 HK\$'000	31 December 2017 HK\$'000	Increase/(decrease) Amount HK\$'000	%
Due to clients precious metals	73,950	45,865	28,085	61.2
Other amounts due to clients, mainly bank deposits	12,430,641	14,224,224	(1,793,583)	-12.6

(4) Gross profit from non-banking and financial businesses

Gross profit from non-banking and financial businesses was HK\$1,431,382,000, an increase of HK\$57,445,000, or 4.2%.

(5) EBITDA

EBITDA was HK\$541,853,000, a decrease of HK\$1,082,161,000, or 66.6%.

(6) Selling and distribution expenses

Total selling and distribution expenses was HK\$849,551,000, an increase of HK\$48,628,000, or 6.1%.

(7) Administrative expenses

Total administrative expenses was HK\$737,985,000, a decrease of HK\$36,026,000, or 4.7%.

(8) Share of profit of associates

The share of profit of Fair Future Industrial Limited (“**Fair Future**”), a 25% owned associate of the Group, was HK\$8,387,000, representing a decrease of HK\$12,324,000, or 59.5%. Fair Future is one of the leading OEM quartz watch manufacturers in Mainland China.

(9) Finance costs from non-banking business

Finance costs from non-banking business was HK\$65,828,000, representing a decrease of HK\$2,625,000, or 3.8%. It was composed of the interest charged on corporate bonds and the interest charged on bank borrowings and bank overdrafts.

(10) Net profit attributable to owners of the company

Net profit attributable to owners of the Company was HK\$201,372,000, a decrease of HK\$969,112,000, or 82.8%.

(11) Inventories

Inventories was HK\$2,314,545,000, an increase of 14.2% from HK\$2,027,191,000 as at 31 December 2017.

OUTLOOK

Mainland China has always been able to rely on strong external demand for its exports and a dynamic pace of internal growth as rapid domestic investment and changing consumer needs have facilitated a stable economic growth in the past twenty years. The current spectre of the US-China trade dispute may reduce the demand of consumer market. It was not just the impact on the export sector through lost output, investment and jobs but the knock-on effects on consumer confidence and retail spending as the general economic activity cooled down. Domestic demand suffered as multiplier effects swept through the entire economy. To that end, the Central Government have introduced a number of effective policies to prevent the crisis from escalating and minimize the impact on the economic growth of Mainland China.

Nevertheless, the local proprietary watch brand business in Mainland China remains challenging in 2019. Fortunately, any decrease in sales revenue through the physical distribution is significantly compensated by the increase in sales revenue through e-commerce. In the long run, it is likely that the US-China trade dispute would be dealt with and the market conditions are expected to improve when the consumer confidence is recovering and the demand for watches therefore likely growing modestly all over Mainland China.

Owing to the weak global economic growth expectations, the foreign proprietary watch brand business remains challenging. However, there are certain products and markets where the results are picking up and have favorable impact on revenue and profitability. We are optimistic about the future prospects of the foreign proprietary watch brands amidst the challenging global economic environment.

The Group is currently exploring potential acquisitions related to the segment of banking and financial businesses as we believe that such segment will be our new main driver of revenue and profitability in the years to come.

While we are and intend to remain a conglomerate with diverse businesses capable of generating sustainable long-term growth, we would continue to divest from businesses which have reached their full potential and deploy the capital released to existing and new businesses.

EMPLOYEES AND REMUNERATION POLICY

Our sustained success would not be possible without the high levels of expertise, professionalism and commitment shown by our employees.

As at 31 December 2018, the Group had approximately 4,700 full-time staff in Hong Kong and Mainland China and nearly 300 staff in Europe. The remuneration packages offered to the employees were determined and reviewed on an arm's length basis with reference to the market condition and individual performance. The Group also provides other benefits to its employees, including year-end double pay, medical insurance and retirement benefits, and incentive bonuses are offered with reference to the Group's operating results and employees' individual performance. All employees of the Group in Hong Kong have joined the provident fund schemes. Employees of Group's Subsidiaries in Mainland China also participate in social insurance scheme administrated and operated by local authorities and contributions are made according to the local laws and regulations.

FINAL DIVIDEND

The Board has resolved not to recommend to distribute a final dividend for the year ended 31 December 2018 (year ended 31 December 2017: HK6 cents per share).

CLOSURE OF REGISTER OF MEMBERS

The AGM 2019 is scheduled to be held on Thursday, 30 May 2019. For the purpose of determining the entitlement to attend and vote at the AGM 2019, the register of members of the Company will be closed from Friday, 24 May 2019 to Thursday, 30 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM 2019, all transfer documents, accompanied by relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 23 May 2019.

EVENTS AFTER REPORTING PERIOD

There was no material subsequent events undertaken by the Company or by the Group after the reporting period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a standard of corporate governance that is consistent with market practices.

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the “**CG Code**”) as set out in Appendix 14 of the Rules (“**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for the year ended 31 December 2018 except with the details disclosed below:

(i) CG Code E.1.2

CG Code E.1.2 stipulates that the Chairman of the board of directors (the “**Board**”) should attend the annual general meeting of the Company. The Chairman of the Board was unable to attend the annual general meeting of the Company held on 28 May 2018 (the “**AGM 2018**”) due to other business engagement.

(ii) CG Code A.6.7

CG Code A.6.7 stipulates that independent non-executive directors should attend general meetings. Three Independent Non-executive Directors did not attend the AGM 2018 due to other business engagements outside Hong Kong.

The Chairman of the Board and Independent Non-executive Directors will endeavor to attend all future general meetings of the Company unless unexpected or special circumstances preventing them from doing so. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision-making processes are properly regulated.

The followings summarize the Company’s key corporate governance practices.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 of the Listing Rules as the code of conducts for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

The principal focus of the Board is on the overall strategic development and direction of the Group. The Board also monitors the financial performance and the internal controls of the Group's business operations. Moreover, the Board is responsible for performing the corporate governance duties. The Board has established a clear segregation of duties and responsibilities between the Board and the management as to which types of decisions are to be taken by the Board and which are to be delegated to management. This segregation of duties and responsibilities will be regularly reviewed by the Board. With the Chairman as a facilitator in the establishment that promotes discussion among directors, all the directors have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the board functions.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the independent non-executive directors of the Company, being Mr. Fung Tze Wa (Chairman of the Committee), Dr. Kwong Chun Wai, Michael, Mr. Zhang Bin and Mr. Rudolf Heinrich Escher. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial matters including the review of the audited financial statements for the year ended 31 December 2018.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "**Remuneration Committee**") on 23 August 2005 in compliance with the Listing Rules, terms of reference of which have been adopted by the Board of the Company and are consistent with the requirements of the Code. The Remuneration Committee currently comprises Mr. Fung Tze Wa (the Chairman of the Committee), Dr. Kwong Chun Wai, Michael, Mr. Zhang Bin, Mr. Rudolf Heinrich Escher, Mr. Hon Kwok Lung and Mr. Shang Jianguang.

NOMINATION COMMITTEE

The Company has established a nomination committee (the "**Nomination Committee**") on 26 March 2012 in compliance with the Listing Rules, terms of reference of which have been adopted by the Board of the Company and are consistent with the requirements of the CG Code. The Nomination Committee currently comprises Mr. Fung Tze Wa, Dr. Kwong Chun Wai, Michael, Mr. Zhang Bin, Mr. Rudolf Heinrich Escher, Mr. Hon Kwok Lung (the Chairman of the Committee) and Mr. Shang Jianguang.

RISK MANAGEMENT COMMITTEE

The Company established a risk management committee (the “**Risk Management Committee**”) on 30 March 2016, to assist the Board in reviewing and ensuring the effectiveness of the Group’s risk management system. Terms of reference have been adopted by the Board. The Risk Management Committee currently comprises four members, namely Ms. Sit Lai Hei (Chairman of the committee), Mr. Shi Tao, Mr. Lam Toi Man and Mr. Bi Bo.

BUY-BACK, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company did not buy back any Company’s listed shares (whether on the Stock Exchange or otherwise) during the year ended 31 December 2018.

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 comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group’s auditor, BDO Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company’s websites at www.irasia.com/listco/hk/citychamp and www.citychampwatchjewellery.com. The annual report of the Company for the year ended 31 December 2018 will be available on the respective websites of the Stock Exchange and the Company, and despatched to the shareholders of the Company in due course.

APPRECIATION

Our financial performance and strategic moves reflected the joint efforts of the board and management in successfully pursuing our mission to be one of the leaders in the watch industry of Mainland China. Our sales and profit growth could not have achieved without the leadership of the board and our management team. I would like to express my deep gratitude to our employees, customers, suppliers, bankers, professional consultants, business partners, and shareholders for their support.

By Order of the Board
Citychamp Watch & Jewellery Group Limited
Shang Jianguang
Executive Director & Chief Executive Officer

Hong Kong, 29 March 2019

As at the date of this announcement, the Board comprises Mr. Hon Kwok Lung, Mr. Shang Jianguang, Mr. Shi Tao, Mr. Lam Toi Man, Mr. Bi Bo, Ms. Sit Lai Hei, Mr. Hon Hau Wong and Mr. Teguh Halim as the executive directors; and Mr. Fung Tze Wa, Dr. Kwong Chun Wai, Michael, Mr. Zhang Bin and Mr. Rudolf Heinrich Escher as the independent non-executive directors.