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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 2019

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 2019 together with comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest income from banking business		220,821	221,648
Interest expenses from banking business		(37,359)	(40,817)
Net interest income from banking business	5a	183,462	180,831
Service fees and commission income from banking business		280,627	325,614
Service fees and commission expenses from banking business		(68,066)	(89,253)
Net service fees and commission income from banking business	5b	212,561	236,361
Trading income from banking business	5c	57,230	63,172
Service fees and commission income from financial business	5d	3,195	3,342
Interest income from financial business	5d	165	193
Sales of goods from non-banking and financial businesses	5e	2,249,737	2,444,364
Rental income from non-banking and financial businesses	5e	9,915	9,586
Total revenue		2,716,265	2,937,849
Cost of sales from non-banking and financial businesses		(1,004,030)	(1,022,568)
Other income and other net gains or losses	6	104,393	79,486
Selling and distribution expenses		(817,889)	(849,551)
Administrative expenses		(777,114)	(737,985)
Share of loss of joint ventures		(1,343)	(2,678)
Share of profit of associates		17,675	8,387
Finance costs from non-banking business	7	(95,320)	(65,828)
Profit before income tax	8	142,637	347,112
Income tax expense	9	(71,456)	(105,664)
Profit for the year		71,181	241,448

<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Other comprehensive income		
Items that will not be subsequently reclassified to profit or loss		
– Remeasurement of net defined benefit obligations	2,490	33,025
– Change in fair value of financial assets at fair value through other comprehensive income	(204,233)	(123,352)
– Revaluation gain upon transfer of owner occupied land and building to investment properties	–	57,128
– Deferred tax arising from transfer of owner occupied land and building to investment properties	–	(22,212)
	<u>(201,743)</u>	<u>(55,411)</u>
Items that may be subsequently reclassified to profit or loss		
– Exchange differences on translation to presentation currency	(91,282)	(162,086)
– Share of exchange differences on translation of associates	(108)	(117)
	<u>(91,390)</u>	<u>(162,203)</u>
Other comprehensive income for the year	<u>(293,133)</u>	<u>(217,614)</u>
Total comprehensive income for the year	<u>(221,952)</u>	<u>23,834</u>
Profit for the year attributable to:		
Owners of the Company	44,246	201,372
Non-controlling interests	26,935	40,076
	<u>71,181</u>	<u>241,448</u>

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Total comprehensive income for the year attributable to:			
Owners of the Company		(243,713)	(9,083)
Non-controlling interests		21,761	32,917
		(221,952)	23,834
Earnings per share attributable to owners of the Company			
– Basic	11	HK1.02 cents	HK4.63 cents
– Diluted		HK1.02 cents	HK4.63 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		2019	2018
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
Cash and deposits		4,897,246	7,701,743
Due from clients		2,093,250	1,575,438
Due from banks		4,901,198	3,387,836
Trading portfolio investments		227,903	123,606
Financial assets at fair value through other comprehensive income		422,861	627,200
Derivative financial assets		10,275	7,694
Trade receivables	12	478,262	571,424
Other financial assets at amortised cost		1,307,960	1,034,773
Inventories		2,257,966	2,314,545
Income tax recoverable		7,706	13,269
Interests in joint ventures		1,096	2,439
Interests in associates		115,486	102,919
Property, plant and equipment		1,148,049	1,036,736
Investment properties		182,186	179,133
Prepaid land lease payments		–	47,605
Intangible assets	13	52,089	53,310
Goodwill	14	1,065,051	1,071,552
Deferred tax assets		11,626	9,437
Other assets		416,871	397,570
Total assets		19,597,081	20,258,229

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Liabilities			
Due to banks		17,968	4,181
Due to clients		11,963,052	12,504,591
Derivative financial liabilities		54,788	20,866
Trade payables	15	411,427	324,106
Contract liabilities		18,565	30,918
Corporate bonds		–	760,244
Income tax payables		55,577	73,867
Borrowings	16	1,740,362	1,047,189
Provisions		–	476
Lease liabilities		83,975	–
Deferred tax liabilities		59,881	60,369
Due to a shareholder		12,000	73,000
Due to directors		22,241	–
Other liabilities		496,356	548,931
		<hr/>	<hr/>
Total liabilities		14,936,192	15,448,738
Equity			
Equity attributable to owners of the Company			
Share capital		435,189	435,189
Reserves		3,819,883	4,004,602
		<hr/>	<hr/>
		4,255,072	4,439,791
Non-controlling interests		405,817	369,700
		<hr/>	<hr/>
Total equity		4,660,889	4,809,491
		<hr/>	<hr/>
Total liabilities and equity		19,597,081	20,258,229
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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, Uglan 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 January 2019, the Group has disposed of 5,500,000 shares of Ernest Borel Holdings Limited and its subsidiaries (together “Ernest Borel Group”), which is a 82.5% owned subsidiary of the Group, at HK\$1.74 per share with the total consideration of HK\$9,570,000.

In March 2019, the Group has further disposed of 58,506,515 shares of Ernest Borel Group at HK\$1.74 per share with the total consideration of HK\$101,801,000.

After the disposal of the shares of Ernest Borel Group, the Group still owned 64.08% equity share of Ernest Borel Group and the majority of the board members are approved by the Company. As such, Ernest Borel Group is still accounted as the subsidiary of the Group. The disposal of the shares is accounted for as a transaction with non-controlling interests without losing control, the result on the disposal of the equity interests to non-controlling interests are recognised in the other reserve of the Group.

Other than the aforementioned transactions, there were 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 2019

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 2019:

HKFRS 16	Leases
HK(IFRIC)-Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features and Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23	Annual Improvements to HKFRSs 2015–2017 Cycle

Changes in accounting policies

This is the first set of the Group’s financial statements in which HKFRS 16 has been adopted. The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any material impact on the Group’s accounting policies.

(i) *Impact of the adoption of HKFRS 16*

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

The Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use asset at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before 1 January 2019. There were no onerous lease contracts that would have required a significant adjustment to the right-of-use assets at the date of initial application on 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following table summarises the impact of the adoption of HKFRS 16 on the Group's consolidated statement of financial position as at 1 January 2019.

	As at 31 December 2018 HK\$'000	HKFRS 16 Reclassification HK\$'000	HKFRS 16 Contract Capitalisation HK\$'000	As at 1 January 2019 HK\$'000
Assets:				
Property, plant and equipment	1,036,736	47,605	90,627	1,174,968
Prepaid land lease payments	47,605	(47,605)	–	–
Liabilities:				
Lease liabilities	–	–	(90,627)	(90,627)

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

Reconciliation of operating lease commitment to lease liabilities:

	HK\$'000
Operating lease commitment as at 31 December 2018	112,456
Less: short term leases for which lease terms end within 31 December 2019	(12,866)
Less: future interest expenses	(8,963)
	<u>90,627</u>
Total lease liabilities as of 1 January 2019	<u>90,627</u>

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

Prepaid land lease payments in respect of the land use right in the PRC are currently recognised as right-of-use assets under HKFRS 16.

(ii) *The new definition of a lease*

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

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

The Group chooses to separate non-lease components from lease components and allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

(iii) *Accounting as a lessee*

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

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

The Group recognised right-of-use assets and lease liabilities at the commencement date of a lease.

Right-of-use assets

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

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. The adoption of HKFRS 16 therefore does not have any significant impact on these assets.

Lease liabilities

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

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

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

(iv) *Accounting as a lessor*

The Group has leased out its investment property to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these consolidated financial statements.

(v) *Transition*

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before 1 January 2019. There were no onerous lease contracts that would have required a significant adjustment to the right-of-use assets at the date of initial application on 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

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

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

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

HK(IFRIC)-Interpretation 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 19 – Plan amendments, curtailment or settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period. Additionally, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

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 Arrangement

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.

(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.

Amendments to HKFRS 3	Definition of a business ¹
Amendments to HKAS 1 and HKAS 8	Definition of material ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ¹
Revised Conceptual Framework HKFRS 17	Revised Conceptual Framework for Financial Reporting ¹ Insurance Contracts ²
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 2020

² Effective for annual periods beginning on or after 1 January 2021

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.

Amendments to HKFRS 3 – Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a “substantive process”.

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of “outputs” and a “business” to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 – Definition of material

The amendments clarify the definition and explanation of “material”, aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 – Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

Revised Conceptual Framework – Revised Conceptual Framework for Financial Reporting

The Revised Conceptual Framework for Financial Reporting supersedes the version that was issued in 2010 and is the equivalent of the Conceptual Framework for Financial Reporting issued by the International Accounting Standards Board. The revised framework includes: (i) new chapters on measurement and reporting financial performance; (ii) new guidance on derecognition of assets and liabilities; (iii) updated definitions of asset and liability; and (iv) clarifications in the roles of stewardship, prudence and measurement uncertainty in financial reporting.

HKFRS 17 – Insurance Contracts

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

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 Historical cost convention

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.

3.3 Going concern basis

As at 31 December 2019, one of the financial covenants as stipulated in the relevant agreements in respect of borrowings with outstanding principal of approximately HK\$973,702,000 was not satisfied. Accordingly, from accounting perspective, the aforesaid borrowings would be regarded as immediately due and payable should the lenders exercise their rights under the agreements. The relevant banks have granted waivers to the Group in respect of the unsatisfied financial covenants before the date of authorisation of the financial statements.

In view of such circumstances, the directors of the Company have performed a due and careful assessment on the Group's future liquidity and financial performance, and also considered its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. The directors of the Company opined that, taking into account of (i) the relevant banks have granted waivers to the Group and (ii) the available unutilised banking facilities available for providing additional working capital to the Group as and when necessary, the Group will have sufficient working capital to finance its operations and to meet its financial obligations that will be due within next twelve months from 31 December 2019. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3.4 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 is identified as executive directors. The executive directors have identified 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.

2019

	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	–	–	183,462	–	183,462
Net service fees and commission income from banking business	–	–	212,561	–	212,561
Trading income from banking business	–	–	57,230	–	57,230
Service fees and commission income from financial business	–	–	3,195	–	3,195
Interest income from financial business	–	–	165	–	165
Sales of goods from non-banking and financial businesses	2,249,737	–	–	–	2,249,737
Rental income from non-banking and financial businesses	–	9,915	–	–	9,915
Total revenue	2,249,737	9,915	456,613	–	2,716,265
Segment results	106,163	8,792	198,256	–	313,211
Unallocated corporate income and expenses, net	–	–	–	(91,586)	(91,586)
Share of loss of joint ventures	–	–	–	(1,343)	(1,343)
Share of profit of associates	–	–	–	17,675	17,675
Finance costs	(29,760)	–	(1,045)	(64,515)	(95,320)
Profit before income tax	76,403	8,792	197,211	(139,769)	142,637
Income tax expense	(45,680)	(818)	(24,330)	(628)	(71,456)
Profit for the year	30,723	7,974	172,881	(140,397)	71,181
Segment assets	4,991,807	182,932	13,631,441	–	18,806,180
Unallocated corporate assets:					
Interests in joint ventures	–	–	–	1,096	1,096
Interests in associates	–	–	–	115,486	115,486
Trading portfolio investments	–	–	–	37,190	37,190
Financial assets at fair value through other comprehensive income	–	–	–	417,256	417,256
Cash and deposits	–	–	–	58,998	58,998
Other unallocated corporate assets	–	–	–	160,875	160,875
Consolidated total assets	4,991,807	182,932	13,631,441	790,901	19,597,081

	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	1,145,167	28,140	12,303,747	-	13,477,054
Unallocated corporate liabilities:					
Borrowings	-	-	-	1,329,115	1,329,115
Amount due to a shareholder	-	-	-	12,000	12,000
Lease liabilities	-	-	-	37,001	37,001
Other unallocated corporate liabilities	-	-	-	81,022	81,022
Consolidated total liabilities	1,145,167	28,140	12,303,747	1,459,138	14,936,192
Other segment information					
Interest income and other interest income	2,987	549	202	519	4,257
Expected credit losses on trade receivables	7,340	-	-	-	7,340
Reversal of expected credit losses on due from banks and customers	-	-	(1,812)	-	(1,812)
Reversal of provision for litigation risks, net	-	-	(394)	-	(394)
Provision for inventories	24,263	-	-	3,265	27,528
Depreciation and amortisation	136,503	-	19,719	18,644	174,866
Additions to non-current assets	128,948	-	47,525	-	176,473
Net surplus on revaluation of investment properties	-	(4,047)	-	-	(4,047)

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	192,525	–	453,970
Unallocated corporate income and expenses, net	–	–	–	(46,739)	(46,739)
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	192,394	(91,941)	347,112
Income tax expense	(77,728)	(414)	(27,868)	346	(105,664)
Profit for the year	165,617	2,900	164,526	(91,595)	241,448
Segment assets	5,191,326	179,523	13,957,275	–	19,328,124
Unallocated corporate assets:					
Interests in joint ventures	–	–	–	2,439	2,439
Interests in associates	–	–	–	102,919	102,919
Trading portfolio investments	–	–	–	48,945	48,945
Financial assets at fair value through other comprehensive income	–	–	–	621,489	621,489
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

	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	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
Amount 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 receivables	4,381	–	–	–	4,381
Expected credit losses on due from banks and customers	–	–	3,256	–	3,256
Reversal of provision for litigation risks, net	–	–	(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

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, 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	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Hong Kong	105,007	142,281	232,366	177,912
PRC	1,735,436	1,818,464	1,377,436	1,397,045
Switzerland	28,311	22,942	445,173	460,505
United Kingdom	78,959	103,060	19,361	7,928
Liechtenstein	453,253	480,364	488,356	448,423
Others	315,299	370,738	1,449	2,492
	<u>2,716,265</u>	<u>2,937,849</u>	<u>2,564,141</u>	<u>2,494,305</u>

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 2019 and 2018.

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 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**

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest income from banking business arising from:		
Interest income – due from banks	151,973	161,518
Interest income – due from clients	26,840	29,512
Interest income from trading portfolio investments	387	72
Interest income from mortgage loans	15,824	8,026
Interest income from money market papers	878	8,827
Interest income from other financial assets at amortised cost	24,955	12,973
Negative interest (expense)/income on due to clients	(36)	720
	<u>220,821</u>	<u>221,648</u>
Interest expenses from banking business arising from:		
Interest expense on due to banks	(33,268)	(38,403)
Interest expense on due to clients	(3,551)	(564)
Interest expense for issued debt instruments	(352)	(1,645)
Negative interest income on due from banks and clients	(188)	(205)
	<u>(37,359)</u>	<u>(40,817)</u>
Net interest income from banking business	<u><u>183,462</u></u>	<u><u>180,831</u></u>

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Service fee and commission income from banking business arising from:		
Commission income from loans	6,935	4,049
Brokerage fees	30,654	37,107
Custody account fees	26,276	27,368
Commission on investment advice and asset management	99,256	105,612
Commission income from service fees	59,006	92,890
Commission income from fiduciary fees	455	554
Commission income from retrocession	5,758	4,385
Other commission income	52,287	53,649
	<u>280,627</u>	<u>325,614</u>
Service fees and commission expenses from banking business	<u>(68,066)</u>	<u>(89,253)</u>
Net service fees and commission income from banking business	<u><u>212,561</u></u>	<u><u>236,361</u></u>

(c) **Trading income from banking business**

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Debt instruments	(113)	(815)
Securities	81	5
Forex and precious metals	56,527	62,715
Funds	735	1,267
	<hr/>	<hr/>
Trading income from banking business	57,230	63,172
	<hr/> <hr/>	<hr/> <hr/>

(d) **Revenue from financial business**

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Service fees and commission income	3,195	3,342
Interest income	165	193
	<hr/>	<hr/>
Revenue from financial business	3,360	3,535
	<hr/> <hr/>	<hr/> <hr/>

(e) **Revenue from non-banking and financial businesses**

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Sales of goods	2,249,737	2,444,364
Rental income	9,915	9,586
	<hr/>	<hr/>
Revenue from non-banking business and financial businesses	2,259,652	2,453,950
	<hr/> <hr/>	<hr/> <hr/>

6. OTHER INCOME AND OTHER NET GAINS OR LOSSES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Gain on fair value changes in trading portfolio investments, net	20,368	15,541
Fair value loss on early redemption of the convertible bonds	–	(978)
Net surplus/(deficits) on revaluation of investment properties	4,047	(4,066)
Gain/(loss) on disposal of property, plant and equipment	159	(1,589)
Bank and other interest income from non-banking business	4,257	5,648
Dividend income from trading portfolio investments	1,061	1,097
Dividend income from financial assets at fair value through other comprehensive income	12,263	11,316
Sales of scrap materials	152	161
Other operating income	19,222	8,281
Government subsidies (note (a))	20,936	40,701
Reversal of provision for litigation risks	394	320
Reversal of/(provision of) expected credit losses for due from banks and clients	1,812	(3,256)
Exchange gains, net	12,462	–
Other sundry income, net	7,260	6,310
	<u>104,393</u>	<u>79,486</u>

Note:

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

7. FINANCE COSTS FROM NON-BANKING BUSINESS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest charged on corporate bonds and convertible bond	18,605	34,454
Interest charged on bank borrowings, bank overdrafts and other borrowings	69,784	29,510
Margin loan interests	2,298	1,864
Interest on lease liabilities	4,633	–
	<u>95,320</u>	<u>65,828</u>

8. PROFIT BEFORE INCOME TAX

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Cost of inventories recognised as expense, including:	1,004,030	1,022,568
– Reversal of provision for inventories	–	(7,301)
– Provision for inventories	27,528	11,050
Depreciation and amortisation	174,866	128,913
– Depreciation for owned assets (<i>note (a)</i>)	117,716	126,255
– Depreciation for right-of-use assets (<i>note (a) and (c)</i>)	55,434	–
– Amortisation of prepaid land lease payments (<i>note (b)</i>)	–	864
– Amortisation of intangible assets (<i>note (b)</i>)	1,716	1,794
Lease payments under operating leases in respect of:		
– Land and buildings	–	54,333
Short term lease expenses	16,892	–
Auditor's remuneration	4,800	4,600
Gross rental income	(9,915)	(9,586)
Less: direct operating expenses	2,189	2,309
Net rental income	(7,726)	(7,277)
Research and development expenses (<i>note (b)</i>)	39,001	55,267
Expected credit losses on other assets	2,167	–
Expected credit losses on trade receivables	7,340	4,381
Advertising expenses	212,320	222,790

Notes:

- (a) Depreciation expense of HK\$26,206,000 (2018: HK\$19,653,000) has been included in cost of sales from non-banking and financial businesses, HK\$61,029,000 (2018: HK\$53,213,000) in selling and distribution expenses and HK\$85,915,000 (2018: HK\$53,389,000) in administrative expenses.
- (b) Amortisation expenses and research and development expenses had been included in the administrative expenses.
- (c) The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information has not been restated. Details of the initial implementation of HKFRS 16 are set out in note 2(a).

9. INCOME TAX EXPENSE

For the year ended 31 December 2019 and 2018, Hong Kong profit tax has been provided for certain subsidiaries within the Group and is calculated at 16.5% on the estimated assessable profits (2018: 16.5%). The subsidiaries established in the PRC are subject to income taxes at tax rates ranging between 15% and 25% (2018: 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% (2018: 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.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current tax for the year		
Hong Kong	669	665
PRC	45,149	78,140
Liechtenstein	25,027	27,891
Switzerland	1,122	289
Deferred tax for the year	<u>(511)</u>	<u>(1,321)</u>
Total income tax expense	<u>71,456</u>	<u>105,664</u>

10. DIVIDENDS

10.1 Dividend attributable to the year

The directors do not recommend the payment of dividend for the year ended 31 December 2019 (2018: Nil).

10.2 Dividend attributable to the previous financial year, approved and paid during the year

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Final dividend in respect of previous financial year (2018: HK6 cents)	<u>–</u>	<u>261,113</u>

11. EARNINGS PER SHARE

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Earnings		
Profit attributable to owners of the Company for the purpose of calculating basic and diluted earnings per share	44,246	201,372
	2019 Number of shares <i>'000</i>	2018 Number of shares <i>'000</i>
Number of shares		
Weighted average number of shares for the purpose of calculating basic earnings per share	4,351,889	4,351,370
Effect of dilutive potential shares: – share options issued by the Company	–	2,249
Weighted average number of shares for the purpose of calculating diluted earnings per share	4,351,889	4,353,619

12. TRADE RECEIVABLES

As at 31 December 2019, the Group's trade receivable is amounted to HK\$478,262,000 (2018: HK\$571,424,000), in which HK\$474,933,000 (2018: HK\$562,674,000) is arising from watches and timepieces business and HK\$3,329,000 (2018: HK\$8,750,000) 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 (2018: 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:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
1 to 3 months	343,863	401,115
4 to 6 months	44,032	73,448
Over 6 months	87,038	88,111
	474,933	562,674

13. 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 2019					
Opening carrying amount	3,935	42,129	–	7,246	53,310
Amortisation	(1,644)	(72)	–	–	(1,716)
Exchange realignment	(45)	540	–	–	495
Closing carrying amount	<u>2,246</u>	<u>42,597</u>	<u>–</u>	<u>7,246</u>	<u>52,089</u>

As at 31 December 2019, intangible assets of HK\$44,843,000 (2018: HK\$46,064,000) are attributable to watches and timepieces business while intangible assets of HK\$7,246,000 (2018: HK\$7,246,000) are attributable to financial business.

14. GOODWILL

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Year ended 31 December		
Opening carrying amount	1,071,552	906,036
Acquisition of subsidiaries	–	201,454
Exchange realignment	(6,501)	(35,938)
Closing carrying amount	<u>1,065,051</u>	<u>1,071,552</u>

15. TRADE PAYABLES

As at 31 December 2019, the Group's trade payable is amounted to HK\$411,427,000 (2018: HK\$324,106,000), in which HK\$304,944,000 (2018: HK\$280,567,000) is arising from watches and timepieces business and HK\$106,483,000 (2018: HK\$43,539,000) is arising from financial business.

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
1 to 3 months	278,983	215,854
4 to 6 months	6,977	25,151
Over 6 months	18,984	39,562
	304,944	280,567

16. BORROWINGS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Bank overdrafts (<i>note 16.1</i>)	48,294	14,822
Bank borrowings (<i>note 16.1</i>)	1,676,685	1,030,774
Margin loan payable (<i>note 16.2</i>)	15,383	1,593
	1,740,362	1,047,189

16.1 Bank overdrafts and bank borrowings

Including in the bank borrowings that the syndicated loans with the principal amount is HK\$ 817,702,000 as at 31 December 2019. On 16 July 2019, the Group entered into a facility agreement with a syndicated of banks ("Syndicated Banks"), in which Syndicated Banks agreed to grant a term loan facility in the amount up to US\$150,000,000 to the Group for a term of 36 months. As at 31 December 2019, the Group has drawn down the facilities of HK\$817,702,000 (equivalent to US\$105,000,000).

As at 31 December 2019, the amount of the Group's bank overdrafts and bank borrowings repayable within one year or on demand is HK\$1,724,979,000 (2018: HK\$823,493,000).

Based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause. Borrowings are repayable as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Borrowings payable:		
Within one year or on demand	<u>1,724,979</u>	<u>823,493</u>
In the second year	–	103,671
In the third to fifth year	–	105,539
After fifth year	<u>–</u>	<u>12,893</u>
	<u>–</u>	<u>222,103</u>
	<u>1,724,979</u>	<u>1,045,596</u>

The abovementioned borrowings are charged at floating rates ranging from 1.00% to 5.94% (2018: 2.53% to 7.00%) per annum.

At the reporting dates, the Group's borrowings were secured by:

- (i) corporate guarantees provided by certain subsidiaries within the Group as at 31 December 2019 and 2018;
- (ii) entire equity interest of certain subsidiaries within the Group as at 31 December 2019;
- (iii) pledged bank deposits of HK\$111,763,000 as at 31 December 2019;
- (iv) a legal charge over the Group's land and buildings with the carrying amount of HK\$95,180,000 (2018: HK\$120,711,000) as at 31 December 2019; and
- (v) certain of the Group's trade receivables with the carrying amounts of HK\$13,484,000 (2018: HK\$14,639,000) as at 31 December 2019.

Certain of bank overdrafts and bank borrowings contain clause which give the banks the right at their sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations. Borrowings due for repayment after one year which contain a repayment on demand clause and are expected to be settled within one year. The carrying amounts of the bank overdrafts and bank borrowings are approximate to their fair value.

As at 31 December 2019, one of the financial covenants as stipulated in the relevant agreements in respect of borrowings with outstanding principal of approximately HK\$973,702,000 was not satisfied. Accordingly, from accounting perspective, the aforesaid borrowings would be regarded as immediately due and payable should the lenders exercise their rights under the agreements as at 31 December 2019. The relevant banks have granted waivers to the Group in respect of the unsatisfied financial covenants before the date of authorisation of the financial statements.

16.2 Margin loan payable

The interest rate of the margin loan payable is 4.84% (2018: 6.59%) per annum and repayable on demand. At 31 December 2019, margin loan payable was secured by the Group's trading portfolio investments with the carrying amount of HK\$109,815,000 (2018: HK\$35,749,000). The carrying amount of the margin loan payable is approximate to its fair value. As at 31 December 2019, margin loan payable of HK\$15,383,000 (2018: HK\$1,593,000) are attributable to financial business.

17. EVENT AFTER REPORTING PERIOD

Since January 2020 when COVID-19 breakout happened, the global confirmed cases have been rising continuously worldwide, which has affected the business environment of many regions including those where the Group mainly operate such as Mainland China, Hong Kong, Switzerland and the United Kingdom. Pending on the developments and spread of COVID-19 subsequent to 31 December 2019 and the date of this announcement, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the year ended 31 December 2019, the Group recorded total revenue of approximately HK\$2,716,265,000 (31 December 2018: HK\$2,937,849,000), a decrease of HK\$221,584,000 or 7.5% over 2018.

Operating expenses (including selling and distribution expenses and administrative expenses) for the year ended 31 December 2019 was approximately HK\$1,595,003,000 (31 December 2018: HK\$1,587,536,000), an increase of HK\$7,467,000 or 0.5% over 2018.

Gross profit generated from non-banking and financial businesses for the year ended 31 December 2019 was approximately HK\$1,255,622,000 (31 December 2018: HK\$1,431,382,000), a decrease of HK\$175,760,000 or 12.3% over 2018.

Gross profit generated from banking and financial businesses for the year ended 31 December 2019 was approximately HK\$456,613,000 (31 December 2018: HK\$483,899,000), a decrease of HK\$27,286,000 or 5.6% over 2018.

The EBITDA for the year ended 31 December 2019 was approximately HK\$412,823,000 (31 December 2018: HK\$541,853,000), a decrease of HK\$129,030,000 or 23.8% over 2018.

Net profit after tax for the year ended 31 December 2019 was approximately HK\$71,181,000 (31 December 2018: HK\$241,448,000), a decrease of HK\$170,267,000 or 70.5% over last year.

PERFORMANCE

Our Group comprises three key divisions – watches and timepieces businesses, banking and financial businesses, and various investment businesses.

I. Watches and timepieces businesses

I.A – Local proprietary brands

I.B – Foreign proprietary brands

I.C – Non-proprietary brands

I.D – Others

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 Local Proprietary Brands

Zhuhai Rossini Watch Industry Limited

For the year ended 31 December 2019, Zhuhai Rossini Watch Industry Limited (“Rossini”), a 91% subsidiary of the Group, recorded revenue of HK\$942,562,000, a decrease of HK\$117,712,000, or 11.1% from HK\$1,060,274,000 in 2018. Net profit after tax attributable to owners of the Company for the year ended 31 December 2019 was HK\$164,133,000, representing a decrease of HK\$110,286,000 or 40.2%, from HK\$274,419,000 in 2018.

Although sales from physical stores contributed approximately half of Rossini’s total revenue in 2019, its proportion to Rossini’s total revenue dropped in the past few years. On the contrary, in the past few years, the ever-going e-commerce in Mainland China has brought significant impact and challenges to the traditional retail model which watch industry has been heavily relying on for a long term. Creative exhibition models such as roving pop-up watch museum at shopping malls have been attempted to boost physical store sales and enhance the brand awareness.

	Proportions to Rossini’s total revenue by different types of sales		
	31 December 2019	31 December 2018	31 December 2017
Physical stores	51.9%	55.6%	64.6%
E-commerce	39.5%	33.4%	27.5%
Other	8.6%	11%	7.9%

Note: Other types of sales mainly include industrial tourism and group purchase.

E-commerce sales continued to maintain a stable growth. For the year ended 31 December 2019, e-commerce sales increased to HK\$371,957,000 from HK\$353,778,000 last year, representing an increase of HK\$18,179,000 or 5.1%. Rossini's e-commerce is operated by a young and passionate team with more than 100 talents with the average age at 25. Supported by excellent product planning and creative marketing approach, all e-commerce platforms of Rossini recorded an aggregate sales of more than RMB50 million on the 11.11 Singles' Day. In addition to the existing online direct-sale stores, Rossini has also expanded its territory for occupying more market shares by opening online distributor on the leading e-commerce platforms including Taobao, Tmall and JD. E-commerce live-streaming took off in China in 2019. The shopping preferences of the Chinese consumers, especially the young generation, are influenced by key opinion leaders (KOL), who spread their views on social media live streaming apps. Rossini's e-commerce team seizes the current trend and is actively exploring new opportunities on such popular social media platforms including Xiaohongshu, Kuaishou and Tik Tok.

Rossini's industrial tourism hit record highs in terms of tourist arrivals and revenue in the first half of 2019. However, the industrial tourism suffered from significant drop in terms of tourist arrivals and revenue since August due to the significant cut-down in the number of Hong Kong-Zhuhai-Macau tourists staying away from the continuous social disturbances in Hong Kong. Throughout the year of 2019, the tourist number was approximately 370,000 and revenue was approximately HK\$71,124,000 (31 December 2018: HK\$89,342,000), representing a decrease of 20.4% over 2018.

Rossini upholds product quality as the life of an enterprise and a crucial factor to maintain sustainability. Rossini has been awarded "National Product and Service Quality Integrity Pilot Enterprise (全國產品和服務質量誠信示範企業)" for three consecutive years, "National Quality Inspection Stable and Qualified Product (全國質量檢驗穩定合格產品)" for eight consecutive years, and "National Quality Inspection Outstanding Enterprise Certificate (全國質量檢驗先進企業證書)" in 2019.

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.

Revenue of EBOHR Group for the year ended 31 December 2019 was HK\$478,724,000, a decrease of HK\$117,855,000 or 19.8%, from HK\$596,579,000 in 2018. Net profit after tax for the year ended 31 December 2019 was HK\$7,121,000, representing a decrease of HK\$53,232,000 or 88.2%, compared with HK\$60,353,000 in 2018. The declining profitability was primarily attributable to several reasons. First, the sales dropped significantly, as the declining trend of sales from physical stores has continue, which dropped approximately 23.1% year on year. Second, the e-commerce sales did not perform well mainly affected by the continuous increase of online selling expenses. For the year ended 31 December 2019, the e-commerce sales decreased to HK\$133,093,000

from HK\$165,283,000 last year, representing a decrease of HK\$32,190,000 or 19.5%. Third, EBOHR's new headquarters continued to incur more expenses relating to the depreciation of property and administrative expenses in 2019.

Depreciation of Renminbi also deteriorated the reduction in both revenue and net profit.

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 major contributors of net profits for the non-banking and financial businesses of 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 64.08% equity interest in Ernest Borel Holdings Limited ("Ernest Borel", together with its subsidiaries, the "**Ernest Borel Group**") as at 31 December 2019.

For the year ended 31 December 2019, Ernest Borel Group recorded revenue of approximately HK\$138,519,000, representing an increase of HK\$97,018,000 or 233.8% over HK\$41,501,000^(note) in 2018. Net loss after tax attributable to the owners of the Company was HK\$50,117,000, representing an increase of HK\$24,344,000 or 94.5% over HK\$25,773,000^(note) in 2018.

Mainland China remains as the core market of the Ernest Borel Group. Revenue from Mainland China was approximately HK\$107,123,000 for the year ended 31 December 2019, accounting for approximately 77.3% 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 2019, Ernest Borel Group had more than 772 POS (31 December 2018: 779), comprising around 631 POS in Mainland China, around 55 POS in Hong Kong and Macau, and 86 POS in other countries mainly in Southeast Asia and European.

Note: The Group acquired Ernest Borel on 18 September 2018. Revenue and net loss after tax attributable to the owners of the Company for the year ended 31 December 2018 only covered period from 1 October 2018 to 31 December 2018.

In 2019, Ernest Borel celebrated a decade of fruitful partnership with Brand Ambassador Kelly Chen in “Romantic Wonders” advertising campaign, to bring its brand awareness and influence to a wider and upper level.

Other Foreign Proprietary Brands

Collectively, Corum, Eterna and the Dreyfuss Group Limited (the “**Dreyfuss Group**”) contributed revenue and net loss after tax for the year ended 31 December 2019 of HK\$399,023,000 (31 December 2018: HK\$474,032,000) and HK\$77,550,000 (31 December 2018: HK\$113,963,000), respectively.

Asia, Europe and the USA have been the major markets for Corum. The fact is that Asian market sales represents around 60% of the turnover of Corum and negative externalities in the Asian macro environment have considerably damaged the overall sales performance of Corum. Due to the social disturbances lasted almost throughout the second half of 2019 in Hong Kong, the sales in this market recorded a severe decrease, leading the performance of the Asian sector to decrease by 20% year on year. In 2019, the situation in European market remained very delicate especially with the European political situation. Moreover, in order to adapt to the current business needs at the European market, there has been a continuous downward adjustment in marketing expenses, leading the brand still suffering from lack of exposure. In 2019, Corum recorded a decrease of sales from European market of approximately 34.3% over 2018. The US market remained in a stagnant situation, given the China-USA trade war has reduced the tourist arrivals to some extent and in turn imposed negative impact on its sales.

In 2019, Corum re-thought the brand’s image and its global marketing strategy. After many months of reducing the marketing expenses by adapting the marketing costs to the current business needs, it was time to analyze the positioning of Corum as a brand, what is the market’s perception of the brand, the mix products of the current collections and to adapt the way of doing the marketing in an external context which has drastically changed over the past decades with factors such as globalization, digitalization, social media, etc. This new marketing strategy has earned positive feedbacks from the markets, the retailers, clients and other stakeholders. Corum has also commenced the reorganization of the European markets. For a past few years, the level of sales in Europe has been decreasing and the business model established some years ago was not adapted well to the current business. In 2019, subsidiaries in Europe were streamlined, only keeping the after-sales services but flowing some other activities back to Corum’s headquarter, which allows Corum’s structure to be more suitable to the markets environment and its turnover.

The operation and management of Corum and Eterna have been integrated since 2017. 2019 is a year of transition for both Corum and Eterna since many operational and managerial projects were launched this year. The first important change was a new management model, shifting from the former structure with a CEO to a team management of four pillars, Operations, Sales and Marketing, Finance and Human

Resources. Another important change was to manage the level of account receivables with an aim to increase Corum and Eterna's ability to collect the cash and enhance their liquidity. At the meanwhile, both Corum and Eterna also managed their inventories globally in order to increase the rotation of the stocks as well as to accelerate the transformation of stocks into cash inflows. It allowed both Corum and Eterna to transfer those aging and slow-moving assets into cash to enable them to reach a sustainable way of self-financing. All the strategical initiatives have been made with the focus of turning Corum and Eterna into a sales-oriented company with improved financial results. The strongest market of Eterna still remains in Europe, but there is also a growing presence in the Asian market.

In 2019, Eterna Movement still relied heavily on the intercompany orders from Corum and Eterna and revenue from such intercompany orders decreased compared to 2018. On the contrary, sales from third party augmented in 2019. Costs were further controlled. Eterna Movement currently faces loss and corresponding liquidity problem. To improve the profitability, Eterna Movement needs to increase sales, increase the sales price but to the extend acceptable by the markets and reduce the production costs.

As UK is the Dreyfuss Group's largest single market, representing approximately 80% of its total turnover for the year ended 31 December 2019, the economic and political Brexit-related factors affecting its marketplace also heavily influence the Dreyfuss Group's overall performance. Sales in the UK market has continued to decline in 2019 following such extreme stresses on the UK retail landscape. The Dreyfuss Group's key strategy for the UK market is to increase the profitability of trade with the major customers. The Dreyfuss Group has continued to focus on building the relationships with major customers, with the objective of maximising the sales opportunities and establishing a sound basis for sales growth going forward. The Dreyfuss Group has been putting efforts in developing the international market in order to reduce its reliance in the UK market. Sales to the North America and MENA recorded considerable growth but the Asia region dropped as a whole. In 2019, with a primary focus on Germany, the European team continued to achieve modest growth by planting and developing distributor business in other countries including Scandinavia, Central and Eastern Europe.

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.

I.C 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 2019 of HK\$256,642,000 (31 December 2018: HK\$231,864,000) and HK\$11,598,000 (31 December 2018: HK\$6,663,000) respectively.

I.D Watches and Timepieces Businesses – Others

Other non-major subsidiaries of the Group are also engaged in other non-major categories of watches and timepieces businesses, which collectively contributed revenue and net loss after tax for the year ended 31 December 2019 of HK\$34,267,000 (31 December 2018: HKD\$40,114,000) and HK\$20,491,000 (31 December 2018: HKD\$32,427,000), respectively.

II.A Bendura Bank AG

Against the backdrop of the challenging market environment, Bendura Bank AG (“Bendura Bank” or the “Bank”) looked back on a positive financial year. Negative interest rates and the continuously dense regulatory jungle also stretched the Bank in 2019. Revenue for the year ended 31 December 2019 was HK\$453,253,000, a decrease of HK\$27,111,000 or 5.6% from HK\$480,364,000 over 2018. Net profit after tax attributable to owners of the Company for the year ended 31 December 2019 was HK\$125,137,000, representing a decrease of HK\$28,928,000 or 18.8% from HK\$154,065,000 over 2018.

In interest-related business, the Bank continued to face negative interest rates in Swiss Francs and Euros. However, thanks to a further expansion of the loan portfolio, net interest income rose slightly from CHF22.6 million in 2018 to CHF23.3 million in 2019.

Net commission and fee income recorded CHF23.7 million, showing a decrease of 9.9% over the previous year. As expected, the self-restraint measures imposed within the scope of the de-risking strategy initiated in 2018 had a negative impact on income from the transaction banking business segment.

Client’s assets under management climbed by CHF174 million or 5.0% year on year, ending at CHF3,672 million in 2019.

Due to lower income from foreign exchange transactions for clients and treasury activities, income from financial transactions amounted to CHF7.1 million, showing approximately 12.3% below the previous year.

Business expenses amounted to CHF30.4 million, representing an increase of 8.6% over previous year, partly due to higher personnel costs resulting from the increased headcount and the newly established Hong Kong representative office.

The positive operating results for 2019 enables the Bank to strengthen its capital base with a total capital ratio of 20.5% as at 31 December 2019, well above the average for the banking sector. The Bank also continues to maintain high liquidity due to substantial holdings of liquid assets, which is reflected in a liquidity coverage ratio (LCR) of 175%, well above the regulatory threshold.

Bendura Bank focuses its activities in the regions of Eastern Europe and Asia, hence a representative office has been set up in Hong Kong. The Bank has long-standing ties to this market and has employed Mandarin and Cantonese native speakers for the past nine years. The Hong Kong representative office celebrated its 1st anniversary in 2019 and serves as a visible “gateway” in the local market. The Hong Kong team has successfully expanded existing client relationships and established new clients, with a personal touch and direct communication key to this success. The Bank’s strategy is to establish a footprint in Mainland China in the mid-term.

The board of directors of Bendura Bank has implemented code of conduct, which is aimed to providing high-quality banking services to clients. The main pillars of the code of conduct are principles for our conducts towards others, the aims of the Bank, dealing with business partners, avoiding conflicts of interest, handling information and the interaction with the environment, society, safety and security and health. The Bank is convinced that it is only by consistently following those principles that it can uphold and reinforce the Bank’s reputation for integrity and prudent risk management.

Bendura Bank has strengthened their board of management. Five members, excluding Dr. Andreas Insam who will step down from the board of management in Autumn 2021, are at the midpoint of their professional careers. They are internal recruits with many years of experience with Bendura Bank. Not only does this benefit our clients in particular, it also shows the career opportunities within Bendura Bank.

With the significant extension of Bendura Bank, the enlarged premises can accommodate an extra of 150 employees so that Bendura Bank will accommodate up to 270 employees.

Bendura Bank is optimistic that it will continue to achieve profitable growth with its internationally broad and diversified business.

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 (“**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 2019, Shun Heng Finance Holding contributed revenue and net profit after tax attributable to owners of the Company of HK\$3,360,000 (31 December 2018: HK\$3,535,000) and HK\$1,430,000 (31 December 2018: net loss HK\$6,350,000) respectively.

Shun Heng Securities Limited

Shun Heng Securities Limited (“**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. Following Shun Heng Securities upgrading its online trading system which provides higher security and better user experience, the account opening number showed an increase in 2019.

In addition to the traditional brokerage business, Shun Heng Securities has actively seek opportunities to grow the underwriting business for overseas bonds issued by Chinese enterprises.

Hong Kong Metasequoia Capital Management Limited

Hong Kong Metasequoia Capital Management Limited (“**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 two funds since its setting up, namely Global Opportunities Fund and Stable Growth Fund. Global Opportunities Fund invests mainly in securities markets in China Mainland, Hong Kong and the US, with assets under management from US\$10.24 million initially to approximately US\$13.13 million as at 31 December 2019. The Stable Growth Fund, launched in 2019, invests in domestic CNY bond and its assets under management reached approximately US\$10.43 million as at 31 December 2019. As at 31 December 2019, the aggregate assets under management of Metasequoia Capital was approximately US\$23,560,000 (31 December 2018: US\$11,311,000).

III.A Listed Equity Investment

Citychamp Dartong Company Limited

As at 31 December 2019, financial assets at fair value through other comprehensive income of the Group was HK\$422,861,000. HK\$135,176,000 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 2019, the Group owned 30,389,058 (31 December 2018: 30,389,058) shares of Citychamp Dartong at the market price of RMB3.98 per share (equivalent to HK\$4.45 per share) with the fair value of approximately HK\$135,176,000 (31 December 2018: HK\$128,730,000). The shares held by the Group accounted for 2.04% (31 December 2018: 2.04%) of the total issued share capital of Citychamp Dartong as at 31 December 2019. Such fair value accounted for 0.7% (31 December 2018: 0.6%) of the Group’s total assets.

The Group incurred a net profit on fair value change through other comprehensive income in investment in Citychamp Dartong of HK\$6,446,000 (31 December 2018: net loss HK\$109,229,000) for the year ended 31 December 2019, as a result of increase in the share price of Citychamp Dartong from RMB3.72 (equivalent to HK\$4.24) as at 1 January 2019 to RMB3.98 (equivalent to HK\$4.45) as at 31 December 2019. The Group recognised dividend income of HK\$3,448,000 (31 December 2018: HK\$3,577,000) from Citychamp Dartong for the year ended 31 December 2019.

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.

Min Xin Holdings Limited

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

Min Xin is mainly engaged in banking business, micro credit business, insurance, property investment and energy investment. As at 31 December 2019, the investment in Min Xin was HK\$282,080,000 (31 December 2018: HK\$492,759,000), i.e. 88,150,000 (31 December 2018: 88,150,000) shares at the market price of HK\$3.20 per share as at 31 December 2019. Such fair value of the investment accounted for 1.4% (31 December 2018: 2.4%) of the Group's total assets. The shares held by the Group accounted for 14.76% (31 December 2018: 14.76%) of the total issued share capital of Min Xin as at 31 December 2019.

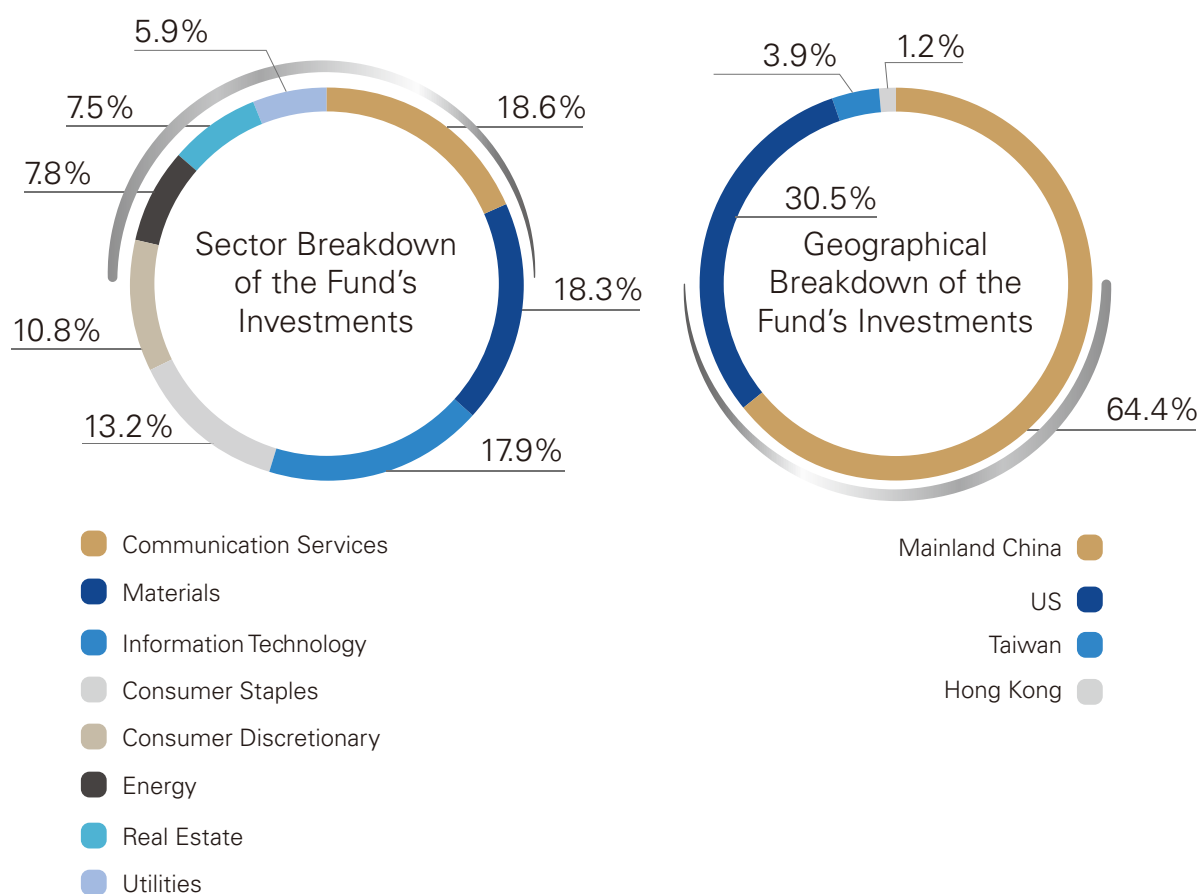
The Company incurred a net loss on fair value change through other comprehensive income in Min Xin's investment of HK\$210,679,000 for the year ended 31 December 2019 (31 December 2018: net loss HK\$14,104,000), as a result of decrease in the share price of Min Xin from HK\$5.59 as at 1 January 2019 to HK\$3.20 as at 31 December 2019. For the year ended 31 December 2019, the Company's dividend income from Min Xin was HK\$8,815,000 (31 December 2018: 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 year under review. During the year, these investment properties generated rental income of HK\$9,915,000 (31 December 2018: HK\$9,586,000). Net Profit after tax from the property investment business for the year 31 December 2019 was HK\$7,974,000 (31 December 2018: HK\$2,900,000).

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 2019, the total net asset value of the Fund was US\$13.13 million (31 December 2018: US\$10.42 million), which composed by US\$6.72 million and US\$6.41 million for the Group and other inventors respectively. For the year ended 31 December 2019, the unrealized gain on fair value of the investment was approximately USD1,767,735 (31 December 2018: unrealized loss USD796,740).



HEADQUARTER AND OTHERS

Losses from administrative expenses, finance costs and income tax of the headquarter and other non-major subsidiaries and/or non-major categories of businesses for the year ended 31 December 2019 was HK\$124,989,000 (31 December 2018: HKD\$118,515,000).

FINANCIAL POSITION

(1) Liquidity, Financial Resources and Capital Structure

As at 31 December 2019, the Group had non-pledged cash and bank balances of approximately HK\$4,785,483,000 (31 December 2018: HK\$7,701,743,000). Based on the borrowings of HK\$1,740,362,000 (31 December 2018: HK\$1,047,189,000), no corporate bonds^(note) (31 December 2018: HK\$760,244,000), due to a shareholder of HK\$12,000,000 (31 December 2018: HK\$73,000,000), due to directors of HK\$22,241,000 (31 December 2018: nil) and shareholders' equity of HK\$4,255,072,000 (31 December 2018: HK\$4,439,791,000), the Group's gearing ratio (being borrowings plus corporate bonds, due to a shareholder and due to directors divided by shareholders' equity) was 41% (31 December 2018: 42%).

(2) Charge on assets

As at 31 December 2019, the Group's borrowings were secured by:

- (a) corporate guarantees provided by certain subsidiaries within the Group;
- (b) equity interest of certain subsidiaries within the Group;
- (c) pledged bank deposits of HK\$111,763,000;
- (d) a legal charge over the Group's land and buildings with the carrying amount of HK\$95,180,000 (2018: HK\$120,711,000); and
- (e) certain of the Group's trade receivables with the carrying amounts of HK\$13,484,000 (2018: HK\$14,639,000).

(3) Capital commitment

Capital commitments as at 31 December 2019 were approximately HK\$482,652,000 in total (31 December 2018: HK\$270,000,000), for investment in an associate – Citychamp Allied International Limited and purchase of property, plant and equipment.

Except for the above, the Group had no other material capital commitments as at 31 December 2019.

Note: On 24 July 2019, the CHF100,000,000 3.625% corporate bonds were redeemed and repaid at the principal amount.

FINANCIAL REVIEW

(1) Total assets

Total assets decreased to HK\$19,597,081,000 as at 31 December 2019 from HK\$20,258,229,000 as at 31 December 2018.

Cash and deposits

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	Increase/(decrease) Amount HK\$'000	%
Cash and bank balances	329,377	395,444	(66,067)	-16.7
Cash held on behalf of clients	104,227	46,932	57,295	122.1
Sight deposits with central banks	4,463,642	7,259,367	(2,795,725)	-38.5

Due from banks

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	Increase/(decrease) Amount HK\$'000	%
Due from banks on a daily basis	4,720,429	3,205,104	1,515,325	47.3
Due from banks other claims	182,006	185,557	(3,551)	-1.9
Valuation adjustments	(1,237)	(2,825)	1,588	56.2

(2) Investments

The investment as at 31 December 2019 included (a) trading portfolio investments of HK\$227,903,000; (b) derivative financial assets of HK\$10,275,000; (c) financial assets at amortised cost of HK\$1,307,960,000; and (d) financial assets at fair value through other comprehensive income of HK\$422,861,000 (the “Investments”).

(a) Trading portfolio investments of HK\$227,903,000

	31 December 2019 HK\$'000	31 December 2018 HK\$'000
Equity Instruments		
Listed equity instruments in Hong Kong at market value	69,042	42,793
Listed equity instruments outside Hong Kong at market value	78,307	35,429
Total equity instruments	147,349	78,222
Debt instruments		
Debt instruments of financial institutions listed outside Hong Kong	–	603
Unlisted debt instruments of financial institutions	27,612	12,890
Total debt instruments	27,612	13,493
Investment fund units		
Investment fund units listed outside Hong Kong	–	793
Unlisted investment fund unit	46,758	7,851
Total investment fund units	46,758	8,644
Investments in other financial products	6,184	23,247
Total trading portfolio investments	227,903	123,606

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 2019, there were HK\$69,042,000 invested in a variety of listed equities in Hong Kong and HK\$78,307,000 invested in Mainland China and overseas markets.

The debt instruments of HK\$27,612,000 invested in the Mainland China by PRC company.

Trading assets of CHF 5.8 million represents the single investment by Bendura Bank in the form of an unlisted investment fund. Bendura Bank acquired above trading assets from a professional counterparty in March 2019. Starting from 2012, the fund invested its capital primarily in projects/companies in the water infrastructure. Projects included the renewal of dams, the operation of small seawater desalination plants, projects in the field of water treatment (e.g. wastewater treatment systems) and water testing/filtering (contamination testing, filtering for preparation of drinking water). The fund's liquidation was initiated in August 2015 and is still ongoing. The Bank, in addition to other professional investors, as a shareholder of the fund closely follows the further development of the liquidation and hopes to complete the settlement, with corresponding final payment, within a maximum of 36 months. The investment policy of Bendura Bank AG 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\$6,184,000 invested by Eternal Brands.

(b) Derivative financial assets of HK\$10,275,000

	31 December 2019 HK\$'000	31 December 2018 HK\$'000
Derivative financial assets		
Forward and option contracts	<u>10,275</u>	<u>7,694</u>
	<u>10,275</u>	<u>7,694</u>

In the derivative financial assets of HK\$10,275,000, 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 2019, forward contracts of HK\$10,275,000 related 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 2018, derivative financial assets of HK\$7,694,000 related to forward and option contracts conducted by Bendura Bank.

(c) ***Other financial assets at amortised cost of HK\$1,307,960,000***

	31 December 2019 HK\$'000	31 December 2018 HK\$'000
Listed debt instruments, at amortised cost		
<i>Issued by:</i>		
Governments and public sector	82,373	7,822
Financial institutions	778,199	716,747
Corporations	447,388	310,204
	<u>1,307,960</u>	<u>1,034,773</u>

Bendura Bank invested in listed debt instruments issued by government and public sector, financial institutions and corporations amounting to HK\$1,307,960,000. The portfolio was composed of 58 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 2.4 years. Largest single investments are bond issued by International Bank for Reconstruction and Development (CHF19 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 2019 are as follows:

Issuer	Nature of interest rate	Sector	Maturity date	Value (CHF'000)
China Merchants Bank/Lux	Fixed	Financial Institutions	19 June 2022	5,426
Deutsche Bank Ag	Floating	Financial Institutions	16 May 2022	7,591
Abn Amro Bank Nv	Floating	Financial Institutions	19 July 2022	7,746
Bank of Nova Scotia	Floating	Financial Institutions	05 October 2022	8,228
Intl Bk Recon & Develop	Fixed	Financial Institutions	19 March 2024	9,670
European Investment Bank	Floating	Financial Institutions	24 March 2021	11,631
Intl Bk Recon & Develop	Floating	Financial Institutions	18 March 2020	19,364
Other				92,845
Total				162,501
Equivalent to HK\$'000				1,307,960

Collectively, listed debt instruments, at amortised cost accounted for 6.7% of the Group's total assets.

As at 31 December 2018, 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. 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 analyzed 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
Others				64,323
Total				130,018
Equivalent to HK\$'000				1,034,773

(d) *Other financial assets at fair value through other comprehensive income of HK\$422,861,000*

	31 December 2019 HK\$'000	31 December 2018 HK\$'000
Listed equity instruments in Hong Kong	282,080	492,759
Listed equity instruments outside Hong Kong	135,176	128,730
Unlisted equity investment	5,605	5,711
	<u>422,861</u>	<u>627,200</u>

Listed equity instruments of HK\$135,176,000 related to investment in Citychamp Dartong and HK\$282,080,000 related to investment in Min Xin. Details of investments in Citychamp Dartong and Min Xin are set out from pages 38 to 39 of this announcement.

(3) **Total liabilities**

Total liabilities decreased to HK\$14,936,192,000 as at 31 December 2019 from HK\$15,448,738,000 as at 31 December 2018, mainly attributable to a decrease in due to clients.

Due to clients

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	Increase/(decrease) Amount HK\$'000	%
Due to clients precious metals	56,762	73,950	(17,188)	-23.2
Other amounts due to clients, mainly bank deposits	11,906,290	12,430,641	(524,351)	-4.2

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

Gross profit from non-banking and financial businesses was HK\$1,255,622,000, a decrease of HK\$175,760,000, or 12.3%.

(5) **EBITDA**

EBITDA was HK\$412,823,000, a decrease of HK\$129,030,000 or 23.8%.

(6) Selling and distribution expenses

Total selling and distribution expenses was HK\$817,889,000, a decrease of HK\$31,662,000 or 3.7%.

(7) Administrative expenses

Total administrative expenses was HK\$777,114,000, an increase of HK\$39,129,000 or 5.3%.

(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\$17,675,000, representing an increase of HK\$9,288,000 or 110.7%. 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\$95,320,000, representing an increase of HK\$29,492,000 or 44.8%. It was composed of the interest charged on corporate bonds and the interest charged on bank borrowings and bank overdrafts.

(10) Profit attributable to owners of the Company

Net profit attributable to owners of the Company was HK\$44,246,000, a decrease of HK\$157,126,000 or 78.0%.

(11) Inventories

Inventories was HK\$2,257,966,000, a decrease of HK\$56,579,000 or 2.4%.

OUTLOOK

The global political and economic environment is becoming more complex and fluid, rising the overall level of risks and challenges faced by the watch industry as well as the banking and financial industry.

Setting aside the political and economic influence, the novel coronavirus impact on Mainland China, the US and Europe leads to a further uncertainty about the prospect of global economic growth and of global growth in retail sales in 2020.

Having been seriously affected by the social disturbances, the weak Hong Kong economy is additionally damaged by the novel coronavirus impact. The intense atmosphere also weighs on consumer confidence and on in-bound tourism. Given the international efforts, it is likely that the epidemic would be dealt with in the medium term and the market conditions are expected to improve when the consumer confidence is recovered and the demand for watches in Mainland China and all over the world is expected to be normalized again. The Group will monitor the developments of the novel coronavirus situation closely, assess and react actively to its impacts on the financial position and operating results of the Group.

Fortunately, Bendura Bank's performance is only slightly affected by the global political, economic and novel coronavirus impact. Bendura Bank may suffer from the decrease in assets under management due to decrease in asset prices. In spite of increasingly strict regulatory requirements and strong competition, Bendura Bank manages to grow its assets under management, loan portfolio and total assets. By strengthening the human resources in areas such as marketing, compliance and risk management, and their professionalism, Bendura Bank is growing and further developing its businesses in Europe and Asia, in particular in the short term. The longer-term performance of Bendura Bank is still dependent upon the global economic growth and interest rate scenarios.

In view of the strong headwind challenges, the Group has considered the current operating environment as one of the toughest scenarios in the last few decades. The directors are prepared to put into all their efforts, working closely with senior management and advisors, to make sure the Group is in a secure position and at the same time to identify opportunities so as to generate sustainable long-term growth for the Group.

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 2019, the Group had approximately 4,100 fulltime staff in Hong Kong and Mainland China and approximately 300 fulltime 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 2019 (year ended 31 December 2018: nil).

CLOSURE OF REGISTER OF MEMBERS

The Company's Annual General Meeting is scheduled to be held on Tuesday, 30 June 2020 (the "AGM 2020"). For the purpose of determining the entitlement to attend and vote at the AGM 2020, the register of members of the Company will be closed from Tuesday, 23 June 2020 to Tuesday, 30 June 2020, 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 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Monday, 22 June 2020.

MATERIAL EVENTS AFTER CLOSURE OF FINANCIAL YEAR

Material events after closure of financial year are set out in note 17 to the consolidated financial statements.

CORPORATE GOVERNANCE CODE

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 Corporate Governance Code and Corporate Governance Report (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 2019 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 30 May 2019 (the “**AGM 2019**”) 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 2019 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.

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 2019.

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.

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 2019.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee reviewed the consolidated financial statements for the year ended 31 December 2019. Based on this review and discussions with management, the Audit Committee was satisfied that the consolidated financial statements for the year ended 31 December 2019 were prepared in accordance with applicable accounting standards and fairly present the Group’s financial position and results for the year ended 31 December 2019.

SCOPE OF WORK OF BDO LIMITED ON THIS PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group’s auditor, BDO Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this preliminary announcement.

PUBLICATION OF 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.citychampwj.com. The annual report of the Company for the year ended 31 December 2019 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. 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, 30 March 2020

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.