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ERNEST BOREL HOLDINGS LIMITED

依波路控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

2020 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Ernest Borel Holdings Limited (the “**Company**” or “**Ernest Borel**”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019.

FINANCIAL AND OPERATION HIGHLIGHTS

- Turnover for the financial year ended 31 December 2020 (“**FY2020**”) decreased from approximately HK\$141.5 million to approximately HK\$122.6 million when compared with the financial year ended 31 December 2019 (“**FY2019**”).
- Gross profit margin increased from approximately 39.5% for FY2019 to approximately 59.5% for FY2020. Gross profit increased from approximately HK\$55.9 million for FY2019 to approximately HK\$73.0 million for FY2020 .
- Profit attributable to the owners of the Company for FY2020 was approximately HK\$1.3 million (FY2019: Loss of approximately HK\$79.0 million).
- Earnings per share was approximately HK\$0.38 cents (FY2019: Loss per share was approximately HK\$22.75 cents).
- The Board has resolved not to recommend any payment of a final dividend for FY2020 (FY2019: Nil).

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2020

| | <i>Notes</i> | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Revenue | 3 | 122,596 | 141,518 |
| Cost of sales | | (49,611) | (85,659) |
| Gross profit | | 72,985 | 55,859 |
| Other gains and losses, net | | 15,092 | (24,285) |
| Other income | | 3,326 | 707 |
| Distribution expenses | | (45,313) | (47,458) |
| Administrative expenses | | (39,614) | (52,340) |
| Finance costs | | (11,700) | (11,222) |
| Loss before tax | 4 | (5,224) | (78,739) |
| Income tax credit/(expense) | 5 | 6,551 | (308) |
| Profit/(loss) for the year attributable to owners of the Company | | 1,327 | (79,047) |
| Other comprehensive income | | | |
| <i>Item that will not be subsequently reclassified to profit or loss:</i> | | | |
| Remeasurement of net defined benefit obligations | | (1,373) | (832) |
| <i>Item that may be subsequently reclassified to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | 11,462 | 3,109 |
| Other comprehensive income for the year | | 10,089 | 2,277 |
| Total comprehensive income for the year attributable to owners of the Company | | 11,416 | (76,770) |
| Earnings/(loss) per share | | | |
| — Basic and diluted (Hong Kong cents) | 7 | 0.38 | (22.75) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

| | <i>Notes</i> | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| ASSETS AND LIABILITIES | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 40,330 | 26,448 |
| Rental deposits | 8 | 955 | – |
| | | 41,285 | 26,448 |
| CURRENT ASSETS | | | |
| Inventories | | 359,609 | 326,900 |
| Trade and other receivables | 8 | 54,046 | 41,971 |
| Restricted bank deposits | | 1,354 | 1,260 |
| Bank balances and cash | | 18,402 | 18,735 |
| | | 433,411 | 388,866 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 9 | 24,200 | 33,252 |
| Tax payable | | 2,585 | 2,388 |
| Lease liabilities | | 4,900 | 6,385 |
| Amount due to a related party | 10 | 5,376 | – |
| Amounts due to fellow subsidiaries | 10 | 217,883 | 144,132 |
| Amount due to ultimate holding company | 10 | – | 39,488 |
| Amounts due to directors | 10 | 17,000 | 22,241 |
| Bank borrowings | | 19,384 | – |
| | | 291,328 | 247,886 |
| NET CURRENT ASSETS | | 142,083 | 140,980 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 183,368 | 167,428 |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | | 8,330 | 3,023 |
| Bank borrowings | | 4,397 | – |
| Deferred tax liabilities | | 14,266 | 20,360 |
| Pension obligations | | 4,531 | 3,617 |
| | | 31,524 | 27,000 |
| NET ASSETS | | 151,844 | 140,428 |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 3,474 | 3,474 |
| Reserves | | 148,370 | 136,954 |
| TOTAL EQUITY | | 151,844 | 140,428 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL

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

The Company’s addresses of the registered office is Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands and its principal place of business is Units 1612–18, Level 16, Tower I, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong.

The principal activity of the Company is investment holding and its subsidiaries are principally engaged in designing, manufacturing, marketing and selling of Swiss-made mechanical and quartz premium watches for men and women.

2. APPLICATION OF NEW OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

(a) Adoption of new or amended IFRSs — effective 1 January 2020

In the current year, the Group has applied the following new or amended IFRSs issued by the International Accounting Standards Board (“**IASB**”) which are relevant to and effective for the Group’s consolidated financial statements for the annual period beginning on 1 January 2020:

| | |
|---|--------------------------------|
| Amendments to IFRS 3 | Definition of a Business |
| Amendments to IAS 1 and IAS 8 | Definition of Material |
| Amendments to IAS 39, IFRS 7 and IFRS 9 | Interest Rate Benchmark Reform |

The application of these new or amended IFRSs has no material impact on the Group’s results and financial position for the current or prior period.

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

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

| | |
|--|--|
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current ⁴ |
| Amendments to IAS 16 | Proceeds before Intended Use ³ |
| Amendments to IAS 37 | Onerous Contracts — Cost of Fulfilling a Contract ³ |
| Amendments to IFRS 3 | Reference to the Conceptual Framework ³ |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵ |
| Amendments to IFRS 16 | COVID-19-Related Rent Concessions ¹ |
| Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16 | Interest Rate Benchmark Reform — Phase 2 ² |
| Amendments to IFRS Standards | Annual Improvements to IFRS Standards 2018–2020 ³ |

¹ Effective for annual periods beginning on or after 1 June 2020

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

³ Effective for annual periods beginning on or after 1 January 2022

⁴ Effective for annual periods beginning on or after 1 January 2023

⁵ The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

3. REVENUE AND SEGMENT INFORMATION

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

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

Geographical information

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

| | Revenue from external customers | |
|--|------------------------------------|----------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| PRC | 118,799 | 110,124 |
| Hong Kong and Macau | 1,005 | 6,587 |
| Others (mainly in Southeast Asia and Europe) | 2,792 | 24,807 |
| | <u>122,596</u> | <u>141,518</u> |
| | Non-current assets | |
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| PRC | 11,950 | 8,445 |
| Hong Kong | 10,202 | 1,342 |
| Switzerland | 19,133 | 16,661 |
| | <u>41,285</u> | <u>26,448</u> |

Information about major customers

There is no significant revenue that is more than 10% of the Group's revenue derived from specific external customers for the year ended 31 December 2020 (2019: HK\$18,144,000).

4. LOSS BEFORE TAX

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Loss before tax has been arrived at after charging/(crediting): | | |
| Auditors' remuneration | 730 | 730 |
| (Reversal of)/provision for impairment loss of trade receivables, net (note 8) | (4,114) | 1,350 |
| (Reversal of)/provision for impairment loss of property, plant and equipment | (2,815) | 19,043 |
| Reversal of legal and professional fee provision | (4,954) | – |
| Cost of inventories recognised as expenses, including: | 49,611 | 85,659 |
| — Reversal of allowance | (10,646) | (3,114) |
| Depreciation of property, plant and equipment | 7,367 | 9,811 |
| Short-term lease rental | 43 | 480 |
| Staff costs (including directors' emoluments): | | |
| — Salaries and other benefits | 48,194 | 56,812 |
| — Retirement benefits scheme contributions | 2,003 | 6,535 |
| Total staff costs | <u>50,197</u> | <u>63,347</u> |

Note: Cost of inventories sold includes HK\$9,900,000 (2019: HK\$13,981,000) relating to staff costs and depreciation expenses.

5. INCOME TAX (CREDIT)/EXPENSE

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Current tax: | | |
| Hong Kong Profits Tax (note i) | – | – |
| Switzerland Income Tax (note ii) | 261 | 286 |
| PRC Enterprise Income Tax (note iii) | – | – |
| | <u>261</u> | <u>286</u> |
| Deferred tax (credit)/charge | <u>(6,812)</u> | <u>22</u> |
| Income tax (credit)/expense for the year | <u>(6,551)</u> | <u>308</u> |

Notes:

(i) Hong Kong

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

(ii) **Switzerland**

Switzerland Income Tax is calculated at certain tax rates on the assessable income for both years. Under the relevant Tax Laws in Switzerland, the Group's subsidiaries incorporated in Switzerland were subjected to Direct Federal Tax ("DFT") of 10.0% (2019: 8.5%) and Cantonal Communal Tax ("CCT") calculated at 8.50% (2019: 16.18%).

Swiss Federal withholding tax is levied at a rate of 35% on the distribution of the profit (if any) of the subsidiaries incorporated in Switzerland for both years.

(iii) **PRC**

Under the laws of PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of EIT Law, the tax rate of PRC subsidiary is 25% (2019: 25%). No provision for Enterprise Income Tax has been made for both years as the Group has no assessable profits arising in the PRC.

6. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2020 and 2019, nor has any dividend been proposed since the end of the reporting period.

7. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share for the year ended 31 December 2020 is based on the profit attributable to the owners of the Company of HK\$1,327,000 (2019: loss of HK\$79,047,000) and on the weighted average number of 347,437,000 (2019: 347,437,000) ordinary shares in issue during the year.

There are no potential dilutive ordinary shares outstanding for the year ended 31 December 2020 and 2019 and thus the diluted earnings/(loss) per share is the same as the basic earnings/(loss) per share.

8. TRADE AND OTHER RECEIVABLES

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|-----------------------------------|-------------------------|-------------------------|
| Non-current: | | |
| Rental deposits | 955 | – |
| Current: | | |
| Trade receivables, gross | 62,645 | 55,585 |
| Less: impairment loss allowance | (18,608) | (21,534) |
| Trade receivables, net | 44,037 | 34,051 |
| Other receivables | 1,646 | 1,111 |
| Other tax recoverable | 2,691 | 1,162 |
| Prepayments | 3,651 | 2,625 |
| Deposits | 2,021 | 3,022 |
| | 10,009 | 7,920 |
| | 54,046 | 41,971 |
| Total trade and other receivables | 55,001 | 41,971 |

Included in the trade and other receivables, amounts of HK\$5,274,000 (2019: HK\$756,000) are due from the fellow subsidiaries of the Company.

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

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|---------------|--------------------------------|-------------------------|
| 0–90 days | 29,728 | 20,571 |
| 91–180 days | 11,932 | 8,639 |
| 181–270 days | 1,450 | 3,310 |
| Over 270 days | 927 | 1,531 |
| | <u>44,037</u> | <u>34,051</u> |

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

Movement in the impairment loss allowance for trade receivables

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Balance at beginning of the year | 21,534 | 20,611 |
| Provision for impairment losses allowance recognised | 1,373 | 1,350 |
| Reversal of impairment losses allowance recognised | (5,487) | – |
| Exchange realignment | 1,188 | (427) |
| | <u>18,608</u> | <u>21,534</u> |

Included in the impairment loss allowance are individually impaired trade receivables with an aggregate credit impaired balance of HK\$18,557,000 (2019: HK\$21,484,000) which has been fully impaired and expected credit loss allowance of HK\$51,000 as at 31 December 2020 (2019: HK\$50,000). The Group does not hold any collateral over these balances.

9. TRADE AND OTHER PAYABLES

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Trade payables | 13,785 | 9,602 |
| Other payables | 2,689 | 2,059 |
| Accruals | 6,176 | 20,675 |
| Contract liabilities arising from sales of goods | 1,550 | 916 |
| | <u>24,200</u> | <u>33,252</u> |

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

| | 2020 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
|--------------|--------------------------------|-------------------------|
| 1–30 days | 8,576 | 4,873 |
| 31–60 days | 1,689 | 2,329 |
| Over 60 days | 3,520 | 2,400 |
| | <u>13,785</u> | <u>9,602</u> |

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

10. AMOUNTS DUE TO A RELATED PARTY, FELLOW SUBSIDIARIES, ULTIMATE HOLDING COMPANY AND DIRECTORS

As at 31 December 2020, amounts due to fellow subsidiaries of aggregate principal amount of RMB176,000,000 (equivalent to HK\$209,704,000) (2019: RMB128,200,000 (equivalent to HK\$142,994,000)) were unsecured, interest bearing at range from 5% to 6% (2019: 5% to 6%) per annum and repayable within one year.

As at 31 December 2019, an amount due to ultimate holding company of principal amount of HK\$31,198,000 was unsecured, interest bearing at 5% per annum and repayable within one year. There is no balance outstanding as at 31 December 2020.

As at 31 December 2020, amounts due to directors of aggregate principal amount of HK\$17,000,000 (2019: HK\$22,000,000) was unsecured, interest bearing at 5% (2019: 5%) per annum and repayable within one year.

As at 31 December 2020, an amount due to a related party of principal amount of RMB4,500,000 (equivalent to HK\$5,363,000) was unsecured, interest bearing at 6% per annum and repayable within one year. The related party is a key management personnel of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning 165 years. Throughout the course of its history and across its operations, the Group has upheld the principles of producing high precision “Swiss-made” products and implemented stringent quality controls. Under its own brand “Ernest Borel”, the Group is engaged in the design, production, marketing and sale of mechanical and quartz premium watches. As one of the oldest Swiss premium watchmakers, Ernest Borel has adopted the “dancing couple” as its icon, which embodies “romance and elegance”. Together with its distinctive market position, Ernest Borel has gained leadership among brands of watches for couples in Switzerland. The extensive distribution network of the Group covers retail markets in the People’s Republic of China (the “**PRC**”), the Hong Kong Special Administrative Region (“**Hong Kong**”), the Macau Special Administrative Region (“**Macau**”) and other markets. As at 31 December 2020, the Group has more than 804 points of sale (“**POS**”).

Ernest Borel recorded a revenue of approximately HK\$122.6 million (2019: approximately HK\$141.5 million), representing a year-on-year decrease of approximately 13.4%, and gross profit and gross profit margin increased to approximately HK\$73.0 million (2019: approximately HK\$55.9 million) and approximately 59.5% (2019: approximately 39.5%), respectively. Consequently, profit attributable to equity holders amounted to approximately HK\$1.3 million in FY2020, a significant improvement when comparing with FY2019.

OVERVIEW

As a result of border closures and tourist entry quarantine measures in various countries due to the spread of the COVID-19 pandemic over the world, the Group’s revenue in Hong Kong, Macau and other retail markets dropped significantly. In the first half of the year, sales performance in the PRC was unsatisfactory due to travel restrictions and traffic control measures imposed in many cities; although some of these measures were lifted in late March 2020, customers in department stores and shopping malls remained relatively low, which directly affected the Group’s retail sales in the first half of the year. In the first half of the year, although the sales performance of POS was severely impacted, the sales performance of the Group’s POS rebounded significantly in the second half of the year as the pandemic in the PRC remained under control, and the Group has been investing in the development of its e-commerce business by selling its products on a number of mainstream online sales platforms such as Tmall and JD.com. The majority of consumers were more enthusiastic and willing to spend more time online, which had a positive impact on the Group’s performance for the year.

The PRC Market

The PRC remains the core market of the Group. As at 31 December 2020, the Group had around 664 POS in the country. Revenue from the PRC segment increased from approximately HK\$110.1 million for FY2019 to approximately HK\$118.8 million for FY2020, which accounted for approximately 96.9% of total revenue.

Hong Kong and Macau Markets

As at 31 December 2020, the Group had around 54 POS in Hong Kong and Macau markets. Sales in these markets decreased by approximately 84.7% from approximately HK\$6.6 million for FY2019 to approximately HK\$1.0 million for FY2020, which accounted for approximately 0.8% of total revenue.

Other markets

As at 31 December 2020, the Group had 86 POS in the other markets, mainly in Southeast Asia and Europe. Sales in these markets decreased by approximately 88.7% from approximately HK\$24.8 million for FY2019 to approximately HK\$2.8 million for FY2020, which accounted for approximately 2.3% of total revenue.

FINANCIAL REVIEW

Revenue and segment information

Our revenue decreased by approximately HK\$18.9 million, or approximately 13.4% from approximately HK\$141.5 million for FY2019 to approximately HK\$122.6 million for FY2020.

Performance by geographical locations

| | 2020 | 2019 | Changes | |
|--|-----------------------|----------------|-----------------|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | % |
| PRC market | 118,799 | 110,124 | 8,675 | 7.9 |
| Hong Kong and Macau markets | 1,005 | 6,587 | (5,582) | (84.7) |
| Other markets mainly in Southeast Asia and Europe | 2,792 | 24,807 | (22,015) | (88.7) |
| Total | <u>122,596</u> | <u>141,518</u> | <u>(18,922)</u> | <u>(13.4)</u> |

The PRC market

The PRC continues to be our major market, representing approximately 96.9% of our total revenue for FY2020. Revenue in this region showed an increase of approximately 7.9% from approximately HK\$110.1 million for FY2019 to approximately HK\$118.8 million for FY2020.

Hong Kong and Macau markets

Hong Kong and Macau markets accounted for approximately 0.8% of our total revenue for FY2020. Revenue in these markets decreased by approximately 84.7% from approximately HK\$6.6 million for FY2019 to approximately HK\$1.0 million for FY2020.

Other markets

Revenue from other markets, mainly in Southeast Asia and Europe, accounted for approximately 2.3% of our total revenue for FY2020. Revenue in these markets decreased by approximately 88.7% from approximately HK\$24.8 million for FY2019 to approximately HK\$2.8 million for FY2020.

Cost of sales

Cost of sales decreased by approximately 42.1% from approximately HK\$85.7 million for FY2019 to approximately HK\$49.6 million for FY2020.

Gross profit

Our gross profit increased by approximately HK\$17.1 million or approximately 30.6% from approximately HK\$55.9 million for FY2019 to approximately HK\$73.0 million for FY2020, while the gross profit margin increased from approximately 39.5% for FY2019 to approximately 59.5% for FY2020.

Other gains and losses

We recorded other gains of approximately HK\$15.1 million for FY2020 as compared to other losses of approximately HK\$24.3 million for FY2019.

Distribution expenses

Our distribution expenses decreased by approximately HK\$2.2 million or approximately 4.6% from approximately HK\$47.5 million for FY2019 to approximately HK\$45.3 million for FY2020, which represented approximately 36.9% of total revenue for FY2020 (FY2019: approximately 33.6%).

Administrative expenses

Our administrative expenses decreased by approximately HK\$12.7 million or approximately 24.3% from approximately HK\$52.3 million for FY2019 to approximately HK\$39.6 million for FY2020.

Finance costs

Our finance costs increased by approximately HK\$0.5 million or approximately 4.5% from approximately HK\$11.2 million for FY2019 to approximately HK\$11.7 million for FY2020.

Profit attributable to owners of our Company

We recorded a profit of approximately HK\$1.3 million for FY2020 as compared to net loss of approximately HK\$79.0 million for FY2019.

Inventory

Inventory amounted to approximately HK\$359.6 million as at 31 December 2020, which represented an increase of approximately HK\$32.7 million from approximately HK\$326.9 million as at 31 December 2019.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK\$55.0 million as at 31 December 2020, which represented an increase of approximately HK\$13.0 million from approximately HK\$42.0 million as at 31 December 2019.

The Group's trade and other payables amounted to approximately HK\$24.2 million as at 31 December 2020, which represented a decrease of approximately HK\$9.1 million from approximately HK\$33.3 million as at 31 December 2019.

Liquidity, financial resources and capital structure

As at 31 December 2020, the Group had non-pledged cash and bank balances of approximately HK\$18.4 million (2019: approximately HK\$18.7 million). As at 31 December 2020, the Group had bank and other borrowings of approximately HK\$264.0 million (2019: approximately HK\$205.9 million), of which approximately HK\$23.8 million (2019: Nil) were secured and carried with variable interest bearings ranged from 0% to 5.24% (2019: Nil) per annum; and of which approximately HK\$240.2 million (2019: approximately HK\$205.9 million) were unsecured and carried with fixed interest bearings ranged from 5% to 6% (2019: 5% to 6%) per annum. As at 31 December 2020, part of the bank and other borrowings amounted to approximately HK\$4.4 million was repayable over one year and the remaining balance amounted to approximately HK\$259.6 million was repayable within one year.

As at 31 December 2020, the Group's gearing ratio was approximately 173.9% (2019: approximately 146.7%). This was calculated by dividing the bank and other borrowings (including bank borrowings, amount due to a related party, amounts due to fellow subsidiaries, amount due to ultimate holding company and amounts due to directors) by total equity attributable to owners of the Company as at 31 December 2020.

The Group has adopted a prudent financial and surplus funds management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year ended 31 December 2020. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the sufficient financial resources are available in order to meet its funding requirements and commitment timely.

Foreign exchange exposure

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

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

Charge on assets

As at 31 December 2020, the Group had no charges on the Group's assets (2019: Nil).

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during FY2020.

Future plan for material investment and capital assets

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

Significant investments held

During FY2020, no significant investments were held by the Group.

Contingent liabilities

As at 31 December 2020, the Group did not have any contingent liabilities.

Employees and remuneration policies

As at 31 December 2020, the Group had a total of 191 full-time employees, which represented a decrease of approximately 9.5% compared to 211 employees as at 31 December 2019. Total staff costs for FY2020 decreased to approximately HK\$50.2 million from approximately HK\$63.3 million for FY2019.

All of our full-time employees are paid a fixed salary and may be granted other allowances, based on their positions. Members of the sales staff are also eligible for commissions based on their ability to meet sales targets. In addition, year-end bonuses may also be awarded to the employees at our discretion and based on employees' performance. Yearly performance appraisals are conducted to ensure that the employees receive feedback on their performance. Our Company has adopted a share option scheme (the "**Share Option Scheme**") on 24 June 2014, which became effective on 11 July 2014 and will expire on 24 June 2024. No option has been granted under the Share Option Scheme during FY2020.

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

Capital commitments

There was no capital commitments as at 31 December 2020 (2019: Nil).

PROSPECTS

In 2020, the uncertain China-US trade relationship and unsteady political situation in Hong Kong impacted the economy in the world, the PRC and Hong Kong. The situation has worsened by the outbreak of COVID-19, dealing a heavy blow to the premium watch retail market in the PRC. Going forward, the Company will adopt a multi-pronged approach to maintain our operation under such difficult operating environment with a view to further improving the performance of the Group.

Products

The Group always insists on making high-quality “swiss-made” watches. In the future, the Group will closely monitor market conditions and keep abreast of the popular trend by analyzing the behavior, habit and consumption power of our major consumers and design watch series, that conformed to the preference of our target consumers, for men, women and couples with our professional product design ability.

Brand Promotion

The Group continues to promote and enhance the reputation of “Ernest Borel” brand through various marketing tactics. During the year under review, Ms. Kelly Chen, the brand ambassador of “Ernest Borel”, promoted the Company’s elegant and romantic brand image with her graceful and healthy charisma. Coupled with our integrated Online-to-Offline (O2O) marketing promotion model and enhanced promotion on various e-commerce platforms and social media platforms, all these strategies brought positive feedback for “Ernest Borel” brand. In the future, the Group’s marketing tactics will continue to focus on the characteristics of major consumer groups and to promote our products through popular social media platforms with a view to promoting “Ernest Borel” brand to younger and international consumers for upholding the romantic culture of “Ernest Borel” brand.

Distribution Channel

POS sales

The Group continues to adopt effective sales strategies and endeavors to explore new POS in markets with growth potential through different brand promotion tactics. Meanwhile, the Group will continue to review the performance of each POS and abandon those with a weak performance with a view to increasing the sales revenue of POS with better performances, and continue to optimize our sales network. In the future, the Group will continue to step up efforts for the expansion in Hainan Free Trade Zone by increasing premium POS and attracting more tourists and local consumers in order to boost the sales performance.

Online e-commerce sales

In terms of e-commerce, competition among peers is increasing. The outbreak of COVID-19 further accelerates the general trend of online shopping by consumers. The Group will continue to monitor market conditions and timely distribute resources to e-commerce with designated professional e-commerce team for more efficient and professional operation of the e-commerce business. In the future, in order to meet customers' needs, the Group will also continue to place more and efficient online advertising on the internet while joining various sales platforms. In addition, we will strive to promote exclusive watches which will be only available in online platforms, to attract more consumers and further increasing our revenue from e-commerce sales.

Operation

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

Conclusion

Looking ahead, as global economy and uncertainties arising from the China-US trade dispute are becoming clearer, and vaccination against COVID-19 is expected to provide adequate protection for humans, it is very likely to see a “retaliatory” consumption among consumers around the globe after the epidemic. This will have a positive impact on different industries, as well as the premium watch retails market in the PRC. The Group will also be prepared to seize opportunities amidst difficulties. However, in the future, the Group will still maintain a prudential and active attitude, closely monitor market conditions and, adjust the Group's operation strategies based on our actual situations while controlling operation expense with more caution. In conclusion, the Group looks forward to the future and aims to foster constructive development of “Ernest Borel” brand with a view to bringing valuable and sustainable returns for our shareholders in future.

EVENTS AFTER THE REPORTING PERIOD

The Group had no significant events after the reporting period which needs to be disclosed.

REVIEW OF ANNUAL RESULTS

The Company has established an audit committee (the “**Audit Committee**”) in compliance with Rule 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and code provision C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules (the “**CG Code**”) for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three members, namely Mr. To Chun Kei (who is also the chairman of the Audit Committee), Mr. Hui Cheuk Kit Frederick and Ms. Chan Lai Wa, all being Independent Non-executive Directors (the “**INEDs**”) of the Company.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Group's audited results for FY2020 with the Company's management. The Audit Committee has also met and discussed with the Group's independent auditors, BDO Limited, regarding the Group's audit, internal control system and financial reporting matters.

CODE PROVISION A.6.7

Pursuant to the Code provision A.6.7 of the CG Code, Independent Non-executive Directors and other Non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Tao Li, the Non-executive Director, was unable to attend the Company's annual general meeting held on 27 May 2020 due to other business engagements.

Save as disclosed above, the Board is of the view that the Company has complied with all code provisions as out in the CG Code for the Year.

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

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealing in the securities of the Company by the Directors. Following specific enquiries made by the Company on the Directors, all Directors have confirmed that they had fully complied with the required standards set out in the Model Code during the year ended 31 December 2020.

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

During the year ended 31 December 2020, the Company did not redeem any of its shares listed and traded on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") nor did the Company or any of its subsidiaries purchase or sell any of such shares.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for FY2020 (2019: Nil).

ANNUAL GENERAL MEETING ("AGM")

The AGM will be held in Hong Kong on 28 May 2021. Notice of the AGM will be issued and disseminated to the Company's shareholders in due course.

BOOK CLOSURE

In order to determine the shareholders' entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021 (both days inclusive, during which period no transfer of Share(s) will be effected). In order to be eligible to attend and vote at the forthcoming AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration, not later than 4:30 p.m. on Monday, 24 May 2021.

SCOPE OF WORK OF BDO LIMITED ON THIS PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is available for viewing on the respective websites of The Stock Exchange at www.hkexnews.hk and the Company's website at www.ernestborel.ch. The annual report of the Company for FY2020 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders and published on the respective websites of The Stock Exchange and the Company in due course.

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

Hong Kong, 30 March 2021

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

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