BONJOUR

Bonjour Holdings Limited
卓悅控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 653)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

RESULTS

The board of directors (the "Board" or "Directors") of Bonjour Holdings Limited ("Bonjour" or the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 (the "Year") with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Continuing operations			
Turnover	3	**1,994,902**	2,286,806
Cost of goods sold		**(1,234,124)**	(1,331,801)
Gross profit		**760,778**	955,005
Other income	4	**52,865**	69,014
Distribution costs		**(53,312)**	(73,147)
Administrative expenses		**(832,840)**	(897,001)
Other operating expenses		**(5,359)**	(3,148)
(Loss)/profit from operations		**(77,868)**	50,723
Finance costs	6	**(11,311)**	(11,425)
(Loss)/profit before tax		**(89,179)**	39,298
Income tax expense	7	**(2,449)**	(6,023)
(Loss)/profit for the year from continuing operations	8	**(91,628)**	33,275
Discontinued operations			
Profit for the year from discontinued operations	9	**–**	398,953
(Loss)/profit for the year		**(91,628)**	432,228
Attributable to owners of the Company		**(91,628)**	432,228
(Loss)/earnings per share	11		
From continuing and discontinued operations			
Basic		**HK(2.7) cents**	HK12.7 cents
Diluted		**HK(2.7) cents**	HK12.4 cents
From continuing operations			
Basic		**HK(2.7) cents**	HK1.0 cent
Diluted		**HK(2.7) cents**	HK1.0 cent

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2016

	2016 *HK$'000*	2015 *HK$'000*
(Loss)/profit for the year	**(91,628)**	432,228
Other comprehensive income:		
Item that will not be reclassified to profit or loss:		
Remeasurement gains/(losses) on long service payment liabilities	**592**	(467)
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**1,267**	2,950
Exchange differences reclassified to profit or loss on disposal of subsidiaries	**–**	906
Fair value changes of available-for-sale financial assets	**(127,865)**	135,171
	(126,598)	139,027
Other comprehensive income for the year, net of tax	**(126,006)**	138,560
Total comprehensive income for the year	**(217,634)**	570,788
Attributable to owners of the Company	**(217,634)**	570,788

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**771,481**	809,846
Goodwill		**–**	–
Rental and utility deposits		**52,831**	94,081
Available-for-sale financial assets		**231,659**	584,524
Deferred tax assets		**1,289**	1,289
		1,057,260	1,489,740
Current assets			
Inventories		**225,133**	256,552
Trade receivables	*12*	**38,478**	41,062
Rental and utility deposits		**66,489**	39,098
Prepayments, deposits and other receivables		**22,255**	30,183
Amounts due from related companies		**886**	1,184
Available-for-sale financial assets		**225,000**	–
Current tax assets		**3,547**	6,502
Pledged bank deposits		**–**	6,328
Bank and cash balances		**33,517**	97,153
		615,305	478,062
Current liabilities			
Trade payables	*13*	**148,750**	162,085
Other payables, deposits received and accrued charges		**97,502**	122,806
Amounts due to related companies		**316**	3,379
Bank borrowings		**157,688**	149,440
Trade finance loans		**35,259**	24,269
Finance lease payables		**1,853**	2,103
Current tax liabilities		**8,679**	10,033
		450,047	474,115
Net current assets		**165,258**	3,947
Total assets less current liabilities		**1,222,518**	1,493,687

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
At 31 December 2016

	Note	**2016** *HK$'000*	2015 *HK$'000*
Non-current liabilities			
Other payables and deposits received		**16,335**	23,751
Loan from a related company		**138,000**	138,000
Bank borrowings		**205,431**	243,087
Finance lease payables		**2,778**	4,631
Deferred tax liabilities		**2,802**	1,535
Long service payment liabilities		**3,604**	4,655
		368,950	415,659
NET ASSETS		**853,568**	1,078,028
Capital and reserves			
Share capital		**34,126**	34,126
Reserves		**819,442**	1,043,902
TOTAL EQUITY		**853,568**	1,078,028

Notes:

1. BASIS OF PREPARATION

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

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

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

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2016. Of these, the following new or revised HKFRSs are relevant to the Group:

Amendment to HKAS 19 Employee Benefits (Annual Improvements to HKFRSs 2012-2014 Cycle)

The amendment clarifies that the depth of the market for high quality corporate bonds should be assessed at currency level, and not at the country level. This amendment is applied prospectively.

Amendments to HKAS 1 Presentation of Financial Statements: Disclosure Initiative

The amendments to HKAS 1 clarify, rather than significantly change, existing HKAS 1 requirements. The amendments clarify various presentation issues relating to:

- Assessment of materiality versus minimum disclosure requirements of a standard.
- Disaggregation of specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position. There is also new guidance on the use of subtotals.
- Confirmation that the notes do not need to be presented in a particular order.

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2016. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7 Statement of Cash Flows: Disclosure initiative	1 January 2017
Amendments to HKAS 12 Income Taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16 Leases	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course.

HKFRS 9 Financial Instruments

The standard replaces HKAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from HKAS 39 except that when the fair value option is applied changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless this creates an accounting mismatch.

HKFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in HKAS 39. It is no longer necessary for a credit event or impairment trigger to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses.

The de-recognition requirements in HKAS 39 are carried forward largely unchanged.

HKFRS 9 substantially overhauls the hedge accounting requirements in HKAS 39 to align hedge accounting more closely with risk management and establish a more principle based approach.

The Group's financial assets that are currently classified as available-for-sale include certain listed equity securities. The Group expects to irrevocably designate these equity securities as fair value through other comprehensive income. This will give rise to a change in accounting policy. The listed equity securities are currently measured at fair value with fair value changes recognised in other comprehensive income until disposal or impairment at which point the fair value gains or losses are recycled to profit or loss. Under HKFRS 9 recycling of the fair value gains and losses is not permitted.

The new expected credit loss impairment model in HKFRS 9 may result in the earlier recognition of impairment losses on the Group's trade receivables and other financial assets. The Group is unable to quantity the impact until a more detailed assessment is completed.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 replaces all existing revenue standards and interpretations.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer

2. Identify the performance obligations in the contract

3. Determine the transaction price

4. Allocate the transaction price to the performance obligations in the contract

5. Recognise revenue when or as the entity satisfies a performance obligation

The standard also includes comprehensive disclosure requirements relating to revenue.

The Group is currently assessing the impacts of adopting HKFRS 15 on the consolidated financial statements but is unable to estimate the impact of the new standard on the consolidated financial statements until a detailed analysis is completed.

HKFRS 16 Leases

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

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

The Group's future minimum lease payments under non-cancellable operating leases for its retail shops amounted to HK$551,200,000 as at 31 December 2016. The Group will need to perform a more detailed assessment in order to determine the new assets and liabilities arising from these operating leases commitments after taking into account the transition reliefs available in HKFRS 16 and the effects of discounting.

3. **TURNOVER**

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

	2016	2015
	HK$'000	*HK$'000*
Sales of merchandise	**1,993,983**	2,277,418
Commission income	**919**	9,388
	1,994,902	2,286,806

4. **OTHER INCOME**

	2016	2015
	HK$'000	*HK$'000*
Continuing operations		
Dividend income from listed equity investments	**3,580**	1,208
Interest income on bank deposits	**221**	1,410
Licence income	**4,972**	12,438
Rental income	**33,751**	40,223
Sundry income	**10,341**	13,735
	52,865	69,014

5. **SEGMENT INFORMATION**

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

Geographical information:

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

	Revenue		**Non-current assets**	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,783,633**	2,053,500	**768,406**	805,133
Macau	**197,816**	219,500	**1,524**	1,998
PRC except Hong Kong and Macau	**13,453**	13,806	**1,551**	2,715
Consolidated total	**1,994,902**	2,286,806	**771,481**	809,846

Revenue from major customers:

There was no single customer whose revenue amounted to 10% or more of the Group's revenue for the years ended 31 December 2015 and 2016.

6. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Continuing operations		
Interest expense on bank borrowings	**6,954**	7,068
Interest expense on loan from a related company	**4,140**	4,140
Finance leases charges	**217**	217
	11,311	11,425

7. INCOME TAX EXPENSE

Income tax relating to continuing operations has been recognised in profit or loss as following:

	2016	2015
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**179**	3,799
Under/(over)-provision in prior years	**1,432**	(618)
	1,611	3,181
Current tax – Overseas		
Provision for the year	**1,420**	1,960
Over-provision in prior years	**(1,849)**	(2,198)
	(429)	(238)
Deferred tax	**1,267**	3,080
	2,449	6,023

Hong Kong Profits Tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year ended 31 December 2016.

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

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

	2016 HK$'000	2015 HK$'000
(Loss)/profit before tax (from continuing operations)	**(89,179)**	39,298
Tax at the Hong Kong Profits Tax rate of 16.5%	**(14,715)**	6,484
Tax effect of income that is not taxable	**(567)**	(397)
Tax effect of expenses that are not deductible	**2,607**	1,857
Tax effect of utilisation of tax losses not previously recognised	**(209)**	(123)
Tax effect of unrecognised tax losses and temporary differences	**16,482**	2,291
Over-provision in prior years	**(417)**	(2,816)
Effect of different tax rates of subsidiaries	**(732)**	(1,273)
Income tax expense (relating to continuing operations)	**2,449**	6,023

8. (LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

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

	2016 HK$'000	2015 HK$'000
Auditors' remuneration		
Current	**1,070**	1,058
(Over)/under-provision in prior year	**(2)**	6
	1,068	1,064
Cost of inventories sold *(Note)*	**1,234,124**	1,331,801
Allowance for/(reversal of allowance for) slow-moving inventories *(Note)*	**3**	(23)
Depreciation	**45,513**	34,054
Write off of property, plant and equipment	**172**	362
Net exchange losses	**5,186**	2,851
Operating lease charge for land and buildings (included contingent rentals of HK$1,401,000 (2015: HK$833,000))	**454,512**	493,413
Staff costs, including directors' emoluments		
Wages and salaries	**233,452**	265,044
Share-based payments	**–**	4,164
Retirement benefits scheme contributions	**10,361**	12,132
Reversal of provision for unutilised annual leave	**(2,220)**	(140)
(Reversal of provision for)/provision for long service payments	**(328)**	70
	241,265	281,270

Note: Cost of inventories sold includes allowance for slow-moving inventories of HK$3,000 (2015: reversal of HK$23,000) which is included in the amount disclosed separately above.

9. DISCONTINUED OPERATIONS

On 20 August 2014, Bonjour Group Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Town Health International Medical Group Limited (the "Purchaser") for sale and purchase of 100% of the entire share capital of Bonjour Beauty International Limited and its subsidiaries (the "Disposal Group") at a consideration of HK$423,780,000 which will be satisfied by the allotment and issue of 365,327,586 consideration shares at an issue price of HK$1.16 per share by the Purchaser. The Disposal Group carried out all of the Group's beauty and health salons operations. The disposal was completed on 1 January 2015.

	2016	2015
	HK$'000	*HK$'000*
Profit for the year from discontinued operations:		
Gain on disposal of subsidiaries and profit for the year from discontinued operations (attributable to owners of the Company)	**–**	398,953
Cash flows from discontinued operations:		
Net cash outflows from investing activities	**–**	(30,515)

10. DIVIDENDS

	2016	2015
	HK$'000	*HK$'000*
Interim dividend paid of HK0.10 cent (2015: HK0.10 cent) per ordinary share	**3,413**	3,415
Nil of proposed final dividend (2015: HK0.10 cent per ordinary share)	**–**	3,413
	3,413	6,828

11. (LOSS)/EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted (loss)/earnings per share is based on the following:

	2016	2015
	HK$'000	*HK$'000*
(Loss)/earnings		
(Loss)/earnings for the purpose of calculating basic and diluted (loss)/earnings per share	**(91,628)**	432,228

Number of shares	**2016**	2015
Issued ordinary shares at 1 January	**3,412,566,000**	3,399,032,000
Effect of new shares issued upon exercise of share options	**–**	16,353,534
Effect of repurchase of shares	**–**	(2,568,476)
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	**3,412,566,000**	3,412,817,058
Effect of dilutive potential ordinary shares arising from share options outstanding	**52,464,620**	78,948,978
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	**3,465,030,620**	3,491,766,036

The effects of potential ordinary shares are anti-dilutive for the year ended 31 December 2016.

From continuing operations

The calculation of the basic and diluted (loss)/earnings per share from continuing operations is based on the following:

	2016	2015
	HK$'000	*HK$'000*
(Loss)/earnings for the purpose of calculating basic and diluted (loss)/earnings per share	**(91,628)**	432,228
Profit for the year from discontinued operations	**–**	(398,953)
(Loss)/earnings for the purpose of calculating basic and diluted (loss)/earnings per share from continuing operations	**(91,628)**	33,275

The weighted average numbers of ordinary shares used as denominators in calculating the basic and diluted (loss)/earnings per share are the same.

From discontinued operations

For the year ended 31 December 2015, basic earnings per share from the discontinued operations was HK11.7 cents per share and diluted earnings per share from the discontinued operations is HK11.4 cents per share, based on the profit for the year from discontinued operations attributable to the owners of the Company of approximately HK$398,953,000 for the year ended 31 December 2015 and the denominators used are the same as those detailed above for both basic and diluted earnings per share.

12. TRADE RECEIVABLES

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

	2016	2015
	HK$'000	*HK$'000*
Wholesales debtors		
0-30 days	**2,684**	3,242
31-60 days	**1,537**	2,791
61-90 days	**558**	1,726
91-120 days	**493**	2,433
Over 120 days	**3,539**	4,626
	8,811	14,818
Trade receivables under credit card sales and others		
0-30 days	**15,192**	11,590
31-60 days	**3,089**	4,374
61-90 days	**3,746**	4,993
91-120 days	**2,814**	4,151
Over 120 days	**4,826**	1,136
	29,667	26,244
Total	**38,478**	41,062

13. TRADE PAYABLES

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

	2016	2015
	HK$'000	*HK$'000*
0–30 days	**79,155**	86,026
31–60 days	**51,356**	52,116
61–90 days	**10,811**	16,807
91–120 days	**1,795**	2,742
Over 120 days	**5,633**	4,394
	148,750	162,085

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

The overall retail environment remained stagnant throughout 2016. The crux of the problems lies in the slowdown tourism and a subpar economy. Mainland tourist arrivals to Hong Kong registering an ongoing contraction continued to impose a significant impact. In addition to the fierce competition and cautious local consumer sentiment, all these undesirable factors suppressed the retail market performance.

According to the Hong Kong Retail Management Association ("HKMA"), Hong Kong's retail industry is now facing the "new normal" and recorded a double digit drop on retail sales value in 2016. Figures from the Census and Statistics Department also showed that the total value of retail sales fell 8.1% in 2016 to HK$436.6 billion compared to 2015.

Inbound tourism number started declining year-on-year since the visa restriction on Shenzhen permanent resident's one-visit-one week policy became effective. Throughout 2016, according to HKMA's statistics, 56.7 million people visited Hong Kong, down 4.6% from last year. We saw a gradual decline in tourists from mainland China. There were 3.5% and 8.7% drop in the number of overnight visitors and same-day visitors coming from mainland respectively. Fewer visitors from mainland China has particularly hit the domestic retail sector. With many mainland Chinese seeing Hong Kong as a place of political instability, the image of Hong Kong as a shopping paradise has diminished in recent years. In addition, various economic factors such as the stronger Hong Kong dollar in compare with Renmibi and cheaper beauty products in mainland China due to new lower tax policy continue to adversely affect mainland tourists' incentive to buy beauty products in Hong Kong.

Hong Kong is a place where brands often first introduce the latest innovative products as a testing ground for the Asian market. Apart from Western and Japanese brands, Korean brands are also becoming increasingly popular. The popularity of Korean culture increased with the "Korean wave" the Korean beauty industry has seen phenomenal growth. Premium beauty and personal care of Western and Japanese brands, on the contrary, have been facing a downturn due to the increasing popularity of Korean brands with support from local consumers.

The local retail industry continued to remain sluggish, shop rent, as a result, have entered a period of adjustment. This in turn reflected a gradual reduction in rental costs over the past two years, with a pressure-ease on operating performances. This also represented easier access to more popular locations, busier shopping centres or spacious stores, which brought in more customers with lower costs in base rents and promotions. Such advantage is necessary in increasing operating efficiency and maximising overall benefits for retailers in Hong Kong in the long run.

BUSINESS REVIEW

Retail Sales

During the Year, the Group's turnover amounted to HK$1,994.9 million, representing a decrease of 12.8% from HK$2,286.8 million of last corresponding year. The Group's gross profit margin dropped from 41.8% to 38.1%. Operating loss for the year amounting to HK$77.9 million while the operating profit of last year was HK$50.7 million (continuing operations). The Group rationalized its retail network from 47 as at 31 December 2015 to 42 as at 31 December 2016.

The Hong Kong and Macau retail sales recorded a year-on-year decrease for the second straight year. Same store sale recorded a decrease of 10.1% in Hong Kong and Macau as compared with the previous year. Despite the average sales value per transaction for mainland tourists up by 7%, the total number of mainland customers recorded a double digit drop in 2016. Just the drop in total number of customers contributed about 9% of the overall retail sales decline in the Year.

Korean beauty and skincare products continued to earn an enormous demand in Hong Kong's retail market. In light of this, the Group has formed designated procurement team to explore and procure the latest trend of Korean cosmetic and skincare products to fulfill our customers' diverse needs. During the Year, Bonjour continued to introduce a variety of mass Korean beauty products to keep the market competitive and to offset the negative impacts over the declining sales of Western and Japan premium brands. However, due to the decline of tourist arrival, the overall Korean products sales also recorded a decline. Overall gross profit margin of Korean beauty products also decreased when facing a more intense competition in the market over the Korean beauty products.

eCommerce

The Group has been mindful of the recent prosperity and popularity of online shopping and we understand that this is a fundamental challenge facing the industry itself. Through various online platforms, we increase the awareness of our Bonjour brand identity and deepen trust with customers. During the Year, the Group partnered with Tmall and WeChat, which are all popular online shopping platforms, to broaden our touch points of reaching our target consumers. Additionally, with the rapid rise of live-streaming and photo-sharing apps, video and photo content and Key Opinion Leaders (KOL) partnerships has taken up a significant role in the prospect of our marketing campaigns. Image-sharing on online platform has become a critical element for us to communicate with our target consumers. Regarding online-to-offline (O2O) development, the Group partnered with Alipay in two one-day events during this Year, namely "2016 Carnival All the Way" and "Double Eleven". Both events offered special discount to our customers who participated the events and have received eager response. In addition, the Group cooperated with China-post Cross-border eCommerce Limited (CPCBe) to launch the online cross-border shopping platform *www.bonjourO2O.com* (BonjourO2O). Through the direct delivery service of BonjourO2O, our customers can purchase overseas items that are not available in the Bonjour stores in mainland, such as personal care, nutrition and health care, maternal and child supplies. With the multiple discounted offers, the platform has been heartily welcomed by our customers.

The Group will continue to seek opportunities to cooperate with other sorts of online social media so as to enhance its brand image and exposure in Hong Kong and China. In 2016, the Group's online retail sales amounted to HK$40.1 million, which represented an increase of 7.4% from 2015.

Rental and Store Network

As at 31 December 2016, the Group had a presence in Hong Kong, Macau and Guangzhou with the overall store count of 42 (2015: 47). Retail store rent-to-turnover ratio was 20.5% (2015: 19.1%). During the Year, retail market sales saw a consecutive year to decline while we were still facing sky-high rental rates. Although rents have been adjusting over the past two years, the reduction has not been fully reflected in the income statements of the Group as we usually are locked into leases with a three-year term and we were able to renew about a third of the agreements each year. As such, the Group's retail sales deteriorated much faster than the rent adjustment for the past two years.

According to statistics from DTZ, the rental cost of the four core retail districts has decreased 13.2% to 14.1% year-on-year. The Group will put the downturn of the property market to good use and take advantage of higher bargaining power of store rent by carefully analysing the rental momentum and controlling overall rent expenditure when considering future relocation of new lease. We believe that stabilizing sales along with falling rents should help improve our profitability gradually.

Brand Management

With our effective branding strategies, the Group maintains a leading position in the beauty products and cosmetic industry. At the moment, the Group is the distributor of 180 internationally acclaimed cosmetic, skincare and health care products including Suisse Reborn, Yumei, WOWWOW and Dr. Schafter. During the Year, in order to drive in-store traffic to fulfil customers' changing appetite and maintain market competitiveness, the Group has evaluated and restructured the product portfolio. We intentionally adjusted the product mix by increasing the well-known international parallel import products and mid-to-lower-priced popular trendy products and relatively decreasing the higher-priced exclusive products offering. As a result, the Group's overall gross profit margin for the Year recorded to drop.

In building brand awareness, the Group, as usual, continued to invite a number of celebrities as our private brand ambassadors like Miss Ada Choi (Suisse Reborn), Miss Myolie Wu (Dr. Bauer), Miss Elanne Kwong (WOWWOW), Miss Elaine Yiu and Mr. Louis Cheung (Dr. Shafter) and Miss Tracy Chu (Yumei). All the ambassadors verily demonstrated their distinct charm and chic with Bonjour's prestigious products and provide credit, trustworthy promotion and visibility to our Bonjour brand.

Talents Training and Social Responsibility

Employee productivity has been a challenge to physical retail shop. It is becoming increasingly challenging as employees expand into broader roles and are expected to deliver across more capabilities than ever before. The Group succeeded to retain a balance between talents recruit and cost control in spite of the competitive environment in the industry. We have been offering all-round and advanced staff training as well as favorable package, such as communication courses, leadership seminars, training workshops, to our employees. Apart from product quality, services quality is our key to success. Therefore, the Group will continue to ensure an outstanding management system and a positive working environment in place. During the Year, the staff cost-to-turnover ratio was 12.1% (2015: 12.3%).

Outlook

Signs of Stabilising in Retail Industry

The Group believes that Hong Kong economic outlook in 2017 will remain challenging with strong local currency and anticipated interest rate rise. Yet, recent figures showed a gradual recovery. The outlook for local retail sector will depend on the performances of inbound tourism as well as local consumer sentiment. Tourists from mainland rose 8% month-on-month in January 2017 following a 6% growth in December, reversing the decline in 4% in November. The rebound in tourist number improved overall consumer sentiment and drove retail sales performances. Year-on-year decline in retail sales narrow, falling only 2.9% in October and December and 0.9% in January 2017, which marked the smallest drop since 2016. We believe that the retail industry may see a revival amidst the challenging economic outlook.

According to the HKMA, the local retail market condition is picking up in 2017. Sales figure is expected to fall, but the decline will be narrowed from 8% to 3%-4% compared with last year. Bonjour has entered into a period of market adjustment for the past three years, and is experienced in operating cost control and product adjustment. We will continue to seize opportunities to stabilise growth through careful strategic planning. The Group will stay prudent and be prepared through putting efforts in branding and products enrichment, and committed to serving its honourable customers to create long-term relationships.

Timely Product Portfolio Adjustment

In favour of boosting consumption and enhancing gross profits, the Group will continue to evaluate its product portfolio and make timely adjustment. Customers' preferences are constantly changing from time to time. Their consumption patterns, in recent years have changed from purchasing high-end and exclusive products to mid-to-lower-end products. To keep abreast of the top-selling items, the Group will carefully monitor the inventory and adjust accordingly. The Group will launch the trendy product mix and remove obsolete products from the supplier list. This will subsequently improve the inventory turnover day as well as meet market changes.

Effective Cost Control Against the Backdrop

In an effort to fend off external uncertainties, the Group will continue to uphold cost control tactics to cut down expenses and increase profits. Store rents, being one of the major cost elements of the Group, are further dragged down due to pressure on retail markets. Following the expiry of the fixed term on those relatively expensive stores, the adjustment in rental costs is expected to have a positive reflection on the Group's net margin in coming years. The savings from rental reductions will then be invested in staff training and products upgrading, which is beneficial to our overall financial position and long-term development. On the other hand, the Group has been considering a reorganisation of store network. Instead of solely focusing on particular areas, the Group will shift to a more diversified store expansion strategy. We will consider different districts especially where we have yet to establish branches before. Meanwhile, we will strictly and rigorously examine the rental level in prime locations. With effective control on operational costs, we will endeavour to working our best for profession in all aspects, especially on improving both hardwares and softwares of operations which in turn enhancing customers' shopping experience.

Exploring Opportunities

The loss recorded during the Year gave Bonjour and the management insight into how the existing focus on one single line of business in a relatively small area, i.e. Hong Kong and Macau, may need to change in the future. We identified certain recent challenges and threats that have been affecting our profitability like decrease in mainland visitors, changing of customers' preference from higher-priced (of higher-margin) products to lower-priced (of lower-margin) products and changing of traditional way of shopping from offline to online. The management will tend to spread the risk and diversity the business portfolio.

There is a tremendous potential for our brand to tap into the industry and reach more consumers through other various intelligent strategies and platforms. We are exploring some business partners in China through different innovative platforms or channels in order to promote our Brand "Bonjour". Other than consolidating our core business of retailing beauty and cosmetics products, the Group will also proactively seek the opportunities to further expand the business in other areas. So long as any business which would be beneficial to the Group's overall success and can contribute positive value to Shareholders, the broadminded management will consider through strategic merger, acquisition or investment. As such, the Group will have a stronger ability to withstand adversity under the seemingly strong headwinds.

Conclusion

Bonjour has a long track record of profitable success no matter under an upsurge economic environment or headwinds. In this year, we underwent a difficult year and growth saw a slowdown. The weaker performance of the year, however, has turned into a motive power, reminding us it is time to make a change - further differentiate ourselves in the market and be equipped ourselves confronting the headwinds. We continue to have faith that we can progressively improve our profitability by streamlining our operational processes and strategic efficiency. In coming year, we believe that economic environment will stay slow and competition will remain intense. To change challenges into opportunities, we will focus on developing and strengthening our online shopping platforms and O2O innovation, rapidly adapting our consumer's changing appetite, rationalizing our store network expansion plan, enhancing our culture of service excellence and exploring merger and acquisition opportunities to leveraging up our business against the market threat. Along with these effective initiatives, Bonjour will continue to strive for excellence as being the pioneer in the industry.

FINANCIAL REVIEW

Liquidity and Financial Resources

Liquidity and financial resources position remain healthy as the Group continues to adopt a prudent approach in managing its financial resources. As at 31 December 2016, the Group's cash and bank deposits amounted to HK$33.5 million (2015: HK$103.5 million). The Group's bank borrowings, loan from a related company and finance lease payables as at 31 December 2016 were HK$505.7 million (2015: HK$537.3 million), out of which HK$159.5 million (2015: HK$151.5 million) were repayable within the next 12 months.

As at 31 December 2016, the Group's gearing ratio was 0.592 (2015: 0.498), and was calculated based on the Group's bank and other borrowings and finance lease payables, divided by total equity of HK$853.6 million (2015: HK$1,078.0 million). Total liabilities to Shareholders' funds was 96.0% (2015: 82.5%). The current ratio of the Group was 1.37 in 2016 (2015: 1.01).

The Group services its debt primarily through the cash earned from its operation and the Board believes that the Group has maintained sufficient working capital for its operation and future expansion.

Cash Flow

Net cash outflow from operating activities was HK$40.4 million in 2016 (2015: inflow of HK$69.0 million). The loss before tax was HK$89.2 million. The total amount of non-cash items amounting to HK$45.4 million (mainly depreciation expense) and there was a net decrease in working capital of HK$6.8 million.

Net cash inflow from investing activities was HK$2.7 million in 2016 (2015: outflow of HK$80.0 million). The decrease was largely due to decrease in purchase of property, plant and equipment.

Net cash outflow from financing activities decreased by HK$57.4 million from HK$84.7 million in 2015 to HK$27.3 million in 2016. The cash outflow for the Year mainly represented dividends paid and repayment of bank borrowings.

Contingent Liabilities

	2016 *HK$'000*	2015 *HK$'000*
Guarantees given by banks for rental payment to landlords	**4,687**	4,687
Guarantees given for purchase to vendors	**100**	200
	4,787	4,887

Foreign Exchange and Bank Borrowing Interest Rate Exposures

The Group has limited exposure to foreign exchange fluctuations given that most of its assets, receipts and payments are principally denominated in Hong Kong dollars, Macau Pataca and Renminbi with a few denominated in United States dollars and Japanese Yen. The Group monitors its foreign exchange position and, if necessary, will hedge its foreign exchange exposure by forward foreign exchange contracts.

As at 31 December 2016, the Group had short-term bank borrowings amounting to HK$120.0 million (2015: HK$100.0 million) and long-term bank borrowings amounting to HK$243.1 million (2015: HK$292.5 million).

Capital Structure

The total number of issued and fully paid ordinary shares of the Company as at 31 December 2016 was 3,412,565,999 shares.

Charges on Group Assets

As at 31 December 2016, certain of the Group's assets with carrying amount of approximately HK$669.6 million (2015: HK$691.7 million) were pledged to secure banking facilities granted to the Group.

Material Acquisitions or Disposals of Subsidiaries and Associated Companies

There was no material acquisition or disposal of subsidiaries and associated companies during the Year.

Human Resources

The Group adheres to a strong belief that one of the most valuable assets of a corporation is its employees. During the Year, the Group provided a series of training courses to enhance the customer service skills of all our frontline staff by inviting professional consultants as lecturers to enrich the scope of this program.

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

As at 31 December 2016, the Group had approximately 990 (2015: 1,200) full-time and part-time employees in Hong Kong and Macau. For the Year, the total staff cost including directors' emoluments amounted to approximately HK$241.3 million.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DIVIDENDS

The Board does not recommend the payment of a final dividend (2015: HK0.10 cent) for the Year. Together with interim dividend paid of HK0.10 cent (2015: HK0.10 cent) per ordinary share, the total dividend for the Year amounted to HK0.10 cent (2015: HK0.20 cent) per ordinary share.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 May 2017 to 26 May 2017, both days inclusive, during the period no transfer of shares will be registered. The holders of shares whose names appear on the register of members of the Company on 26 May 2017 will be entitled to attend and vote at the AGM. In order to determine the entitlement to attend and vote at the forthcoming AGM, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on 19 May 2017.

CORPORATE GOVERNANCE

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

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. During the Year, Dr. Ip Chun Heng, Wilson is both the chairman and chief executive officer of the Company.

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

MODEL CODE

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

AUDIT COMMITTEE

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

APPRECIATION

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

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

Hong Kong, 24 March 2017

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