ERNEST
BOREL
1856

Ernest Borel Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1856

ANNUAL REPORT 2017

CONTENTS

CORPORATE INFORMATION

Ernest Borel Holdings Limited ((the "**Company**"), and together with its subsidiaries, the "**Group**")

DIRECTORS

Executive Directors

Mr. Sit Yau Chiu *(Chairman of the Board and Chief Executive Officer ("**CEO**"))*
Mr. Xiong Wei
Ms. Liu Libing *(retired on 26 May 2017)*

Non-executive Directors

Ms. Lou Liuqing
Mr. Pan Di *(resigned on 24 July 2017)*
Mr. Chan Kwan Pak Gilbert

Independent Non-executive Directors

Mr. Lui Wai Ming *(appointed on 27 October 2017)*
Mr. To Chun Kei
Ms. Chan Lai Wa *(appointed on 22 December 2017)*
Mr. Choi Tze Kit Sammy *(resigned on 1 August 2017)*
Mr. Lo Chi Chiu *(resigned on 22 December 2017)*

COMPANY SECRETARY

Mr. Lau Fan Yu

AUDIT COMMITTEE

Mr. Lui Wai Ming *(Chairman)*
(appointed on 27 October 2017 and appointed as the chairman on 22 December 2017)
Mr. To Chun Kei
Ms. Chan Lai Wa *(appointed on 22 December 2017)*
Mr. Choi Tze Kit Sammy *(resigned on 1 August 2017)*
Mr. Lo Chi Chiu *(resigned on 22 December 2017)*

REMUNERATION COMMITTEE

Mr. Lui Wai Ming *(Chairman)*
(appointed on 27 October 2017 and appointed as the chairman on 22 December 2017)
Mr. Sit Yau Chiu
Mr. Xiong Wei
Mr. To Chun Kei
Ms. Chan Lai Wa *(appointed on 22 December 2017)*
Mr. Choi Tze Kit Sammy *(resigned on 1 August 2017)*
Mr. Lo Chi Chiu *(resigned on 22 December 2017)*

NOMINATION COMMITTEE

Mr. Sit Yau Chiu *(Chairman)*
Mr. Xiong Wei
Mr. Lui Wai Ming *(appointed on 27 October 2017)*
Mr. To Chun Kei
Ms. Chan Lai Wa *(appointed on 22 December 2017)*
Mr. Choi Tze Kit Sammy *(resigned on 1 August 2017)*
Mr. Lo Chi Chiu *(resigned on 22 December 2017)*

EXECUTIVE COMMITTEE

Mr. Sit Yau Chiu
Mr. Xiong Wei

INVESTMENT COMMITTEE

Mr. Sit Yau Chiu
Mr. Xiong Wei

AUTHORISED REPRESENTATIVES

Mr. Sit Yau Chiu
Mr. Lau Fan Yu

COMPANY'S WEBSITE

www.ernestborel.ch

REGISTERED OFFICE

P.O. Box 10008, Willow House, Cricket Square
Grand Cayman KY1-1001
Cayman Islands

HEAD OFFICE IN SWITZERLAND

8, rue des Perrières
2340 Le Noirmont
Switzerland

OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Suite 701, Taikoo Hui Tower 1
385 Tianhe Road, Guangzhou 510620
People's Republic of China

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN HONG KONG

Unit 1612–18, Level 16, Tower 1
Grand Century Place
193 Prince Edward Road West
Mongkok, Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Tricor Services (Cayman Islands) Limited
P.O. Box 10008, Willow House, Cricket Square
Grand Cayman KY1-1001
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

INDEPENDENT AUDITOR

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
(appointed on 24 November 2017)

Deloitte Touche Tohmatsu
Certified Public Accountants
(resigned on 22 November 2017)

PRINCIPAL BANKER

Hang Seng Bank Limited

LEGAL ADVISERS

As to Hong Kong law
JunHe Law Offices

FINANCIAL HIGHLIGHTS

- Turnover for the financial year ended 31 December 2017 ("**FY2017**" or the "**Year**") decreased from HK$248.9 million to HK$227.2 million when compared with last year ("**FY2016**").
- Gross margin for FY2017 decreased from 38.9% to 21.2%. Gross profit for FY2017 decreased from HK$96.8 million to HK$48.1 million.
- Loss after tax for FY2017 was HK$197.3 million (FY2016: HK$145.0 million), mainly due to (i) increase in allowance for doubtful debts amounting to HK$18.8 million, (ii) occurrence of loss of inventory amounting to HK$18.8 million, (iii) increase in allowance for inventories from HK$7.8 million for FY2016 to HK$49.9 million for FY2017, (iv) increase in finance costs from HK$7.7 million for FY2016 to HK$27.7 million for FY2017, (v) decrease in revenue of approximately 8.7% from HK$248.9 million for FY2016 to HK$227.2 million for FY2017, and (vi) increase in income tax expense from HK$2.4 million for FY2016 to HK$14.1 million for FY2017.
- Loss per share was HK56.78 cents for FY2017 (FY2016: HK41.74 cents).
- The Board has resolved not to recommend any payment of a final dividend for FY2017 (FY2016: Nil).

Note: In the case of any inconsistency between the Chinese translation and the English text of this annual report, the English text shall prevail.

CHAIRMAN'S STATEMENT

Dear Shareholders:

On behalf of the board of directors (the "**Board**") of Ernest Borel Holdings Limited ("**Ernest Borel**", the "**Company**" or "**We**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2017.

The overall retail market was full of challenges and difficulties in 2017. Fortunately, the PRC government took a number of measures in the second half of 2017 to make the economy growing in an orderly manner, with the result that the premium watches retail market recover gradually as well. The Group still maintained a prudential and optimistic attitude even under such a difficult operating environment, we continue to expand new points of sale in second to fourth-tier cities in the PRC and aim to increase the sales volume on the E-commerce platform.

Simultaneously, the Group continues to enhance the attractiveness of the "Ernest Borel" brand by implementing effective marketing strategies and organizing various brand enhancement activities. In July 2017, the Group organized a grand new product collection launching event in Chengdu, PRC, where over 350 wholesalers participated and everyone is full of enthusiasm and happiness. We have invited our brand ambassadors, Ms. Kelly Chen and Mr. Raymond Lam to unveil the latest signature products and all the wholesalers' confidence and trust for our brand were increased successfully via the event.

Besides, the Group had developed three different advanced collections of watches, such as Braque automatic collection (布拉克自動系列), Retro automatic collection (復古自動系列) and Cosmic collection (星宇系列) during 2017. In the future, the Group will continue to strengthen its product design capabilities and develop different collections of couples watches with "romance and elegance" as the brand image, so as to meet the diverse preferences of our target mid-range-to-high end customers.

Looking forward to 2018, the Group will continue to ramp up brand promotion activities and maintain an open attitude towards profitable investment opportunities to bring our shareholders a sustainable return. Lastly, I sincerely thank all the Group's shareholders, business partners, customers, management and staff for your continuous support.

Mr. Sit Yau Chiu
Chairman
28 March 2018

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Sit Yau Chiu (薛由釗), aged 53, was appointed as an Executive Director on 17 August 2016 and appointed as Chairman of the Board, the chairman of Nomination Committee and a member of Remuneration Committee of the Company with effect from 4 October 2016. Mr. Sit was also appointed as a CEO of the Company with effect from 29 March 2017. Besides, Mr. Sit was appointed as a member of Executive Committee and Investment Committee of the Company on 29 March 2017. Mr. Sit has over 32 years of investment and business development experience in different industries such as trading and sale of internationally renowned brands (including the business of duty free shops), catering, information, real estate and chemical engineering industries. Mr. Sit is devoted to expanding the markets of international famous brands covering handbags, leather products and jewellery and he established Top Pride International Limited in Hong Kong in April 1997, Top Win International Trading Limited in June 2001, Ho Hon Brothers Holdings Limited in September 2002, Beijing Ho Hon Brothers Holdings Limited* (北京浩瀚兄弟集團有限公司) and Top One International Holdings Limited in September 2007. Mr. Sit is the chairman of Top One Global Holdings Limited, a substantial shareholder of the Company holding approximately 29.51% of the issued share capital of the Company since 18 June 2017.

Mr. Xiong Wei (熊威), aged 55, was appointed as an Executive Director and a member of each of the Remuneration Committee and Nomination Committee of the Company with effect from 4 October 2016. Besides, Mr. Xiong was appointed as a member of Executive Committee and Investment Committee of the Company on 29 March 2017. Mr. Xiong graduated from Shanxi University with a bachelor degree in Art in 1986, majoring in professional English. He worked in PICC Property and Casualty Company Limited from 1986 to 2001. He was the chairman and legal representative of Beijing Dongfang Yinfeng Property Development Limited* (北京東方銀豐房地產開發有限公司) from 2001 to 2006. Since 2004, he was and still is the chairman of Prime Route Investment Limited (安理投資有限公司), a substantial shareholder of the Company holding approximately 10.92% of the issued share capital of the Company since 3 October 2016.

NON-EXECUTIVE DIRECTORS

Mr. Chan Kwan Pak Gilbert (陳君珀), aged 40, was appointed as a Director on 19 June 2012 and re-designated as a non-executive Director on 24 June 2014. From November 2011 to May 2016, Mr. Chan was the director of Harvest Securities Ltd. In addition, Mr. Chan has been the director of GB Autos Ltd. since May 2006, the director of Golden Gate Group Int'l Ltd. since March 2010 and the director of Harvest Finance Ltd. since November 2011. Mr. Chan received his bachelor's degree of Engineering in Mechanical Engineering Technology from Kingston University, United Kingdom in July 2001.

Ms. Lou Liuqing (樓柳青), aged 61, was appointed as a Non-executive Director on 4 October 2016. Ms. Lou graduated from Shanghai Light Industry Bureau Workers' University* (上海市輕工業局職工大學) in 1989, majoring in industrial enterprise management. Ms. Lou has over 30 years of experience in the watches and clocks industry. Ms. Lou was a workshop director in the China Clocks Factory* ((中國鐘廠) from 1976 to 1986 and a sales manager of Shanghai Electronic Clocks Factory* (上海電鐘廠) from 1989 to 1996. Ms. Lou was a deputy factory manager of the Second Shanghai Electronic Clocks Factory* (上海電子鐘二廠) from 1996 to 2000. Since 2000, Ms. Lou was and still is a general manager of Shanghai Zhongyao Trading Company Limited* (上海中堯貿易有限公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lui Wai Ming (雷偉銘), aged 47, was appointed as an Independent Non-executive Director of the Company and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 27 October 2017. On 22 December 2017, Mr. Lui was appointed as the chairman of the Audit Committee and Remuneration Committee.

* *For identification purpose only*

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Lui holds an Executive Master Degree in Business Administration from Cheung Kong Graduate School of Business in the People's Republic of China. Mr. Lui is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. Mr. Lui has extensive experience in auditing, accounting, investment, financial and corporate management for over 20 years. Mr. Lui is currently an Independent Non-executive Director of TANSH Global Food Group Co., Ltd, a main board listed company in Hong Kong (stock code: 3666) and an Executive Director of Hosa International Limited, a main board listed company in Hong Kong (stock code: 2200). He was an Independent Non-executive Director of Trillion Grand Corporate Company Limited (formerly known as Tai Shing International (Holdings) Limited, a GEM board listed company in Hong Kong (stock code: 8103) from 22 May 2014 to 29 Jan 2016 and Golden Shield Holdings (Industrial) Limited, a main board listed company in Hong Kong (stock code: 2123) from 12 January 2015 to 11 May 2015, during the period he focused on investigation into the outstanding audit issues and the legal proceedings, and the company is currently under compulsory liquidation.

Mr. To Chun Kei (杜振基), aged 51, was appointed as an Independent Non-executive Director of the Company and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 4 October 2016. Mr. To graduated from the University of Western Sydney with a bachelor degree in Business Administration in 1999 and received a master degree in Professional Accounting from the Hong Kong Polytechnic University in 2009. Mr. To is also a member of the Hong Kong Institute of Certified Public Accountants. From 2004 to 2011, he was an Independent Non-executive Director , chairman of the audit committee and remuneration committee of China Development Bank International Investment Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 1062).

Ms. Chan Lai Wa (陳麗華), aged 53, was appointed as an Independent Non-executive Director of the Company and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 22 December 2017. Ms. Chan obtained an economic management professional qualification in the PRC in June 1998 and is currently the owner and director of an accounting and taxation consultancy firm in Hong Kong.

COMPANY SECRETARY

Mr. Lau Fan Yu (劉範儒), aged 50, is the Company Secretary and the Chief Financial Officer of the Company. Mr. Lau was admitted as a fellow of the Association of Chartered Certified Accountants in October 2004. He has also been a certified accountant of the Hong Kong Institute of Certified Public Accountants since January 2000. Mr. Lau has over 24 years of experience in the field of finance and accounting and is primarily responsible for management of the overall financial and accounting affairs of our Group since February 2012.

Mr. Lau received his bachelor's degree of commerce (major in finance) from Concordia University, Canada in May 1991. He further completed the master of business administration from City University of Hong Kong in November 2001.

CHANGE OF INFORMATION RELATING TO DIRECTORS

Changes in information relating to the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Details of change
Mr. Sit Yau Chiu	During the Year, Mr. Sit was appointed as a member of the Executive Committee and the Investment Committee of the Company. Mr. Sit has ceased to be the executive director of Infinity Financial Group (Holdings) Limited, a company listed on main board of the Stock Exchange (stock code: 1152).
Mr. Xiong Wei	During the Year, Mr. Xiong was appointed as a member of the Executive Committee and the Investment Committee of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning over 160 years. Throughout the course of its history and across its operations, the 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**", excluding the Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region ("**Macau**") and Taiwan), Hong Kong, Macau and Southeast Asia. As at 31 December 2017, the distribution network of the Group has a total of 847 points of sale ("**POS**").

Due to a decrease in orders placed by watch retailers and authorized distributors, Ernest Borel recorded a revenue of HK$227.2 million (2016: HK$248.9 million), representing a year-on-year decrease of approximately 8.7%, and gross profit and gross profit margins declined to HK$48.1 million (2016: HK$96.8 million) and 21.2% (2016: 38.9%), respectively. Consequently, loss attributable to equity holders amounted to HK$197.3 million (2016: HK$145.0 million) in FY2017.

The PRC Market

The PRC remains the core market of the Group. As at 31 December 2017, the Group had 683 POS in the country. Revenue from the PRC segment increased slightly from HK$193.1 million for FY2016 to HK$193.4 million for FY2017, accounting for approximately 85.1% (2016: 77.6%) of total revenue.

Hong Kong, Macau and Southeast Asia Markets

As at 31 December 2017, the Group had 139 POS in Hong Kong, Macau and Southeast Asia markets. Sales in these markets decreased by approximately 41.4% from HK$49.0 million for FY2016 to HK$28.7 million for FY2017, accounting for approximately 12.6% (2016: 19.7%) of total revenue.

FINANCIAL REVIEW

Revenue and segment information

Our revenue decreased by HK$21.7 million, or approximately 8.7% from HK$248.9 million for FY2016 to HK$227.2 million for FY2017. The decrease in revenue of mechanical watches was mainly due to deterioration of the premium watch retail market in Hong Kong, Macau and Southeast Asia as compared to FY2016 leading to a decrease in orders placed by watch retailers.

Performance by major products

	2017	2016	Changes	
	HK$'000	HK$'000	HK$'000	%
Mechanical watches	**146,243**	172,271	(26,028)	(15.1)
Quartz watches	**76,153**	75,005	1,148	1.5
Total	**222,396**	247,276	(24,880)	(10.1)

Mechanical watches

Revenue from sales of mechanical watches decreased by approximately 15.1% from HK$172.3 million for FY2016 to HK$146.2 million for FY2017.

Quartz watches

Revenue from sales of quartz watches increased by approximately 1.5% from HK$75.0 million for FY2016 to HK$76.2 million for FY2017.

Performance by geographical locations

	2017	2016	Changes	
	HK$'000	HK$'000	HK$'000	%
PRC market	**193,401**	193,109	292	0.15
Hong Kong, Macau and Southeast Asia markets	**28,684**	48,971	(20,287)	(41.4)
Other markets mainly in United States and Europe	**5,120**	6,803	(1,683)	(24.7)
Total	**227,205**	248,883	(21,678)	(8.7)

The PRC market

The PRC continues to be our major market, representing approximately 85.1% of our revenue for FY2017. Sales in this region showed a slight increase of approximately 0.15% from HK$193.1 million for FY2016 to HK$193.4 million for FY2017.

Hong Kong, Macau and Southeast Asia markets

Hong Kong, Macau and Southeast Asia markets accounted for approximately 12.6% of our total revenue for FY2017. Sales in these markets decreased by approximately 41.4% from HK$49.0 million for FY2016 to HK$28.7 million for FY2017. The decrease was mainly attributable to the deterioration of the premium watch retail market.

Other markets

Revenue from other markets, namely markets in the United States and Europe recorded a decrease from HK$6.8 million FY2016 to HK$5.1 million for FY2017.

Cost of sales

Cost of sales increased by approximately 17.8% from approximately HK$152.1 million for FY2016 to approximately HK$179.1 million for FY2017. The increase was mainly attributable to the increase in allowance for inventories from HK$7.8 million for FY2016 to HK$49.8 million for FY2017.

Gross profit

Our gross profit decreased by HK$48.7 million or approximately 50.3% from HK$96.8 million for FY2016 to HK$48.1 million for FY2017, while the gross profit margin decreased to approximately 21.2% for FY2017 from approximately 38.9% for FY2016. The decrease in gross profit margin was primarily due to the increase in allowance for inventories from HK$7.8 million for FY2016 to HK$49.8 million for FY2017.

Other gains and losses

We recorded other losses of HK$25.8 million for FY2017 as compared to HK$14.4 million for FY2016. This was primarily due to the increase in allowance for doubtful debts amounting to HK$18.8 million, loss of inventory amounting to HK$18.8 million and provision for claims amounting to HK$4.3 million, which was partially offset by the foreign exchange gain of HK$16.1 million mainly arising from appreciation of the RMB and CHF against the Hong Kong dollars.

Distribution costs

Our selling and distribution costs decreased by HK$41.1 million or approximately 25.9% from HK$158.7 million for FY2016 to HK$117.6 million for FY2017, representing approximately 51.8% of our total revenue for 2017 (2016: approximately 63.8%). The decrease was primarily attributable to (i) the decrease in advertising and marketing expenses from HK$57.1 million for FY2016 to HK$36.6 million for FY2017 as we reduced the scale of our marketing and advertising activities, (ii) the decrease in commission to retailer expenses from HK$9.3 million for FY2016 to HK$4.0 million for FY2017, (iii) the decrease in depreciation for display counters from HK$37.9 million for FY2016 to HK$30.3 million for FY2017, (iv) the decrease in salaries and other benefits from HK$24.8 million for FY2016 to HK$19.9 million for FY2017, and (v) the decrease in shop expenses from HK$15.3 million for FY2016 to HK$11.3 million for FY2017.

Administrative expenses

Our administrative expenses increased to HK$61.1 million for FY2017 from HK$59.7 million for FY2016, representing an increase of HK$1.4 million or approximately 2.4%. The increase in administrative expenses was primarily due to an addition to the provision for legal fee of HK$4.0 million for FY2017, which was partially offset by the decrease in depreciation from HK$5.9 million for FY2016 to HK$4.2 million for FY2017.

Finance costs

Our finance costs increased by HK$20.0 million or approximately 260.4% from HK$7.7 million for FY2016 to HK$27.7 million for FY2017 as a result of the issuance of convertible bond and note payable for FY2017.

Taxation

Our income tax increased from HK$2.4 million for FY2016 to HK$14.1 million for FY2017, representing an increase of HK$11.7 million or approximately 481.1%. This increase was primarily attributable to the increase in deferred tax expense from HK$0.4 million for FY2016 to HK$15.8 million for FY2017.

Loss for the year attributable to owners of our Company

Our net loss for FY2017 increased from HK$145.0 million for FY2016 to HK$197.3 million for FY2017 and it was mainly due to the (i) increase in allowance for doubtful debts amounting to HK$18.8 million, (ii) occurrence of loss of inventory amounting to HK$18.8 million, (iii) increase in allowance for inventories from HK$7.8 million for FY2016 to HK$49.8 million for FY2017, (iv) increase in finance cost from HK$7.7 million for FY2016 to HK$27.7 million for FY2017, (v) decrease in revenue of approximately 8.7% from HK$248.9 million for FY2016 to HK$227.2 million for FY2017, and (vi) increase in income tax expense from HK$2.4 million for FY2016 to HK$14.1 million for FY2017.

Inventory

Inventory amounted to approximately HK$402.2 million as at 31 December 2017, representing a decrease of HK$98.4 million, or around 19.7%, from HK$500.6 million as at 31 December 2016. Such decrease in inventory was attributable to the increase in allowance for inventories amounting to HK$49.8 million for FY2017 and loss of inventory amounting to HK$18.8 million for FY2017.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK$71.1 million and approximately HK$81.6 million as at 31 December 2016 and 2017 respectively. Such increase in trade and other receivables was attributable to an increase in revenue in the second half of FY2017.

The Group's trade and other payables increased from approximately HK$46.8 million as at 31 December 2016 to approximately HK$39.2 million as at 31 December 2017 resulting primarily from the decrease in other payables due to the decrease in display counter expenses that we paid to display counter manufacturers.

Liquidity, financial resources and capital structure

As at 31 December 2017, we had non-pledged cash and bank balances of HK$56.2 million (2016: HK$18.3 million). Based on the borrowings of HK$241.6 million (2016: HK$137.2 million) and shareholders' equity of HK$317.6 million (2016: HK$493.1 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 76.1% (2016: approximately 27.8%).

As at 31 December 2017, part of our borrowing amounting to HK$90.0 million was repayable over one year and the remaining balance amounting to HK$151.6 million was repayable within one year.

Foreign exchange exposure

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

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

Charge on assets

Our outstanding bank borrowings were secured by:

(a) charges over our time deposits with a carrying amount of HK$1.0 million (2016: HK$1.0 million);

(b) charges over deposits placed for a life insurance policy with a carrying amount of HK$17.4 million (2016: HK$17.6 million); and

(c) charges over inventories with a carrying amount of HK$Nil (2016: HK$244.5 million).

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during FY2017.

Future plans for material investments and capital assets

Save as disclosed in this annual report, 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.

Contingent liabilities

As at the close of business on 31 December 2017, the Group had the following litigations:

(a) On 6 October 2017, there is a claim against Ernest Borel (Far East) Company Limited ("**EB Far East**"), a wholly-owned subsidiary of the Company, for RMB1,726,664.80 in relation to rentals in respect of a store operated by the landlord under an agreement dated 1 August 2012 and a co-operation agreement dated 21 July 2015 purportedly made between EB Far East and the landlord, plus interest accruing on the rentals claimed and other related costs. On 10 January 2018, EB Far East filed a counter-claim. The above litigation is still at the early stage and EB Far East will vigorously defend against the claim taken by the landlord. However, full provision for the rentals claimed has been made in the consolidated financial statements.

(b) On 20 October 2017, Guangzhou Tianhe Labour Tribunal* (廣州市天河區勞動人事爭議仲裁委員會) issued a judgment (the "**Judgment**") against Ernest Borel (Guangzhou) Trading Co., Ltd. ("**EB Guangzhou**"), an indirect wholly-owned subsidiary of the Company, for a claim of salaries and other benefits totaling RMB2,566,186.83 in favour of Ms. Liu Libing ("**Ms. Liu**"). Ms. Liu brought the claim in the capacity of an employee regarding her employment as the general manager of EB Guangzhou. Ms. Liu was also a director of the Company but retired on 26 May 2017. On 21 November 2017, EB Guangzhou instituted a legal action in Guangzhou Tianhe District Court* (廣州市天河區法院) to set aside the Judgment. On 24 November 2017, Ms. Liu further claimed RMB1,173,000 against EB Guangzhou. The directors of the Company believe that EB Guangzhou shall have valid grounds to defend all the claims taken by Ms. Liu. The legal proceedings taken by EB Guangzhou in Guangzhou Tianhe District Court are still at early stage. However, full provision for the claim has been made in the consolidated financial statements.

(c) On 12 June 2017, Mr. Su Da, a former employee of the Company instigated a legal action against the Company for claim of salaries and other benefits in arrears in the capacity of an employee regarding his employment as the chief executive officer of the Company. The Company disputed the claim. No provision for the claim has been made in the consolidated financial statements and the Company does not expect to sustain material loss arising from the claim.

(d) On 20 July 2017, EB Guangzhou instituted a legal action against a distributor for the settlement of outstanding trade debts of RMB26,529,351.70 and related overdue interest. This distributor counterclaimed against EB Guangzhou for losses of RMB3,979,000 arising from termination of the distributorship agreement. Management of the Group is of the opinion that EB Guangzhou shall have valid grounds to defend and set aside the counterclaim taken by this distributor. Accordingly, no provision for the counterclaim is considered necessary.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital, term loans and overdrafts, debt securities, hire purchase commitment, liabilities under acceptances (other than normal trade bills) or acceptance credits, borrowings or indebtedness in the nature of borrowings or any guarantees or other material contingent liabilities as at the close of business on 31 December 2017. (2016: Nil).

Employees and remuneration policies

As at 31 December 2017, the Group had a total of 273 full-time employees, representing the same as compared to 273 employees as at 31 December 2016. Total staff costs for FY2017 decreased to approximately HK$59.4 million from approximately HK$70.5 million for FY2016, mainly due to the decrease in salaries and other benefits from HK$60.5 million in FY2016 to HK$51.0 million in FY2017.

* *For identification purpose only*

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 pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") and a share option scheme (the "**Share Option Scheme**") on 24 June 2014 for the purpose of providing incentives and rewards to eligible directors and employees of the Group, which became effective on the Listing Date. No option has been granted under the Share Option Scheme during FY2017.

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

As at 31 December 2017, there were capital commitments in the amount of HK$1.1 million which represented the balance payment in relation to the acquisition of a parcel of land in Switzerland for our new production facility (2016: HK$1.0 million), and amount of HK$25.0 million which represented the balance payment in relation to proposed acquisition of a subsidiary.

PROSPECTS

As the Group expected, 2017 was a year full of challenges for the overall retail market and the premium watch market segment. Nevertheless, the PRC government has been actively launching structural reforms to facilitate economic development in an orderly manner. Consequently, the premium watch market segment recovers slowly as a whole.

Looking ahead to 2018, the Group is still prudently optimistic and will continue to develop new POS in the PRC, Europe and Asia. Apart from expanding our retail networks, the Group aims to enhance the attractiveness of "Ernest Borel" brand by implementing effective market strategies and organizing various brand enhancement activities, such as launch events of new collections of watches. We can invite our VIP guests and watch distributors to join the said activities to bring the latest trends of the Group to their attention as well as to consolidate the valuable customer relationship. Moreover, the Group will make investments in enhancing brand image, engaging celebrities to endorse our products, organizing road shows in different regions, placing outdoor advertising (billboards) and digital advertising.

In addition, the Group will continue to strengthen product design capabilities and develop different collections of couple watches with "romance and elegance" as the brand image, so as to meet the diverse preferences of our target mid-range-to-high end customers. Depending on the technological advancements and new online customer behaviors, the Group recorded a sustainable growth in sales of e-commerce business during the past year. Therefore, we will allocate more resources to develop tailor-made products for selling on our existing e-commerce platforms.

Moreover, the Group will closely monitor the operational costs and implement the effective resources utilization plan in "Swiss-made" watches industry. Besides, the Group had formed an Executive Committee and Investment Committee during the year for exploring other business and investment opportunities to widen the source of income and return. Lastly, the Group will aim to deliver satisfactory growth and sustainable returns to our shareholders proactively.

CORPORATE GOVERNANCE REPORT

Good corporate governance is conducive to enhancing overall performance and accountability and is essential in modern corporate administration. During the year ended 31 December 2017 (the "**Year**"), the Company has adopted, for corporate governance purposes, the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The board of directors of the Company (the "**Directors**" and the "**Board**") will continue to observe the principles of good corporate governance in the interests of shareholders of the Company (the "**Shareholders**") and devote considerable effort to identifying and formalizing best practice.

Code provision A.6.7 of the Corporate Governance Code provides that Independent Non-executive Directors and other Non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Pan Di and Ms. Lou Liuqing, the Non-executive Directors were unable to attend the Company's annual general meeting held on 26 May 2017 due to other business engagements.

According to Rule 3.10(1) of the Listing Rules, the Board is required to have at least three Independent Non-executive Directors. Furthermore, Rule 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of Corporate Governance Code state that the Audit Committee must comprise a minimum of three members and the Remuneration Committee and the Nomination Committee must comprise a majority of Independent Non-executive Directors. Following the resignation of Mr. Choi Tze Kit Sammy as the Independent Non-executive Director and ceased to be the member of the Audit Committee, the Remuneration Committee and the Nomination Committee with effect from 1 August 2017, the Board has two Independent Non-executive Directors. The Audit Committee comprises only two members and both of the Remuneration Committee and the Nomination Committee comprises two Executive Directors and two Independent Non-executive Directors. These were in deviation from Rules 3.10(1), 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of Corporate Governance Code.

However, following the appointment of Mr. Lui Wai Ming as an Independent Non-executive Director with effect from 27 October 2017, the Company has three Independent Non-executive Directors; the Audit Committee comprises three members; and each of the Remuneration Committee and the Nomination Committee comprises a majority of Independent Non-executive Directors in compliance with the requirements under Rules 3.10(1), 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of Corporate Governance Code.

Save as disclosed in this report, the Board is of the view that the Company has complied with all code provisions as set out in the Corporate Governance Code for the Year.

BOARD OF DIRECTORS

Responsibilities of the Board

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems. The Directors have to make decisions objectively in the interests of the Group.

Board Composition

During the year and the period thereafter up to date of this annual report, the Board comprised two Executive Directors, two Non-executive Directors (the "**NEDs**") and three Independent Non-executive Directors (the "**INEDs**"):

Executive Directors

Mr. Sit Yau Chiu *(Chairman of the Board and CEO)*
Mr. Xiong Wei
Ms. Liu Libing *(retired on 26 May 2017)*

NEDs

Ms. Lou Liuqing
Mr. Pan Di *(resigned on 24 July 2017)*
Mr. Chan Kwan Pak Gilbert

INEDs

Mr. Lui Wai Ming *(appointed on 27 October 2017)*
Mr. To Chun Kei
Ms. Chan Lai Wa *(appointed on 22 December 2017)*
Mr. Choi Tze Kit Sammy *(resigned on 1 August 2017)*
Mr. Lo Chi Chiu *(resigned on 22 December 2017)*

The Board is well-balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The Executive Directors, the NEDs and the INEDs bring a variety of experience and expertise to the Company. The biographical information of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. To the best knowledge of the Company and save as disclosed, there is no financial, business or family relationship among the members of the Board.

Board meetings have been held from time to time to discuss the business strategies of the Group; monitor financial and operational performance; approve the annual and interim results of the Group; and discuss the corporate governance functions of the Board.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Company has arranged for appropriate and sufficient insurance coverage on Director's liabilities in respect of legal actions taken against the Directors arising out of corporate activities.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

The Directors have been informed of the requirement under code provision A.6.5 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the Directors received the following training by attending briefings, seminars, conferences or reading materials with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code on continuous professional development during the Year:

	Attending expert briefings/ seminars/ conferences relevant to the business, corporate governance or directors' duties
Executive Directors	
Mr. Sit Yau Chiu *(Chairman of the Board and CEO)*	✓
Mr. Xiong Wei	✓
Ms. Liu Libing *(retired on 26 May 2017)*	
NEDs	
Ms. Lou Liuqing	✓
Mr. Pan Di *(resigned on 24 July 2017)*	✓
Mr. Chan Kwan Pak Gilbert	✓
INEDs	
Mr. Lui Wai Ming *(appointed on 27 October 2017)*	✓
Mr. To Chun Kei	✓
Ms. Chan Lai Wa *(appointed on 22 December 2017)*	✓
Mr. Choi Tze Kit Sammy *(resigned on 1 August 2017)*	✓
Mr. Lo Chi Chiu *(resigned on 22 December 2017)*	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the Code provision A.2.1, the roles of the Chairman and CEO should be separate and should not be performed by the same individual as this ensures a better system of checks and balances and hence better corporate governance. Mr. Sit holds the positions of the Chairman and CEO, who is primarily responsible for the overall strategies, planning and business development of the Group. The Board considers that the current structure provides the Group with strong and consistent leadership and allows for efficient and effective business planning and execution. In addition, the three INEDs provide independent opinion on issues to be considered by the Board, the Board believes that the balance of power and authority is adequately ensured by the composition of existing Board.

INDEPENDENCE OF INEDS

The INEDs have played a significant role in the Board by bringing their independent judgment at the Board meetings and scrutinizing the Group's performance. Their views carry significant weight in the Board's decisions. In particular, they bring an impartial view to bear on issues of the Group's strategy, performance and control. All INEDs possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board. The INEDs provide independent advice on the Group's business strategy, results and management so that all interests of the Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

The Board has three INEDs with all of them, namely Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rules 3.10(1) and (2) and 3.10A of the Listing Rules.

The Company has received an annual written confirmation of independence from each of the existing INEDs in accordance with Rule 3.13 of the Listing Rules. Based on the content of such confirmations, the Company considers that all the existing INEDs are independent in accordance with the Listing Rules.

BOARD DIVERSITY POLICY

Pursuant to the Corporate Governance Code, the Board adopted a board diversity policy (the "**Board Diversity Policy**") in June 2014. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

MEETINGS

The Board meets regularly either in person or through electronic means of communication to discuss the overall strategy as well as the operation and financial performance of the Group. The number of the Board meetings and general meetings held and the attendance of each Director at these meetings for the Year have been set out as follows:

	No. of attendance/No. of meetings						
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	Investment Committee	General Meeting
Executive Directors							
Mr. Sit Yau Chiu	12/12	N/A	3/3	3/3	5/5	0/0	1/1
Mr. Xiong Wei	12/12	N/A	3/3	3/3	5/5	0/0	0/1
Ms. Liu Libing *(Note 1)*	2/12	N/A	N/A	N/A	N/A	N/A	0/1
Non-executive Directors							
Mr. Chan Kwan Pak Gilbert	6/12	N/A	N/A	N/A	N/A	N/A	1/1
Mr. Pan Di *(Note 2)*	2/12	N/A	N/A	N/A	N/A	N/A	0/1
Ms. Lou Liuqing	0/12	N/A	N/A	N/A	N/A	N/A	0/1
Independent Non-executive Directors							
Mr. Lui Wai Ming *(Note 3)*	2/12	2/4	1/3	1/3	N/A	N/A	N/A
Mr. To Chun Kei	7/12	4/4	3/3	3/3	N/A	N/A	1/1
Ms. Chan Lai Wa *(Note 4)*	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Choi Tze Kit Sammy *(Note 5)*	3/12	1/4	1/3	1/3	N/A	N/A	1/1
Mr. Lo Chi Chiu *(Note 6)*	6/12	3/4	2/3	2/3	N/A	N/A	1/1

Notes:

1. Retired as an Executive Director on 26 May 2017.

2. Resigned as a Non-executive Director on 24 July 2017.

3. Appointed as an Independent Non-executive Director on 27 October 2017 and appointed as the chairman of Audit Committee and Remuneration Committee as well as the member of Nomination Committee on 22 December 2017.

4. Appointed as an Independent Non-executive Director, the member of Audit Committee, Remuneration Committee and Nomination Committee on 22 December 2017.

5. Resigned as the Independent Non-executive Director, the member of Audit Committee, Remuneration Committee and Nomination Committee on 1 August 2017.

6. Resigned as the Independent Non-executive Director; the chairman of Audit Committee, Remuneration Committee and the member of Nomination Committee on 22 December 2017.

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all times and may seek independent professional advice at the Company's expense. Where queries are raised by the Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for Board meetings. Notices of at least 14 days of regular Board meetings are given to the Directors and Board procedures complied with the Articles of Association of the Company ("**Articles of Association**"), as well as relevant rules and regulations.

COMPANY SECRETARY

Mr. Lau Fan Yu is the Company Secretary of the Company (the "**Company Secretary**"). Details of his biography are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. Mr. Lau Fan Yu has been informed of the requirements under Rule 3.29 of the Listing Rules and he has confirmed that he had attained no less than 15 hours of relevant professional training during the Year.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the Executive Directors has entered into a service contract with the Company for a specific term of three years, which may be terminated by either party upon a three to six month prior written notice. The service contracts are automatically renewed upon expiration.

Each of our NEDs and INEDs has entered into an appointment letter with the Company for a term of three years. The appointment letters are automatically renewed upon expiration.

All the Directors, including the INEDs are subject to retirement by rotation and re-election at an annual general meeting of the Company (the "**AGM**") at least once every three years in accordance with the Articles of Association. The Articles of Association provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election.

BOARD COMMITTEES

The Board has established (i) the Audit Committee, (ii) the Remuneration Committee, (iii) the Nomination Committee, (iv) the Executive Committee; and (v) the Investment Committee with defined terms of reference. The terms of reference of the Board committees, which explain their respective roles and the authority delegated to them by the Board are available on the respective websites of the Company and the Stock Exchange. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

(i) Audit Committee

The Company established the Audit Committee pursuant to a resolution of the Directors passed on 24 June 2014 in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the Audit Committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. The Audit Committee currently consists of three members, namely Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa, all of whom are INEDs. Mr. Lui Wai Ming and Mr. To Chun Kei have appropriate professional qualifications and experience in accounting matters. Mr. Lui Wai Ming is the chairman of the Audit Committee. None of the members of the Audit Committee is a former partner of the existing external auditors of the Company.

During the Year, the Audit Committee held four meetings and mainly performed following duties:

- reviewed the Group's audited annual results for the year ended 31 December 2016 and unaudited interim results for the six months ended 30 June 2017, met with the external auditors to discuss annual results and internal control issues without the Company's management being present, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure had been made;

- reviewed the accounting principles and practices adopted by the Group;

- recommended the appointment of the external auditors;

- assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management; and

- considered the appointment of Crowe Horwath (HK) Limited ("**CHHK**") as auditor to fill the vacancy left by the resignation of Deloitte Touche Tohmatsu ("**Deloitte**") during the Year, and made recommendation to the Board.

There had been no disagreement between the Board and the Audit Committee during the Year.

(ii) Remuneration Committee

The Company established the Remuneration Committee on 24 June 2014 with written terms of reference. The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Company, review remuneration, and ensure none of the Directors determine their own remuneration. The Remuneration Committee currently consists of five members, namely Mr. Lui Wa Ming, Mr. To Chun Kei and Ms. Chan Lai Wa (all being INEDs) and Mr. Sit Yau Chiu and Mr. Xiong Wei (both of them are Executive Directors). Mr. Lui Wai Ming is the chairman of the Remuneration Committee.

During the Year, the Remuneration Committee held three meetings and mainly performed following duties:

- reviewed the Group's remuneration policy and the remuneration package of the Executive Directors and senior management for the Year; and

- considered and made recommendation to the Board on the remuneration packages for the directors newly appointed/re-designated during the Year.

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 11 to the consolidated financial statements.

(iii) Nomination Committee

The Company established the Nomination Committee on 24 June 2014 with written terms of reference. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for Directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. The Nomination Committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy so as to develop and review measurable objectives for implementing the Board Diversity Policy and to monitor the progress on achieving these objectives. The Nomination Committee currently consists of five members, namely Mr. Sit Yau Chiu and Mr. Xiong Wei (both of them are Executive Directors) and Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa (all being INEDs). Mr. Sit Yau Chiu is the chairman of the Nomination Committee.

During the Year, the Nomination Committee held three meetings and mainly performed the following duties:

- reviewed the annual confirmation of independence submitted by the INEDs and assessed their independence;
- reviewed the structure, size and composition of the Board during the Year; and
- considered and made recommendation to the Board on the changes in compositions of the Board and Board Committees during the Year.

(iv) Executive Committee

The Company established the Executive Committee on 29 March 2017 with written terms of reference. It is responsible for facilitating more efficient day-to-day operations of the Company, handling such matters as delegated by the Board from time to time and expediting the process of decision making from the Board of Directors on a timely fashion. Meetings of the Executive Committee shall be held at least once a year. The Executive Committee currently consists of two members, namely Mr. Sit Yau Chiu and Mr. Xiong Wei (both of them are Executive Directors).

During the Year, the Executive Committee held five meetings and performed the following duties:

- handled relevant matters that shall not be necessarily dealt with through regular Board meetings or too late to be dealt with through provisional Board meetings as considered by the chairman of the Board; and
- approved the scope of authority delegated to the senior management of the Company and its changes.

(v) Investment Committee

The Company established the Investment Committee on 29 March 2017 with written terms of reference. It is responsible for evaluating investment projects proposed by the Company and making recommendations to the Board on such investment projects. Meetings of the Investment Committee shall be held at least once a year. The Investment Committee currently consists of two members, namely Mr. Sit Yau Chiu and Mr. Xiong Wei (both of them are Executive Directors).

During the Year, no Investment Committee meeting was held.

CORPORATE GOVERNANCE FUNCTIONS

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with code provision D.3.1 of the Corporate Governance Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report. During the Year, the Board had (a) reviewed the Company's policies and practices on corporate governance; (b) reviewed the training and continuous professional development of the Directors; and (c) reviewed the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report.

CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the Year.

Pursuant to Rule 13.90 of the Listing Rules, the Company has posted its Memorandum and Articles of Association on the respective websites of the Stock Exchange and the Company.

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROLS

Financial reporting

The Board, supported by the Chief Financial Officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year, which shall give a true and fair view of the financial position, performance and cash flow of the Group for that year. The Directors acknowledge their responsibilities for preparing the financial statements of the Company. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of CHHK, the Company's external auditors in Hong Kong, on the financial statements are set out in the "Independent Auditors' Report" in this annual report.

Risk Management and Internal Controls

The Board is responsible for ensuring the reliability and effectiveness of the Group's risk management and internal control systems on, among other things, financial, operational and compliance controls. In order to safeguard the Group's assets and shareholders' investments, the Board and the Audit Committee have reviewed the effectiveness of the risk management and internal control systems on all major operations of the Group during the Year. The system of internal control of the Group is designed to manage rather than eliminate the risk of failure to achieve corporate objectives and provide reasonable but not absolute assurance against material misstatement or loss.

During the Year, the Group has also engaged an independent professional consultant to perform a risk assessment with the intention to identify, evaluate and prioritise the critical business risks of the Group. The Audit Committee and the Board have received an enterprise-wide risk assessment report and the internal audit report. In addition, the Audit Committee and the Board have also conducted review on the effectiveness of risk management and internal control systems.

During the Year, the Board considered that the Company's internal control and risk management systems are adequate and effective and the Company has complied with the Code provisions on internal control and risk management of the Corporate Governance Code.

The Company has taken appropriate measures to identify inside information and preserve its confidentiality until proper dissemination via the electronic publication system operated by the Stock Exchange.

INDEPENDENT AUDITOR

The Company has re-appointed Deloitte as the independent auditor in Hong Kong during the Year. However, on 22 November 2017, Deloitte resigned as the Company's independent auditor, and CHHK has been appointed as the new auditor of the Company with effect from 24 November 2017. The independent auditor refrained from engaging in non-audit services except for specific approved items, such as review of interim results of the Group. The Audit Committee reviews the independent auditor's statutory audit scope and non-audit services and approves its fees. For the Year, the total fee paid/payable in respect of audit and non-audit services provided by the Company's former and existing independent auditors are set out below:

	HK$'000
Audit services	1,010
Non-audit services	
Review of result announcement	20

There is no disagreement between the Board and the Audit Committee on the re-appointment of the independent auditor, and they both have agreed to recommend the re-appointment of CHHK as the Company's independent auditor for the ensuing year at the forthcoming AGM.

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors by the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the Year.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Board recognizes the importance of maintaining clear, timely and effective communication with Shareholders and investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the Shareholders receive accurate, clear, comprehensive and timely information of the Group by the publication of interim/annual reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.ernestborel.ch. The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. The Directors and the members of the various Board committees will attend and answer questions raised at the AGM. Separate resolutions will be proposed at the general meeting on each substantially separate issue.

The chairman of the general meetings of the Company will explain the procedures for conducting a poll before putting a resolution to vote. The results of the voting by poll will be published on the respective websites of the Stock Exchange and the Company.

SHAREHOLDERS' RIGHTS

Procedures by which Shareholders can convene an extraordinary general meeting (the "EGM") and put forward proposals at Shareholders' meetings

Pursuant to article 58 of the Articles of Association, any one or more Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary by mail at the Company's correspondence address in Hong Kong, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary by mail at the principal place of business and head office in Hong Kong at Unit 1612-18, Level 16, Tower 1, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong or by email to the Company Secretary at thomson@ernestborel.ch. Upon receipt of the enquiries, the Company Secretary will forward communications relating to (a) matters within the Board's purview to the Board and (b) ordinary business matters, such as suggestions, enquiries and consumer complaints to the Executive Directors.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This is the second environmental, social & governance ("**ESG**") report (the "**Report**") which covers the material ESG issues faced by Ernest Borel Holdings (hereinafter referred to as "**We**", "**Ernest Borel**", the "**Company**") and its subsidiaries (collectively the "**Group**"), and the Group's approaches in tackling these issues from 1 January 2017 to 31 December 2017.

This Report was prepared according to appendix 27 of the Rules Governing the Listing of Securities set out by the Hong Kong Exchanges and Clearing limited ("**HKEx**"). This is also the first year the Group has started disclosing information regarding Key Performance Indicators ("**KPIs**"), marking another important step in the Group's long term commitments and efforts towards our journey in pursuing sustainable business development.

MESSAGE FROM CHAIRMAN

A symbol for elegance and romance for over a century since its establishment in 1856, Ernest Borel has continued to produce premier timepieces for consumers worldwide. Carrying this history of artistry and excellence to the present, not only are we committed to upholding huge success of our predecessors in watch production, and their belief to produce outstanding timepieces, we are also determined to extend the practice of sustainability and integrity to our workplace and daily operation.

Nowadays, nobody would argue that corporate social responsibility ("**CSR**") has become an increasingly important topic for all companies and corporations, across all industries. In particular, effects of climate change were strongly felt with more frequent occurrences of extreme weathers. The call for better CSR performance from our operations from the society has become clearer and clearer. As part of the manufacturing and retail industry, we, at Ernest Borel, recognize our responsibilities in maintaining sustainability in our production and throughout our operations.

Therefore, we are pleased to present to you our second ESG Report of Ernest Borel. This report details our policies on environmental and social issues material to our business, as identified by our internal and external stakeholders. This is also the first time we disclose data on environmental performance indicators ("**KPI**"), marking another important step for tracking and disclosing our performance in management of our resources. As a responsible producer, we continue to emphasize the importance of product responsibility — how to ensure the quality of our products, and to protect the rights of our consumers. We have set up clear policies to monitor and control the quality of our products, as well as to protect the intellectual properties of the Group and others, so as to uphold excellence in our product quality.

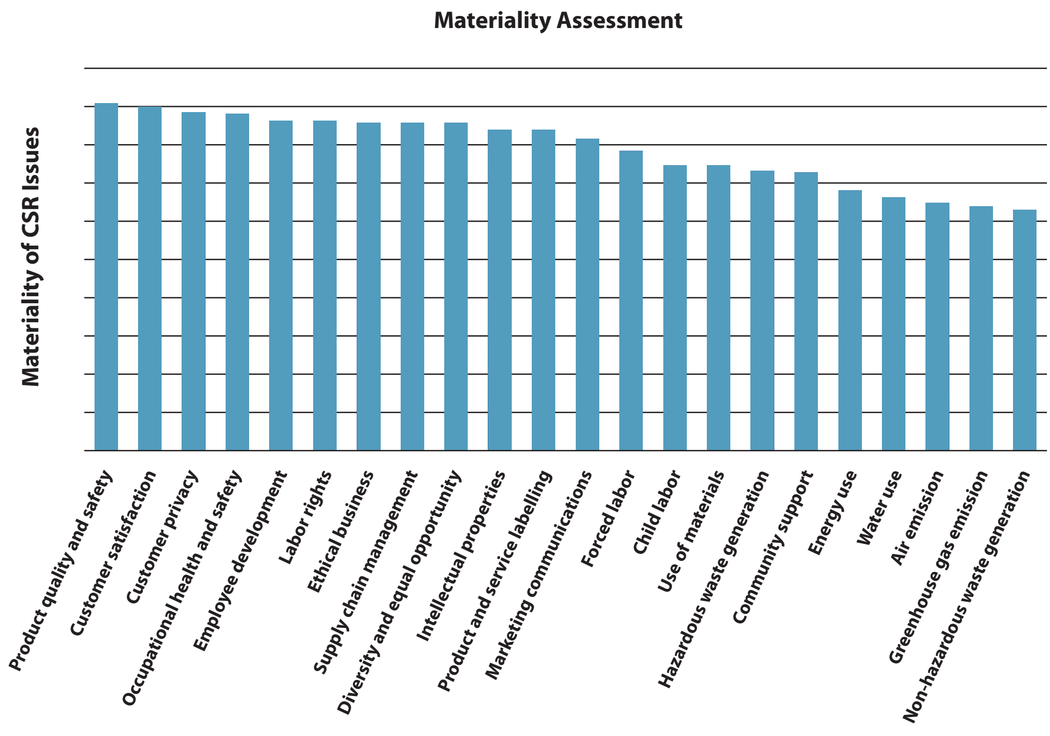
Apart from ensuring the quality of our products, we always treasure and wholly rely on the efforts from our employees in the operation of our business. Hence, as a responsible employer, we have clear policies and management system in place to make sure our employees are treated fairly and equally in the workplace, and that they have the opportunity to explore and develop their potentials. Through continuously providing training and development opportunities for our staff, we hope to create a workplace where our employees can continue to growth, and have the capacities to continue our pursue of creating outstanding quality timepieces.

This is the second ESG Report that we have worked on. While we are pleased with our accomplishments last year and this year in ESG, we recognize that there are still some aspects that we can work on and improve. Hence, we are committed to continuous improvements in our ESG performance and will keep on exploring ways to innovate and achieve more in these aspects.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

Striving to create long-term values for our stakeholders, we place great emphasis on engaging and communicating with both internal and external stakeholders. We are committed to maintaining an open and ongoing way of communication with our key stakeholders, including customers, employees, governmental bodies and non-governmental organizations.

We believe our stakeholders care about our performance on environmental and social issues as much as we do and thus we have conducted a materiality assessment by means of an online questionnaire via an independent third party in order to collect the opinions and concerns of stakeholders. The questionnaire consists of a set of rating questions that allows stakeholders to determine the materiality of 22 ESG issues relating to environmental protection, operating practices, employment practices and community support. The results, which are presented below, enable us to identify and prioritise the most material ESG issues that are important for the Group and incorporate in future strategic planning.



From the results, the top 5 material ESG issues identified are: (i) product quality and safety; (ii) customer satisfaction; (iii) customer privacy; (iv) occupational health and safety; and (v) employee development. With the results in mind, we are committed to addressing their concerns by paying careful attentions to their voices, incorporating them into our business decisions, and continuing to strive for excellence in our sustainability management. With reference to the concerns of our stakeholders expressed above, our efforts and performances during the reporting period are detailed in the later sections of this report.

PROTECTING OUR ENVIRONMENT

As a world-renowned Swiss watchmaker with main production operations in the Switzerland, we fully recognize that protecting the environment is our core responsibility as a corporate citizen. Even though the Group's business poses insignificant impact on the environment, we are fully committed to conservation of precious natural resources by minimizing our environmental impacts and carbon footprints as detailed in the coming sections. Looking forward, we will continue to work towards sustainability and look for opportunities to reduce our environmental impact.

Waste Management

At our workshop in Switzerland, our production mainly involves watch assembling and thus we do not generate hazardous waste during our operations. Notwithstanding, we strive to practise maximum recycling in our operations. For example, used watch batteries are recycled by a third-party recycling company in order to avoid releasing chemical substances to the landfill, which may pose threats to the environment. Moreover, all domestic wastes from the workshop, which are mainly composed of metals, are carefully collected and mostly recycled and where necessary, disposed of in full compliance with Swiss environmental laws and regulations. During the reporting period, no cases related to waste disposal in violation of laws and regulations were noted.

Resource Management

Recognizing the importance of conserving our resources, we strive to utilize resources in an efficient and responsible way. For instance, our Procurement Policy has strictly controlled our procurement and kept materials at an optimum level to avoid over-ordering and hence potential wastage. Besides, lighting for watch assembling at our workshops is operated at an optimal level of brightness for our workers, avoiding consuming excessive energy while striking a balance between environmental protection and workplace comfort.

To better understand our continuous performance in resource management, we have started to track our consumption pattern from this reporting year. The results are presented below. The main types of resources consumed by our Group are identified as electricity, vehicle fuel, stationary fuel, freshwater, paper, and packaging materials.

Type of Resources	Consumption	Unit
Electricity	266,049.13	kWh
Intensity	985.37	kWh per employee
Vehicle fuel	5,984.55	L
Intensity	22.17	L per employee
Stationary fuel	8,996.00	L
Intensity	33.32	L per employee
Water	175.96	m^3
Intensity	0.65	m^3 per employee
Paper	674.84	kg
Intensity	2.50	kg per employee
Carton box	2.99	tonnes
Plastic	0.17	tonnes
Other	64.66	tonnes
Total	67.82	tonnes
Intensity	0.25	tonnes per employee

Greenhouse Gas Emissions

In view of the challenges due to climate change, the Group is committed to paying efforts in reducing our carbon emissions in our daily operations. To understand the Group's environmental performance, we have conducted a carbon quantification on our energy and resource usage. The use of stationary fuel, vehicle fuel and electricity are identified as the major sources of the Group's greenhouse gas emissions. During the reporting period, the Group has emitted a total of 197.85 tCO2e of greenhouse gas, with an intensity of 0.73 tCO2e per employee.

Greenhouse Gas		**Emission**	**Unit**
Scope 1	Stationary fuel	26.59	tCO_2e
	Vehicle fuel	15.93	tCO_2e
Scope 2	Electricity	155.32	tCO_2e
Total		197.85	tCO_2e
Intensity		0.73	tCO_2e per employee

To respond to the quantification results, we will act accordingly by improving our environmental policies and will continue to explore opportunities to cut down our carbon footprints. During the period, no cases related to greenhouse gas emissions in violation of laws and regulations were noted.

Green Office

At our Hong Kong and China offices, we actively encourage and promote the idea of "green office" as we believe that it is the joint responsibility of all of us to conserve our valuable resources. Our green office policy covers various environmentally friendly actions such as implementing green procurement strategy; upgrading to energy-efficient LED lighting; reducing paper usage by default setting of double-sided printing; and purchasing recycled paper or paper accredited with sustainable forest standard. For instance, electrical appliances certified with energy efficient labels will be given priority in the procurement process.

PRODUCT RESPONSIBILITY

With the belief of creating the outstanding timepieces since the inception of the Company, we fully understand quality of our products is the key factor that attracts our customers. Therefore, to maintain and strive for a better quality, we fully understand we need to ensure the quality at every segment of our production cycle, from the initial procurement process to the final product finishing stage.

All of our watches are entitled to the branding of "Swiss-made" according to the corresponding Swiss Federal Law, i.e. the movement of our watches is Swiss-made, with the watches assembled and the final quality check conducted in Switzerland. Hence, all of our watches are required to be produced under strict production standards with the utmost care and diligence. Furthermore, each watchmaker is responsible for the full assembling of the entire watch, so as to avoid any issues that may arise from miscommunication among different parties.

According to our "Procurement and Investment Management Policy" which governs the procurement of materials and equipment for production works, if any parts or materials are discovered to be defective during the assembling process, our production staff will notify our logistics department immediately to return such materials to the suppliers.

Our "Production Policy" governs the quality of our products during their production. Apart from the standard quality check for each watch, upon completion of the production process, a final quality check will be carried out before the products are delivered to our consumers. This is to ensure that the products received by our customers are of the best quality.

Supply Chain Management

The making of our premium watches involves assembling of many highly specialized parts and materials from various suppliers during our production. To establish an efficient supply-chain, we have implemented a mature procurement process based on our "Procurement and Investment Management Policy", which has defined a clear set of criteria for selection and management of qualified suppliers.

Prices of products and materials are not the only factor that determines our selection of suppliers. We assess suppliers with an integrate approach, among which quality, undoubtedly, is one of the most important aspects that we consider. Thus, we always conduct quality check ("**QC**") on products provided by suppliers, record the results of the checks on our QC statistic database, and monitor their performances on a monthly basis. We also maintain close communication with our suppliers and provide our feedback for improvement, especially in case of more frequent defects discovered regarding the materials we received.

Intellectual Property

We recognize the values of intellectual property — as the creativity and innovation embedded in intellectual property worth far more than any physical assets. In fact, constant innovation and creation are very important to our success and competitiveness. As a world-class watchmaker, we fully understand the importance of intellectual property. In particular, when it comes to the designs and production of watches, we are fully committed to protecting and treasuring it. The designs of our timepieces, including their appearances, functions and the materials used for making them, are the key differences between a niche product and a mass product.

We have written in our Employee handbook the "Code of Conduct", in which contains our "Confidentiality Policy" on Company's property and information, and set out clear guidelines and requirements for our employees on the protection of data and intellectual property. Therefore, not only do we make sure our intellectual property is safe through internal security policy, but we also respect others' intellectual property by avoiding and prohibiting any illegal use of the intellectual property.

Advertising, Labelling and Data Privacy

We also understand that advertising, labelling and data privacy are important factors affecting consumers' experience. Hence, on top of complying with the Trade Descriptions Ordinance (chapter 362 of the Laws of Hong Kong) and other local laws and regulations on advertising in our operating locations, we have set up internal policy regarding advertisements to ensure that our advertisements do not contain misleading, offensive, or false information that may adversely affect consumers' behaviour.

In regard to data privacy, our Code of Conduct in our Employee Handbook sets out clear rules for controlling leakage of information, and we fully comply with the requirements in the Personal Data (Privacy) Ordinance (chapter 486 of the Laws of Hong Kong) by taking all necessary steps to ensure consumers' data and information is secure and properly used.

Maintaining High Product Quality

We believe that our responsibility extends beyond quality assurance. In particular, we also put emphasis on after-sales services, as we believe that maintenance of product quality is just as important as its initial production. All customers who purchased the Ernest Borel watches from our shops and distributors are guaranteed with maintenance and repair services within the warranty period at our customer service centres and stores located all over the world.

CARING EMPLOYER

Our employees are one of our most valuable assets and we are committed to creating values for our employees through ensuring a safe and fair workplace, as well as providing regular training and personal development opportunities. Hence, in addition to complying with all local laws and regulations on employment practices — including minimum wages, provision of statutory holidays and leaves, prohibition of child labour and forced labour practice, etc. We strive to do more to give back to our employees.

Employment Practices

We conduct all our human resources activities in accordance with Human Resources Management Policy Manual, in which details all the necessary steps and procedures for human resources matters. We offer competitive remuneration packages and provide benefits including medical insurance and year-end bonuses for our employees. On top of statutory leaves, employees are also given annual and special leaves, providing them with flexibility to strike a balance between work and life. Other special staff benefits include free company watches produced by the Company, and special staff discount for purchase of various company watches.

Equal Opportunity and Diversity

At Ernest Borel, we embrace diversity and believe that everyone should be treated fairly and equally, regardless of their genders, disability, race, family status, etc. We request our staff to strictly follow our Code of Conduct, and we do not tolerate any forms of harassments or discrimination. Besides, effective communication channels are provided for employees to express their opinions and report any related incidents at work. We treat each reported case seriously and will provide all necessary support and protection for employees.

Training and Continuous Development

In today's competitive market and increasingly volatile economy, continuous innovation and improvement are essential for companies to stay competitive and gain success in the market. We strongly believe that only the continuous growth and development of our employees, the Company can continue to growth and development too. Therefore, as part of our Human Resources Management Policy, we are committed to providing training and opportunities for our staff, so that they can grow with us.

On top of induction training provided to all new staff on company culture and brand value, according to our annual training plans, we also arrange diverse programs specifically targeting various issues and employees at different positions. For example, for managerial staff, to improve our daily operation, we have arranged corresponding training courses on management as solutions, including programs on leadership skills and communication. These programmes were offered to staff across different departments, to make sure employees from various parts of our operation can benefit equally from our development opportunities. We also encourage staff to receive external training programmes and offer subsidies to support their continual professional development.

Safe and Healthy Workplace

Since our production is mainly related to assembling of timepieces and does not involve the use of heavy machinery or hazardous chemicals, our working environment is relatively safe and correspondingly the occupational health and safety risks faced by our employees are low. Nevertheless, we always take all necessary precautions and measures to ensure the safety of our workplace. For example, at our production workshop in Switzerland, we have posted notices and reminders to raise employees' awareness of potential dangers. We have also issued safety instructions and posters on ergonomics, to remind our employees of the importance of correct postures while using computers and making watches.

Apart from potential safety issues at workplace, we recognize the possibility of hazards caused by external factors, including potential fire outbreaks at office buildings. Hence, to prepare and ensure that our staff is aware of the potential danger and familiar with the emergency plans, we also asked our employees to attend and participate in fire drill in their respective workplace. Through these measures, we hope to minimize the occupational safety and health risks faced by our employees. During the period, no cases related to occupational safety and health in violation of laws and regulations were noted.

Ethical Conduct

We do not tolerate any forms of bribery, forgery, or corruption at Ernest Borel. To eliminate such forms of illegal activities, we have established a Code of Conduct as part of the Employee Handbook for all employees. We prohibit abuse, forgery, or fraud, as well as corrupting activities, including acceptance of benefits from personnel of business relationship with the Group.

Extending this code of ethical conduct to external stakeholders, we also ask that our employees avoid conflicts of interest by constantly reviewing and making declarations where appropriate, especially for those purchasing staff that is responsible for making procurement decisions.

Our "Whistle-blower Policy" is implemented to encourage our staff to report potential infringements. The identity of the whistle blower is fully protected and remains confidential throughout the investigation. The Company is committed to handling any reported cases swiftly and fairly. During the period, no cases related to bribery, extortion, fraud and money laundering at Ernest Borel were noted.

Community

In order to understand the community's needs and how we can influence the community, we are developing our community investment policy, as well as setting up a plan to identify our focus areas in community investment. When preparing the policy, we have considered various factors that are related to our business model to make contribution to the society. In the future, we look forward to disclosing more about our community activities.

REPORT OF THE DIRECTORS

The Board of Directors of the Company (the "**Board**") are pleased to present the annual report together with the audited consolidated financial statements of the Group for the Year.

BUSINESS REVIEW

A review on the business of the Group during the Year and a discussion on the Group's future business development are set out in the Chairman's Statement and Management Discussion and Analysis on page 4 and pages 7 to 12 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group. Major risks are summarized below.

(i) Macroeconomic environment

Macroeconomic changes may affect consumers' behavior. Watches products are considered as discretionary items for customers. Slower consumer spending momentum may reduce the demand for our products, leading to lower revenue and margins. It is therefore important that the Group is aware of any such changes in the economic environment and adjusts its production volume and business plan under different market conditions.

(ii) Foreign exchange risk

Most of our expenses and costs are denominated in Swiss Franc ("**CHF**") and Hong Kong dollars, while approximately 85.1% and 12.6% of our revenue was denominated in Renminbi ("**RMB**") and Hong Kong dollars during the year ended 31 December 2017, respectively. Any significant fluctuations in the exchange rates between CHF and Hong Kong dollars or RMB may materially and adversely affect our results of operations. Any future exchange rate volatility relating to CHF may give rise to uncertainties in the value of net assets, net profit margin and dividends. For the year ended 31 December 2017, the net foreign exchange gain amounted to HK$16.1 million (2016: loss HK$10.1 million)

To reduce our exposure to foreign exchange fluctuations of CHF against Hong Kong dollars, our functional currency, we entered into certain foreign-exchange contracts to buy CHF and sell Hong Kong dollars at specified exchange rates on specified future dates. We recognised fair value gains on derivative financial instruments of HK$Nil million as at 31 December 2017 (2016: HK$0.3 million). We cannot assure such transactions will be risk-free, and any loss resulting from such transactions may materially and adversely affect our financial condition and results of operations. Although we have entered into certain foreign currency forward contracts to hedge against part of our exposure to foreign currency risk, we cannot predict the impact of future exchange rate fluctuations on our results of operations nor is there any assurance that we shall not incur any net foreign currency losses in the future.

KEY RELATIONSHIPS

(i) Employees

Employees are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

The Group provides on-the-job training and development opportunities to its employees. The training programs cover areas such as managerial skills, sales and production, quality control and training of other areas relevant to the industry.

In addition, the Group offers competitive remuneration packages to its employees. The Group has also adopted share option schemes to recognize and reward the contribution of the employees to the growth and development of the Group.

(ii) Suppliers

We have developed long-standing and good relationships with our vendors and taken great care to ensure that they can share our commitment to product quality. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

(iii) Retailers and distributors

We sell our products to end customers through third-party retailers and distributors. We work with retailers and distributors as business partners and ensure we share the view for upholding our brand value and customer services, specifically focusing on providing quality products to our customers. We and our retailers and distributors reach an agreement on sales target and store expansion plans before they place their orders. We also monitor the financial condition and repayment history of our retailers and distributors.

PERMITTED INDEMNITIES

Pursuant to the Articles of Association, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty. In addition, the Company has arranged for appropriate and sufficient insurance coverage on Directors' liabilities in respect of legal actions taken against the Directors arising out of corporate activities.

ENVIRONMENTAL POLICIES

We are committed to being an environmentally-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycling of office supplies and other materials. Details of environmental policies are set out in the section headed "Environmental, Social and Governance Report" of this annual report.

INCORPORATION AND PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands by registration as a non-resident company on 18 January 1991 and re-registered as an exempted company with limited liability on 14 April 2014. Its principal place of business in Hong Kong is located at Unit 1612–18, Level 16, Tower 1, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

The Company acts as an investment company. The principal activities of the Company's subsidiaries are designing, manufacturing, marketing and selling of Swiss-made mechanical and quartz premium watches for men and women.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2017 are set out in note 38 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the aggregate sales to the Group's largest and five largest customers accounted for 6.3% (2016: 10.3%) and 25.1% (2016: 34.8%), respectively, of the Group's total revenue for the Year.

The aggregate purchases from the Group's largest and five largest suppliers accounted for 22.4% (2016: 45.7%) and 62.1% (2016: 78.5%), respectively, of the Group's total purchases for the Year.

At no time during the Year, did a Director, his/her close associate(s) or a shareholder of the Company (who or which, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers and suppliers.

FINANCIAL STATEMENTS

The loss of the Group for the Year and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 49 to 51 of this annual report.

A discussion and analysis of the Group's performance during the Year and the material factors underlying its results and financial position are set out in the Management Discussion and Analysis on pages 7 to 12 of this annual report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group as at 31 December 2017 and for the past four financial years are set out on page 112 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group for the Year are set out in note 14 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Company and the Group are set out on page 52 of the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2017, the Company's reserves available for distribution to the Shareholders amounted to HK$169,276,000 (2016: HK$211,182,000).

Under the Companies Law of the Cayman Islands, the share premium account of the Company in the amount of HK$182,099,000 (2016: HK$182,099,000) may be applied for payment of distributions or dividends to the Shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the Year (2016: Nil).

CHARITABLE DONATIONS

The Group did not make any charitable donation during the Year (2016: Nil).

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Company and its subsidiaries as at 31 December 2017 are set out in note 23 to the consolidated financial statements.

CONVERTIBLE BOND

Details of the convertible bond of the Company and its subsidiaries as at 31 December 2017 are set out in note 25 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 28 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares being held by the public as required under the Listing Rules throughout the Year and at any time up to the date of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the Companies Law of the Cayman Islands where our Company is incorporated applicable to the Company.

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

During the year ended 31 December 2017, the Company did not redeem any of its shares listed and traded on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such shares.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities.

DIRECTORS

The following table sets forth the information concerning the Directors for the Year and up to the date of this report.

Name	Position
Mr. Sit Yau Chiu	Executive Director and Chairman of the Board and CEO
Mr. Xiong Wei	Executive Director
Ms. Liu Libing	Executive Director *(retired on 26 May 2017)*
Ms. Lou Liuqing	NED
Mr. Pan Di	NED *(resigned on 24 July 2017)*
Mr. Chan Kwan Pak Gilbert	NED
Mr. Lui Wai Ming	INED *(appointed on 27 October 2017)*
Mr. To Chun Kei	INED
Ms. Chan Lai Wa	INED *(appointed on 22 December 2017)*
Mr. Choi Tze Kit Sammy	INED *(resigned on 1 August 2017)*
Mr. Lo Chi Chiu	INED *(resigned on 22 December 2017)*

Pursuant to article 83(3) of the Articles of Association, Mr. Lui Wai Ming and Ms. Chan Lai Wa, who were appointed by the Board as an Independent Non-executive Director on 27 October 2017 and 22 December 2017, shall hold office until the AGM, being the first general meeting after these appointment, and shall retire and subject to re-election at the AGM.

Pursuant to article 84 of the Articles of Association, one-third of the Directors shall retire from office by rotation, and accordingly, Mr. Sit Yau Chiu and Mr. Xiong Wei shall retire from office by rotation at the AGM. Mr. Sit and Mr. Xiong, being eligible, will offer themselves for re-election at the AGM.

The Company has received from each of the INEDs an annual confirmation of their independence in writing pursuant to 3.13 of the Listing Rules and considers that all of the INEDs are independent of the Company.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 5 to 6 of this annual report.

SERVICE CONTRACTS OF DIRECTORS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years, which is subject to retirement by rotation and re-election in accordance with the Articles of Association, and may be terminated by either party upon prior written notice of three to six months. Each of the NEDs and the INEDs has entered into an appointment letter with the Company for a term of three years, which is subject to retirement by rotation and re-election in accordance with the Articles of Association, and may be terminated by either party upon a three-month prior written notice. The service contracts and appointment letters are automatically renewed upon expiration.

No Director proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the remuneration of the Directors and five individuals with the highest emoluments of the Company are set out in note 11 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the Year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2017, the interests or short positions of the Directors and the Chief Executive in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**") which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be recorded in the register referred to therein or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

Long Positions in the Company's Shares

Name of Directors/ Chief Executive	Capacity/ Nature of interest	Number of Shares held	Approximate Percentage of interest in the total issued Shares [(3)]
Mr. Sit Yau Chiu ("**Mr. Sit**")	Interest in controlled corporation [(1)]	102,520,000	29.51%
Mr. Xiong Wei ("**Mr. Xiong**")	Interest in controlled corporation [(2)]	37,935,000	10.92%

Notes:

(1) Top One Global Holdings Limited ("**Top One**") is a company wholly-owned and controlled by Mr. Sit. Mr. Sit is therefore deemed to be interested in the shares held by Top One.

(2) Prime Route Investment Limited ("**Prime Route**") is a company wholly-owned and controlled by Mr. Xiong. Mr. Xiong is therefore deemed to be interested in the shares held by Prime Route.

(3) Calculated based on the number of issued Shares as at 31 December 2017 (i.e. 347,437,000 shares).

Saved as disclosed above, as at 31 December 2017, none of the Directors and the Chief Executive of the Company and their respective associates had or was deemed to have any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any Director or Chief Executive of the Company, as at 31 December 2017, the persons or corporations (not being a Director or Chief Executive of the Company) who or which had an interest or short position in the Shares and underlying Shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Long Position in the Company's Shares

Name	Capacity/Nature of interest	Number of Shares held	Approximate Percentage of interest in the total issued Shares[4]
Top One [1]	Beneficial owner	102,520,000	29.51%
Sense Control International Limited ("**Sense Control**") [2]	Beneficial owner	99,755,000	28.71%
Mr. Lin Siyu ("**Mr. Lin**") [2]	Interest in controlled corporation	99,755,000	28.71%
Prime Route [3]	Beneficial owner	37,935,000	10.92%

Notes:

(1) Top One is a company wholly-owned and controlled by Mr. Sit. Mr. Sit is therefore deemed to be interested in the shares held by Top One.

(2) Sense Control is a company wholly-owned and controlled by Mr. Lin. Mr. Lin is therefore deemed to be interested in the shares held by Sense Control.

(3) Prime Route is a company wholly-owned and controlled by Mr. Xiong. Mr. Xiong is therefore deemed to be interested in the shares held by Prime Route.

(4) Calculated based on the number of issued shares as at 31 December 2017 (i.e. 347,437,000 shares).

Save as disclosed above, as at 31 December 2017, the Directors were not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

Long position in convertible bonds

Name of bondholder	Capacity	Description of equity derivatives	Number of underlying shares
Phoenix Green Limited [1]	Beneficial owner	2-year 10% convertible bond	50,000,000

Notes:

(1) Phoenix Green Limited ("Phoenix Green") is a company wholly-owned and controlled by Right Select International Limited ("Right Select"). Right Select is therefore deemed to be interested in the shares held by Phoenix Green. Right Select is a company wholly-owned and controlled by China Huarong International Holdings Limited ("Huarong International"). Huarong International is owned as to 88.1% and 11.9% by Huarong Real Estate Co., Ltd ("Huarong Real Estate") and Huarong Zhiyuan Investment & Management Co., Ltd, respectively, which are wholly-owned and controlled by China Huarong Asset Management Co., Ltd. ("Huarong Asset Management"). Each of Huarong Asset Management, Huarong Real Estate and Huarong International is therefore deemed to be interested in the shares held by Phoenix Green.

PRE-IPO SHARE OPTION SCHEME

The Pre-IPO Share Option Scheme was conditionally adopted by our Company on 24 June 2014 and became effective upon the Listing Date for the purpose of aiding us in recruiting and retaining key employees, directors or consultants of outstanding ability and to reward such employees, directors or consultants to exert their best efforts on behalf of the Company through the granting of options. The principal terms of the Pre-IPO Share Option Scheme were summarised in note 35 to the consolidated financial statements.

Details of the options granted under the Pre-IPO Share Option Scheme are as follows:

(a) there were tranche 1 and tranche 2 options to subscribe for an aggregate of 6,821,339 Shares, where were granted to the grantees on 24 June 2014 under the Pre-IPO Share Option Scheme;

(b) (i) 2,319,659 underlying Shares were comprised in the tranche 1 options with an exercise price of HK$2.40 per Share; and

(ii) the tranche 1 options were vested on 11 July 2014. Such options were lapsed on 11 July 2016, (collectively, the "**Tranche 1 Options**"); and

(c) (i) 4,501,680 underlying Shares were comprised in the tranche 2 options with an exercise price of HK$3.00 per Share; and

(ii) the tranche 2 options will be vested on 11 July 2015. Such options will be exercisable from 11 July 2015 to 11 July 2017, (collectively, the "**Tranche 2 Options**").

No further options will be granted under the Pre-IPO Share Option Scheme.

Details of the change of the Tranche 1 Options [2] and Tranche 2 Options [3] granted under the Pre-IPO Share Option Scheme as at 31 December 2017 are as follows:

Grantee	Tranche	Exercise price per Share	Balance as at 1 January 2017	Lapsed during the Year	Balance as at 31 December 2017
Director					
Ms. Liu Libing [1]	1	HK$2.40	–	–	–
	2	HK$3.00	396,397	(396,397)	–
Sub-total			396,397	(396,397)	–
Other employees	1	HK$2.40	–	–	–
	2	HK$3.00	2,738,079	(2,738,079)	–
Total			2,738,079	(2,738,079)	–

Notes:

1. Ms. Liu Libing retired as an Executive Director with effect from 26 May 2017.

2. Tranche 1 Options vested on 11 July 2014.

3. Tranche 2 Options vested on 11 July 2015.

No options were granted, exercised and cancelled for the Year under the Pre-IPO Share Option Scheme.

As at the date of this annual report, the Pre-IPO Share Option Scheme had been discontinued. Further details of the Pre-IPO Share Option Scheme are set out in note 35 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company conditionally adopted a Share Option Scheme on 24 June 2014, which was effective upon the Listing Date. The purpose of the Share Option Scheme is to help motivate eligible persons to optimize their future performance and efficiency to the Group and/or reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

Eligible persons include (a) any Executive Director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in, any member of the Group, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; (b) a director or proposed director (including an Independent Non-executive Director) of any member of the Group; (c) a direct or an indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and (g) an associate of any of the persons referred to in (a) to (c) above.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 34,700,000 Shares, representing approximately 9.99% of the issued share capital as at the date of this annual report.

No option may be granted to any participant of the Share Option Scheme such that the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.00 upon acceptance of the grant on or before the 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

An INED or a substantial shareholder (within the meaning of the Listing Rules) of the Company is subject to a much lower exercise price.

The Share Option Scheme shall be valid and effective for a period of 10 years from the adoption date, after which no further options will be granted or offered.

From the date on which the Share Option Scheme became effective and up to the date of this annual report, no share options were granted, exercised or cancelled or lapsed under the Share Option Scheme.

CONNECTED TRANSACTION

On 30 November 2017, Swissmount Holdings Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Mr. Sit, who is a director and a substantial shareholder of the Company and hence a connected person of the Company. Accordingly, the entering into of the Sale and Purchase Agreement and the transaction contemplated thereunder constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

Apart from the above, those other transactions as disclosed in "Related Party Transactions" under note 37 to the consolidated financial statements of the Group do not constitute connected transactions or continuing connected transactions (as defined in the Listing Rules).

Save for the aforesaid transaction, the Group has not entered into any connected transactions (within the meaning of the Listing Rules) during the Year.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the ordinary course of business by the Group during the Year are set out in note 37 to the consolidated financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2017 and up to and including the date of this annual report.

DIRECTORS' AND SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of the transactions during the year between the Group and connected persons in which a Director has beneficial interest are set out in the section headed "Connected Transaction" of this annual report and note 37 to the consolidated financial statements.

Save as disclosed above, no transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or any connected entity thereof had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the paragraphs headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" above, at no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

EMOLUMENT POLICY

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The Group has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraphs headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" above and note 35 to the consolidated financial statements.

None of the Directors waived any emoluments during the Year.

RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the municipal and provincial government authorities in the PRC for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund scheme for the employees in Hong Kong and contributes to a mandatory post-employment defined benefit plan ("**Defined benefit scheme**") for the employees in Switzerland. Particulars of these retirement plans are set out in note 22 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the "Pre-IPO Share Option Scheme" and "Share Option Scheme" described above, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2017.

COMPLIANCE WITH LAWS AND REGULATIONS

We have complied with all the relevant laws and regulations that have a material impact on the operations of the Group during the year ended 31 December 2017.

SIGNIFICANT LEGAL PROCEEDINGS

Apart from those disclosed in note 36 to the consolidated financial statements, the Group and the Company were not engaged in any other litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Group and the Company during the Year and at 31 December 2017.

CORPORATE GOVERNANCE REPORT

Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 13 to 23 of this annual report.

REVIEW BY AUDIT COMMITTEE

The Audit Committee comprises all the three INEDs, namely Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa with Mr. Lui Wai Ming serving as the chairman. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters including the review of the Group's consolidated annual results and annual report for the Year.

INDEPENDENT AUDITORS

Following the resignation of Deloitte as auditors of the Company on 22 November 2017, Crowe Horwath (HK) CPA Limited, ("**CHHK**") was appointed as new auditors of the Company with effect from 23 November 2017 to fill the casual vacancy, and to hold office until the conclusion of the next annual general meeting of the Company.

Save as disclosed above, there were no other changes in the auditors of the Company during the past three years.

The consolidated financial statements of the Group for year ended 31 December 2017 were audited by CHHK while the consolidated financial statements for the three preceding years ended 31 December 2014, 2015 and 2016 were audited by Deloitte.

CHHK will retire and will be eligible to offer themselves for re-appointment. A resolution for the re-appointment of CHHK as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

By order of the Board
Ernest Borel Holdings Limited
Sit Yau Chiu
Chairman and Executive Director

Hong Kong, 28 March 2018

INDEPENDENT AUDITOR'S REPORT

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F, Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

TO THE MEMBERS OF ERNEST BOREL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Ernest Borel Holdings Limited ("the **Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 49 to 111, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

Key audit matter

Valuation of inventories

At 31 December 2017, the carrying amount of inventories is HK$402,224,000 (net of write-down of inventories of HK$49,849,000) as disclosed in note 17 to the consolidated financial statements.

We identified the valuation of inventories as a key audit matter due to the significance of the inventories balance to the consolidated financial statements as a whole and the management judgement involved in the estimation of the allowance for inventories.

In determining the allowance for inventories, the management estimates the net realisable value of inventories with reference to the conditions and usefulness of the inventories, aging analysis, subsequent sales and usage of inventories and, latest selling prices and current market condition.

How our audit addressed the key audit matter

Our procedures in relation to valuation of inventories included:

- Obtaining an understanding of how allowance for inventories is estimated by the management;
- Assessing the reasonableness of the basis and input data used by the management in its estimation of the net realisable value of inventories with reference to the conditions and usefulness of inventories, aging analysis, sales and usage of inventories subsequent to the end of reporting period and latest selling prices;
- Testing the aging analysis of the inventories, on a sample basis, to the source documents including goods receipt notes, warehouse and production records;
- Tracing, on a sample basis, the latest selling price to relevant documents; and
- Evaluating the allowance estimated by the management by comparing historical allowance made to the actual loss incurred.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of trade receivables At 31 December 2017, the carrying amount of trade receivables is HK$72,403,000 (net of allowance for doubtful debts of HK$20,216,000) as set out in note 18 to the consolidated financial statements. We identified the valuation of trade receivables as a key audit matter due to the use of judgment and estimation by management in assessing the recoverability of trade receivables. In determining the allowance for doubtful debts, the management considers the credit history of the trade receivables including default or delay in payments, settlement records, subsequent settlements and aging analysis of trade receivables.	Our procedures in relation to the valuation of trade receivables included: • Obtaining an understanding of how allowance for doubtful debts is estimated by the management; • Testing the key controls of the Group relating to the preparation of aging analysis of trade receivables and the determination of credit limits, credit approval for customers and other monitoring procedures for recovering overdue debts; • Testing the aging analysis of trade receivables, on a sample basis, to the source documents including goods delivery notes and sales invoices; • Testing the settlements of trade receivables subsequent to the end of reporting period to related documents on a sampling basis; • Reviewing the sales returns from the customers occurred subsequent to the end of the reporting period; and • Assessing the reasonableness of allowance for doubtful debts made by the management with reference to the credit history of the trade receivables including default or delay in payments, settlement records, subsequent settlements, subsequent sales returns, and aging analysis of trade receivables.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

OTHER MATTER

The consolidated financial statements for the year ended 31 December 2016 were audited by another auditor who expressed an unqualified opinion on 29 March 2017.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2018

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017 HK$'000**	2016 HK$'000
Revenue	*5*	**227,205**	248,883
Cost of sales		**(179,099)**	(152,097)
Gross profit		**48,106**	96,786
Other gains and losses	*6*	**(25,789)**	(14,387)
Other income	*7*	**859**	1,081
Distribution expenses		**(117,587)**	(158,699)
Administrative expenses		**(61,122)**	(59,693)
Finance costs	*8*	**(27,651)**	(7,673)
Loss before tax	*9*	**(183,184)**	(142,585)
Income tax expense	*10*	**(14,099)**	(2,426)
Loss for the year attributable to owners of the Company		**(197,283)**	(145,011)
Other comprehensive income, net of tax			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit scheme		**396**	1,440
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**6,912**	(4,763)
Other comprehensive income/(expense) for the year		**7,308**	(3,323)
Total comprehensive expense for the year		**(189,975)**	(148,334)
LOSS PER SHARE	13		
— Basic (Hong Kong cents)		**(56.78)**	(41.74)
— Diluted (Hong Kong cents)		**(56.78)**	(41.74)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	**2017 HK$'000**	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**44,216**	70,964
Deposits placed for life insurance policies	*15*	**17,405**	17,579
Deposit paid for proposed acquisition of a subsidiary	*16*	**25,000**	–
Deferred tax assets	*27*	**–**	8,449
		86,621	96,992
CURRENT ASSETS			
Inventories	*17*	**402,224**	500,629
Trade and other receivables	*18*	**81,569**	71,143
Amount due from a related party	*19*	**–**	50
Tax recoverable		**–**	7,071
Pledged bank deposits	*20*	**1,026**	1,022
Bank balances and cash	*20*	**56,177**	18,272
		540,996	598,187
CURRENT LIABILITIES			
Trade and other payables	*21*	**39,241**	46,754
Tax payable		**2,333**	1,263
Bank and other borrowings	*23*	**11,591**	57,246
Notes payable	*24*	**140,000**	–
		193,165	105,263
NET CURRENT ASSETS		**347,831**	492,924
TOTAL ASSETS LESS CURRENT LIABILITIES		**434,452**	589,916

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**21,921**	12,102
Pension obligations	22	**4,973**	4,744
Note payable	24	**–**	80,000
Liability component of convertible bond	25	**89,972**	–
		116,866	96,846
NET ASSETS		**317,586**	493,070
CAPITAL AND RESERVES			
Share capital	28	**3,474**	3,474
Reserves		**314,112**	489,596
TOTAL EQUITY		**317,586**	493,070

The consolidated financial statements on pages 49 to 111 were approved by the Board of Directors on 28 March 2018 and are signed on its behalf by:

Sit Yau Chiu
DIRECTOR

Xiong Wei
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital HK$'000 (Note 28)	Share premium HK$'000	Other reserve HK$'000 (Note (i))	Share options reserve HK$'000	Convertible bond equity reserve HK$'000	Actuarial gain and loss reserve HK$'000	General reserve HK$'000 (Note ii)	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2016	3,474	182,099	15,500	4,750	–	(4,161)	1,547	(263)	438,458	641,404
Loss for the year	–	–	–	–	–	–	–	–	(145,011)	(145,011)
Other comprehensive income	–	–	–	–	–	1,440	–	(4,763)	–	(3,323)
Total comprehensive income	–	–	–	–	–	1,440	–	(4,763)	(145,011)	(148,334)
Lapse of share option	–	–	–	(2,299)	–	–	–	–	2,299	–
Balance at 31 December 2016 and 1 January 2017	**3,474**	**182,099**	**15,500**	**2,451**	**–**	**(2,721)**	**1,547**	**(5,026)**	**295,746**	**493,070**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(197,283)**	**(197,283)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**396**	**–**	**6,912**	**–**	**7,308**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**396**	**–**	**6,912**	**(197,283)**	**(189,975)**
Lapse of share option	**–**	**–**	**–**	**(2,451)**	**–**	**–**	**–**	**–**	**2,451**	**–**
Recognition of equity component of convertible bond *(note 25)*	**–**	**–**	**–**	**–**	**16,288**	**–**	**–**	**–**	**–**	**16,288**
Deferred tax liability on recognition of equity component of convertible bond *(note 27)*	**–**	**–**	**–**	**–**	**(1,797)**	**–**	**–**	**–**	**–**	**(1,797)**
Balance at 31 December 2017	**3,474**	**182,099**	**15,500**	**–**	**14,491**	**(2,325)**	**1,547**	**1,886**	**100,914**	**317,586**

Notes:

i. Other reserve of HK$15,500,000 represents amount arising from capitalisation of loans from shareholders due by Ernest Borel (Far East) Company Limited ("**EB (Far East)**"), a subsidiary of the Company, in 2005.

ii. General reserve represents the legal reserve being allocated from the retained profits of Ernest Borel S.A. ("**EB Switzerland**") and Ernest Borel (Guangzhou) Trading Co., Ltd. ("**EB Guangzhou**"), the subsidiaries of the Company, as required under the relevant legislation of Switzerland and the People's Republic of China (the "**PRC**"), respectively. According to the relevant legislation, EB Switzerland has allocated to the general reserve until this reserve reached 50% of its share capital. For the legal reserve in the PRC, it represented the statutory surplus reserve of EB Guangzhou.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(183,184)**	(142,585)
Adjustments for:			
Allowance for inventories		**49,849**	7,808
Allowance for doubtful debt		**18,788**	–
Impairment loss recognised on property, plant and equipment		**–**	2,946
Depreciation of property, plant and equipment		**34,451**	43,756
Loss of inventory		**18,785**	–
Finance costs		**27,651**	7,673
Interest income		**(704)**	(765)
(Gain)/loss on disposal of property, plant and equipment		**(30)**	1,655
Provision for defined benefit scheme		**1,040**	1,371
Change in fair value of derivative financial instruments		**–**	(285)
Foreign exchange differences		**5,274**	9,077
Changes in working capital:			
Decrease in inventories		**29,771**	38,031
(Increase)/decrease in trade and other receivables		**(28,261)**	53,222
Decrease in trade and other payables		**(10,741)**	(7,313)
Contribution to defined benefit scheme		**(569)**	(783)
Change in derivative financial instruments		**–**	1,054
Cash (used in)/generated from operations		**(37,880)**	14,862
Hong Kong Profits Tax refunded		**8,211**	–
Switzerland income tax refunded		**1,694**	772
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		**(27,975)**	15,634

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES			
Additions of property, plant and equipment		**(6,219)**	(27,765)
Pledged bank deposits placed		**(1,026)**	–
Pledged bank deposits withdrawn		**1,022**	2,810
Repayment from a related party		**50**	93
Proceeds from disposal of property, plant and equipment		**39**	80
Interest received		**59**	73
Deposit paid for proposed acquisition of a subsidiary		**(25,000)**	–
NET CASH USED IN INVESTING ACTIVITIES		**(31,075)**	(24,709)
FINANCING ACTIVITIES			
Repayment of bank and other borrowings	*20*	**(70,031)**	(228,386)
Interest paid	*20*	**(16,676)**	(7,673)
New bank and other borrowings raised	*20*	**24,376**	121,543
Proceeds from issuance of new note payable	*20*	**100,000**	80,000
Proceeds from issuance of convertible bond	*25(iv)*	**100,000**	–
Costs of issuing convertible bond paid	*25(iv)*	**(1,500)**	–
Repayment of note payable	*20*	**(40,000)**	–
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**96,169**	(34,516)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**37,119**	(43,591)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**18,272**	62,325
Effect of foreign exchange rate changes		**786**	(462)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**56,177**	18,272

1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands under the Companies Law of Cayman Islands as a non-resident company with limited liability on 18 January 1991 and re-registered as an exempted company with limited liability on 14 April 2016 under the Companies Law. The Company is a public limited company with its shares listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The addresses of the registered office and principal place of business of the Company are set out in the corporate information section to the annual report.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 38.

The consolidated financial statements are presented in Hong Kong dollar ("**HK$**"), which is the functional currency of the Company and may be different from the functional currency of certain group entities, that is, Renminbi ("**RMB**") and Swiss Franc ("**CHF**"). The Group's management has elected to use HK$ as they believe HK$ is the appropriate presentation currency for the users of Group's consolidated financial statements.

In preparing the consolidated financial statements, the directors of the Company have carefully considered the liquidity of the Group and concluded that the adoption of the going concern basis in preparing the consolidated financial statements is appropriate after taking into account (i) the financial support from Mr. Sit Yau Chiu ("**Mr. Sit**"); (ii) the availability of banking facility; and (iii) internally generated funds of the Group.

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") and International Financial Reporting Interpretations Committee ("**IFRIC**") for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014–2016 Cycle

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosure set out in these consolidated financial statements.

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 20. Consistent with the transaction provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

New and amendments IFRSs in issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transaction[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contract[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 40	Transfer of Investment Property[1]
Amendments to IAS 28	As part of Annual Improvements to IFRS Standards 2014–2016 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015–2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Company are:

- all recognised financial assets that are within the scope of IFRS 39 *Financial Instruments* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("**FVTOCI**"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

IFRS 9 Financial Instruments *(Continued)*

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised; and

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate on initial application of IFRS 9 except for financial assets which are subject to the expected credit loss model upon application of IFRS 9, financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

The directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provisions on trade receivables and bank balances. The directors of the Company do not anticipate the application IFRS 9 will have a material impact on the opening retained profit at 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

In May 2016, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, that is, when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

IFRS 15 Revenue from Contracts with Customers *(Continued)*

The Directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however the Directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing/operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$14,351,000 (2016: HK$27,967,000) as disclosed in note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

Except as described above, the Directors of the Company anticipate that the application of the other new and amendments to IFRSs will have no material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for defined benefit scheme and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based Payment", leasing transactions that are within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are as set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Company's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Maintenance service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the asset and liabilities of the Group's operations are translated into the presentation currency of the Group (that is, Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the state-managed retirement benefits schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement scheme, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and loss on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs *(Continued)*

The Group presents the first two components of defined benefits cost in profit or loss in the line item of employee benefits expenses. Curtailment gains and losses are accounted for as past service costs. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contributions from employees or third parties to defined benefit plans

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability (asset).

- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service costs by attributing the contributions to periods of service using the attribution method required by IAS 19 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service costs by attributing contributions to the employees' periods of service in accordance with IAS 19 paragraph 70.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 35 to the Group's consolidated financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings and freehold land held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and amortisation and subsequent accumulated impairment losses, if any.

Freehold land is not depreciated.

Depreciation is recognised so as to write off the cost of assets (other than freehold land) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual value and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to reduce the carrying amount of assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provision for the expected cost of warranty obligations under the relevant sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amounts due from related parties, deposits placed for life insurance policies, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial asset carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see accounting policy below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, loan from a substantial shareholder, bank borrowings and note payable) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligation are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Convertible bond

The component parts of the convertible bond are classified separately as financial liability and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bond, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bond using the effective interest method.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Estimated allowance of trade and other receivables

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other receivables. The determination of allowance for doubtful debts take into accounts the history of default or delay in payments, settlement records, subsequent settlement and aging analysis of trade receivables. The carrying amount of trade and other receivables as at 31 December 2017 amounting to HK$81,569,000 (2016: HK$71,143,000).

Estimated allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of slow-moving stock and obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. Estimation of the net realisable of inventories value takes into account the selling prices, movements, conditions, aging analysis and subsequent usage of the relevant inventories. The carrying amount of inventories as at 31 December 2017 amounted to HK$402,224,000 (2016: HK$500,629,000).

Deferred tax assets

When assessing whether there will be sufficient future taxable profits available against which the deductible temporary differences can be utilised, the Group recognises deferred tax assets to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, using tax rates that would apply in the period when the asset would be utilised. In determining the amount of deferred tax assets, the Group exercises judgments about the estimated timing and amount of future taxable profits, and of the tax rates applicable in the future according to the existing tax policies and other relevant regulations. Differences between such estimates and the actual timing and amount of future taxable profits and the actual applicable tax rates affect the amount of deferred tax assets that should be recognised.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Functional currency

The Company is carrying out its operating activities and making management decisions in Hong Kong and has significant degree of autonomy from its foreign subsidiaries in the way its business is managed. In the opinion of the directors of the Company, the functional currency of the Company is Hong Kong dollars.

Income taxes and deferred taxation

The Group is subject to corporate income taxes in the Mainland China, Switzerland and Hong Kong. Significant judgements are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

Sales returns

The amount is based on the sales returns policy set up for defective claims for returns from customers. Management's policy for sales returns and assumptions are reviewed periodically and adjusted if necessary. Should any of the assumptions change, it may lead to change in the amount of sales returns and defective claims.

5. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received or receivable for the sale of watch products, less returns and trade discounts, during the year.

The Group's principal activities are the manufacturing and sale of watches. Information reported to the chief operating decision makers, being the executive directors of the Company, for resource 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. Equity-wide segment information is set out below.

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2017 HK$'000	2016 HK$'000
Mechanical watches	**146,243**	172,271
Quartz watches	**76,153**	75,005
Others	**4,809**	1,607
	227,205	248,883

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers determined based on the location of customers, and (ii) the Group's non-current assets (which exclude deposits placed for life insurance policies, deposit paid for proposed acquisition of a subsidiary and deferred tax assets) based on the location of assets.

	Revenue from external customers	
	2017	2016
	HK$'000	HK$'000
PRC	**193,401**	193,109
Hong Kong and Macau	**10,692**	25,355
Southeast Asia	**17,992**	23,616
Others	**5,120**	6,803
	227,205	248,883

	Non-current assets	
	2017	2016
	HK$'000	HK$'000
PRC	**9,243**	34,310
Hong Kong	**4,648**	5,765
Switzerland	**30,325**	30,889
	44,216	70,964

Information about major customers

Revenue from customers contributing over 10% of the total sales of the Group are as follows:

	2017	2016
	HK$'000	HK$'000
Customer A	**–**	25,545

In the current year, revenue from this customer did not contribute over 10% of the total revenue of the Group.

6. OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Exchange gain/(loss), net	**16,085**	(10,071)
Impairment recognised on property, plant and equipment	**–**	(2,946)
Gain/(loss) on disposal of property, plant and equipment	**30**	(1,655)
Fair value gain on derivative financial instruments	**–**	285
Allowance for doubtful debts	**(18,788)**	–
Provision for claims of ex-directors *(note 36(b) and (c))*	**(4,331)**	–
Loss of inventory *(note below)*	**(18,785)**	–
	(25,789)	(14,387)

Note: Certain inventory of materials and parts with carrying amount of approximately HK$18,785,000 located in the PRC were lost during the year ended 31 December 2017.

7. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Interest income on life insurance contract	**645**	692
Bank interest income	**59**	73
Maintenance service income	**119**	140
Sundry income	**36**	176
	859	1,081

8. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on:		
Bank and other borrowings	**513**	6,249
Notes payable *(note 24)*	**9,680**	1,424
Liability component of convertible bond *(note 25)*	**17,458**	–
Interest on financial liabilities carried at amortised cost	**27,651**	7,673

9. LOSS BEFORE TAX

	2017 **HK$'000**	2016 HK$'000
Loss before tax has been arrived at after charging:		
Auditors' remuneration:		
— Audit services	**1,260**	1,260
— Non-audit services	**355**	–
Allowance for inventories	**49,849**	7,808
Cost of inventories recognised as expenses *(note below)*	**129,250**	142,778
Depreciation of property, plant and equipment	**34,451**	43,756
Provision for claims of a distributor *(note 36(a))*	**1,727**	–
Operating lease rental in respect of rented premises	**18,165**	27,892
Directors' emoluments *(note 11)*	**3,723**	4,830
Other staff costs:		
— salaries and other benefits	**50,991**	60,534
— retirement benefits scheme contributions	**4,668**	5,125
Total staff costs	**59,382**	70,489

Note: Cost of inventories sold includes HK$33,592,000 (2016: HK$62,308,000) relating to staff costs, depreciation and amortization expenses, which amount is also included in respective total amounts disclosed separately for each of these types of expenses in note 9 above, and raw materials of HK$69,914,000 (2016: HK$81,600,000).

10. INCOME TAX EXPENSE

	2017 HK$'000	2016 HK$'000
Current tax:		
Hong Kong Profits Tax *(note i)*	–	–
Switzerland income tax *(note ii)*	257	2,122
PRC Enterprise Income Tax *(note iii)*	–	–
	257	2,122
Over-provision in prior years:		
Switzerland income tax	(1,915)	(57)
Deferred tax charge *(note 27)*	15,757	361
Income tax expense for the year	14,099	2,426

Notes:

(i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

(ii) Switzerland

Switzerland income tax is calculated at applicable tax rates on the assessable income for both years. Under the relevant Tax Laws in Switzerland, the Group's subsidiary incorporated in Switzerland was subjected to Direct Federal Tax ("**DFT**") of 8.5% (2016: 8.5%) and Cantonal Communal Tax ("**CCT**") calculated at 16.37% (2016: 16.37%).

Swiss Federal withholding tax is levied at a rate of 35% on the distribution of the profit of the company 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%.

The income tax expense for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 HK$'000	2016 HK$'000
Loss before tax	(183,184)	(142,585)
Tax at the average income tax rate of 18.60% (2016: 17.50%)	(34,077)	(24,952)
Tax effect of income not taxable for tax purposes	(3,165)	(51)
Tax effect of expenses not deductible for tax purposes	4,562	2,623
Tax effect of tax losses not recognised	31,052	24,448
Tax effect of temporary differences not recognised	17,642	415
Over-provision in prior years	(1,915)	(57)
Income tax expense for the year	14,099	2,426

Note: The average income tax rate for the year ended 31 December 2017 and 2016 represents the weighted average tax rate of the operations in different jurisdictions on the relative amounts of assessable profits and the relevant statutory rates.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Directors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

	Fee HK$'000	Salaries and other benefits HK$'000	Performance related bonus HK$'000	Retirement benefits scheme contributions HK$'000	Equity-settled share-based payments HK$'000	Total emoluments HK$'000
For the year ended 31 December 2017						
Executive directors						
Ms. Liu Libing *(note ii)*	346	282	–	18	–	646
Mr. Sit Yau Chiu	–	1,300	–	18	–	1,318
Mr. Xiong Wei	–	1,300	–	18	–	1,318
Non-executive directors						
Mr. Chan Kwan Pak, Gilbert	50	–	–	–	–	50
Mr. Pan Di *(note iii)*	28	–	–	–	–	28
Ms. Lou Liuqing	50	–	–	–	–	50
Independent Non-executive directors						
Mr. Lo Chi Chiu *(note iv)*	98	–	–	–	–	98
Ms. Chan Lai Wa *(note v)*	3	–	–	–	–	3
Mr. Lui Wai Ming *(note vi)*	22	–	–	–	–	22
Mr. Choi Tze Kit, Sammy *(note vii)*	70	–	–	–	–	70
Mr. To Chun Kei	120	–	–	–	–	120
	787	2,882	–	54	–	3,723

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors

	Fee HK$'000	Salaries and other benefits HK$'000	Performance related bonus HK$'000	Retirement benefits scheme contributions HK$'000	Equity-settled share-based payments HK$'000	Total emoluments HK$'000
For the year ended 31 December 2016						
Executive directors						
Mr. Su Da *(note viii)*	–	1,399	–	10	–	1,409
Ms. Liu Libing	–	1,662	–	43	–	1,705
Mr. Wong Pong Chun, James	–	470	–	14	–	484
Mr. Sit Yau Chiu	–	486	–	8	–	494
Mr. Xiong Wei	–	311	–	5	–	316
Non-executive directors						
Mr. Chan Kwan Pak, Gilbert	50	–	–	–	–	50
Mr. Pan Di	50	–	–	–	–	50
Ms. Lou Liuqing	12	–	–	–	–	12
Independent Non-executive directors						
Mr. Lo Chi Chiu	100	–	–	–	–	100
Mr. Cheung Kam Min, Mickey	76	–	–	–	–	76
Dr. Yau Bun	76	–	–	–	–	76
Mr. Choi Tze Kit, Sammy	29	–	–	–	–	29
Mr. To Chun Kei	29	–	–	–	–	29
	422	4,328	–	80	–	4,830

Notes:

i. The executive directors', non-executive directors' and independent non-executive directors' emoluments shown were mainly for their services as directors of the Company.

ii. Ms. Liu Libing retired as an executive director pursuant to Articles 84 of the Company's Articles of Association ("**Articles**") after the conclusion of the AGM on 26 May 2017.

iii. Mr. Pan Di resigned as a non-executive director of the Company with effect from 24 July 2017.

iv. Mr. Lo Chi Chiu resigned as an independent non-executive director, a member of the audit committee, remuneration committee and nomination committee of the Company with effect from 22 December 2017.

v. Ms. Chan Lai Wa was appointed as an independent non-executive director, a member of the audit committee, remuneration committee and nomination committee of the Company with effect from 22 December 2017.

vi. Mr. Lui Wai Ming was appointed as an independent non-executive director of the Company and a member of each of the audit committee, remuneration committee and nomination committee of the Company, all with effect from 27 October 2017.

vii. Mr. Choi Tze Kit, Sammy resigned as an independent non-executive director on 1 August 2017.

viii. The employment of Mr. Su Da ("**Mr. Su**") as the Chief Executive Officer was terminated on 17 March 2017.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Employees

The five highest paid employees of the Group during the year included two (2016: two) directors of the Company, details of whose emoluments are set out in the disclosures above. Details of the remuneration for the year of the remaining three (2016: three) highest paid employees who are neither a director of the Company are as follows:

	2017 **HK$'000**	2016 HK$'000
Salary and other benefits	**4,876**	3,522
Equity-settled share-based payments	**–**	–
Retirement benefits scheme contributions	**111**	110
	4,987	3,632

The number of the highest paid employees who are not the directors of the Company whose emoluments fell within the following bands is as follows:

	2017 **Number of employees**	2016 Number of employees
Below HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$3,000,000	**1**	–

There is no arrangement under which a director waived or agreed to waive any remuneration during the year.

12. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year ended 31 December 2017 is based on the loss attributable to the owners of the Company of HK$197,283,000 (2016: HK$145,011,000) and on the weighted average number of 347,437,000 (2016: 347,437,000) ordinary shares in issue during the year.

The computation of diluted loss per share for the year ended 31 December 2017 does not assume the conversion of the convertible bond because the conversion price of the convertible bond was higher than the average market price for the year.

The computation of diluted loss per share for the year ended 31 December 2016 did not assume the exercise of the Company's share options because the exercise price of the share options was higher than the average market price for 2016.

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and building outside Hong Kong	Leasehold improvement	Furniture, fixtures and equipment	Machinery	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January 2016	37,432	9,118	167,404	4,977	1,376	220,307
Additions	–	3,585	40,222	67	–	43,874
Disposals	–	(3,092)	(20,006)	–	(400)	(23,498)
Exchange realignment	(1,029)	(99)	(327)	(114)	(36)	(1,605)
At 31 December 2016	**36,403**	**9,512**	**187,293**	**4,930**	**940**	**239,078**
Additions	**–**	**92**	**5,413**	**–**	**727**	**6,232**
Disposals	**–**	**–**	**(27,132)**	**–**	**(323)**	**(27,455)**
Exchange realignment	**1,781**	**181**	**584**	**214**	**50**	**2,810**
At 31 December 2017	**38,184**	**9,785**	**166,158**	**5,144**	**1,394**	**220,665**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2016	7,402	3,750	128,273	3,481	1,003	143,909
Provided for the year	1,102	1,773	40,268	393	220	43,756
Impairment loss recognised in profit or loss	–	–	2,946	–	–	2,946
Eliminated on disposals	–	(1,407)	(19,956)	–	(400)	(21,763)
Exchange realignment	(238)	(58)	(317)	(91)	(30)	(734)
At 31 December 2016	**8,266**	**4,058**	**151,214**	**3,783**	**793**	**168,114**
Provided for the year	**1,261**	**1,140**	**31,465**	**342**	**243**	**34,451**
Eliminated on disposals	**–**	**–**	**(27,123)**	**–**	**(323)**	**(27,446)**
Exchange realignment	**451**	**112**	**554**	**170**	**43**	**1,330**
At 31 December 2017	**9,978**	**5,310**	**156,110**	**4,295**	**756**	**176,449**
CARRYING VALUES						
At 31 December 2017	**28,206**	**4,475**	**10,048**	**849**	**638**	**44,216**
At 31 December 2016	28,137	5,454	36,079	1,147	147	70,964

The above items of property, plant and equipment, except for freehold land, are depreciated and amortised on a straight-line basis at the following rates per annum:

Building held under freehold land	3.3%–10%
Leasehold improvement	Over the lease term ranging from 3 to 5 years
Furniture, fixtures and equipment	15%–50%
Machinery	6%–20%
Motor vehicles	30%

No depreciation is provided on freehold land.

15. DEPOSITS PLACED FOR LIFE INSURANCE POLICIES

In prior years, the Group took out four insurance policies (**Policy A, Policy B, Policy C and Policy D**) with two insurance companies to insure an Executive Director and Chief Executive Officer, who resigned as Executive Director on 29 July 2016 and Chief Executive Officer on 17 March 2017, respectively. The insured person under these four insurance policies has been transferred to Mr. Sit in December 2017.

Under these policies, the policy holder and beneficiary is EB (Far East). The Group is required to pay an upfront payment for each policy. The Group may surrender partially or in full at any time and receive cash back based on the value of the policy at the date of withdrawal, which is determined by the gross premium paid at inception plus accumulated guaranteed interest earned and minus insurance premium charged (the "**Cash Value**"). If such withdrawal is made at any time during the first to the fifteen or eighteenth policy year, as appropriate, a pre-determined specified surrender charge would be imposed on the Group.

At the inception dates, the upfront payments are separated into deposits placed and prepayments for life insurance premiums. The prepayments for life insurance premiums are amortised to profit or loss over the insured period and the deposits placed are carried at amortised cost using the effective interest method. The insurance companies will pay the Group guaranteed interest plus a premium determined by the insurance companies during the tenures of these policies. The effective interest rate on initial recognition was determined by discounting the estimated future cash receipts through the expected life of the insurance policies, excluding the financial effect of surrender charge.

Particulars of the policies are as follows:

			Guaranteed interest rates	
Policy	**Insured sum**	**Upfront payment**	**First year**	**Second year and onward**
Policy A	USD750,000 (equivalent to HK$5,835,000)	USD828,000 (equivalent to HK$6,458,000)	4.4% per annum	3% per annum
Policy B	USD750,000 (equivalent to HK$5,835,000)	USD304,000 (equivalent to HK$2,357,000)	4.2% per annum	2% per annum
Policy C	USD750,000 (equivalent to HK$5,835,000)	USD408,005 (equivalent to HK$3,174,000)	4.0% per annum	2% per annum
Policy D	USD750,000 (equivalent to HK$5,835,000)	USD630,826 (equivalent to HK$4,908,000)	4.0% per annum	2% per annum

The carrying amount of the life insurance policies as at 31 December 2017 and 31 December 2016 approximates the Cash Value of the insurance policies and the expected life of the policies remained unchanged from initial recognition. The life insurance policies are denominated in United States Dollar ("**USD**"), being a currency other than the functional currency of the relevant group entity.

At the end of both reporting periods, all life insurance policies were pledged to a bank to secure general banking facilities granted to the Group.

16. DEPOSIT PAID FOR PROPOSED ACQUISITION OF A SUBSIDIARY

On 10 May 2017, the Company entered into a non-legally binding memorandum of understanding ("**MOU**") with Mr. Sit Yau Chiu, the substantial shareholder of the Company and also the Chairman and executive director of the Company for the proposed acquisition of entire equity interest in Top Win International Trading Limited (the "**Proposed Acquisition**"). The total consideration of the Proposed Acquisition was expected to be HK$50,000,000. On 30 November 2017, Swissmount Holdings Limited ("**Swissmount**"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement ("**SPA**") with Mr. Sit, pursuant to which Swissmount conditionally agreed to acquire and Mr. Sit conditionally agreed to sell 100% of the issued share capital of Top Win International Trading Limited for a consideration of HK$50,000,000. As at 31 December 2017, a deposit of HK$25,000,000 was paid by the Group to Mr. Sit and included in the non-current assets of the Group. The deposit paid will be applied to settle part of the consideration for the Proposed Acquisition and the remaining balance of consideration will be settled upon completion. On 22 March 2018, a supplemental sale and purchase agreement was entered into by Swissmount with Mr. Sit to amend certain terms of the SPA. The Proposed Acquisition has not yet been completed at the date of approval for the consolidated financial statements.

17. INVENTORIES

	2017 **HK$'000**	2016 HK$'000
Raw materials	**199,803**	249,632
Work-in-progress	**80,607**	107,519
Finished goods	**121,814**	143,478
	402,224	500,629

18. TRADE AND OTHER RECEIVABLES

	2017 **HK$'000**	2016 HK$'000
Trade receivables	**92,619**	57,390
Less: allowance for doubtful debts	**(20,216)**	(725)
	72,403	56,665
Other receivables	**1,426**	2,610
Other tax recoverable	**1,847**	1,569
Prepayments	**2,715**	5,172
Deposits	**3,178**	5,127
	9,166	14,478
	81,569	71,143

18. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group allows a credit period ranging from 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance of doubtful debts, presented based on the invoice date which approximates the respective revenue recognition date:

	2017	2016
	HK$'000	HK$'000
0–90 days	**42,177**	37,510
91–180 days	**28,557**	13,221
181–270 days	**1,068**	887
Over 270 days	**601**	5,047
	72,403	56,665

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.

At 31 December 2017, included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$52,108,000 (2016: HK$37,068,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable based on past experience.

Aging of trade receivables (by due date) which are past due but not impaired

	2017	2016
	HK$'000	HK$'000
Overdue for		
Within 90 days	**41,670**	26,461
91 to 180 days	**8,670**	6,455
Over 180 days	**1,768**	4,152
	52,108	37,068

Movement in the allowance for doubtful debts

	2017	2016
	HK$'000	HK$'000
Balance at beginning of the year	**725**	2,837
Impairment losses recognised	**19,046**	–
Amounts written off as uncollectible	**(258)**	(2,099)
Exchange realignment	**703**	(13)
Balance at end of the year	**20,216**	725

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts *(Continued)*

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date at which credit was initially granted up to the reporting date.

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$20,216,000 (2016: HK$725,000) at 31 December 2017. The Group does not hold any collateral over these balances.

Allowance of doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty, the credit quality of the trade receivable, as well as the number of delayed payments.

Age of impaired trade receivables

	2017 **HK$'000**	2016 HK$'000
Overdue for		
91 to 180 days	**8**	–
More than 180 days	**20,208**	725
	20,216	725

19. AMOUNT DUE FROM A RELATED PARTY

The amount due from a related party was unsecured, interest-free and totally repaid during the year. No collateral was held over these balances by the Group.

Details of the amount due from a related party is as follow:

	2017 **HK$'000**	2016 HK$'000
Non-trade nature		
Mr. Su Ran	**–**	50

20. PLEDGED BANK DEPOSITS, BANK BALANCES AND CASH

Pledged bank deposits, included in current assets, carried interest of 0.75% (2016: 0.05% to 0.35%) per annum at 31 December 2017. The bank deposits are pledged to secure the short term banking facilities granted to the Group.

Bank balances carried market interest rate in the range of 0.01% to 0.3% (2016: 0.01% to 0.3%) per annum at 31 December 2017.

The Group's bank balances that are denominated in USD, RMB and CHF, currency other than functional currency of the relevant group entities are set out below:

	2017 **HK$'000**	2016 HK$'000
Denominated in USD	**83**	3
Denominated in RMB	**4,568**	2,889
Denominated in CHF	**75**	40

Reconciliation of liabilities arising from financing activities

	Bank and other borrowings **HK$'000** **(note 23)**	**Notes payable** **HK$'000** **(note 24)**	**Liability component of convertible bond** **HK$'000** **(note 25)**	**Total** **HK$'000**
Balance at 31 December 2016	**57,246**	**80,000**	**–**	**137,246**
Cash flows				
— Proceeds, net of issuing costs	**24,376**	**100,000**	**82,212**	**206,588**
— Repayment	**(70,031)**	**(40,000)**	**–**	**(110,031)**
— Interest paid	**(513)**	**(8,684)**	**(7,479)**	**(16,676)**
Non-cash movements				
— Interest expenses	**513**	**9,680**	**17,458**	**27,651**
— Unpaid interest included in other payables and accruals (note 21)	**–**	**(996)**	**(2,219)**	**(3,215)**
Balance at 31 December 2017	**11,591**	**140,000**	**89,972**	**241,563**

21. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	**8,579**	12,785
Other payables	**6,232**	24,043
Accruals	**24,430**	9,926
	39,241	46,754

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

	2017 HK$'000	2016 HK$'000
1–30 days	**3,849**	2,738
31–60 days	**3,835**	3,738
Over 60 days	**895**	6,309
	8,579	12,785

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

The Group's trade payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2017 HK$'000	2016 HK$'000
Denominated in USD	**356**	96
Denominated in CHF	**26**	237

Included in accruals was an aggregate amount of HK$3,215,000 (2016: HK$1,424,000) for accrued interests on the notes payable and convertible bond, respectively, at 31 December 2017.

22. RETIREMENT BENEFIT SCHEME

Hong Kong

The Group operates a Mandatory Provident Fund Scheme ("**the MPF Scheme**") for all qualifying employees in Hong Kong under the rules and regulations of the Mandatory Provident Fund Authority. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. Contributions are made based on a percentage of the participating employees' relevant income from the Group and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme.

22. RETIREMENT BENEFIT SCHEME *(Continued)*

People's Republic of China

According to the relevant laws and regulation in the PRC, the PRC subsidiary is required to contribute a certain percentage of the salaries of its employees to the state-managed retirement benefit scheme. The only obligations of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

Switzerland

Defined benefit scheme

The subsidiary in Switzerland contributes to a mandatory post-employment defined benefit plan, funded by contributions from both employees and employer (the "**Defined Benefit Scheme**"). The plan is operated by an insurance company in the form of a multi-employer scheme (Swiss Life Collective BVG Foundation).

The Defined Benefit Scheme exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk — The present value of the defined benefit obligations is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Due to the long-term nature of the plan liabilities, the board of the pension fund may consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to leverage the return generated by the fund.

Interest risk — A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the Plan's debt investments.

Longevity risk — The present value of the defined benefit obligations is calculated by reference to the best estimate of the mortality of Scheme participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk — The present value of the defined benefit obligations is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The valuations of the plan assets and the present value of the defined benefit obligations were estimated by the directors with reference to the valuation carried out at 31 December 2017 and 2016 by an independent qualified professional actuary not connected to the Group. The present value of the defined benefit obligations and the related current service cost were measured using the projected unit credit method.

The principal actuarial assumptions used at the end of the reporting period are as follows:

	2017	2016
Price inflation	**0.50%**	0.50%
Discount rate	**0.70%**	0.70%
Long term rate of return on plan assets	**1.40%**	1.40%
Expected rate of salary increase	**0.50%**	0.50%
Average longevity at retirement age for current pensioners and employees	**50.3**	51.5

22. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

The actuarial valuation showed that the market value of plan assets was HK$9,447,000 (2016: HK$8,966,000) at 31 December 2017 and that the actuarial value of these assets represented 66% (2016: 65%) of the benefits that had accrued to members. The shortfall of HK$4,973,000 (2016: HK$4,744,000) is to be cleared over the estimated remaining service period of 10.5 years (2016: 9.9 years).

The overall expected rate of return is a weighted average of the expected returns of the various categories of Defined Benefit Scheme assets held.

Amounts recognised in comprehensive income in respect of the Defined Benefit Scheme are as follows:

	2017 **HK$'000**	2016 HK$'000
Service costs:		
Current service cost	**1,008**	1,313
Past service cost	**–**	–
Net interest expense	**35**	58
Components of defined benefit cost recognised in profit or loss	**1,043**	1,371
Remeasurement on the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest expense)	**(45)**	(297)
Actuarial (gains)/losses arising from experience adjustments	**(449)**	(2,264)
Actuarial losses/(gains) arising from changes in financial assumptions	**–**	754
Deferred tax expense/(credit) arising on remeasurement of the net defined benefit liability *(note 27)*	**98**	367
Components of defined benefit (income)/cost recognised in other comprehensive income	**(396)**	(1,440)
Total	**647**	(69)

The expense is included as employee benefits expense and partially included in cost of sales.

The remeasurement of net defined benefit liability is included in other comprehensive income.

22. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

The amount included in the consolidated statement of financial position arising from the Group's obligations in respect of the Scheme is as follows:

	2017 **HK$'000**	2016 HK$'000
Present value of defined benefit obligations	**14,420**	13,710
Fair value of plan assets	**(9,447)**	(8,966)
Net liability arising from defined benefit obligations	**4,973**	4,744

Movements of the present value of defined benefit obligations in the current year were as follows:

	2017 **HK$'000**	2016 HK$'000
Opening defined benefit obligations	**13,710**	16,732
Current service cost	**1,008**	1,313
Past service cost	**–**	–
Interest cost	**100**	160
Remeasurement (gains)/losses:		
Actuarial (gain)/losses arising from experience adjustments	**(449)**	(2,264)
Actuarial losses/(gains) arising from changes in financial assumptions	**–**	754
Benefits paid	**(1,240)**	(3,391)
Contribution paid by plan participants	**569**	783
Exchange differences on foreign plans	**722**	(377)
Closing defined benefit obligations	**14,420**	13,710

Movements of the fair value of plan assets in the current year were as follows:

	2017 **HK$'000**	2016 HK$'000
Opening fair value of plan assets	**8,966**	10,641
Interest income	**65**	102
Remeasurement gain:		
Return on plan assets (excluding amounts included in net interest expense)	**45**	297
Contributions from employers	**569**	783
Benefits paid	**(1,240)**	(3,391)
Contributions paid by plan participants	**569**	783
Exchange differences on foreign plans	**473**	(249)
Closing fair value of plan assets	**9,447**	8,966

22. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

The fair value of the plan assets at the end of the reporting period for each category are as follows:

	2017 HK$'000	2016 HK$'000
Fixed interest, cash and cash equivalents and time deposits	6,279	6,088
Real estate	1,547	1,358
Mortgages and other claims	728	665
Others	893	855
	9,447	8,966

The fair values of real estate, mortgages and other claims, and others are not based on quoted market price in active markets.

Significant actuarial assumptions for the determination of the defined obligations are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 0.5% higher/(lower), the defined benefit obligations would decrease by approximately HK$1,454,000 (increase by approximately HK$1,740,000).

- If the expected salary growth increases/(decreases) by 0.5%, the defined benefit obligations would increase by approximately HK$168,000 (decrease by approximately HK$199,000).

- If the life expectancy increases/(decreases) by 1 year, the defined benefit obligations would increase by approximately HK$226,000 (decrease by approximately HK$234,000).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

22. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligations has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligations liability recognised in the consolidated statement of financial position.

The Group's subsidiary in Switzerland funded the cost of the entitlements of employees on a yearly basis. Employees pay approximately 8% of pensionable salary. The residual contribution (including back service payments) is paid by the subsidiary of the Group. The funding requirements are based on the local actuarial measurement framework. In this framework, the discount rate is set on a risk free rate. Furthermore, premiums are determined based on current salary level. Additional liabilities stemming from past service due to salary increases (back-service liabilities) are paid immediately to the Defined Benefit Scheme. Apart from paying the costs of the entitlements, the Group's subsidiary is not liable to pay additional contributions in case the Defined Benefit Scheme does not hold sufficient assets. In that case, the Defined Benefit Scheme would take other measures to restore its solvency, such as a reduction of the entitlements of the plan members.

The average duration of the benefit obligation at 31 December 2017 is 22.1 years (2016: 22.3 years).

The Group expects to make a contribution of HK$618,000 to the defined benefit plan during the next financial year ending 31 December 2018.

23. BANK AND OTHER BORROWINGS

	2017	2016
	HK$'000	HK$'000
Bank loans	**3,866**	36,266
Import trade loans	**7,725**	5,980
Other borrowing	**–**	15,000
	11,591	57,246
Analysed as:		
Secured	**11,591**	39,846
Unsecured	**–**	17,400
	11,591	57,246

23. BANK AND OTHER BORROWINGS *(Continued)*

	2017 HK$'000	2016 HK$'000
The borrowings repayable based on scheduled repayment dates set out in the loan agreements, are as follows:		
Within one year	**11,591**	44,225
More than one year, but not exceeding two years	**–**	11,667
More than two years, but not exceeding five years	**–**	1,354
More than five years	**–**	–
	11,591	57,246
The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	**11,591**	29,225
Within a period of more than one year but not exceeding two years	**–**	11,667
Within a period of more than two years but not exceeding five years	**–**	1,354
Within a period of more than five years	**–**	–
	11,591	42,246
Amounts due within one year that contain no repayable on demand clause	**–**	15,000
Amounts shown under current liabilities	**11,591**	57,246

The exposure of the Group's borrowings are as follows:

	2017 HK$'000	2016 HK$'000
Fixed-rate borrowing	**–**	15,000
Variable-rate borrowings	**11,591**	42,246
	11,591	57,246

The Group's variable-rate borrowings carry interest at Hong Kong Interbank Offered Rate ("**HIBOR**") or London Interbank Offered Rate ("**LIBOR**") plus certain basis points.

23. BANK AND OTHER BORROWINGS *(Continued)*

The ranges of effective interest rate on the Group's borrowings are as follow:

	2017	2016
Effective interest rate:		
Fixed-rate borrowing	**N/A**	12%
Variable-rate borrowings	**3.24% to 3.82%**	2.50% to 3.80%

Details of assets that have been pledged as collateral to secure borrowings are set out in note 34.

During the year ended 31 December 2016, a subsidiary of the Company entered into a loan agreement with an independent third party pursuant to which the independent third party (as the lender) agreed to provide the subsidiary (as the borrower) an unsecured loan amounting to HK$10,000,000. The effective interest rate of the other borrowing was 12% per annum. The subsidiary repaid the other borrowing and interest in full during the year ended 31 December 2016.

24. NOTES PAYABLE

(i) On 24 October 2016, the Company entered into a subscription agreement with an agent, pursuant to which, on 28 October 2016, the Company issued a note of HK$80,000,000 to an independent third party (the "**2016 Note**"). 2016 Note is unsecured and guaranteed by Mr. Sit, carries interest at 10% per annum and will mature on 27 October 2018. The noteholder has a right to call the Company to redeem the 2016 Note after the first anniversary from the issue date. The early redemption option was considered as closely related to the host debt of the 2016 Note.

On 24 March 2017, an agreement was entered into between the Company, the guarantor, Mr. Sit being the substantial shareholder who has significant influence over the Group and being the Chairman and executive director of the Company, and the 2016 Note holder, pursuant to which the Company is required to maintain a balance of consolidated net assets of HK$500 million from 29 June 2017 to 23 October 2018. On 26 October 2017, the Company entered into a further supplemental agreement with the holder of 2016 Note, pursuant to which, HK$40,000,000 of the 2016 Note was early redeemed by the Company and the financial covenant on the Company's consolidated net asset has been retrospectively revised down to HK$250,000,000.

24. NOTES PAYABLE *(Continued)*

(ii) On 18 September 2017, the Company entered into a subscription agreement with an independent third party placing agent, pursuant to which, on 21 September, 2017, the Company issued a note of HK$100,000,000 ("**2017 Note**") to an independent third party. The 2017 Note is unsecured and guaranteed by Mr. Sit, carries interest at 8.5% per annum and will mature on 20 September, 2019. The holder of 2017 Note has a right to call the Company to redeem the 2017 Note after the first anniversary from the issue date of the of 2017 Note. The early redemption option of the 2017 Note was considered as closely related to the host debt of 2017 Note.

In accordance with the note instrument and a supplemental agreement dated 18 September 2017 both entered into between the Company, the guarantor, Mr. Sit, an executive director of the Company and the note holder, the Company is required to maintain a financial indebtedness which, individually does not exceed HK$3,000,000, or in aggregate does not exceed HK$25,000,000. As at 31 December 2017, the bank loans of the Company individually does not exceed HK$3,000,000 and in aggregate amounted to HK$11,591,000.

As at 31 December 2017, the aggregate principal amount of the two notes (2016: one note) payable amounted to HK$140,000,000 (2016: HK$80,000,000). At 31 December 2017 and up to the date of approval of the consolidated financial statements, all the covenants of the two notes payable had been complied with.

The movement of the two notes payable for the year ended 31 December 2017 are set out below:

	2017 **HK$'000**	2016 HK$'000
At 1 January	**80,000**	–
Proceeds from issuing 2017 Note/2016 Note	**100,000**	80,000
Repayment of 2016 Note	**(40,000)**	–
At 31 December	**140,000**	80,000
Comprising:		
2016 Note	**40,000**	80,000
2017 Note	**100,000**	–
Due within one year	**140,000**	80,000
Due between 2–5 year	**–**	80,000

25. CONVERTIBLE BOND

On 11 January 2017, the Company issued 10% convertible bond at a par value of HK$100,000,000. The convertible bond is denominated in Hong Kong dollar, unsecured and is guaranteed by Mr. Sit. The convertible bond entitles the holder to convert into ordinary shares of the Company at any time between the issue date of the convertible bond and the maturity date on 11 January 2019 at a conversion price of HK$2.00 per conversion share. If the convertible bond has not been converted or redeemed, it will be redeemed on 11 January 2019 at par. Interest accruing at the rate of 10% per annum on the convertible bond will be paid quarterly until the maturity date.

The major terms of the convertible bond are as follows:

(i) Conversion by the bondholder
The bondholder may at any time before the maturity date requires the Company to convert the whole or any part of the outstanding principal amount of the convertible bond into ordinary shares of the Company. The initial conversion price is be HK$2.00 per conversion share, subject to any anti-dilutive adjustments from time to time. The conversion option is classified as an equity instrument in accordance with the Company's accounting policy as set out in note 3.

(ii) Redemption at maturity
Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each bond at the outstanding principal amount on the maturity date.

(iii) Redemption at the option of the Company
The Company may at any time after the first anniversary of the issue date and from time to time, upon the Company giving thirty days prior written notice to the bondholder, the Company may redeem all or any outstanding principal amount plus accrued and unpaid interests on such date. The early redemption option is considered as closely related to the host debt.

(iv) At initial recognition, the equity component of HK$14,491,000 was separated from the liability component of the convertible bond. The equity element is presented in equity heading "convertible bond equity reserve". The effective interest rate of the liability component is 21.10% per annum.

The movements of liability component and equity component of the convertible bond for the current period are set out below:

	Liability component	**Equity component**	**Total**
	HK$'000	HK$'000	HK$'000
Fair value at issue date on 11 January 2017	83,464	16,536	100,000
Issuing costs	(1,252)	(248)	(1,500)
Interest amortised and charged to profit or loss *(note 8)*	17,458	–	17,458
Interest paid	(7,479)	–	(7,479)
At 31 December 2017	92,191	16,288	108,479
Less: Amount due within one year *(note)*	(2,219)	N/A	N/A
Amount due after one year	89,972	N/A	N/A

Note: The amount represented interest payable which is included in accruals (note 21).

26. DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended 31 December 2016, fair value gain on foreign exchange forward contracts of approximately HK$285,000 was recognised directly in profit or loss. All of the foreign exchange forward contracts matured and closed during the year ended 31 December 2016 and there was no outstanding foreign exchange contract as at 31 December 2017.

27. DEFERRED TAXATION

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation	Defined benefit pension scheme	Convertible bond	Unrealised profit	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 *(note)*	HK$'000
At 1 January 2016	(532)	1,220	–	8,277	(12,209)	(3,244)
(Charged)/credited to profit or loss *(note 10)*	(37)	117	–	172	(613)	(361)
Debit to equity *(note 22)*	–	(367)	–	–	–	(367)
Exchange realignment	16	(26)	–	–	329	319
At 31 December 2016	**(553)**	**944**	**–**	**8,449**	**(12,493)**	**(3,653)**
(Charged)/credited to profit or loss *(note 10)*	**16**	**94**	**–**	**(8,449)**	**(7,418)**	**(15,757)**
Debit to equity *(note 22 & note 25)*	**–**	**(98)**	**(1,797)**	**–**	**–**	**(1,895)**
Exchange realignment	**(29)**	**50**	**–**	**–**	**(637)**	**(616)**
At 31 December 2017	**(566)**	**990**	**(1,797)**	**–**	**(20,548)**	**(21,921)**

Note: Others represent the temporary difference arising from the special deduction made on the inventories and accruals held by subsidiaries.

27. DEFERRED TAXATION *(Continued)*

The following is the analysis of the deferred tax balances in the consolidated statement of financial position for financial reporting purposes:

	2017	2016
	HK$'000	HK$'000
Deferred tax assets	**–**	8,449
Deferred tax liabilities	**(21,921)**	(12,102)
	(21,921)	(3,653)

At the end of the reporting period, the Group has deductible temporary differences of HK$70,017,000 (2016: HK$58,890,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such deductible temporary differences HK$43,662,000 (2016: HK$51,205,000) which were associated with unrealised profit generated on intra-group transactions as it is not probable that taxable profit will be available against which these deductible temporary difference can be utilised.

At the end of the reporting period, the Group has unutilised tax losses of HK$293,356,000 (2016: HK$149,345,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$75,032,000 that will expire during the period from 2020 to 2022. Other losses may be carried forward indefinitely.

The aggregate amount of temporary differences associated with the undistributed earnings of subsidiaries, for which deferred tax liabilities have not been recognised, for the year ended 31 December 2017 was HK$157,133,000 (2016: HK$153,702,000). No deferred tax liability has been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of these temporary differences and it is probable that such differences will not reverse in the foreseeable future.

28. CAPITAL AND RESERVES

(i) Share capital

	Number of ordinary shares	**Par value**	**Share capital**
	'000	HK$	HK$'000
Authorised:			
Balance at 1 January 2016, 31 December 2016 and 31 December 2017	10,000,000	0.01	100,000
Issued and fully paid:			
Balance at 1 January 2016, 31 December 2016 and 31 December 2017	347,437	0.01	3,474

All the shares issued rank pari passu with the existing shares in all respects.

28. CAPITAL AND RESERVES *(Continued)*

(ii) Reserves

The Group

Details of the movements of the Group's reserves are set out in the consolidated statement of changes in equity.

The Company

	Share premium HK$'000	Convertible bond equity reserve HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2016	182,099	–	4,750	23,616	210,465
Total comprehensive income for the year	–	–	–	717	717
Lapse of share option	–	–	(2,299)	2,299	–
At 31 December 2016	182,099	–	2,451	26,632	211,182
Total comprehensive loss for the year	**–**	**–**	**–**	**(41,906)**	**(41,906)**
Lapse of share option	**–**	**–**	**(2,451)**	**2,451**	**–**
Recognition of equity component of convertible bond *(note 25)*	**–**	**16,288**	**–**	**–**	**16,288**
Deferred tax liability on recognition of equity component of convertible bond *(note 27)*	**–**	**(1,797)**	**–**	**–**	**(1,797)**
At 31 December 2017	**182,099**	**14,491**	**–**	**(12,823)**	**183,767**

29. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Investment in a subsidiary		**32,641**	32,641
Amount due from a subsidiary		**292,525**	239,489
Deposit paid for proposed acquisition of a subsidiary		**25,000**	–
		350,166	272,130
CURRENT ASSETS			
Other receivables		**199**	216
Amounts due from subsidiaries		**37,545**	37,017
Bank balances and cash		**36,379**	1,892
		74,123	39,125
CURRENT LIABILITIES			
Other payable		**5,278**	1,598
Amount due to a subsidiary		**1**	1
Other borrowing		**–**	15,000
		5,279	16,599
NET CURRENT ASSETS		**68,844**	22,526
TOTAL ASSETS LESS CURRENT LIABILITIES		**419,010**	294,656
NON-CURRENT LIABILITIES			
Notes payable		**140,000**	80,000
Convertible bond		**89,972**	–
Deferred tax liabilities		**1,797**	–
		231,769	80,000
NET ASSETS		**187,241**	214,656
CAPITAL AND RESERVES	*28*		
Share capital		**3,474**	3,474
Reserves		**183,767**	211,182
TOTAL EQUITY		**187,241**	214,656

30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remained unchanged from the prior year.

The capital structure of the Group consists of debt, which includes bank and other borrowings, notes payable and convertible bond disclosed in notes 23, 24 and 25 respectively, net of cash and cash equivalents, and equity comprising issued share capital and reserves.

The directors of the Group review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with capital, and will balance its overall capital structure through payments of dividends, new share issues as well as issue of new debts or redemption of the existing debts.

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 **HK$'000**	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**148,437**	96,198
Financial liabilities		
Amortised cost	**255,170**	172,471

31. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include deposits placed for life insurance policies, trade and other receivables, amounts due from related parties, derivative financial instruments, pledged bank deposits, bank balances and cash, trade and other payables, bank and other borrowings and note payable. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Foreign currency risk*

The Group undertakes certain transactions denominated in foreign currencies, which expose the Group to foreign currency risk. From time to time, the Group may use derivative financial instrument to hedge the foreign currency risk. The Group manages the foreign currency risk by closely monitoring the movement of the foreign currency exchange rates.

The Group's foreign currency monetary assets are mainly bank balances and the Group's foreign currency monetary liabilities are mainly trade payables.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	Liabilities		Assets	
	2017 **HK$'000**	2016 HK$'000	**2017** **HK$'000**	2016 HK$'000
Third parties				
RMB	**3,591**	–	**4,972**	2,889
USD	**4,294**	3,962	**17,488**	17,582
CHF	**26**	237	**75**	40
EUR	**34**	–	**–**	–
Intra-group balances				
RMB	**–**	–	**179,420**	141,183
CHF	**41,303**	–	**77,457**	50,541

31. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Foreign currency risk (Continued)

Sensitivity analysis

The following table indicates the approximate change in the Group's loss for the year in response to reasonably possible change in the exchange rate of the functional currency of each group entity against USD, RMB and CHF. Since HK$ is pegged to USD under the Linked Exchange Rate System, the management does not expect significant foreign currency exposure in relation to the exchange rate fluctuation between HK$ and USD. The Group is mainly exposed to the foreign currency risk of CHF and RMB against the functional currency of each group entity.

The following table indicates the approximate change in the Group's loss for the year in response to 5% (2016: 5%) and 10% (2016: 10%) increase or decrease in the functional currency of each group entity against RMB and CHF respectively to which the Group has significant exposure at the end of reporting period. A negative/positive number below indicates an increase/decrease in loss where the functional currency of the relevant group entity strengthens 5% (2016: 5%) against RMB and 10% (2016: 10%) against CHF. For a 5% (2016: 5%) weakening of the functional currency of the relevant group entity against RMB and 10% (2016: 10%) against CHF, there would be an equal and opposite impact on the loss.

A sensitivity rate of 5% (2016: 5%) on RMB and 10% (2016: 10%) on CHF represents management's assessment of the reasonably possible change in foreign currency exchange rates.

	RMB impact		CHF impact	
	2017 Increase/ (decrease) in loss HK$'000	2016 Increase/ (decrease) in loss HK$'000	**2017 Increase/ (decrease) in loss HK$'000**	2016 Increase/ (decrease) in loss HK$'000
Increase in foreign exchange rate	**58**	121	**4**	(16)
Decrease in foreign exchange rate	**(58)**	(121)	**(4)**	16

The Group is also exposed to currency risk concerning intra-group amounts due from group entities, which are denominated in currencies other than the functional currency of each group entity.

The following table indicates the approximate change in the Group's loss for the year in response to 5% (2016: 5%) and 10% (2016: 10%) increase or decrease in the functional currency of each group entity against RMB and CHF respectively to which the Group has significant exposure at the end of the reporting period. A negative number below indicates an increase in loss where the functional currency of the relevant group entity strengthens 5% (2016: 5%) against RMB and 10% (2016: 10%) against CHF. For a 5% (2016: 5%) weakening of the functional currency of the relevant group entity against RMB and 10% (2016: 10%) against CHF, there would be an equal and opposite impact on the loss.

31. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Foreign currency risk (Continued)

Sensitivity analysis (Continued)

A sensitivity rate of 5% (2016: 5%) on RMB and 10% (2016: 10%) on CHF represents management's assessment of the reasonably possible change in foreign currency exchange rates.

	RMB impact		CHF impact	
	2017 Increase/ (decrease) in loss HK$'000	2016 Increase/ (decrease) in loss HK$'000	**2017 Increase/ (decrease) in loss HK$'000**	2016 Increase/ (decrease) in loss HK$'000
Increase in foreign exchange rate	**7,491**	5,894	**6,468**	4,220
Decrease in foreign exchange rate	**(7,491)**	(5,894)	**(6,468)**	(4,220)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year.

No sensitivity analysis for the foreign exchange contracts is presented for the year ended 31 December 2017 as all foreign exchange contracts were settled and closed during the year ended 31 December 2017.

For the foreign exchange forward contracts at 31 December 2016, the sensitivity analysis had been estimated based on the contracts outstanding at the end of reporting period. When the relevant market forward exchange rate of CHF against HK$, the functional currency of the group entity holding the foreign exchange forward contracts, strengthens/weakens by 5%, the potential effect on loss for the year would decrease/increase by approximately HK$3,236,000.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate other borrowing and notes payable (see notes 23 and 24 for details).

The Group is also exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rate on bank balances and variable-rate bank borrowings. (see notes 20 and 23 for details). The Group's cash flow interest rate risk mainly concentrates on the fluctuation of HIBOR and LIBOR arising from the Group's Hong Kong dollar denominated borrowings. The management considers the exposure to interest rate risk in relation to bank balances is insignificant due to the present low interest rate situation. The Group currently does not use any derivative contract to hedge its exposure to interest rate risk. However, the management of the Group, will consider hedging significant interest rate exposure should the need arise.

31. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period existed for the whole year. A 100 basis point (2016: 100 basis point) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis point (2016: 100 basis point) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2017 would increase/decrease by HK$381,000 (2016: HK$353,000).

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its deposits placed for life insurance policies, trade and other receivables, amounts due from related companies, pledged bank deposits and bank balances.

The Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on pledged bank deposits and bank balances and deposits placed for life insurance policies is limited because the majority of the counterparties are banks with good reputation.

For the year ended 31 December 2017, the Group has concentration of credit risk as 32.50% (2016: 42.47%) of the total trade receivables due from the Group's five largest trade customers. The directors of the Company consider that the customers are of good credit standing because the counterparties have good reputation and no default payment history. An analysis of the amounts due from three (2016: two) of the five largest customers at the end of the reporting period is as follows:

	% of total trade receivables	
	2017	2016
Customer A	**17%**	14%
Customer B	**6%**	13%
Customer C	**6%**	–

Other than those described above, the Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The credit risk on receivables from department stores and corporate customers are limited because all department stores and corporate customers have good repayment records.

31. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk

The management of the Group has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The management manages liquidity risk by closely monitoring the Group's cash flow position.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

	Weighted average effective interest rate %	Repayable on demand or less than 3 months HK$'000	3 months to 1 year HK$'000	1 year to 2 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2017						
Non-derivative financial liabilities						
Trade and other payables	–	8,203	376	–	8,579	8,579
Fixed interest rate other borrowing	–	–	–	–	–	–
Variable interest rate bank borrowings *(note)*	3.05	11,591	–	–	11,591	11,591
Notes payable	8.93	3,082	48,705	106,055	157,842	140,000
Liability component of convertible bond	21.10	4,878	14,906	100,566	120,350	89,972
		27,754	63,987	206,621	298,362	250,142
At 31 December 2016						
Non-derivative financial liabilities						
Trade and other payables	–	22,307	12,918	–	35,225	35,225
Fixed interest rate other borrowing	12.00	15,064	–	–	15,064	15,000
Variable interest rate bank borrowings *(note)*	3.61	42,246	–	–	42,246	42,246
Note payable	10.00	2,000	6,000	86,667	94,667	80,000
		81,617	18,918	86,667	187,202	172,471

Note: Bank loans with a repayment on demand clause are included in the repayable on demand or less than 3 months' time band category in the above maturity analysis. At 31 December 2017, the aggregate undiscounted principal amounts of these bank loans amounted to HK$11,591,000 (2016: HK$42,246,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid by monthly instalments which will be wholly repayable in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$11,653,000 (2016: HK$43,558,000).

31. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The table below details the Group's expected maturity of the bank loans in accordance with the scheduled repayment dates:

	Less than 3 months HK$'000	3 months to 1 year HK$'000	1 year to 2 years HK$'000	2 years to 5 years HK$'000	Total Over 5 years HK$'000	undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2017	**5,747**	**5,941**	**–**	**–**	**–**	**11,688**	**11,591**
At 31 December 2016	7,901	22,385	11,909	1,363	–	43,558	42,246

The following table details the Group's liquidity analysis for its derivative financial instruments. There was no outstanding derivative financial instrument at 31 December 2017. The table has been drawn up based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Repayable on demand or less than 3 months HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2017			
— inflow	–	–	–
— outflow	–	–	–
	–	–	–
At 31 December 2016			
— inflow	39,239	39,239	39,239
— outflow	(38,470)	(38,470)	(38,470)
	769	769	769

Derivative financial instruments, at 31 December 2016, which could be exercised at any time before the maturity date were included in the repayable on demand or less than 3 months time bond in the above liquidity analysis.

32. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group has commitments for future minimum lease payments for premises under non-cancellable operating leases which fall due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**7,124**	12,689
In the second to fifth year inclusive	**7,227**	15,278
	14,351	27,967

As at 31 December 2017, no future lease payment (2016: HK$500,000) payable to related party is included in above for future minimum lease payments for premises under the non-cancellable operating leases.

	2017 HK$'000	2016 HK$'000
Within one year	**–**	400
In the second to fifth years inclusive	**–**	100
	–	500

Operating lease payments represent rentals payable by the Group for its office and shops operated by retailers. Leases are negotiated for terms ranging from one to three years with fixed monthly rentals.

33. CAPITAL COMMITMENTS

	2017 HK$'000	2016 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
— acquisition of property, plant and equipment	**1,098**	1,043
— proposed acquisition of a subsidiary	**25,000**	–
	26,098	1,043

34. PLEDGE OF ASSETS

The Group's bank borrowings are secured by:

	2017 HK$'000	2016 HK$'000
Fixed charges over time deposits	**1,026**	1,022
Fixed charges over deposits placed for life insurance policies	**17,405**	17,579
Floating charges over inventories	**–**	244,509

35. SHARE-BASED PAYMENT TRANSACTIONS

The Company's pre-IPO share option scheme (the "**Scheme**"), which will expire on 24 June 2024 was adopted pursuant to a resolution passed on 24 June 2014. The Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the eligible participants under the Scheme have or may have made to the Company.

The eligible participants include any full-time or part-time employees, executives or officers (including executive, non-executive and independent non-executive directors) of the Company, or any of its subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the opinion of the directors of the Company, will contribute or have contributed to the Company and/or any of its subsidiaries.

During the year ended 31 December 2017, all the options granted under the Scheme were lapsed and at 31 December 2017, there was no share (2016: 3,134,476 shares, representing 0.90% of the shares of the Company in issue at that date) in respect of which options had been granted and remained outstanding under the Scheme. Without prior approval from the Company's shareholder, (i) the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time; (ii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time; and (iii) options in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million may not be granted to substantial shareholders or independent non-executive directors.

Upon acceptance of a share option offer, the grantee shall pay HK$1 to the Company by way of consideration for each grant.

Details of the options granted under the Scheme are as follows:

Tranche	Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	Fair value at grant date HK$
1	24.6.2014	24.6.2014–11.7.2015	11.7.2015–11.7.2017	3.00	0.7822

No share option was granted during the year ended 31 December 2017.

35. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The following table shows the movements in the Company's share options granted:

Type of participant	Exercise price HK$	Outstanding at 31 December 2016 and 1 January 2017	Lapsed during the year	Transfer during the year *(note)*	Outstanding at 31 December 2017
Director	3.00	396,397	(201,869)	–	–
		396,397	(201,869)	–	–
Employee	3.00	2,738,079	(2,738,079)	–	–
		2,738,079	(2,738,079)	–	–
		3,134,476	(3,134,476)	–	–

	2017	2016
Exercisable at the end of the year	–	3,134,476

During the year ended 31 December 2017, options to subscribe 3,134,476 shares have lapsed.

During the year ended 31 December 2017, based on the directors' best estimate, there is no change to the variables and assumptions used in computing the fair value of the share options at grant date.

Note: Mr. Su Da was originally a director of the Group and ceased to be the director with effect from 29 July 2016. He resigned as the Chief Executive Officer during the year and all his share options were lapsed upon his resignation as the Chief Executive Officer of the Company.

36. CONTINGENT LIABILITIES

As at the close of business on 31 January 2018, the Group had the following litigations:

(a) On 6 October 2017, there is a claim against Ernest Borel (Far East) Company Limited, a wholly-owned subsidiary of the Company, for RMB1,726,664.80 in relation to rentals in respect of a store operated by the landlord under an agreement dated 1 August 2012 and a co-operation agreement dated 21 July 2015 purportedly made between EB Far East and the landlord, plus interest accruing on the rentals claimed and other related costs. On 10 January 2018, EB Far East filed a counter-claim. The above litigation is still at the early stage and EB Far East will vigorously defend against the claim taken by the landlord. However, full provision for the rentals claimed has been made in the consolidated financial statements.

(b) On 20 October 2017, Guangzhou Tianhe Labour Tribunal* (廣州市天河區勞動人事爭議仲裁委員會) issued a judgement (the "**Judgement**") against Ernest Borel (Guangzhou) Trading Co., Ltd., an indirect wholly-owned subsidiary of the Company, for a claim of salaries and other benefits totaling RMB2,566,186.83 in favour of Ms. Liu Libing ("**Ms. Liu**"). Ms. Liu brought the claim in the capacity of an employee regarding her employment as the general manager of EB Guangzhou. Ms. Liu was also a director of the Company but retired on 26 May 2017. On 21 November 2017, EB Guangzhou instituted a legal action in Guangzhou Tianhe District Court* (廣州市天河區法院) to set aside the Judgement. On 24 November 2017, Ms. Liu further claimed RMB1,173,000 against EB Guangzhou. The directors of the Company believe that EB Guangzhou shall have valid grounds to defend all the claims taken by Ms. Liu. The legal proceedings taken by EB Guangzhou in Guangzhou Tianhe District Court are still at early stage. However, full provision for the claims of RMB3,739,186.83 (equivalent to approximately HK$4,331,000) has been made in the consolidated financial statements.

(c) On 12 June 2017, Mr. Su Da, a former employee of the Company instigated a legal action against the Company for claim of salaries and other benefits in arrears in the capacity of an employee regarding his employment as the chief executive officer of the Company. The Company disputed the claim. No provision for the claim has been made in the consolidated financial statements as the Company does not expect to sustain material loss arising from the claim.

(d) On 20 July 2017, EB Guangzhou instituted a legal action against a distributor for the settlement of outstanding trade debts of RMB26,529,351.70 and related overdue interest. This distributor counterclaimed against EB Guangzhou for losses of RMB3,979,000 arising from termination of the distributorship agreement. Management of the Group is of the opinion that EB Guangzhou shall have valid grounds to defend and set aside the counterclaim taken by this distributor. Accordingly, no provision for the counterclaim is considered necessary.

37. RELATED PARTY TRANSACTIONS

(i) During the last year, the Group entered into the following transactions with related parties:

Name of related party	Relationship	Nature of transaction	2017 HK$'000	2016 HK$'000
Su Ran	Brother of a former director/ senior management	Rental expense	–	419
Truly Semiconductors Limited	Entity controlled by a former director	Sales	–	34
Mr. Chan Kin Sun	Former substantial shareholder	Interest expense	–	669

(ii) Amount due from Su Ran was disclosed in the consolidated statement of financial position and in note 19.

(iii) As at 31 December 2017, Mr. Sit, a shareholder and director of the Company, has provided personal guarantees as security for two notes (2016: one note) payable with an aggregate principal amount of HK$140,000,000 (2016: HK$80,000,000) and a convertible bond with a principal value of HK$100,000,000 (2016: Nil).

(iv) As disclosed in note 16 above, the Group and Mr. Sit entered into a memorandum of understanding and a sale and purchase agreement on 10 May 2017 and 30 November 2017, respectively, pursuant to which, the Group conditionally agreed to acquire and Mr. Sit conditionally agreed to sell 100% of the issued capital of Top Win International Trading Limited for a consideration of HK$50,000,000 for which the Group paid a deposit of HK$25,000,000 during the current year. At the date of approval of the consolidated financial statements, the proposed acquisition has not yet been completed.

(v) The compensation to key management personnel comprises only the directors' emoluments, details of which are disclosed in note 11.

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ registration/ operation	Nominal value of issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company		Principal activities
			2017	2016	
Boillat Les Bois S.A.	Switzerland	CHF100,000	**100%**	100%	Development, manufacturing and marketing of watches
Ernest Borel S.A.	Switzerland	CHF100,000	**100%**	100%	Manufacturing and trading of watches
Ernest Borel (Far East) Company Limited	Hong Kong	HK$20,000	**100%**	100%	Assembling and sales of watches
Ernest Borel (Guangzhou) Trading Co., Ltd. (依波路(廣州)貿易有限公司) *(note)*	PRC	RMB20,000,000	**100%**	100%	Distribution and sales of watches
Ernest Borel (Hong Kong) Limited	Hong Kong	HK$1,000	**100%**	100%	Investment holding
Ernest Borel Investment Limited	British Virgin Islands (the "**BVI**")	USD100	**100%**	100%	Investment holding
Swissmount Holdings Limited	BVI	USD100	**100%**	100%	Investment holding
Swissmount Global Company Limited	Hong Kong	HK$1,000	**100%**	100%	Inactive

Note: This is a wholly-owned foreign enterprise established in the PRC with limited liability.

39. EVENT AFTER THE REPORTING PERIOD

On 22 March 2018, a supplemental sale and purchase agreement was entered into by the Group with Mr. Sit to amend certain terms of the SPA in connection with the proposed acquisition as referred in note 16 .

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and total equity of the Group as at 31 December 2017 and for the last four financial years, as extracted from the Group's audited financial statements, is set out below:

Results	For the year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**227,205**	248,883	414,315	602,624	604,013
(Loss) profit before taxation	**(183,184)**	(142,585)	(6,753)	79,047	110,743
Income tax expense	**(14,099)**	(2,426)	(5,163)	(20,236)	(17,722)
(Loss) profit for the year	**(197,283)**	(145,011)	(11,916)	58,811	93,021
(Loss) earnings per share					
Basic (HK cents)	**(57)**	(42)	(3)	19	33

Asset and Liabilities	For the year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**627,617**	695,179	861,455	902,261	745,070
Total liabilities	**(310,031)**	(202,109)	(220,051)	(219,766)	(289,966)
Total equity	**317,586**	493,070	641,404	682,495	455,104