ERNEST BOREL
1856

ERNEST BOREL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

STOCK CODE : 1856

2019 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

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

DIRECTORS

Executive Directors

Mr. Shang Jianguang
*(Chairman of the Board of Directors (the "**Board**")*
Mr. Teguh Halim
(Vice Chairman of the Board)
Mr. Xiong Wei
Ms. Lam Lai

Non-executive Directors

Mr. Xiong Ying
Mr. Tao Li

Independent Non-executive Directors

Mr. To Chun Kei
Mr. Hui Cheuk Kit Frederick
Ms. Chan Lai Wa

COMPANY SECRETARY

Mr. Lau Fan Yu

AUDIT COMMITTEE

Mr. To Chun Kei *(Chairman)*
Mr. Hui Cheuk Kit Frederick
Ms. Chan Lai Wa

REMUNERATION COMMITTEE

Mr. To Chun Kei *(Chairman)*
Mr. Teguh Halim
Mr. Xiong Wei
Mr. Hui Cheuk Kit Frederick
Ms. Chan Lai Wa

NOMINATION COMMITTEE

Mr. Shang Jianguang *(Chairman)*
Mr. Xiong Wei
Mr. To Chun Kei
Mr. Hui Cheuk Kit Frederick
Ms. Chan Lai Wa

EXECUTIVE COMMITTEE

Mr. Shang Jianguang *(Chairman)*
Mr. Teguh Halim
Mr. Xiong Wei
Ms. Lam Lai

INVESTMENT COMMITTEE

Mr. Shang Jianguang *(Chairman)*
Mr. Teguh Halim
Mr. Xiong Wei
Ms. Lam Lai

AUTHORISED REPRESENTATIVES

Ms. Lam Lai
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

Second Floor, Century Yard, Cricket Square
P.O. Box 902, Grand Cayman, KY1-1103
Cayman Islands
(w.e.f 1 April 2020)

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

Second Floor, Century Yard, Cricket Square
P.O. Box 902, Grand Cayman, KY1-1103
Cayman Islands
(w.e.f 1 April 2020)

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

INDEPENDENT AUDITOR

BDO Limited
Certified Public Accountants

PRINCIPAL BANKER

Hang Seng Bank Limited

FINANCIAL HIGHLIGHTS

- Turnover for the financial year ended 31 December 2019 ("**FY2019**") decreased from HK$171.8 million to HK$141.5 million when compared with last year ("**FY2018**").
- Gross margin for FY2019 decreased from 44.2% to 39.5%. Gross profit for FY2019 decreased from HK$75.9 million to HK$55.9 million.
- Loss before tax, excluding the effect of other gain or loss and other income, for FY2019 decreased from HK$82.7 million to HK$55.2 million, a decrease of 33.3%.
- Loss after tax for FY2019 was HK$79.0 million (FY2018: HK$97.7 million), a decrease of 19.1%.
- Loss per share was HK22.75 cents for FY2019 (FY2018: HK28.11 cents).
- The Board has resolved not to recommend any payment of a final dividend for FY2019 (FY2018: 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 2019.

The global economy and market environment in 2019 were still full of challenges and uncertainties, the impact of the China-US trade dispute on the world's economy still existed, and various adverse factors have led to the negative impact on consumer market. Faced with such difficult operating environments, the Company has been adopting appropriate operational and marketing strategies, such as maintain efficient operation costs and effectively allocating resources. We will adopt a prudential attitude when addressing such challenges brought by current market environment.

During the year under review, the Company, relying on its professional product design ability, has designed and launched a series of new watches that conformed to the preference of our target consumers in the market. Such products, together with the enhanced brand image at points of sale, have enhanced customers' awareness and successfully appeal to consumer market. Ms. Kelly Chen, the brand ambassador of "Ernest Borel", with her graceful and healthy charisma that coincides with the Company's elegant and romantic brand image, has received very positive feedback from both the market and the customers. By organizing various promotion campaigns, the Company has successfully deliver to the market that "Ernest Borel", as an "affordable luxury" brand, possessing a more energetic, youthful and international image. In the second half of 2019, the Company organized a grand new product collection launching event as well as roadshow activities in Chongqing, the People's Republic of China, which were attended by our highly recognized brand ambassador, Ms. Kelly Chen, who, with the latest brand image, showcased various new watches and created an even joyful atmosphere. The Company also put adequate resources in highly effective promotion tactics, with the advantage of China Railway High-speed network connecting the entire country, "Romance 1856", a train named after Swiss Ernest Borel, was officially put into operation, representing the start of a new journey for the brand, which will further increase the recognition and reputation of "Ernest Borel" throughout the country.

The Group's revenue from e-commerce network sales is steadily increasing. During the year under review, the Group continued its investment in e-commerce business on mainstream sales platforms, such as Tmall and JD.com. In order to meet customers' needs, the Group promoted exclusive watches which were only available in online platforms, to increase target customers' desire for purchasing which turned out to be satisfactory.

Looking ahead, it is expected the market still facing challenge in the short term, especially COVID-19 has spread throughout the world; however, the Group adopt a prudential and proactive approach , closely monitor and allocate its operating costs and resources in respect of sales, distribution and administrative expenses, and adopting suitable marketing tactics. Meanwhile, the Company is also exploring different investment and development opportunities to increase its profits and expects to create more valuable and sustainable returns to the shareholders.

At last, I would like to express my sincere gratitude to our shareholders and customers for their long-lasting trust and support in the Company.

Mr. Shang Jianguang
Chairman
30 March 2020

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Shang Jianguang (商建光), aged 68, was appointed as an Executive Director and Chairman of the Board of the Company on 12 October 2018. He was also appointed as a member and chairman of the Nomination Committee and member of the Executive Committee and Investment Committee of the Company on 12 October 2018. On 21 December 2018, Mr. Shang was appointed as the chairman of the Executive Committee and Investment Committee. Currently, Mr. Shang is the Executive Director and Chief Executive Officer ("**CEO**") of Citychamp Watch & Jewellery Group Limited ("**Citychamp**"), a company listed on the main board of The Stock Exchange Hong Kong Limited (the "**Stock Exchange**") (stock code: 256), which, as at the date of this annual report, holds 64.08% equity interest in the Company through VGB Limited ("**VGB Limited**"), a wholly-owned subsidiary of Citychamp and a direct controlling shareholder of the Company. Mr. Shang joined the board of Citychamp in November 2004. He is a member of the Remuneration Committee and the Nomination Committee of Citychamp and the general manager of Zhuhai Rossini Watch Industry Limited, a subsidiary of Citychamp. Mr. Shang is also appointed as director of various subsidiaries of Citychamp, including Bendura Bank AG. Mr. Shang, graduated in Fuzhou University majoring in Chemistry, is a qualified senior engineer in the Mainland China.

Prior to joining the Citychamp group, he assumed senior posts in various large companies and was the general manager and director of Min Xin Holdings Limited, a company listed on the main board of The Stock Exchange with stock code 222. He also served as a director of Citychamp Dartong Company Limited, the shares of which are listed on the Shanghai Stock Exchange with stock code 600067 from December 2007 to January 2020. Mr. Shang has extensive knowledge and experience in corporate and investment management.

Mr. Teguh Halim, aged 38, was appointed as an Executive Director and Vice Chairman of the Board of the Company on 12 October 2018. He was also appointed as a member of the Remuneration Committee, Executive Committee and Investment Committee of the Company on 12 October 2018. Mr. Halim is a director of VGB Limited. Currently, Mr. Halim is an Executive Director of Citychamp. He joined Citychamp in October 2008 and has been appointed as an Executive Director of Citychamp since 23 January 2018. Before being appointed as the Executive Director of Citychamp, he was a Vice President of Citychamp. Mr. Halim is also the chairman of the European executive committee of the Citychamp group and director of several subsidiaries of Citychamp engaged in watch business. He has extensive experience in the watch manufacturing and distribution industry and business management. Mr. Halim graduated from Ohio State University as bachelor of science in business administration majoring in accounting.

Mr. Xiong Wei (熊威), aged 57, 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 ("**Prime Route**"), a substantial shareholder of the Company holding approximately 10.92% of the issued share capital of the Company since 3 October 2016. On 8 January 2020, Mr. Xiong has transferred his 10,000 shares in Prime Route, being the entire issued share capital of Prime Route, to his spouse, Ms. Xu Hong.

Ms. Lam Lai (林黎), aged 41, was appointed as an Executive Director and Authorized Representative of the Company on 12 October 2018. She was also appointed as a member of the Executive Committee and Investment Committee of the Company on 12 October 2018. Ms. Lam joined Citychamp in 2008 as investment manager and has been redesignated as CEO assistant mainly responsible for merger and acquisition as well as business development. Ms. Lam leads overseas investments and the merger and acquisition projects of Citychamp. She is also appointed as director of various subsidiaries of Citychamp, including Bendura Bank AG and VGB Limited. Ms. Lam serves as a Non-executive Director of Dragon Mining Limited, a company listed on the main board of The Stock Exchange with stock code 1712, with effect from 18 July 2019. Ms. Lam graduated from University of Western Sydney in 2001 with a bachelor degree of business majoring in marketing.

* *For identification purpose only*

NON-EXECUTIVE DIRECTORS

Mr. Xiong Ying (熊鷹), aged 47, was appointed as an Non-executive Director of the Company on 31 October 2018. Mr. Xiong graduated from the Department of International Finance & Trade at Shenzhen University in 1995 and worked in the property insurance project department of Shenzhen Pacific Insurance Company Limited* (深圳太平洋保險公司) from 1995 to 2000. Mr. Xiong obtained a degree of master of business administration from Peking University in 2002. After that, Mr. Xiong worked in the securities investment department at Beijing Gehua Cable Co., Ltd.* (北京歌華有線股份有限公司) from 2003 to 2005. Since 2006, Mr. Xiong has been a director of Beijing P&C Investment Limited* (北京共和同創投資有限公司).

Mr. Xiong is the younger brother of Mr. Xiong Wei, being the Executive Director of the Company.

Mr. Tao Li (陶立), aged 67, was appointed as the Non-executive Director on 10 June 2019. Mr. Tao was the CEO of the Company from 12 October 2018 to 10 June 2019. Mr. Tao joined the Company in January 2018 and was the general manager of the Company and the vice-president of Ernest Borel S.A., a wholly-owned subsidiary of the Company. Mr. Tao was the vice president of Citychamp from January 2005 to November 2014 in charge of the watch manufacturing and distribution of EBOHR brand owned by Citychamp and the Executive Director of Citychamp from November 2014 to January 2018 in charge of European watch brands acquired by Citychamp. Mr. Tao was the Managing Director of EBOHR Luxuries International Limited ("**EBOHR**") from February 1991 to November 2014, a company acquired by Citychamp in 2004. Mr. Tao graduated from Beijing Foreign Trade Institute (currently known as China Foreign Economy and Trade University) majoring in Foreign Trade English. He is also a senior economist in Mainland China. He has over 30 years of experience in respect of business administration, international trading, brands building and marketing.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. To Chun Kei (杜振基), 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 4 October 2016. Mr. To was appointed as the chairman of the Audit Committee and Remuneration Committee with effect on 6 September 2019. 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 fellow 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, a company listed on the main board of The Stock Exchange with stock code 1062.

Mr. Hui Cheuk Kit Frederick (許卓傑), aged 40, 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 6 September 2019. Mr. Hui holds a Master of Laws Degree from the University of Hong Kong, Bachelor of Laws Degree from the University of London and a Bachelor of Science Degree from the University of Toronto. He is a partner of Zhong Lun Law Firm and is a Solicitor Advocate. He is qualified to practise law in Hong Kong, England and Wales.

Ms. Chan Lai Wa (陳麗華), aged 55, 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.

* *For identification purpose only*

SENIOR MANAGEMENT

Mr. He Wen (何文), aged 45, was appointed as the CEO of the Company on 10 June 2019. Mr. He graduated from Hunan University of Finance and Economics majoring in auditing in 1996. He is a certified public accountant in China. From March 1998 to September 2014, he worked in EBOHR and successively served as the personnel manager, financial manager, assistant to general manager, financial controller and operations director. From September 2014 to October 2016, he worked in Zhuhai Rossini Watch Industry Limited as executive vice general manager. From October 2016 to present, he worked in the Company, successively serving as the vice president, chief operation officer and executive vice president.

COMPANY SECRETARY

Mr. Lau Fan Yu (劉範儒), aged 52, 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 25 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 Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") are set out below:

Name of Director	Details of change
Mr. Shang Jianguang	Mr. Shang ceased to be the director of Citychamp Dartong Company Limited, the shares of which are listed on the Shanghai Stock Exchange with stock code 600067 in January 2020.
Mr. Xiong Wei	On 8 January 2020, Mr. Xiong has transferred his 10,000 shares in Prime Route, being the entire issued share capital of Prime Route, to his spouse, Ms. Xu Hong.
Ms. Lam Lai	Ms. Lam serves as a Non-executive Director of Dragon Mining Limited, a company listed on the main board of The Stock Exchange with stock code 1712, with effect from 18 July 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning over 163 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**"), (excludes the Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region ("**Macau**") and Taiwan), Hong Kong, Macau and other markets. As at 31 December 2019, the Group has more than 772 points of sale ("**POS**").

Ernest Borel recorded a revenue of HK$141.5 million (2018: HK$171.8 million), representing a year-on-year decrease of approximately 17.6%, and gross profit and gross profit margins decreased to HK$55.9 million (2018: HK$75.9 million) and 39.5% (2018: 44.2%), respectively. Consequently, loss attributable to equity holders amounted to HK$79.0 million in FY2019. The Group has always distributed resources to the development of e-commerce business and selling its products on mainstream sales platforms, such as Tmall and JD.com. In order to meet customers' needs, the Group promoted exclusive watches which were only available in these online platforms, to cater different consumer segments needs, as well as broaden the source of income.

The PRC Market

The PRC remains the core market of the Group. As at 31 December 2019, the Group had around 631 POS in the country. Revenue from the PRC segment decreased from HK$149.6 million for FY2018 to HK$110.1 million for FY2019, accounting for approximately 77.8% of total revenue.

Hong Kong and Macau Markets

As at 31 December 2019, the Group had around 55 POS in Hong Kong and Macau markets. Sales in these markets decreased by approximately 22.9% from HK$8.5 million for FY2018 to HK$6.6 million for FY2019, accounting for approximately 4.7% of total revenue.

Other markets

As at 31 December 2019, the Group had 86 POS in the other markets, mainly in Southeast Asia and Europe. Sales in these markets increased by approximately 81.8% from HK$13.6 million for FY2018 to HK$24.8 million for FY2019, accounting for approximately 17.5% of total revenue.

FINANCIAL REVIEW

Revenue and segment information

Our revenue decreased by HK$30.3 million, or approximately 17.6% from HK$171.8 million for FY2018 to HK$141.5 million for FY2019.

Performance by geographical locations

	2019	2018	Changes	
	HK$'000	HK$'000	HK$'000	%
PRC market	110,124	149,623	(39,499)	(26.4)
Hong Kong and Macau markets	6,587	8,539	(1,952)	(22.9)
Other markets mainly in Southeast Asia and Europe	24,807	13,644	11,163	81.8
Total	141,518	171,806	(30,288)	(17.6)

The PRC market

The PRC continues to be our major market, representing approximately 77.8% of our total revenue for FY2019. Sales in this region showed a decrease of approximately 26.4% from HK$149.6 million for FY2018 to HK$110.1 million for FY2019.

Hong Kong and Macau markets

Hong Kong and Macau markets accounted for approximately 4.7% of our total revenue for FY2019. Sales in these markets decreased by approximately 22.9% from HK$8.5 million for FY2018 to HK$6.6 million for FY2019.

Other markets

Revenue from other markets, mainly in Southeast Asia and Europe recorded a increase from HK$13.6 million FY2018 to HK$24.8 million for FY2019.

Cost of sales

Cost of sales decreased by approximately 10.6% from approximately HK$95.9 million for FY2018 to approximately HK$85.7 million for FY2019.

Gross profit

Our gross profit decreased by HK$20.0 million or approximately 26.4% from HK$75.9 million for FY2018 to HK$55.9 million for FY2019, while the gross profit margin decreased to approximately 39.5% for FY2019 from approximately 44.2% for FY2018.

Other gains and losses

Other losses increased by HK$10.4 million or approximately 74.8% to HK$24.3 million for FY2019 from HK$13.9 million for FY2018.

Distribution expenses

Our selling and distribution expenses decreased by HK$22.2 million or approximately 31.9% from HK$69.7 million for FY2018 to HK$47.5 million for FY2019, representing approximately 33.6% of our total revenue for 2019 (2018: approximately 40.6%).

Administrative expenses

Our administrative expenses decreased to HK$52.3 million for FY2019 from HK$61.7 million for FY2018, representing an decrease of HK$9.4 million or approximately 15.2%.

Finance costs

Our finance costs decreased by HK$16.0 million or approximately 58.8% from HK$27.2 million for FY2018 to HK$11.2 million for FY2019.

Loss for the year attributable to owners of our Company

Our net loss for FY2019 decreased from HK$97.7 million for FY2018 to HK$79.0 million for FY2019, a decrease of 19.1%.

Inventory

Inventory amounted to approximately HK$326.9 million as at 31 December 2019, representing a decrease of HK$39.2 million, or around 10.7%, from HK$366.1 million as at 31 December 2018. Such decrease in inventory was attributable to consumption during the year.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK$62.4 million and approximately HK$42.0 million as at 31 December 2018 and 2019 respectively.

The Group's trade and other payables showed a decreased from approximately HK$41.0 million as at 31 December 2018 to approximately HK$33.3 million as at 31 December 2019.

Liquidity, financial resources and capital structure

As at 31 December 2019, we had non-pledged cash and bank balances of HK$18.7 million (2018: HK$28.9 million). Based on the borrowings of HK$205.9 million (2018: HK$223.1 million) and shareholders' equity of HK$140.4 million (2018: HK$224.6 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 146.7% (2018: approximately 99.3%).

As at 31 December 2019, all of our borrowing amounting to HK$205.9 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, bank borrowings and our intra-group balances were denominated in foreign currencies.

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

Charge on assets

Our outstanding bank borrowings were secured by:

(a) charges over our time deposits with a carrying amount of HK$nil million (2018: HK$1.0 million); and

(b) charges over deposits placed for a life insurance policies with a carrying amount of HK$nil million (2018: HK$17.2 million).

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during FY2019.

Future plan for material investment and capital assets

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

Significant investments held

During FY2019, no significant investments were held by the Group.

Contingent liabilities

As at 31 December 2019, the Group did not have any contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

Since January 2020, Hong Kong and the PRC has reported certain confirmed cases of COVID-19 which may affect the global business environment. Pending on the developments and spread of COVID-19 subsequent to the date of these consolidated financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these consolidated financial statements.

Employees and remuneration policies

As at 31 December 2019, the Group had a total of 211 full-time employees, representing a decrease of 8.7% compared to 231 employees as at 31 December 2018. Total staff costs for FY2019 decreased to approximately HK$63.3 million from approximately HK$67.9 million for FY2018.

All of our full-time employees are paid a fixed salary and may be granted other allowances, based on their positions. Members of the sales staff are also eligible for commissions based on their ability to meet sales targets. In addition, year-end bonuses may also be awarded to the employees at our discretion and based on employees' performance. Yearly performance appraisals are conducted to ensure that the employees receive feedback on their performance. Our Company has adopted a share option scheme (the "**Share Option Scheme**") on 24 June 2014, which became effective on 11 July 2014 and will expire on 24 June 2024. No option has been granted under the Share Option Scheme during FY2019.

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

Capital commitments

There was no capital commitments as at 31 December 2019 (2018: nil).

PROSPECTS

In 2019, the China-US trade dispute and unsteady political situation in Hong Kong impacted the economy in the world, the PRC and Hong Kong. The premium watch retails market in the PRC also suffered from extremely negative effects. These factors exerted adverse effects on the Company's operation and revenue. The Company has adopted various measures to deal with such difficult operating environment.

Products

The Company always insists on making high-quality "Swiss-made" watches. In the future, the Company will monitor market conditions from an objective view and design watch series, that conformed to the preference of our target consumers, for men, women and couples with our professional product design ability.

Brand Promotion

The Group continues to promote and enhance the reputation of "Ernest Borel" brand through various marketing tactics. During the year, Ms. Kelly Chen, the brand ambassador of "Ernest Borel", promoted the Company's elegant and romantic brand image with her graceful and healthy charisma; meanwhile, the Company's display counters have been constantly up-grading, bringing positive feedback for "Ernest Borel" brand. In addition, the Company constantly placed various kinds of digital and electronic advertisements on various online platforms to promote "Ernest Borel" brand to younger and international consumers for upholding the romantic culture of "Ernest Borel" brand.

Distribution Channel

The Group continues to adopt effective sales strategies and endeavors to explore new POS in markets with growth potential through different brand promotion tactics. Meanwhile, the Group will continue to review the performance of each POS and abandon those with a weak performance with a view to increasing the sales revenue of POS with better performances. In the future, the Group will continue to monitor market conditions and timely distribute resources to e-commerce with view to increasing sales revenue. The Group will also promote exclusive watches on online platform to attract target customers.

Operation

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

Conclusion

Looking ahead, COVID-19 has spread throughout the world, as well as the uncertainties and adverse factors of the global economy, such as the China-US trade dispute, the Group believes that the future economic environment will consist of uncertainties. However, in the future, the Group will still maintain a prudential and active attitude, closely monitor market conditions and adjust the Group's operation strategies based on our actual needs. The Group will review and allocate the resources used in advertisements and product research and development, adjust the time of usage while controlling operation expense with more caution. Lastly, the Group has been exploring various investment and development opportunities with a view to increasing the Group's revenue and bringing valuable and sustainable returns for our shareholders in future.

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 2019 (the "**Year**"), the Company has adopted, for corporate governance purposes, the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules. 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

Pursuant to the Code provision A.6.7 of the CG Code, Independent Non-executive Directors and other Non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Lui Wai Ming, the former Independent Non-executive Director, was unable to attend the Company's annual general meeting ("**AGM**") held on 29 May 2019 due to other business engagements.

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

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.

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. The decision making power on day-to-day operation of the Group has been delegated to the management team, which is led by a team of senior management with substantial experience and expertise in the Group's business.

Board Composition

As of the date of this annual report, the Board is comprised of four Executive Directors, two Non-executive Directors (the "**NEDs**") and three Independent Non-executive Directors (the "**INEDs**"):

Executive Directors

Mr. Shang Jianguang *(Chairman of the Board)*
Mr. Teguh Halim *(Vice Chairman of the Board)*
Mr. Xiong Wei
Ms. Lam Lai

NEDs

Mr. Xiong Ying
Mr. Tao Li

INEDs

Mr. To Chun Kei
Mr. Hui Cheuk Kit Frederick
Ms. Chan Lai Wa

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 is set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. To the best knowledge of the Company, there is no financial, business or family relationship among the current members of the Board except for the family relationship between Mr. Xiong Wei and Mr. Xiong Ying, they are brother.

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.

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-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 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 DIVERSITY POLICY

Pursuant to the CG 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.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and CEO are held by Mr. Shang Jianguang and Mr. He Wen, respectively. The Chairman and the CEO are not related, and their roles are segregated with a clear division of responsibilities. The Chairman is responsible to lead and effectively run the Board, ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner; and the CEO, appointed by the Board under its authority, is responsible for the day to day general management and control of the business and operations of the Company.

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 one of them, namely Mr. To Chun Kei, 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.

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.

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 meeting 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 Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	Investment Committee	AGM
Executive Directors							
Mr. Shang Jianguang	5/7	N/A	N/A	3/3	2/2	0/0	1/1
Mr. Teguh Halim	7/7	N/A	3/3	N/A	2/2	0/0	1/1
Mr. Xiong Wei	5/7	N/A	3/3	3/3	0/2	0/0	1/1
Ms. Lam Lai	7/7	N/A	N/A	N/A	2/2	0/0	1/1
Non-executive Directors							
Mr. Xiong Ying	4/7	N/A	N/A	N/A	N/A	N/A	1/1
Mr. Tao Li *(Note 1)*	2/7	N/A	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors							
Mr. To Chun Kei *(Note 2)*	4/7	2/2	3/3	3/3	N/A	N/A	1/1
Mr. Hui Cheuk Kit Frederick *(Note 3)*	1/7	N/A	N/A	N/A	N/A	N/A	N/A
Ms. Chan Lai Wa	3/7	2/2	2/3	2/3	N/A	N/A	1/1
Mr. Lui Wai Ming *(Note 4)*	2/7	2/2	2/3	2/3	N/A	N/A	0/1

Notes:

1. Appointed as a Non-executive Director on 10 June 2019.

2. Appointed as the chairman of the Audit Committee and Remuneration Committee on 6 September 2019.

3. Appointed as an Independent Non-executive Director on 6 September 2019.

4. Resigned as the Independent Non-executive Director on 6 September 2019.

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, as well as relevant rules and regulations.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

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

	Attending expert briefings/ webinars / conferences/ relevant materials relevant to the business, corporate governance, accounting or directors' duties
Executive Directors	
Mr. Shang Jianguang *(Chairman of the Board)*	✓
Mr. Teguh Halim *(Vice Chairman of the Board)*	✓
Mr. Xiong Wei	✓
Ms. Lam Lai	✓
NEDs	
Mr. Xiong Ying	✓
Mr. Tao Li	✓
INEDs	
Mr. To Chun Kei	✓
Mr. Hui Cheuk Kit Frederick	✓
Ms. Chan Lai Wa	✓
Mr. Lui Wai Ming *(resigned on 6 September 2019)*	✓

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. To Chun Kei, Mr. Hui Chuek Kit Frederick and Ms. Chan Lai Wa, all of whom are INEDs. Mr. To Chun Kei has appropriate professional qualifications and experience in accounting matters and 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 two meetings and mainly performed following duties:

- reviewed the Group's audited annual results for the year ended 31 December 2018 and unaudited interim results for the six months ended 30 June 2019, 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;
- reviewed the Group's internal control system and related matters;
- assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management;
- considered and made recommendations on the re-appointment of the independent auditor of the Group, and the terms of engagement; and
- reviewed the continuing connected transactions of the Group.

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. To Chun Kei, Mr. Hui Cheuk Kit Frederick and Ms. Chan Lai Wa (all being INEDs) and Mr. Teguh Halim and Mr. Xiong Wei (both of them are Executive Directors). Mr. To Chun Kei 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 recommended to the Board the remuneration package of the Executive Directors and senior management for the Year;
- recommended to the Board on the remuneration of Non-executive Directors; and
- considered and recommended to the Board on the remuneration packages for the directors newly appointed 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 12 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 take into consideration the Board Diversity Policy when identifying suitable and 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 Board approved and adopted a nomination policy (the "**Board Nomination Policy**") on 21 December 2018 in order to set out the approach to guide the nomination committee of the Company in relation to the selection and recommendation of candidates for directorship.

This Policy aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business.

In assessing, selecting and recommending candidates for directorship to the Board, the Nomination Committee will give due consideration to the factors including but not limited to (collectively, the "**Factors**"):

(a) reputation for character and integrity;

(b) accomplishment and experience in the relevant industries in which the Company's business is involved and other professional qualifications;

(c) number of directorship the candidate holds in listed companies, commitment in respect of available time and relevant interest;

(d) diversity in all aspects including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills, knowledge and length of service;

(e) contribution that the candidates can potentially bring to the Board;

(f) whether cross-directorship or significant links with other Directors through involvements in other companies or bodies exists, and

(g) plans in place for the orderly succession of the Board.

The Nomination Committee currently consists of five members, namely Mr. Shang Jianguang and Mr. Xiong Wei (both of them are Executive Directors); Mr. To Chun Kei, Mr. Hui Cheuk Kit Frederick and Ms. Chan Lai Wa (all being INEDs). Mr. Shang Jianguang 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 on a timely fashion. Meetings of the Executive Committee shall be held at least once a year. The Executive Committee currently consists of four members, namely Mr. Shang Jianguang, Mr. Teguh Halim, Mr. Xiong Wei and Ms. Lam Lai (all of them are Executive Directors).

During the Year, the Executive Committee held two meetings, mainly 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.

(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 four members, namely Mr. Shang Jianguang, Mr. Teguh Halim, Mr. Xiong Wei and Ms. Lam Lai (all 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 and the Executive Committee pursuant to a set of written terms of reference adopted by the Board in compliance with code provision D.3.1 of the CG 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 CG 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 CG Code and disclosure in the corporate governance report.

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 BDO Limited, 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 performed annual review on 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 Audit Committee and the Board have performed a risk assessment with the intention to identify, evaluate and priorities the critical risks of the Group as well as conducted review on the effectiveness of risk management and internal control systems. The Group also engaged an independent professional consultant to prepare an internal review report and provide recommendations for improvement. The scope and findings of review on the internal control systems have been reported to and reviewed by the Audit Committee annually.

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 BDO Limited as the independent auditor in Hong Kong during the Year. The Audit Committee reviews the independent auditor's audit scope and approves its fees. For the Year, the total fee paid/payable in respect of audit service provided by the Company's independent auditor is set out below:

	HK$'000
Audit services	730

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 BDO Limited as the Company's independent auditor for the ensuing year at the forthcoming AGM.

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.

DIVIDEND POLICY

The Company has approved and adopted a dividend policy (the "**Dividend Policy**") on 21 December 2018 in order to provide return to the Shareholders whilst retaining adequate reserves for the Group's future development.

The Company considers stable and sustainable returns to the Shareholders to be our goal. The Company may declare and distribute dividends to Shareholders provided that the declaration and distribution of dividends does not affect the normal operations of the Group. According to the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account the following factors:

(a) the Group's retained earnings and distributable reserves;

(b) the Group's future earnings;

(c) the Group's capital requirements;

(d) the Group's working capital requirements;

(e) the general financial conditions of the Group;

(f) the Group's business development strategies and future expansion plans;

(g) contractual restrictions on payment of dividends;

(h) the general economic and industrial conditions; and

(i) any other factors that the Board considers relevant.

The declaration and payment of dividends by the Company shall be determined at the sole discretion of the Board and shall be subject to any restrictions under the Companies Law of the Cayman Islands and the Articles of Association of the Company. The Dividend Policy will continue to be reviewed from time to time and could be modified at any time at the sole and absolute discretion of the Board. There can be no assurance that dividends will be proposed or declared in any particular amount for any given period.

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.

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

1. ABOUT THIS REPORT

This is the environmental, social & governance ("**ESG**") Report (the "**Report**") of the Group that we have worked on. The Group contributes to sustainable development by delivering environmental, social and economic benefits to all stakeholders in a balanced way.

1.1 Reporting period

This report which covers the material ESG issues faced by the Group for the period from 1 January 2019 to 31 December 2019.

1.2 Reporting Framework

This report was prepared according to the ESG Reporting Guide under appendix 27 of the Listing Rules.

1.3 Reporting Scope

This report details our policies on environmental and social issues material to our business, as identified by our internal and external stakeholders. The key performance indicators ("**KPI**"), have been used for tracking and set out to demonstrate our performance through the utilisation of our resources.

1.4 Stakeholder Engagement

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.

1.5 Materiality Assessment

This Report covers the environmental and social subject areas, which underline various aspects of relevant ESG issues. As listed below, the Group has identified the relevant material issues to its operations and has disclosed the respective performances in this Report:

Aspects	**Material Issues**	**Corresponding section of this report**
A. Environmental		
A1. Emissions	Greenhouse Gas Emissions	2.1
A2. Use of Resources	Energy Consumption	2.2–2.3
A3. The Environment and Natural Resources	Waste Management	2.4
B. Social		
B1. Employment	Labour Standards	3.1–3.2
B2. Health and Safety	Occupational Health and Safety	3.3
B3. Development and Training	Development and Training	3.4
B4. Labour Standards	Child and Forced Labour Prevention	3.1–3.2
B5. Supply Chain Management	Supply Chain Management	4.1
B6. Product Responsibility	Quality Control Customer Service Data Protection	4.2–4.4
B7. Anti-Corruption		3.5
B8. Community Investment		5

1.6 Stakeholder's Feedback

For any enquiries, comments or suggestions regarding this Report, please contact our Company Secretary of the Group at:

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

Tel: (852) 3628 5511
Fax: (852) 3582 4933
E-mail: thomson@ernestborel.ch

A. ENVIRONMENTAL

2. Protecting our Environment

As a world-renowned Swiss watchmaker with production facilities 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.

2.1 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 183.84 tCO_2e of greenhouse gas, with an intensity of 0.91 tCO_2e per employee.

Greenhouse Gas		Emission	Unit
Scope 1	Stationary fuel	53.56	tCO_2e
	Vehicle fuel	34.38	tCO_2e
Scope 2	Electricity	95.90	tCO_2e
Total		183.84	tCO_2e
Intensity		0.91	tCO_2e per employee

2.2 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 strictly controls our procurement and keep 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 during the reporting period. The results are presented below. The main types of resources consumed by our Group are identified as electricity, vehicle fuel, stationary fuel, drinking-water, paper, and packaging materials.

Type of Resources	Consumption	Unit
Electricity	104,081	kWh
Intensity	512.71	kWh per employee
Vehicle fuel	12,693	L
Intensity	62.53	L per employee
Stationary fuel	22,027	L
Intensity	108.51	L per employee
Drinking-water	205.97	m^3
Intensity	1.01	m^3 per employee
Paper	2,207.15	kg
Intensity	10.87	kg per employee

Type of Packaging Materials	Consumption	Unit
Carton box, Plastic and Other	45.54	tonnes
Intensity	0.22	tonnes per employee

2.3 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. We also placed sticker reminders around the office to encourage employees to "reducing usage of papers".

2.4 Waste Management

At our workshop in Switzerland, our production mainly involves watch assembling and thus we do not generate hazardous waste during our operations. Nevertheless, 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 chemical substances from releasing 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 non-compliance cases related to waste disposal in violation of laws and regulations were noted.

In our Hong Kong office, we donated discarded computers, printers and projectors to Caritas Computer Workshop; and we have requested a recycling specialist to recycle the discarded television.

B. SOCIAL

3. 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.

3.1 Employment Practices

We conduct all our human resources activities in accordance with Human Resources Management Policy Manual 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 a special staff discount for purchase of our company watches.

3.2 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.

3.3 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 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.

3.4 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 the continuous growth and development of our employees, will enable the Company to grow and develop as well. 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. We also encourage staff to receive external training programmes and offer subsidies to support their continuous professional development. In addition, our training department will continuously provide on-job training for our salespersons.

3.5 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 request 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.

4. 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, and 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.

According to our "Procurement 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 customers. This is to ensure that the products received by our customers are of the best quality.

4.1 Supply Chain Management

The making of our premium watches involve 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 Policy", which have 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.

4.2 Intellectual Property

We recognize the values of intellectual property — as the creativity and innovation embedded in intellectual property worth far more than any tangible 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 included in our Employee handbook the "Code of Conduct", 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.

4.3 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 customers' behavior.

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 customers' data and information is secure and properly used.

4.4 Maintaining High Product Quality

According to our "Quality policy", we aim to keep our products in a high-quality standard.

We believe that our responsibility extends beyond quality assurance. In particular, we also put emphasis on after-sale 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 centers and stores located all over the world.

5. Community

As a responsible company, we aim at serving and strengthening the wider community, and encouraging employees to support the community. Our Group understands the importance of making positive contribution to the community where it operates, and considers community benefits as one of our social responsibility. The Group encourages our staff to take part in community welfare and voluntary work, through participating in these activities, public welfare education in the community such as environmental protection, conservation and other positive messages can be promoted.

Looking ahead, the Group will encourage employees to actively participate in various community activities and increase communication with the public. For example, the blood donation activities organized by the Hong Kong Red Cross. Through participating in volunteering activities, the Group will bring more positive effects to the development of the community with its own growth.

REPORT OF THE DIRECTORS

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 9 to 13 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 Renminbi ("**RMB**") and Swiss Franc ("**CHF**"), while approximately 77.8% and 13.1% of our revenue was denominated in RMB and CHF during the year ended 31 December 2019, 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 RMB and CHF may give rise to uncertainties in the value of net assets, net profit margin and dividends. For the year ended 31 December 2019, the net foreign exchange loss amounted to HK$4.1 million (2018: HK$10.9 million).

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 2019 are set out in note 36 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 12.8% (2018: 9.0%) and 34.4% (2018: 26.3%), respectively, of the Group's total revenue for the Year.

The aggregate purchases from the Group's largest and five largest suppliers accounted for 14.2% (2018: 27.8%) and 53.4% (2018: 65.9%), 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 45 to 47 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 9 to 13 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 2019 and for the past four financial years are set out on page 110 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 15 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Company and the Group are set out on page 48 of the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2019, the Company's reserves available for distribution to the Shareholders amounted to HK$111,764,000 (2018: HK$131,366,000).

Under the Companies Law of the Cayman Islands, the share premium account of the Company in the amount of HK$182,099,000 (2018: 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 FY2019 (2018: Nil).

CHARITABLE DONATIONS

The Group did not make any charitable donation during the Year (2018: Nil).

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Company and its subsidiaries as at 31 December 2019 are set out in note 23 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 27 to the consolidated financial statements.

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 2019, 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 annual report.

Name	Position
Shang Jianguang	Executive Director and Chairman of the Board
Teguh Halim	Executive Director and Vice Chairman of the Board
Xiong Wei	Executive Director
Lam Lai	Executive Director
Xiong Ying	Non-executive Director
Tao Li	Non-executive Director *(appointed on 10 June 2019)*
To Chun Kei	Independent Non-executive Director
Hui Cheuk Kit Frederick	Independent Non-executive Director *(appointed on 6 September 2019)*
Chan Lai Wa	Independent Non-executive Director
Lui Wai Ming	Independent Non-executive Director *(resigned on 6 September 2019)*

Pursuant to article 83(3) of the Articles of Association, Mr. Tao Li, who was appointed by the Board as the Non-executive Director on 10 June 2019; and Mr. Hui Cheuk Kit Frederick, who was appointed by the Board as the Independent Non-executive Director on 6 September 2019, shall hold the office until the AGM, being the first general meeting after their appointments, 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. Shang Jianguang, Mr. Xiong Wei and Ms. Chan Lai Wa shall retire from office by rotation at the AGM. All of them, 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 Rule 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 6 to 8 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 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 12 to the consolidated financial statements.

MANAGEMENT CONTRACT

No contract 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' 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 2019 and up to and including the date of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, to the best knowledge of the directors and based on the information publicly available to the Company, there was sufficient public float as required by the Listing Rules.

CORPORATE GOVERNANCE REPORT

Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 14 to 24 of this annual report.

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

As at 31 December 2019, the interests or short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or 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 or shares in associated corporation of the Company

Name of Directors	Company/ Name of associated corporation	Capacity/Nature of interest	Number of Shares held	Approximate Percentage of interest in the total issued Shares in the Company[(3)]/ associated corporation
Mr. Shang Jianguang	Citychamp	Beneficial owner/Personal Interest	5,300,000	0.12%
Mr. Teguh Halim	Citychamp	Beneficial owner/Personal Interest/ Interest of Spouse[(1)]	6,000,000	0.14%
Mr. Xiong Wei	Company	Interest in controlled corporation/ Corporate interest[(2)]	37,935,000	10.92%
Mr. Tao Li	Citychamp	Beneficial owner/Personal Interest	5,000,000	0.11%

Notes:

1. 3,000,000 shares were held by Mr. Teguh Halim's wife.

2. Prime Route is wholly owned and controlled by Mr. Xiong Wei ("**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 2019 (i.e. 347,437,000 shares).

Saved as disclosed above, as at 31 December 2019, 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 2019, 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	Number of Shares	Approximate % of total number of issued Shares[5]
VGB Limited[1]	Beneficial owner	222,634,485	64.08%
Citychamp[1]	Interest in controlled corporation	222,634,485	64.08%
Sincere View International Limited[1]	Interest in controlled corporation	222,634,485	64.08%
Full Day Limited[1]	Interest in controlled corporation	222,634,485	64.08%
Hon Kwok Lung[2,3]	Interest in controlled corporation	222,634,485	64.08%
Lam Suk Ying[2,3]	Interest in controlled corporation	222,634,485	64.08%
Prime Route[4]	Beneficial owner	37,935,000	10.92%

Notes:

1. 222,634,485 shares in the issued share capital of the Company were directly held by VGB Limited. VGB Limited is wholly owned and controlled by Citychamp. Citychamp was the controlled corporation of each of Sincere View International Limited ("**Sincere View**") and Full Day Limited ("**Full Day**"). Accordingly, each of Citychamp, Sincere View and Full Day was deemed to be interested in the shares of the Company held by VGB Limited.

2. Mr. Hon Kwok Lung ("**Mr. Hon**") held the entire issued share capital of Full Day. Sincere View was the controlled corporation of each of Mr. Hon and Ms. Lam Suk Ying ("**Ms. Lam**"), the spouse of Mr. Hon. Accordingly, each of Mr. Hon and Ms. Lam was deemed to be interested in the shares of the Company held by VGB Limited.

3. Mr. Hon and Ms. Lam also directly held 3,500,000 shares and 1,374,000 shares in the issued share capital of Citychamp, respectively.

4. Prime Route is wholly owned and controlled by Mr. Xiong. Mr. Xiong is therefore deemed to be interested in the shares held by Prime Route.

5. Calculated based on the number of issued Shares as at 31 December 2019 (i.e. 347,437,000 shares).

Save as disclosed above, as at 31 December 2019, 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.

SHARE OPTION SCHEME

The Company conditionally adopted a Share Option Scheme on 24 June 2014, which was effective upon 11 July 2014 and will expire on 24 June 2024. 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.

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.

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 35 to the consolidated financial statements. Those related party transactions which also constitute continuing connected transactions are fully exempted continuing connected transactions of the Company under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in note 35 "Related Party Transactions"of the consolidated financial statements, the Group had the following continuing connected transactions during the Year, such transactions constitutes continuing connected transactions with a connected person which is fully exempted from independent shareholders' approval, annual review and all disclosure requirements of Chapter 14A of the Listing Rules.

(a) On 21 October 2019, the Company and Citychamp entered into the Master Sale and Purchase Agreement pursuant to which (1) the Citychamp Group, may, from time to time, purchase Watches from the Group; and (2) the Group may, from time to time, sell Watches to the Citychamp Group during the term of the Master Sale and Purchase Agreement.

For more details, please refer to the Company's announcement relating to the continuing connected transactions dated 21 October 2019.

For the year ended 31 December 2019, the aggregate transaction amount under the Master Sale and Purchase agreement is HK$2,999,000.

DIRECTORS' AND SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in note 35 to the consolidated financial statements, 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 "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 one share option schemes to motivate and reward its Directors and eligible employees. Details of the scheme is set out in the paragraphs headed "Share Option Scheme" above.

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 "Share Option Scheme" described above, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2019.

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 2019.

SIGNIFICANT LEGAL PROCEEDINGS

The Group and the Company were not engaged in any 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 2019.

REVIEW BY AUDIT COMMITTEE

The Audit Committee comprises all the three INEDs, namely Mr. To Chun Kei, Mr. Hui Cheuk Kit Frederick and Ms. Chan Lai Wa with Mr. To Chun Kei 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 reporting matters including the review of the Group's consolidated annual results and annual report for the Year.

INDEPENDENT AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2018 and 2019 were audited by BDO Limited.

BDO Limited will retire and will be eligible to offer themselves for re-appointment. A resolution for the re-appointment of BDO Limited 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
Shang Jianguang
Chairman

Hong Kong, 30 March 2020

INDEPENDENT AUDITOR'S REPORT

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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 (together the "**Group**") set out on pages 45 to 109, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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 judgement, 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.

Provision for inventories

Refer to notes 5 and 17 to the consolidated financial statements and the accounting policies on note 4(l). As at 31 December 2019, the Group has inventories with the carrying amount of HK$326,900,000, which represented a substantial portion of the Group's total assets.

Management considers several factors in determining the appropriate level of inventory allowance, including inventory ageing, subsequent sales and usage of inventories, product pricing and current market condition.

We identified the valuation of inventories as key audit matter because of the magnitude of the inventories and significant judgement is exercised by management in determining the appropriate level of inventory allowance.

How the matter was addressed in our audit

Our procedures on the management's assessment on the inventory allowance included:

(i) Obtaining an understanding of the management's basis for inventory provision;

(ii) Assessing the reasonableness of the basis used and estimates made by the management in determining the level of inventory allowance;

(iii) Testing the inventory ageing, on a sample basis, to the inventory records; and

(iv) Evaluating the reasonableness and adequacy of the inventory allowance by comparing the actual inventory loss to the management's estimation.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Company's 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.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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 of the Company 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.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors of the Company in discharging their responsibilities in this regard.

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. This report is made solely to you, as a body, in accordance with the terms of our 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 judgement 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 the Audit Committee 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 the Audit Committee 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 the directors, 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.

BDO Limited
Certified Public Accountants

Lui Chi Kin
Practising Certificate Number P06162
Hong Kong, 30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	NOTES	**2019** **HK$'000**	2018 HK$'000
Revenue	6	**141,518**	171,806
Cost of sales		**(85,659)**	(95,874)
Gross profit		**55,859**	75,932
Other gains and losses, net	7	**(24,285)**	(13,893)
Other income	8	**707**	250
Distribution expenses		**(47,458)**	(69,743)
Administrative expenses		**(52,340)**	(61,674)
Finance costs	9	**(11,222)**	(27,218)
Loss before tax	10	**(78,739)**	(96,346)
Income tax expense	11	**(308)**	(1,320)
Loss for the year attributable to owners of the Company		**(79,047)**	(97,666)
Other comprehensive income			
Item that will not be subsequently reclassified to profit or loss:			
Remeasurement of net defined benefit obligations	22	**(832)**	2,510
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**3,109**	1,388
Other comprehensive income for the year		**2,277**	3,898
Total comprehensive income for the year attributable to owners of the Company		**(76,770)**	(93,768)
Loss per share	14		
— Basic and diluted (Hong Kong cents)		**(22.75)**	(28.11)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	15	**26,448**	37,944
Life insurance policies	16	**–**	17,226
		26,448	55,170
CURRENT ASSETS			
Inventories	17	**326,900**	366,118
Trade and other receivables	18	**41,971**	62,356
Pledged bank deposits	19	**–**	1,039
Restricted bank deposits	19	**1,260**	–
Bank balances and cash	19	**18,735**	28,946
		388,866	458,459
CURRENT LIABILITIES			
Trade and other payables	20	**33,252**	40,968
Tax payable		**2,388**	2,352
Lease liabilities	28	**6,385**	–
Amount due to a related company	21	**–**	25,141
Amounts due to fellow subsidiaries	21	**144,132**	11,443
Amount due to ultimate holding company	21	**39,488**	176,446
Amounts due to directors	21	**22,241**	–
Bank borrowings	23	**–**	10,048
		247,886	266,398
NET CURRENT ASSETS		**140,980**	192,061
TOTAL ASSETS LESS CURRENT LIABILITIES		**167,428**	247,231

Consolidated Statement of Financial Position

As at 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Lease liabilities	28	**3,023**	–
Deferred tax liabilities	26	**20,360**	20,468
Pension obligations	22	**3,617**	2,137
		27,000	22,605
NET ASSETS		**140,428**	224,626
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	**3,474**	3,474
Reserves		**136,954**	221,152
TOTAL EQUITY		**140,428**	224,626

The consolidated financial statements on pages 45 to 109 were approved and authorised for issue by the board of directors on 30 March 2020 and are signed on its behalf by:

Shang Jianguang
DIRECTOR

Teguh Halim
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital HK$'000	Share premium HK$'000 *(Note (iii))*	Other reserve HK$'000 *(Note (i) and (iii))*	Convertible bond equity reserve HK$'000 *(Note (iii))*	Actuarial gain and loss reserve HK$'000 *(Note (iii))*	General reserve HK$'000 *(Note (ii) and (iii))*	Translation reserve HK$'000 *(Note (iii))*	Retained profits/ (Accumulated losses) HK$'000 *(Note (iii))*	Total HK$'000
Balance at 1 January 2018	3,474	182,099	15,500	14,491	(2,325)	1,547	1,886	100,914	317,586
Loss for the year	–	–	–	–	–	–	–	(97,666)	(97,666)
Other comprehensive income for the year	–	–	–	–	2,510	–	1,388	–	3,898
Total comprehensive income for the year	–	–	–	–	2,510	–	1,388	(97,666)	(93,768)
Settlement of the equity component of convertible bond upon early redemption	–	–	–	(989)	–	–	–	–	(989)
Release of deferred tax liability upon early redemption of convertible bond *(note 26)*	–	–	–	1,797	–	–	–	–	1,797
Transfer upon derecognition of convertible bonds *(note 25)*	–	–	–	(15,299)	–	–	–	15,299	–
At 31 December 2018 and 1 January 2019, as original presented	**3,474**	**182,099**	**15,500**	**–**	**185**	**1,547**	**3,274**	**18,547**	**224,626**
Effect of adoption of IFRS 16 (note 2(a)(i))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,428)**	**(7,428)**
At 1 January 2019, as restated	**3,474**	**182,099**	**15,500**	**–**	**185**	**1,547**	**3,274**	**11,119**	**217,198**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(79,047)**	**(79,047)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**(832)**	**–**	**3,109**	**–**	**2,277**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(832)**	**–**	**3,109**	**(79,047)**	**(76,770)**
Balance at 31 December 2019	**3,474**	**182,099**	**15,500**	**–**	**(647)**	**1,547**	**6,383**	**(67,928)**	**140,428**

Notes:

(i) Other reserve of HK$15,500,000 represents amount arising from capitalisation of loans from former shareholders of a subsidiary of the Company.

(ii) General reserve represents the legal reserve being allocated from the retained profits of certain subsidiaries of the Company, as required under the relevant legislation of Switzerland and the People's Republic of China (the "**PRC**"), respectively.

(iii) These reserve accounts comprise of the consolidated reserves of HK$136,954,000 (2018: HK$221,152,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(78,739)**	(96,346)
Adjustments for:			
Reversal of provision for inventories	*10*	**(3,114)**	(997)
Impairment loss of trade receivables, net	*10*	**1,350**	1,445
Impairment loss of property, plant and equipment	*10*	**19,043**	–
Depreciation of property, plant and equipment	*10*	**9,811**	13,740
Finance costs	*9*	**11,222**	27,218
Interest income	*8*	**(73)**	(65)
Loss on written off/disposal of property, plant and equipment	*7*	**9**	388
Provision for defined benefit obligations		**812**	902
Fair value (gain)/loss on life insurance policies	*7*	**(202)**	179
Fair value loss on redemption of convertible bond		**–**	978
Operating losses before working capital changes		**(39,881)**	(52,558)
Changes in working capital:			
Decrease in inventories		**41,868**	37,103
Decrease in trade and other receivables		**18,360**	17,768
(Decrease)/increase in trade and other payables		**(7,597)**	1,727
Contribution to defined benefit obligations		**(501)**	(576)
Cash generated from operations		**12,249**	3,464
Switzerland income tax paid		**(250)**	(1,469)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**11,999**	1,995
INVESTING ACTIVITIES			
Additions to property, plant and equipment		**(8,439)**	(8,213)
Pledged bank deposits placed		**–**	(1,039)
Pledged bank deposits released		**1,039**	1,026
Increase in restricted bank deposits		**(1,260)**	–
Proceeds from disposal of property, plant and equipment		**50**	–
Proceeds from withdrawal of life insurance policies		**17,428**	–
Interest received		**73**	65
Refund of deposit paid for proposed acquisition of a subsidiary		**–**	25,000
NET CASH GENERATED FROM INVESTING ACTIVITIES		**8,891**	16,839

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
FINANCING ACTIVITIES	34		
Repayment of bank borrowings		**(15,046)**	(20,933)
Interest paid		**(2,650)**	(17,403)
New bank borrowings raised		**4,998**	19,390
Lease payments for lease liabilities		**(7,608)**	–
Redemption of convertible bond		**–**	(100,000)
Repayment of notes payable		**–**	(140,000)
Repayment of loan from a related company		**(25,000)**	–
Loan from a related company		**–**	25,000
Loan from fellow subsidiaries		**134,100**	11,837
Repayment of loan from ultimate holding company		**(158,702)**	–
Loan from ultimate holding company		**15,000**	174,900
Loan from directors		**22,000**	–
NET CASH USED IN FINANCING ACTIVITIES		**(32,908)**	(47,209)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(12,018)**	(28,375)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**28,946**	56,177
Effect of foreign exchange rate changes		**1,807**	1,144
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**18,735**	28,946

1. GENERAL

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

The Company's addresses of the registered office is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands and its principal place of business is Unit 1612–18, Level 16, Tower I, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong.

The principal activity of the Company is investment holding and its subsidiaries are principally engaged in manufacturing and distribution of watches.

2. APPLICATION OF NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Adoption of new or revised IFRSs — effective 1 January 2019

In the current year, the Group has applied the following new or revised International Financial Reporting Standards issued by the International Accounting Standards Board ("**IASB**") which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2019:

IFRS 16	Leases
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features and Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015–2017 Cycle

The impact of the adoption of IFRS 16 Leases has been summarised in below. The other new or amended IFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

(i) Impact of the adoption of IFRS 16

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

The Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

2. APPLICATION OF NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

(a) Adoption of new or revised IFRSs — effective 1 January 2019 *(Continued)*

(i) Impact of the adoption of IFRS 16 *(Continued)*

The following tables summarised the impact of transition to IFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	HK$'000
Consolidated statement of financial position as at 1 January 2019	
Right-of-use assets presented in property, plant and equipment	–
Lease liabilities (non-current)	2,265
Lease liabilities (current)	5,163
Retained profits	(7,428)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	HK$'000
Right-of-use assets relating to operating lease recognised upon application of IFRS 16	7,428
Less: Impairment loss recognised upon application of IFRS 16	(7,428)
Right-of-use assets as at 1 January 2019	–

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

Reconciliation of operating lease commitment to lease liabilities:

	HK$'000
Operating lease commitment as of 31 December 2018	8,441
Less: short term leases for which lease terms end within 31 December 2019	(748)
Less: future interest expenses	(265)
Total lease liabilities as of 1 January 2019	7,428

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

2. APPLICATION OF NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

(a) Adoption of new or revised IFRSs — effective 1 January 2019 *(Continued)*

(ii) The new definition of a lease

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

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

At the inception of a contract that contains a lease component, as lessee, the Group chooses to separate non-lease components from lease components and allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

(iii) Accounting as a lessee

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

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

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

2. APPLICATION OF NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

(a) Adoption of new or revised IFRSs — effective 1 January 2019 *(Continued)*

(iii) Accounting as a lessee *(Continued)*

Right-of-use asset

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

Lease liability

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

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

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

(iv) Transition

As mentioned above, the Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

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

2. APPLICATION OF NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

(a) Adoption of new or revised IFRSs — effective 1 January 2019 *(Continued)*

(iv) Transition *(Continued)*

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

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

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC Interpretation 4 Determining whether an Arrangement contains a Lease and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC Interpretation 4.

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

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

Amendments to IFRS 3	Definition of a Business[1]
Amendments to IAS 1 and IAS 8	Definition of Material[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[1]
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting[1]
IFRS 17	Insurance Contracts[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

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

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

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

Amendments to IFRS 3 — Definition of a Business

The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

2. APPLICATION OF NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

(b) New and revised IFRSs in issue but not yet effective *(Continued)*

Amendments to IAS 1 and IAS 8 — Definition of Material

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

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

Amendments to IFRS 9, IAS 39 and IFRS 7 — Interest Rate Benchmark Reform

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

Revised Conceptual Framework — Revised Conceptual Framework for Financial Reporting

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

IFRS 17 — Insurance Contracts

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

Amendments to IAS 10 and IAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

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

3. BASIS OF PREPARATION

3.1 Statement of compliance

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 requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and the Hong Kong Companies Ordinance.

3. BASIS OF PREPARATION *(Continued)*

3.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies as set out in note 4 below.

The adoption of new or revised IFRSs and the impact on the Group's consolidated financial statements, if any, are disclosed in note 2.

It should be noted that accounting estimates and assumptions are used in preparing the consolidated financial statements. Although these estimates are based on the Group's management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

3.3 Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

(a) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

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.

(b) Revenue

Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group sells goods to customer. Revenue from sales of goods to customers is recognised when control of the products has transferred, being when the products are delivered to the customers and there is no unfulfilled obligation that could affect the customer's acceptance of the products. It is the Group's policy to sell its products to the customers with a right to exchange faulty products to another product within reasonable period after delivery. These rights of return do not allow the returned goods to be refund in cash. No liability and right to the returned goods are recognised as insignificant amount of returns are expected based on accumulated experience.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Revenue *(Continued)*

Revenue recognition *(Continued)*

Maintenance service income is recognised at a point of time when the repair services is complete. The contract price is fixed with no variable consideration.

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.

(c) (A) Leasing (accounting policies applied from 1 January 2019)

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

Right-of-use asset

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

Lease liability

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) (A) Leasing (accounting policies applied from 1 January 2019) *(Continued)*

Lease liability *(Continued)*

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

(B) Leasing (accounting policies applied until 31 December 2018)

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.

(d) 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.

(e) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Retirement benefit costs

Retirement benefits to employees are provided through defined contribution plans and defined benefit pension plans.

(i) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance, for those employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government (the "**Scheme**"). These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The Scheme is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the employer contributions. Contributions under the Scheme are charged to profit or loss as they become payable in accordance with the rules of the PRC.

(ii) Defined benefit pension plans

Defined benefit pension plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the consolidated statement of financial position in respect of defined pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflow using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) 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 remeasurement are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

(h) 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.

(i) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Taxation *(Continued)*

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.

(j) 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.

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, at the following rates per annum:

Right-of-use assets	Over the shorter of lease terms or at 30%
Building held under freehold land	3.3%–10%
Leasehold improvement	Over the lease term ranging from 3 to 5 years
Furniture, fixtures and equipment	5%–50%
Machinery	6%–20%
Motor vehicles	30%

Freehold land is not depreciated.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Property, plant and equipment *(Continued)*

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.

(k) Impairment of non-financial 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.

(l) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Provision and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

(n) Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("**FVPL**"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Debt instruments (Continued)

FVPL: Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

(ii) Impairment of financial assets

The Group recognises loss allowances for expected credit loss ("**ECL**") on trade receivables, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

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

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Financial instruments *(Continued)*

(ii) Impairment of financial assets *(Continued)*

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due, unless the Group has reasonable and supportable information that a more lagging default criterion is more appropriate.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, bank borrowings, amount due to ultimate holding company, amount due to a related company, amounts due to fellow subsidiaries, lease liabilities, notes payable and the liability component of convertible bond issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Convertible bond

Convertible bond issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. 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 classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bond and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bond into equity, is included in equity (convertible bond equity reserve).

In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bond equity reserve until the embedded option is exercised (in which case the balance stated in convertible bond equity reserve will be transferred to share capital and share premium. Where the option remains unexercised at the expiry dates, the balance stated in convertible bond equity reserve will be released to the retained profits. No gain or loss is recognised upon conversion or expiration of the option.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Financial instruments *(Continued)*

(iv) Convertible bond *(Continued)*

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 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.

When the convertible bond is extinguished before maturity through an early redemption or repurchase where the original conversion privileges are unchanged, the consideration paid and any transaction costs for the redemption or repurchase are allocated to the liability component and equity component using the same allocation basis as when the convertible bond was originally issued. Once the allocation of consideration and transaction costs is made, any resulting gain or loss relating to the liability component is recognised in profit or loss and the amount of consideration relating to equity component is recognised in equity.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(vi) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Financial instruments *(Continued)*

(viii) Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(o) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major lines of business.

The Group has identified the single reportable operating segment is the manufacturing and sales of watches.

The 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.

(p) Share capital and share premium

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Share premium includes any premiums received on the issuance of share over the par value. Any transaction costs associated with the issuing of shares are deducted from the share premium (net of any related income tax benefit) to the extent that they are incremental costs directly attributable to the equity transaction.

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued any consideration received net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

(q) Cash and cash equivalents

Cash and cash equivalents include bank balances and cash and short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in values.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, 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 which may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Estimated impairment of non-current assets

The Group assesses whether there are any indicators of impairment for all non-current assets at the end of each reporting period. An impairment exists when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on an estimate of the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimated allowance of trade and other receivables

The Group estimates impairment losses of trade and other receivables are based on assumptions about risk of default and expected credit loss rate according to the accounting policies stated in Note 4. The Group adopts judgement in making these assumption and selecting inputs for computing such impairment loss, broadly based on the available customers' historical data, exiting market conditions including forward looking estimates at end of reporting period.

Estimated provision 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, ageing analysis and subsequent usage of the relevant inventories.

Income taxes and deferred taxation

The Group is subject to corporate income taxes in 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.

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

Right-of-use assets

The Group uses its incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

6. REVENUE AND SEGMENT INFORMATION

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

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

Geographical information

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

	Revenue from external customers	
	2019	2018
	HK$'000	HK$'000
PRC	**110,124**	149,623
Hong Kong and Macau	**6,587**	8,539
Others (mainly in Southeast Asia and Europe)	**24,807**	13,644
	141,518	171,806

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

	Non-current assets	
	2019	2018
	HK$'000	HK$'000
PRC	**8,445**	5,847
Hong Kong	**1,342**	3,077
Switzerland	**16,661**	29,020
	26,448	37,944

Information about major customers

During the year, revenue from one customer amounted to HK$18,144,000 contributing over 10% of the total sales of the Group (2018: nil).

7. OTHER GAINS AND LOSSES

	2019	2018
	HK$'000	HK$'000
Exchange loss, net	**(4,085)**	(10,903)
Loss on written off/disposal of property, plant and equipment	**(9)**	(388)
Impairment loss of trade receivables, net	**(1,350)**	(1,445)
Impairment loss of property, plant and equipment	**(19,043)**	–
Fair value loss on redemption of convertible bonds	**–**	(978)
Fair value gain/(loss) on life insurance policies	**202**	(179)
	(24,285)	(13,893)

8. OTHER INCOME

	2019	2018
	HK$'000	HK$'000
Bank interest income	**73**	65
Sundry income	**634**	185
	707	250

9. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest charged on:		
Bank borrowings	168	421
Notes payable	–	8,478
Liability component of convertible bond	–	16,565
Loan from a related company	100	141
Loan from fellow subsidiaries	3,342	67
Loan from ultimate holding company	6,744	1,546
Loan from directors	241	–
Lease liabilities	627	–
	11,222	27,218

10. LOSS BEFORE TAX

	2019 HK$'000	2018 HK$'000
Loss before tax has been arrived at after charging/(crediting):		
Auditors' remuneration	730	730
Impairment loss of trade receivables, net *(note 18)*	1,350	1,445
Impairment loss of property, plant and equipment *(note 15)*	19,043	–
Cost of inventories recognised as expenses, including:	85,659	95,874
— Reversal of allowance	(3,114)	(997)
Depreciation of property, plant and equipment *(note 15)*	9,811	13,740
Short-term lease rental	480	–
Operating lease rental in respect of rented premises	–	8,244
Staff costs (including directors' emoluments):		
— Salaries and other benefits	56,812	63,179
— Retirement benefits scheme contributions	6,535	4,676
Total staff costs	63,347	67,855

Note: Cost of inventories sold includes HK$24,745,000 (2018: HK$32,351,000) relating to staff costs and depreciation expenses.

11. INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
Current tax:		
Hong Kong Profits Tax *(note i)*	–	–
Switzerland Income Tax *(note ii)*	286	1,488
PRC Enterprise Income Tax *(note iii)*	–	–
	286	1,488
Deferred tax charge /(credit) *(note 26)*	22	(168)
Income tax expense for the year	308	1,320

Notes:

(i) Hong Kong

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

(ii) Switzerland

Switzerland Income Tax is calculated at certain tax rates on the assessable income for both years. Under the relevant Tax Laws in Switzerland, the Group's subsidiaries incorporated in Switzerland were subjected to Direct Federal Tax ("**DFT**") of 8.5% (2018: 8.5%) and Cantonal Communal Tax ("**CCT**") calculated at 16.18% (2018: 16.18%).

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

(iii) PRC

Under the laws of PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of EIT Law, the tax rate of PRC subsidiary is 25% (2018: 25%). No provision for Enterprise Income Tax has been made for both years as the Group has no assessable profits arising in the PRC.

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:

	2019 HK$'000	2018 HK$'000
Loss before tax	(78,739)	(96,346)
Tax at the rates applicable to tax jurisdictions concerned	(13,608)	(17,386)
Tax effect of income not taxable for tax purpose	(190)	(232)
Tax effect of expenses not deductible for tax purpose	6,202	2,251
Tax effect of tax losses not recognised	7,774	16,506
Tax effect of temporary differences not recognised	130	181
Income tax expense for the year	308	1,320

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

a. Directors

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

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
For the year ended 31 December 2019				
Executive directors				
Mr. Shang Jianguang	–	1,300	18	1,318
Mr. Teguh Halim	–	1,300	18	1,318
Ms. Lam Lai	–	1,300	18	1,318
Mr. Xiong Wei	–	1,300	18	1,318
Non-executive directors				
Mr. Xiong Ying	50	–	–	50
Mr. Tao Li *(note i)*	726	432	28	1,186
Independent non-executive directors				
Ms. Chan Lai Wa	120	–	–	120
Mr. Lui Wai Ming *(note ii)*	82	–	–	82
Mr. To Chun Kei	120	–	–	120
Mr. Hui Cheuk Kit Frederick *(note iii)*	38	–	–	38
	1,136	5,632	100	6,868

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

a. Directors *(Continued)*

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
For the year ended 31 December 2018				
Executive directors				
Mr. Shang Jianguang *(note iv)*	–	287	5	292
Mr. Teguh Halim *(note v)*	–	287	5	292
Ms. Lam Lai *(note vi)*	–	287	5	292
Mr. Sit Yau Chiu *(note vii)*	–	1,000	15	1,015
Mr. Xiong Wei	–	1,300	18	1,318
Non-executive directors				
Mr. Xiong Ying *(note viii)*	8	–	–	8
Mr. Chan Kwan Pak, Gilbert *(note ix)*	14	–	–	14
Ms. Lou Liuqing *(note x)*	42	–	–	42
Independent non-executive directors				
Ms. Chan Lai Wa	120	–	–	120
Mr. Lui Wai Ming	120	–	–	120
Mr. To Chun Kei	120	–	–	120
	424	3,161	48	3,633

Notes:

i. Mr. Tao Li is appointed as a non-executive director of the Company with effect from 10 June 2019.

ii. Mr. Lui Wai Ming resigned an independent non-executive director of the Company with effect from 6 September 2019.

iii. Mr. Hui Cheuk Kit Frederick is appointed as an independent non-executive director of the Company with effect from 6 September 2019.

iv. Mr. Shang Jianguang is appointed as an executive director and chairman of the Company with effect from 12 October 2018.

v. Mr. Teguh Halim is appointed as an executive director and vice-chairman of the Company with effect from 12 October 2018.

vi. Ms. Lam Lai is appointed as an executive director of the Company with effect from 12 October 2018.

vii. Mr. Sit Yau Chiu resigned as (i) chairman; and (ii) chief executive officer of the Company with effect from 12 October 2018; and resigned as an executive director of the Company with effect from 31 October 2018.

viii. Mr. Xiong Ying is appointed as a non-executive director of the Company with effect from 31 October 2018.

ix. Mr. Chan Kwan Pak, Gilbert resigned as a non-executive director of the Company with effect from 10 April 2018.

x. Ms. Lou Liuqing resigned as a non-executive director of the Company with effect from 31 October 2018.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

b. Five highest paid individuals

The five highest paid employees of the Group during the year included three (2018: one) director(s) of the Company, details of whose emoluments are set out in the disclosures above. Details of the remuneration for the year of the remaining two (2018: four) highest paid employees who are not a director of the Company are as follows:

	2019 **HK$'000**	2018 HK$'000
Salaries and other benefits	**2,985**	6,754
Retirement benefits scheme contributions	**18**	130
	3,003	6,884

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:

	2019 **No. of individuals**	2018 No. of individuals
HK$1,000,001–HK$1,500,000	**1**	2
HK$1,500,001–HK$2,000,000	**1**	1
HK$2,000,001–HK$3,000,000	**–**	1

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

No emolument was paid by the Group to the directors or the two (2018: four) highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2018: nil).

13. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

14. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year ended 31 December 2019 is based on the loss attributable to the owners of the Company of HK$79,047,000 (2018: HK$97,666,000) and on the weighted average number of 347,437,000 (2018: 347,437,000) ordinary shares in issue during the year.

There are no potential dilutive ordinary shares outstanding for the year ended 31 December 2019 and 2018 and thus the diluted loss per share is the same as the basic loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets HK$'000	Freehold Land and building outside Hong Kong HK$'000	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
COST							
At 1 January 2018	–	38,184	9,785	166,158	5,144	1,394	220,665
Additions	–	–	–	7,715	498	–	8,213
Written off	–	–	(2,209)	(40,934)	–	–	(43,143)
Exchange realignment	–	(293)	(28)	(301)	(37)	(34)	(693)
At 31 December 2018 and 1 January 2019	**–**	**37,891**	**7,548**	**132,638**	**5,605**	**1,360**	**185,042**
Effect upon adoption of IFRS 16 at 1 January 2019	**7,428**	**–**	**–**	**–**	**–**	**–**	**7,428**
Additions	**1,367**	**–**	**–**	**8,439**	**–**	**–**	**9,806**
Disposal	**–**	**–**	**–**	**–**	**–**	**(180)**	**(180)**
Written off	**–**	**–**	**–**	**(1,099)**	**–**	**–**	**(1,099)**
Effect of modification of lease term	**7,552**	**–**	**–**	**–**	**–**	**–**	**7,552**
Exchange realignment	**(91)**	**416**	**40**	**(128)**	**53**	**(13)**	**277**
At 31 December 2019	**16,256**	**38,307**	**7,588**	**139,850**	**5,658**	**1,167**	**208,826**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSS							
At 1 January 2018	–	9,978	5,310	156,110	4,295	756	176,449
Provided for the year	–	1,124	1,111	10,980	307	218	13,740
Eliminated on written off	–	–	(1,959)	(40,796)	–	–	(42,755)
Exchange realignment	–	(88)	(22)	(164)	(30)	(32)	(336)
At 31 December 2018 and 1 January 2019	**–**	**11,014**	**4,440**	**126,130**	**4,572**	**942**	**147,098**
Impairment loss recognised upon initial application of IFRS 16	**7,428**	**–**	**–**	**–**	**–**	**–**	**7,428**
Provided for the year	**1,918**	**992**	**920**	**5,515**	**261**	**205**	**9,811**
Impairment loss for the year	**5,975**	**10,875**	**2,193**	**–**	**–**	**–**	**19,043**
Eliminated on written off	**–**	**–**	**–**	**(982)**	**–**	**–**	**(982)**
Eliminated on disposal	**–**	**–**	**–**	**–**	**–**	**(108)**	**(108)**
Effect of modification of lease term	**(99)**	**–**	**–**	**–**	**–**	**–**	**(99)**
Exchange realignment	**(47)**	**140**	**35**	**26**	**45**	**(12)**	**187**
At 31 December 2019	**15,175**	**23,021**	**7,588**	**130,689**	**4,878**	**1,027**	**182,378**
NET BOOK VALUE							
At 31 December 2019	**1,081**	**15,286**	**–**	**9,161**	**780**	**140**	**26,448**
At 31 December 2018	–	26,877	3,108	6,508	1,033	418	37,944

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Right-of-use assets	**Land and buildings leased for own use** HK$'000	**Motor vehicles leased for own use** HK$'000	**Total** HK$'000
Carrying amounts as at 31 December 2018	–	–	–
Recognition upon initial application of IFRS 16	7,428	–	7,428
Impairment loss recognised upon initial application of IFRS 16	(7,428)	–	(7,428)
Restated opening balance under IFRS 16 as at 1 January 2019	–	–	–
Additions	78	1,289	1,367
Depreciation	(1,704)	(214)	(1,918)
Impairment loss for the year	(5,975)	–	(5,975)
Effect of modification of lease term	7,651	–	7,651
Exchange realignment	(50)	6	(44)
Carrying amounts as at 31 December 2019	**–**	**1,081**	**1,081**

Property, plant and equipment with the net carrying amount of HK$45,491,000 is attributable to the cash generating unit of the Group ("**Group's CGU**"). The recoverable amount of property, plant and equipment is determined by the fair value less cost of disposal of the individual items. As a result, an impairment loss of approximately HK$19,043,000 has been recognised for the year ended 31 December 2019.

The fair value less cost of disposal of property, plant and equipment is determined by the analysis of recent sales transactions of the comparable items and it is level 3 recurring fair value measurement. The key significant unobservable input to determine is the discount on age, condition and functional obsolescence. The higher discount on these factors would result in the lower in the fair value measurement of the fair value less cost of disposal of property, plant and equipment, and vice versa.

16. LIFE INSURANCE POLICIES

In prior years, the Group took out four insurance policies with two insurance companies to insure Mr. Sit Yau Chiu ("**Mr. Sit**"), an ex-executive director of the Company.

Under these policies, the policy holder and beneficiary is the Group. 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. 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.

The insurance companies will pay the Group guaranteed interest plus a premium determined by the insurance companies during the tenures of these policies.

The life insurance policies are denominated in United States Dollar ("**USD**"), being a currency other than the functional currency of the relevant group entity.

As at 31 December 2018, all life insurance policies were pledged to a bank to secure general banking facilities granted to the Group.

16. LIFE INSURANCE POLICIES *(Continued)*

The change of fair value loss of HK$179,000 had been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2018.

During the year ended 31 December 2019, the Group has withdrawn the life insurance policies and a fair value gain of HK$202,000 was recognised upon the withdrawal of the life insurance policies.

17. INVENTORIES

	2019	2018
	HK$'000	HK$'000
Raw materials	**150,068**	182,501
Work-in-progress	**36,560**	59,481
Finished goods	**140,272**	124,136
	326,900	366,118

A provision of HK$3,114,000 (2018: HK$997,000) made in prior years against the carrying value of finished goods have been reversed due to an increase in the estimated net realisable value of certain products as a result of a change in consumer preferences.

18. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	HK$'000
Trade receivables, gross	**55,585**	75,329
Less: impairment loss allowance	**(21,534)**	(20,611)
Trade receivables, net	**34,051**	54,718
Other receivables	**1,111**	901
Other tax recoverable	**1,162**	1,308
Prepayments	**2,625**	2,296
Deposits	**3,022**	3,133
	7,920	7,638
Total trade and other receivables	**41,971**	62,356

Included in the trade and other receivables, amounts of HK$756,000 (2018: HK$513,000) are due from the fellow subsidiaries of the Company.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2019 HK$'000	2018 HK$'000
0–90 days	20,571	41,702
91–180 days	8,639	9,932
181–270 days	3,310	1,958
Over 270 days	1,531	1,126
	34,051	54,718

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

Movement in the impairment loss allowance for trade receivables

	2019 HK$'000	2018 HK$'000
Balance at beginning of the year	20,611	20,216
Impairment losses allowance recognised, net	1,350	1,445
Exchange realignment	(427)	(1,050)
Balance at the end of the year	21,534	20,611

Included in the impairment loss allowance are individually impaired trade receivables with an aggregate credit impaired balance of HK$21,484,000 (2018: HK$20,545,000) which has been fully impaired and expected credit loss allowance of HK$50,000 as at 31 December 2019 (2018: HK$66,000). The Group does not hold any collateral over these balances.

19. PLEDGED BANK DEPOSITS, RESTRICTED BANK DEPOSITS, BANK BALANCES AND CASH

Pledged bank deposits, included in current assets, carried interest of 2% per annum at 31 December 2018. The bank deposits were pledged to secure the short term banking facilities granted to the Group. The pledged bank deposits have been released during the year ended 31 December 2019.

Bank balances carried market interest rate in the range of 0.01% to 0.3% (2018: 0.01% to 0.3%) per annum for the year ended 31 December 2019.

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:

	2019 HK$'000	2018 HK$'000
Denominated in USD	1	4
Denominated in RMB	119	741
Denominated in CHF	11	52

19. PLEDGED BANK DEPOSITS, RESTRICTED BANK DEPOSITS, BANK BALANCES AND CASH *(Continued)*

Included in pledged bank deposits, restricted bank deposits and bank balances and cash of the Group are the amount of approximately HK$17,057,000 (2018: HK$21,653,000) denominated in RMB which are placed with the banks in the PRC. RMB is not freely convertible into other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB into foreign currencies through the banks authorised to conduct foreign exchange business.

20. TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	**9,602**	8,098
Other payables	**2,059**	3,575
Accruals	**20,675**	28,983
Contract liabilities arising from sales of goods	**916**	312
	33,252	40,968

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

	2019 HK$'000	2018 HK$'000
1–30 days	**4,873**	2,747
31–60 days	**2,329**	4,437
Over 60 days	**2,400**	914
	9,602	8,098

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:

	2019 HK$'000	2018 HK$'000
Denominated in USD	**150**	214
Denominated in CHF	**1**	1

Movement of contract liabilities

	2019 HK$'000	2018 HK$'000
Balance as at 1 January	**312**	–
Decrease in contract liabilities as a result of recognising revenue during the year	**(312)**	–
Increase in contract liabilities as receipt in advance	**916**	312
Balance as at 31 December	**916**	312

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

As at 31 December 2019, amounts due to fellow subsidiaries of aggregate principal amount of RMB128,200,000 (equivalent to HK$142,994,000) (2018: RMB10,000,000 (equivalent to HK$11,386,000)) were unsecured, interest bearing at range from 5% to 6% (2018: 6%) per annum and repayable within one year.

As at 31 December 2019, amount due to ultimate holding company of principal amount of HK$31,198,000 (2018: HK$174,900,000) was unsecured, interest bearing at 5% (2018: 5%) per annum and repayable within one year.

As at 31 December 2019, amounts due to directors of aggregate principal amount of HK$22,000,000 (2018: nil) was unsecured, interest bearing at 5% (2018: nil) per annum and repayable within one year.

As at 31 December 2018, an amount due to a related company of principal amount of HK$25,000,000 was unsecured, interest bearing at 5% per annum and repayable within one year. The related company is an associate of the ultimate holding company and the balance has been fully repaid during the year. There is no balance outstanding as at 31 December 2019.

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.

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.

22. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

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 actuarial valuation carried out at 31 December 2019 and 2018 by Swiss Life Pension Services AG, an independent qualified professional actuary and a member of the Swiss Associate of Actuaries in Switzerland. 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:

	2019	2018
Price inflation	**0.50%**	0.50%
Discount rate	**0.15%**	1.00%
Long term rate of return on plan assets	**0.80%**	1.40%
Expected rate of salary increase	**0.50%**	0.50%
Average longevity at retirement age for current pensioners and employees	**48.8**	50.8

The actuarial valuation showed that the market value of plan assets was HK$12,333,000 (2018: HK$11,568,000) at 31 December 2019 and that the actuarial value of these assets represented 77% (2018: 84%) of the benefits that had accrued to members. The shortfall of HK$3,617,000 (2018: HK$2,137,000) is to be cleared over the estimated remaining service period of 11.3 years (2018: 10.9 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.

22. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

Amounts recognised in consolidated statement of profit or loss and other comprehensive income in respect of the Defined Benefit Scheme are as follows:

	2019 HK$'000	2018 HK$'000
Service costs:		
Current service cost	790	871
Past service cost	–	(18)
Net interest expense	21	36
Components of defined benefit cost recognised in profit or loss	811	889
Remeasurement on the net defined benefit obligations:		
Return on plan assets (excluding amounts included in net interest expense)	(801)	(2,272)
Actuarial losses/(gains) arising from experience adjustments	1,920	(866)
Deferred tax arising on remeasurement of the net defined benefit liability *(note 26)*	(287)	628
Components of defined benefit income recognised in other comprehensive income	832	(2,510)
Total	1,643	(1,621)

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

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

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

	2019 HK$'000	2018 HK$'000
Present value of defined benefit obligations	15,950	13,705
Fair value of plan assets	(12,333)	(11,568)
Net liability arising from defined benefit obligations	3,617	2,137

22. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

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

	2019 HK$'000	2018 HK$'000
Opening present value of defined benefit obligations	13,705	14,420
Current service cost	790	871
Past service cost	–	(18)
Interest cost	136	102
Remeasurement losses/(gains):		
Actuarial losses/(gains) arising from experience adjustments	1,920	(866)
Benefits paid	(2,061)	(1,894)
Contribution paid by plan participants	1,270	1,195
Exchange differences on foreign plans	190	(105)
Closing present value of defined benefit obligations	15,950	13,705

Movements of the fair value of planned assets were as follows:

	2019 HK$'000	2018 HK$'000
Opening fair value of plan assets	11,568	9,447
Interest income	115	66
Remeasurement gains:		
Return on plan assets (excluding amounts included in net interest expense)	801	2,272
Contributions from employers	501	576
Benefits paid	(2,061)	(1,894)
Contributions paid by plan participants	501	576
Contributions paid by employees	768	619
Exchange differences on foreign plans	140	(94)
Closing fair value of plan assets	12,333	11,568

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:

	2019 HK$'000	2018 HK$'000
Time deposits, fixed interest and cash and cash equivalents	8,198	7,689
Real estate	2,019	1,894
Mortgages and other claims	950	891
Others	1,166	1,094
	12,333	11,568

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$1,252,000 (2018: HK$1,312,000) (increase by approximately HK$1,543,000 (2018: HK$1,579,000)).

- If the expected salary growth increases/(decreases) by 0.5%, the defined benefit obligations would increase by approximately HK$1,445,000 (2018: HK$1,492,000) (decrease by approximately HK$1,329,000 (2018: HK$1,381,000)).

- If the life expectancy increases/(decreases) by 1 year, the defined benefit obligations would increase by approximately HK$1,407,000 (2018: HK$1,452,000) (decrease by approximately HK$1,362,000 (2018: HK$1,417,000)).

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.

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.

22. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

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 defined benefit obligation at 31 December 2019 is 24.4 years (2018: 22.4 years).

The Group expects to make a contribution of HK$702,000 to the defined benefit plan during the next financial year ending 31 December 2020.

The following are the expected benefits paid by the defined benefit plan in future years:

	2019 HK$'000	2018 HK$'000
Within the next 12 months (next annual reporting period)	702	819
Between 2 to 5 years	2,485	2,900
Between 5 to 10 years	2,998	3,438
	6,185	7,157

23. BANK BORROWINGS

	2019 HK$'000	2018 HK$'000
Bank loans, secured	–	3,866
Import trade loans, secured	–	6,182
	–	10,048
The borrowing repayable based on scheduled repayment date set out in the loan agreements, are as follows:		
Within one year	–	10,048

23. BANK BORROWINGS *(Continued)*

	2019 HK$'000	2018 HK$'000
The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	–	10,048

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

	2019 HK$'000	2018 HK$'000
Variable-rate borrowings	–	10,048

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.

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

	2019	2018
Effective interest rate:		
Variable-rate borrowings	N/A	3.56% to 4.96%

Details of assets that have been pledged as collateral to secure borrowings are set out in note 33.

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.

On 24 March 2017, an agreement was entered into between the Company, the guarantor, Mr. Sit being the shareholder ex-chairman and ex-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 another 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, the Company issued a note of HK$100,000,000 ("**2017 Note**") on 21 September 2017 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, Mr. Sit, and the holder of 2016 Note and 2017 Note, 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 amounted to HK$140,000,000. At 31 December 2017, all the covenants of the two notes were complied with. The outstanding 2016 Note was fully repaid upon mature and the entire 2017 Note was early redeemed in November 2018.

The movement of the two notes payable for the year ended 31 December 2018 are set out below:

	2018 HK$'000
At 1 January	140,000
Repayment	(140,000)
At 31 December	–

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.

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.

25. CONVERTIBLE BOND *(Continued)*

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

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
At 1 January 2018	92,191	14,491	106,682
Interest amortised and charged to profit or loss *(note 9)*	16,565	–	16,565
Interest paid	(8,767)	–	(8,767)
Fair value loss on redemption date	(978)	–	(978)
Redemption during the year	(99,011)	(989)	(100,000)
Release of equity component reserve	–	1,797	1,797
Transfer to retained profits upon derecognition	–	(15,299)	(15,299)
At 31 December 2018	–	–	–

During the year ended 31 December 2018, the Group redeemed the convertible bonds early at their principal amount of HK$100,000,000 and a loss of approximately HK$978,000 from early redemption has been recognised in the profit or loss.

26. 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 HK$'000	Defined benefit pension scheme HK$'000	Convertible bond HK$'000	Others HK$'000	Total HK$'000
At 1 January 2018	(566)	990	(1,797)	(20,548)	(21,921)
Credited to profit or loss *(note 11)*	48	62	–	58	168
Release upon early redeem from of convertible bond *(note 25)*	–	–	1,797	–	1,797
Debit to actuarial gain and loss reserve *(note 22)*	–	(628)	–	–	(628)
Exchange realignment	3	(2)	–	115	116
At 31 December 2018 and 1 January 2019	**(515)**	**422**	**–**	**(20,375)**	**(20,468)**
Credited/(charged) to profit or loss *(note 11)*	**128**	**(177)**	**–**	**27**	**(22)**
Credit to actuarial gain and loss reserve *(note 22)*	**–**	**287**	**–**	**–**	**287**
Exchange realignment	**(3)**	**4**	**–**	**(158)**	**(157)**
At 31 December 2019	**(390)**	**536**	**–**	**(20,506)**	**(20,360)**

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

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

	2019 HK$'000	2018 HK$'000
Deferred tax assets	**–**	–
Deferred tax liabilities	**(20,360)**	(20,468)
	(20,360)	(20,468)

26. DEFERRED TAXATION *(Continued)*

At the end of the reporting period, no deferred tax asset has been recognised in respect of such deductible temporary differences of HK$37,137,000 (2018: HK$37,997,000) which were associated with unrealised profit generated on intra-group transactions due to unpredictability of future profit streams.

At the end of the reporting period, the Group has estimated unutilised tax losses of HK$440,515,000 (2018: HK$393,392,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these estimated unutilised tax losses due to unpredictability of future profit streams. Included in estimated unrecognised tax losses are losses of HK$53,778,000 (2018: HK$52,053,000) that will expire during the period from 2020 to 2024 (2018: 2019 to 2023). Other estimated unutilised tax losses may be carried forward indefinitely.

The aggregate amount of temporary differences associated with the undistributed earnings of subsidiaries, as at year ended 31 December 2019 was HK$162,519,000 (2018: HK$160,808,000). 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.

27. CAPITAL AND RESERVES

(i) Share capital

	Number of ordinary shares '000	Par value HK$	Share capital HK$'000
Authorised:			
Balance at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	10,000,000	0.01	100,000
Issued and fully paid:			
Balance at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	347,437	0.01	3,474

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

27. 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	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	182,099	14,491	(12,823)	183,767
Total comprehensive income for the year	–	–	(53,209)	(53,209)
Settlement of the equity component of convertible bond upon early redemption	–	(989)	–	(989)
Release of deferred tax liabilities upon redemption of convertible bonds *(note 26)*	–	1,797	–	1,797
Transfer upon derecognition of convertible bond *(note 25)*	–	(15,299)	15,299	–
At 31 December 2018 and 1 January 2019	**182,099**	**–**	**(50,733)**	**131,366**
Total comprehensive income for the year	**–**	**–**	**(19,602)**	**(19,602)**
At 31 December 2019	**182,099**	**–**	**(70,335)**	**111,764**

28. LEASE LIABILITIES

The amount included in the consolidated statement of financial position in respect of the carrying amounts of lease liabilities and the movements during the year is as follows:

	Land and buildings leased for own use HK$'000	Motor vehicles leased for own use HK$'000	Total HK$'000
As at 31 December 2018	–	–	–
Impact of adoption of IFRS 16	7,428	–	7,428
Restated opening balance under IFRS 16 as at 1 January 2019	7,428	–	7,428
Additions	78	1,289	1,367
Interest expense	574	53	627
Effect of modification of lease term	7,649	–	7,649
Lease payments	(7,279)	(329)	(7,608)
Exchange realignment	(62)	7	(55)
As at 31 December 2019	**8,388**	**1,020**	**9,408**

28. LEASE LIABILITIES *(Continued)*

Future lease payments are due as follows:

	2019 HK$'000
Minimum lease payment due	
— Within one year	6,676
— In the second to fifth years, inclusive	3,096
	9,772
Less: future interest expenses	(364)
Present value of lease liabilities	9,408

The present value of future lease payments are analysed as:

	2019 HK$'000
Current liabilities	6,385
Non-current liabilities	3,023
	9,408

	2019 HK$'000
Short term leases expenses	480
Aggregate undiscounted commitments for short term leases	118

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

ASSETS AND LIABILITIES	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Investment in subsidiaries	36	**32,641**	32,641
Amount due from a subsidiary		**111,631**	269,359
		144,272	302,000
CURRENT ASSETS			
Other receivables		**348**	36
Amounts due from subsidiaries		**37,508**	37,556
Bank balances and cash		**112**	1,129
		37,968	38,721
CURRENT LIABILITIES			
Other payable and accruals		**5,272**	4,293
Amount due to a subsidiary		**1**	1
Amount due to a related company		**–**	25,141
Amounts due to directors		**22,241**	–
Amount due to ultimate holding company		**39,488**	176,446
		67,002	205,881
NET CURRENT LIABILITIES		**(29,034)**	(167,160)
TOTAL ASSETS LESS CURRENT LIABILITIES		**115,238**	134,840
NET ASSETS		**115,238**	134,840
EQUITY			
Share capital	27	**3,474**	3,474
Reserves	27	**111,764**	131,366
TOTAL EQUITY		**115,238**	134,840

Approved and authorised for issued by the board of directors on 30 March 2020 and signed on its behalf by:

Shang Jianguang
Director

Teguh Halim
Director

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 borrowings and amounts due from related parties as disclosed in notes 21 and 23 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

	2019 **HK$'000**	2018 HK$'000
Financial assets		
Fair value through profit or loss	**–**	17,226
Amortised cost	**55,157**	85,604
Financial liabilities		
Amortised cost	**226,930**	234,751

31. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include life insurance policies, trade and other receivables, pledged bank deposits, restricted bank deposits, bank balances and cash, trade and other payables, bank borrowings, amounts due to a related company, fellow subsidiaries, ultimate holding company and directors. 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, liquidity risk and fair value. 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. The Group currently does not have a foreign currency hedging policy, but the management will consider hedging significant foreign currency exposure as necessary. The Group manages the foreign currency risk by closely monitoring the movement of the foreign currency exchange rates.

As at 31 December 2019, except for the followings, the Group does not have significant financial assets or financial liabilities denominated in foreign currencies other than the functional currencies of the respective group companies. 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	
	2019 **HK$'000**	2018 HK$'000	**2019** **HK$'000**	2018 HK$'000
Third parties				
RMB	**1,204**	2,590	**119**	741
USD	**150**	282	**1**	17,230
Intra-group balances				
RMB	**–**	–	**46,333**	147,219
CHF	**48,358**	66,362	**31,749**	83,427

31. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Foreign currency risk (Continued)

Sensitivity analysis

As at 31 December 2019 and 2018, financial assets and liabilities denominated in USD belongs to group companies of which their financial currency is HK$. As HK$ is pegged to USD, the Group consider the risk arising from transactions denominated in USD is insignificant. The Group is mainly exposed to the foreign currency risk of 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% (2018: 5%) increase or decrease in the functional currency of each group entity against RMB to which the Group has significant exposure at the end of reporting period. A sensitivity rate of 5% (2018: 5%) on RMB represents management's assessment of the reasonably possible change in RMB exchange rate.

	RMB impact	
	2019 Increase/ (decrease) in loss HK$'000	2018 Increase/ (decrease) in loss HK$'000
Increase in foreign exchange rate	**54**	92
Decrease in foreign exchange rate	**(54)**	(92)

The Group is also exposed to currency risk concerning intra-group current accounts of trade nature, 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% (2018: 5%) 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 sensitivity rate of 5% (2018: 5%) on RMB and 10% (2018: 10%) on CHF represents management's assessment of the reasonably possible change in foreign currency exchange rates.

31. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Foreign currency risk (Continued)

Sensitivity analysis *(Continued)*

	RMB impact		CHF impact	
	2019	2018	**2019**	2018
	(Decrease)/ increase in loss	(Decrease)/ increase in loss	**Increase/ (decrease) in loss**	(Decrease)/ increase in loss
	HK$'000	HK$'000	**HK$'000**	HK$'000
Increase in foreign exchange rate	**(2,317)**	(7,361)	**1,661**	(1,707)
Decrease in foreign exchange rate	**2,317**	7,361	**(1,661)**	1,707

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.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan from ultimate holding company, fellow subsidiaries and directors for both the year ended 31 December 2018 and 2019. (see note 21 for details)

The Group is also exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rate on restricted bank deposits and bank balances in 2018 and 2019 and variable-rate bank borrowings in 2018. For the year ended 31 December 2018, 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. For the years ended 31 December 2018 and 2019, the management considers the exposure to interest rate risk in relation to restricted bank deposits and 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.

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings and prevailing market interest rate on bank balances for the year ended 31 December 2018. 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 increase or decrease represents management's assessment of the reasonably possible change in interest rates. For the year ended 31 December 2018, if interest rates had been 100 basis point higher/lower and all other variables were held constant, the Group's loss would (decrease)/ increase by HK$166,000.

For the year ended 31 December 2019, the Group has no cash flow interest-rate risk as there are no borrowings which bear floating interest rates.

31. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

As at 31 December 2019, 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 trade and other receivables, restricted bank deposits and bank balances.

The Group considers the probability of default upon initial recognition of assets and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition.

It considers available reasonable and supportive forward looking information. Especially the following indicators are incorporated:

- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations
- actual or expected significant changes in the operating results of the counterparty
- significant expected changes in the performance and behaviour of the counterparty, including changes in the payment status of counterparties in the group and changes in the operating results of the counterparty

A default on a financial asset is when the counterparty fails to make contractual payments when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery.

The credit risk on restricted bank deposits and bank balances is limited because the majority of the counterparties are banks with good reputation. No impairment had been provided under 12-month expected credit loss assessment.

For the trade receivables, the Group carries out regular review on these balances and follow-up action on any overdue amounts to minimise exposures to credit risk. The Group measures the lifetime expected credit losses based on the outstanding balances and historical credit loss experience adjusted to reflect the Group's view of current and forecast economic conditions that may affect the ability of the debtors to settle receivables. Included in the impairment loss allowance are individually impaired trade receivables with an aggregate credit-impaired balance of HK$21,484,000 (2018: HK$20,545,000) which has been fully impaired and expected credit loss allowance of HK$50,000 as at 31 December 2019 (2018: HK$66,000). The Group does not hold any collateral over these balances.

31. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

The loss allowance as at 31 December 2019 was determined for trade receivables (after excluding credit-impaired balance) as follows:

	Expected credit loss rate — weighted average (%)	**Gross carrying amount (after excluding credit-impaired balance) HK$'000**	**Loss allowance HK$'000**	**Net amount HK$'000**
Not yet pass due	**N/A**	**20,737**	**–**	**20,737**
Overdue within 90 days	**0.10%**	**7,631**	**7**	**7,624**
Overdue 91 to 180 days	**0.50%**	**4,223**	**21**	**4,202**
Overdue over 180 days	**1.50%**	**1,510**	**22**	**1,488**
		34,101	**50**	**34,051**

The loss allowance as at 31 December 2018 was determined for trade receivables (after excluding credit-impaired balance) as follows:

	Expected credit loss rate — weighted average (%)	Gross carrying amount (after excluding credit-impaired balance) HK$'000	Loss allowance HK$'000	Net amount HK$'000
Not yet pass due	N/A	35,167	–	35,167
Overdue within 90 days	0.10%	14,301	14	14,287
Overdue 91 to 180 days	0.50%	3,378	16	3,362
Overdue over 180 days	1.90%	1,938	36	1,902
		54,784	66	54,718

For the other receivables balances mainly comprise of rental deposits. Management considers rental deposits do not have significant credit risk since the deposits are refundable from landlords upon end of lease term or recoverable by the Group through using the leased property. The management performed assessment over the expected credit loss for the other receivables and considered the expected credit loss for the other receivable is immaterial.

For the year ended 31 December 2019, the Group has concentration of credit risk as 45.2% and 19.7% (2018: 36.6% and 15%) of the total trade receivables due from the Group's five largest and largest trade customers.

Other than those described above, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

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$'000	2 years to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2019							
Non-derivative financial liabilities							
Trade and other payables	–	10,081	1,580	–	–	11,661	11,661
Amounts due to directors	5	–	23,100	–	–	23,100	22,241
Amounts due to fellow subsidiaries	5.25	–	149,096	–	–	149,096	144,132
Amount due to ultimate holding company	5	–	39,543	–	–	39,543	39,488
Lease liabilities	5	1,946	4,730	2,632	464	9,772	9,408
		12,027	218,049	2,632	464	233,172	226,930
At 31 December 2018							
Non-derivative financial liabilities							
Trade and other payables	–	11,645	28	–	–	11,673	11,673
Variable interest rate bank borrowings *(note)*	4.26	10,048	–	–	–	10,048	10,048
Amount due to a related company	5	25,238	–	–	–	25,238	25,141
Amount due to a fellow subsidiary	6	–	12,081	–	–	12,081	11,443
Amount due to ultimate holding company	5	–	185,268	–	–	185,268	176,446
		46,931	197,377	–	–	244,308	234,751

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 2018, the aggregate undiscounted principal amounts of these bank loans amounted to HK$10,048,000. 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$10,210,000.

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	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2018	1,682	8,528	–	–	–	10,210	10,048

(c) Fair value hierarchy

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2018			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Life insurance policy	–	17,226	–	–

There were no transfers between levels during the year 2019 and 2018.

The fair value of the life insurance policy is determined according to the surrender value if the Group withdrew from the insurance contracts.

32. OPERATING LEASE COMMITMENTS

As at 31 December 2018, the Group has commitments for future minimum lease payments for premises under non-cancellable operating leases which fall due as follows:

	2018 HK$'000
Within one year	5,825
In the second to fifth year inclusive	2,616
	8,441

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. PLEDGE OF ASSETS

The Group's bank borrowings are secured by:

	2019 HK$'000	2018 HK$'000
Fixed charges over:		
Bank deposits	–	1,039
Life insurance policies	–	17,226
	–	18,265

34. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

	Lease liabilities HK$'000 *(note 28)*	Bank Borrowings HK$'000 *(note 23)*	Amounts due to directors HK$'000 *(note 21)*	Amount due to a related company HK$'000 *(note 21)*	Amounts due to fellow subsidiaries HK$'000 *(note 21)*	Amount due to ultimate holding company HK$'000 *(note 21)*	Total HK$'000
Balance at 1 January 2019, as original presented	–	10,048	–	25,141	11,443	176,446	223,078
Effect of adoption of IFRS 16	7,428	–	–	–	–	–	7,428
Balance at 1 January 2019, as restated	7,428	10,048	–	25,141	11,443	176,446	230,506
Cash flows:							
— Repayment	–	(15,046)	–	(25,000)	–	(158,702)	(198,748)
— Advances/drawdown	–	4,998	22,000	–	134,100	15,000	176,098
— Interest paid	–	(168)	–	(241)	(2,241)	–	(2,650)
— Lease payments	(7,608)	–	–	–	–	–	(7,608)
Non-cash movements:							
— Interest expenses	627	168	241	100	3,342	6,744	11,222
— Increase in lease liabilities from entering into new leases during the year, net	1,367	–	–	–	–	–	1,367
— Effect of modification of lease term	7,649	–	–	–	–	–	7,649
— Exchange realignment	(55)	–	–	–	(2,512)	–	(2,567)
Balance at 31 December 2019	9,408	–	22,241	–	144,132	39,488	215,269

	Bank borrowings HK$'000 *(note 23)*	Notes payable HK$'000 *(note 24)*	Liability component of convertible bond HK$'000 *(note 25)*	Amount due to a related company HK$'000 *(note 21)*	Amount due to a fellow subsidiary HK$'000 *(note 21)*	Amount due to ultimate holding company HK$'000 *(note 21)*	Total HK$'000
Balance at 1 January 2018	11,591	140,000	89,972	–	–	–	241,563
Cash flows:							
— Repayment/redemption	(20,933)	(140,000)	(100,000)	–	–	–	(260,933)
— Advances/drawdown	19,390	–	–	25,000	11,837	174,900	231,127
— Interest paid	(421)	(8,478)	(8,504)	–	–	–	(17,403)
Non-cash movements:							
— Interest expenses	421	8,478	16,565	141	67	1,546	27,218
— Change in convertible bond reserve	–	–	989	–	–	–	989
— Fair value loss on redemption	–	–	978	–	–	–	978
— Exchange realignment	–	–	–	–	(461)	–	(461)
Balance at 31 December 2018	10,048	–	–	25,141	11,443	176,446	223,078

35. RELATED PARTY TRANSACTIONS

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

Name of related party	Relationship	Nature of transaction	2019 HK$'000	2018 HK$'000
Guangdong Juxin Watch Co., Limited (廣東鉅信鐘錶連鎖有限公司)	Fellow subsidiary	Sales of goods	1	1,052
Liaoning Hengjia Horologe Co., Limited (遼寧恒嘉鐘錶有限公司)	Fellow subsidiary	Sales of goods	86	80
Shenzhen Permanence Commerce Co., Limited (深圳市恒譽嘉時貿易有限公司)	Fellow subsidiary	Sales of goods	2,667	1,054
Corum Watches Malaysia SDN BHD	Fellow subsidiary	Sales of goods	141	–
Eterna AG Uhrenfabrik	Fellow subsidiary	Assembly service income	19	–
Zhuhai Rossini Watch Industry Limited (珠海羅西尼表業有限公司)	Fellow subsidiary	Loan interest expenses Sales of goods	2,196 85	67 –
PAMA Precision Manufacturing Ltd. (深圳市帕瑪精品制造有限公司)	Fellow subsidiary	Loan interest expenses	879	–
Actor Investments Limited (安達投資有限公司)	Fellow subsidiary	Loan interest expenses	267	–
Fair Future Industrial Limited	Related company	Loan interest expenses	100	141
Citychamp Watch & Jewellery Group Limited	Ultimate holding company	Loan interest expenses	6,744	1,546
Mr. Shang Jianguang	Director of the Company	Loan interest expenses	173	–
Mr. Teguh Halim	Director of the Company	Loan interest expenses	68	–

(i) The details for balances with related parties are disclosed in notes 18 and 21 to the consolidated financial statements.

(ii) The compensation to key management personnel comprises only the directors' emoluments, details of which are disclosed in note 12.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ registration/operation	Issued and fully paid share capital	Ownership interest held by the Company		Principal activities
			Directly	Indirectly	
Boillat Les Bois S.A.	Switzerland	CHF100,000	–	100%	Development, manufacturing and marketing of watches
Ernest Borel S.A.	Switzerland	CHF100,000	–	100%	Manufacturing and sales of watches
Ernest Borel (Far East) Company Limited	Hong Kong	HK$20,000	–	100%	Assembling and sales of watches
Ernest Borel (Guangzhou) Tranding Co., Ltd. (依波路(廣州)貿易有限公司) *(note)*	PRC	RMB20,000,000	–	100%	Distribution and sales of watches
Ernest Borel (Hong Kong) Limited	Hong Kong	HK$1,000	–	100%	Investment holding
Ernest Borel Watch Company Limited (Formerly known as "Ernest Borel Investment Limited")	British Virgin Islands ("**BVI**")	USD100	100%	–	Investment holding
Swissmount Holdings Limited	BVI	USD100	100%	–	Investment holding

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

37. EVENT AFTER REPORTING PERIOD

Since January 2020, Hong Kong and the PRC has reported certain confirmed cases of novel Coronavirus ("**COVID-19**") which may affect the global business environment. Pending on the developments and spread of COVID-19 subsequent to the date of these consolidated financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and total equity of the Group as at 31 December 2019 and for the last four financial years, as extracted from the Group's audited financial statements, is set out below. This summary does not form part of the Group's audited consolidated financial statements.

Results	**For the year ended 31 December**				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**141,518**	171,806	227,205	248,883	414,315
Loss before tax	**(78,739)**	(96,346)	(183,184)	(142,585)	(6,753)
Income tax expense	**(308)**	(1,320)	(14,099)	(2,426)	(5,163)
Loss for the year	**(79,047)**	(97,666)	(197,283)	(145,011)	(11,916)
Loss per share					
Basic (HK cents)	**(23)**	(28)	(57)	(42)	(3)

Financial position	**As at 31 December**				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**415,314**	513,629	627,617	695,179	861,455
Total liabilities	**(274,886)**	(289,003)	(310,031)	(202,109)	(220,051)
Total equity	**140,428**	224,626	317,586	493,070	641,404